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ORGANISATION DE  
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## **FORUM ON TAX ADMINISTRATION: SME COMPLIANCE SUB-GROUP**

### **Information note**

### **Right from the Start: Influencing the Compliance Environment for Small and Medium Enterprises**

**January 2012**

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## **FOREWORD**

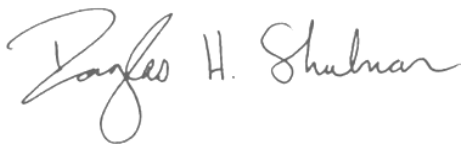
Compliance is at the core of the work of revenue bodies.

This FTA publication – “*Right from the Start: Influencing the Compliance Environment for Small and Medium Enterprises*” – emphasizes the need to create an environment which supports compliant behaviour and reduces opportunities for non-compliant behaviour. The report focuses on the fast-growing taxpayer segment of Small and Medium Enterprises. The central notion of a ‘Right from the Start’ approach is the focus on compliance behaviour at an early stage in businesses’ tax processes, preferably before the tax return is filed.

Investment up-front in the compliance environment will generate payback in terms of voluntary compliance and correct tax returns. The approach not only contributes to improving the efficiency and effectiveness of the revenue bodies themselves, but also provides very real benefits to taxpayers: getting tax issues right from the start means less trouble (extensive audits, re-assessments and fines) and uncertainty in the end.

We would like to thank all who have contributed to this report: the chairs and members of the task team, the OECD Secretariat, the SME Compliance Sub-group, and the 25 countries that provided invaluable information in response to the survey.

The report underlines the importance of FTA’s work in identifying key trends and innovations in revenue bodies’ strategies. We are confident that this report delivers a framework that contributes to our compliance strategies, and we hope that the solid guidance it provides will be of great value to many tax administrators.



Douglas H. Shulman  
FTA Chairman



Peter Veld  
Sponsoring Commissioner

## **ABOUT THIS DOCUMENT**

### ***Purpose***

This information note elaborates on the concept of ‘Right from the Start’ and describes how revenue bodies in the FTA are applying strategies aiming to cost-effectively influence taxpayer compliance behaviour by way of directing attention to the compliance environment. The purpose is to present a synthesis of current knowledge and experience in designing these strategies and provide assistance and practical inspiration for revenue bodies wishing to further explore such strategies.

### ***Background to the Forum on Tax Administration***

The Forum on Tax Administration (FTA) was created by the Committee on Fiscal Affairs (CFA) in July 2002. Since then the FTA has grown to become a unique forum on tax administration for the heads of revenue bodies and their teams from OECD and selected non-OECD countries.

In 2009 participating countries developed the *FTA vision* setting out that... *The FTA vision is to create a forum through which tax administrators can identify, discuss and influence relevant global trends and develop new ideas to enhance tax administration around the world.* This vision is underpinned by the FTA’s key aim which is to... *improve taxpayer services and tax compliance – by helping revenue bodies increase the efficiency, effectiveness and fairness of tax administration and reduce the costs of compliance.*

To help carry out its mandate, the FTA is directly supported by two specialist Sub-groups—SME Compliance and Taxpayer Services—that each carry out a program of work proposed by members and commissioned by the FTA Bureau. Both OECD and selected non-OECD countries participate in the work of the FTA and its Sub-groups.

The SME Compliance Sub-group’s mandate, in broad terms, is to provide a forum for members to:

- Periodically monitor and report on trends in compliance approaches, strategies and activities;
- Consider and compare member compliance objectives, the strategies to achieve those objectives and the underlying behavioural compliance models and assumptions being used;
- Consider and compare member compliance structures, systems and management, and staff skills and training; and
- Develop and maintain papers describing good country practices as well as develop discussion papers on emerging trends and innovative approaches.

The work of the Sub-group has focused on issues associated with managing and improving tax compliance in the SME segment. The Sub-group meets annually to review and discuss developments, to provide oversight and direction of its work program, and to provide a forum where members can exchange experiences and approaches for improving taxpayers’ compliance.

### ***Caveat***

National revenue bodies face different environments within which to administer their taxation system. Jurisdictions differ in respect of their policy and legislative environment and their administrative practices and culture. As such, a standard approach to tax administration may be neither practical nor desirable.

The documents forming the OECD tax guidance series need to be interpreted with this in mind. Care should always be taken when considering a country’s practices to fully appreciate the complex factors that have shaped a particular approach.

### ***Inquiries and further information***

Inquiries concerning any matters raised in this information note should be directed to Richard Highfield (International Co-operation and Tax Administration Division, OECD Centre for Tax Policy and Administration) at [Richard.Highfield@oecd.org](mailto:Richard.Highfield@oecd.org)

## **SUMMARY**

This information note provides an introduction to the concept of ‘Right from the Start’ and shares practical examples of how measures that fall within the scope of this approach are currently being applied by revenue bodies across the FTA.

‘Right from the Start’ is a compliance approach that emphasizes the need to create an environment which supports compliant behaviour while at the same time opportunities for non-compliant behaviour are reduced to a large extent. The traditional approach would be to focus on the tax return, monitor the compliance level and decide on interventions when needed. Most of the time these interventions target events from the past and are rather costly, using audits as the primary measure, involving time consuming procedures of exchange of information and positions as well as appeal procedures in many cases. While the traditional approach will continue to be necessary, this information note points to strategies which aim to solve many problems at a much earlier stage and in a smarter way.

Over recent years most revenue bodies have adopted strategies that are addressing compliance risks up-front, that is before a tax return is filed. These strategies include education and outreach activities, improving taxpayer services and co-operation with stakeholders. What all initiatives taken by revenue bodies have in common is that they aim to create an environment in which compliance is promoted and if possible will be ‘the inevitable outcome’ of actions and transactions performed by taxpayers.

This information note sets out the theoretical concepts, provides an overview of strategies under the heading of ‘Right from the Start’ and describes how the use of ‘Right from the Start’ strategies by revenue bodies can be cost-effective and save resources, while also creating benefits for the taxpayer through better service, improving the quality of tax processes and achieving compliance. The note is based on findings from a survey conducted among revenue bodies in the FTA, a task-group workshop and a review of relevant scientific literature.

A ‘right from the start’ approach will support compliant behaviour, drive out error and at the same time reduce the possibilities of non-compliant behaviour. The purpose is not just to reduce unintentional mistakes; the purpose is also to reduce intentional evasion and to strengthen the overall willingness to comply. There is consequently a strong business case for a ‘Right from the Start’ approach.

The ‘Right from the Start’ approach is first defined in terms of four dimensions that are considered central to the compliance environment:

- Acting in real time and up-front, so that problems are prevented or addressed when they occur;
- Focusing on end-to-end processes rather than just focusing on the revenue body processes and try to make the processes of the taxpayer fit into them;
- Making it easy to comply (and difficult not to); and
- Actively involving and engaging taxpayers, their representatives and other stakeholders, in order to achieve a better understanding of the taxpayer’s perspective and to cooperate with third parties.

These four dimensions are then explored in-depth in separate chapters before the perspectives are brought together to form a more holistic view of the concept and its implications, including the challenges of implementation and possible directions for the future.

The arguments and examples featured in this note illustrate how a ‘Right from the Start’ approach involves a significant shift in perspective from a purely traditional enforcement approach. That is not to say traditional enforcement is no longer necessary. Any modern compliance strategy will need to encompass a wide range of tools and initiatives; traditional enforcement tools and ‘Right from the Start’ measures are both pillars of such a compliance strategy.

## **Recommendations**

Revenue bodies are strongly encouraged to study the contents of this note to identify opportunities for enhancing their compliance strategies by:

- **Applying the ‘Right from the Start’ approach**

While most revenue bodies in the FTA already carry out substantial activities that fall within the scope of the ‘Right from the Start’ approach, it is also clear that there is considerable space to make use of it in a more systematic way in developing and implementing key processes, strategies and specific activities.

- **Making use of technological developments and improved understanding of behaviour**

Technological developments and improved understanding of the factors that drive taxpayer compliance mean that revenue bodies are likely to encounter exciting opportunities and experience significant progress in this area over the coming years.

- **Taking up the challenge of evaluating compliance strategy outcomes**

In this context it remains a challenge to design and implement appropriate mechanisms for evaluating outcomes.

## I. INTRODUCTION

### **Background**

1. At the May 2010 SME Compliance Sub-Group meeting, delegates discussed the possibility of undertaking a project elaborating on the meaning and implications of the ‘Right from the Start’ concept and providing practical inspiration for revenue bodies on how the concept can be applied to cost-effectively support compliance in the SME segment. This proposal was subsequently approved by the FTA Bureau. The Commissioner of the Netherlands Tax and Customs Administration, Mr. Peter Veld, agreed to sponsor the project.
2. A task-group with participation from 12 countries (Australia, Austria, Canada, Chile, Denmark, Finland, the Netherlands, New Zealand, Norway, Switzerland, Sweden and the United Kingdom) and support from the OECD Secretariat has worked on the preparation of this information note. The task-group, jointly coordinated by the Netherlands and Denmark, has benefited from responses to a survey conducted among FTA member countries in November 2010 and a review of scientific literature, which together formed the background for a task-group workshop held in Utrecht, the Netherlands, in January 2011.
3. The note also builds on previous work by the sub-group. The 2004 guidance note “*Managing and Improving Tax Compliance*” emphasized the importance of modern risk management principles in managing tax compliance. The note defined tax compliance in terms of the extent to which taxpayers comply with obligations in the four interconnected areas of registration, filing, reporting and payment, and offered a comprehensive framework for managing compliance risks based on modern risk management principles. In this context the note pointed to the importance of developing a better understanding of the drivers of taxpayer compliance behaviour in order to be better positioned to design and implement adequate responses to compliance risks.
4. The 2010 information note “*Understanding and Influencing Taxpayers’ Compliance Behaviour*” contributed to this end by identifying the most important drivers of individual taxpayer compliance behaviour. These were grouped into five categories (economy, norms, deterrence, opportunity and fairness) and discussed on the basis of revenue body experience and scientific literature. The note established that some drivers are less important predictors of compliance than assumed by standard economic models, and emphasised that the five categories of drivers should not be looked at in isolation, but rather be seen as factors that interact in complex ways to generate sometimes unpredictable outcomes.
5. The 2004 guidance note and the 2010 information note have, along with other guidance and information notes published throughout the years, provided a shared framework for discussions on compliance risk management among Sub-group members and delegates. The concept of ‘Right from the Start’ has emerged in the context of these discussions as a practical and captivating way of framing the considerable opportunities that revenue bodies have for generating value (to themselves, taxpayers and society) by exploring systematic and coherent strategies aiming to create an environment that influences compliance processes and behaviours *before* the actual reporting takes place.

### **This note**

6. This information note provides an introduction to the concept of ‘Right from the Start’ and shares practical examples of how measures that fall within the scope of this approach are currently being applied by revenue bodies across the FTA. The note is based on findings from a survey, the outcome of the workshop held by the task team in January 2011 and research of scientific literature. The survey provided insight into activities currently carried out by revenue bodies as well as practical examples of how revenue bodies work to improve compliance by devoting attention to and building knowledge and understanding about taxpayers’ compliance environment. A number of these examples are included in the information note.



7. The next chapter will provide an introduction to the ‘Right from the Start’ approach and the four dimensions which are considered central to the compliance environment:
  - Acting in real-time and up-front, so that problems are prevented or addressed when they occur;
  - Focusing on end-to-end processes from a taxpayer viewpoint;
  - Making it easy to comply (and difficult not to); and
  - Actively involving and engaging taxpayers, their representatives and other stakeholders.
8. These four dimensions are then explored in-depth in separate chapters. Each dimension will be presented with a brief introduction, a reference to the results of the survey, a number of illustrative and practical examples, relevant literature references, related developments and a conclusion pertaining to the dimension. Following these paragraphs, the four dimensions brought together to form a more holistic view of the approach and its implications, including the challenges of implementation and possible directions for the future.
9. The focus of this information note is the meaning and implications of the ‘Right from the Start’ approach for managing compliance in the SME segment. The relevance of the concept, however, is not limited to this segment. Applying the principles at the heart of the concept to other segments or even other areas of regulation may prove a stimulating and rewarding exercise.

## II. 'RIGHT FROM THE START' – LESS TROUBLE IN THE END

### Introduction

10. Compliance relates not only to filing tax returns, but to a much wider range of processes, many of which take place outside the view and control of a revenue body. The 'Right from the Start' approach means to shift focus from the tax return to this environment and processes that lead to the tax return. Instead of trying to find errors after they have occurred, the purpose is to prevent compliance errors from occurring in the first place. In this view the tax return is the *end* of the process, not the beginning.
11. 'Right from the Start' is a compliance approach based on the principle that the revenue body has a role to play in creating an environment that promotes compliance. Investment in such an environment will generate payback in terms of voluntary compliance and correct tax returns. .
12. The approach differs from the traditional enforcement approaches adopted by public sector regulatory bodies, including revenue bodies. As the researcher Malcolm K. Sparrow pointed out in his book *"Imposing Duties – Government's Changing Approach to Compliance"*: *"[Traditional enforcement approaches]... wait until the damage has been done and then react, case by case, incident by incident, failure by failure. Enforcement agencies accept the work in the form in which it arrives, and, therefore, have tended to organize their activities around failures rather than around opportunities for interventions."* (Sparrow 1994).

#### Box 1. Prevention and cure

It is a well-known idiom that 'prevention is better than cure' or even that 'an ounce of prevention is worth more than a pound of cure', and it is clear that preventing, for instance, a health problem or an accident from occurring in the first place is preferable to managing the consequences later.

It would, however, be a mistake to think of prevention and cure in contradictory terms. Some problems can be difficult to prevent, and even the most sophisticated preventative measures will rarely eliminate a risk altogether. Preventative measures will therefore often have to be complemented by other measures designed to manage those undesired events that cannot be prevented in the first place.

Prevention and cure are, in this way, complementary aspects of any balanced regulatory strategy. The challenge is to get the balance right in order to achieve the best possible outcomes given the available resources.

13. The aim of a 'Right from the Start' approach is to create an environment which is conducive to compliance. To this end, it is important to understand what factors contribute to a pro-compliance environment. Relevant aspects in this environment are, for example, the way in which the revenue body supports the taxpayer, the legislation, the quality of the bookkeeping and filing processes on both the taxpayer's and revenue body's side. The goal is to influence the environment as a means of influencing the compliance behaviour of taxpayers.
14. 'Right from the Start' has both a timing aspect (early measures) and a design aspect (driving out errors). A good time to influence tax behaviour could, for instance, be when tax related administrative activities are carried out in a business for the first time. Administrative processes like bookkeeping can, for example, be designed to support the prevention of mistakes. First-time events will often take place when other changes occur in the businesses and for newly started businesses, almost all of the processes will fall into this category.
15. Taxpayers in general have a shared interest with the revenue body in building end-to-end processes supporting compliance. Processes designed to drive out errors reduce costs for both the taxpayer and the revenue body. Mistakes and low quality at the early stages of a process ('upstream') can lead to high costs later in the process ('downstream'). Mistakes that need to be corrected by the revenue body increase compliance costs on the side of the taxpayer as well as the administrative costs for the revenue body.

16. Working with a 'Right from the Start' approach will shift the attention of a revenue body in important ways:
  - From focusing on the past (for example the report on the previous fiscal year) to focusing on the present (the ongoing tax-related processes in the businesses);
  - From focusing mostly on the internal process of the revenue bodies to also considering the external processes of taxpayers and stakeholders; and
  - From mostly focusing on the taxpayer to focusing also on factors in the taxpayer's environment that influence compliance behaviour.
17. The role of revenue bodies will then be to support and facilitate voluntary compliance by creating an environment conducive to compliance. The rationale for this approach is to deal with tax compliance in a world with increasing complexity and scarce resources to revenue bodies. The implication is that revenue bodies stand to harvest considerable effectiveness gains from such an approach while at the same time this could contribute to improved service provision and reduced compliance costs, which would provide value to businesses and to society at large.

### ***Influencing behaviour by influencing the environment***

18. The 2010 information note "*Understanding and Influencing Taxpayers' Compliance Behaviour*" outlines the most important drivers and motivations behind taxpayers' choice of compliance or non-compliance. The main drivers and motivational factors are grouped into five categories: Economy, norms, deterrence, opportunity and fairness. The behaviour information note focuses on the taxpayer's perception of the situation and the subsequent opportunities for the revenue bodies to understand the taxpayers' perspective and influence their behaviour. The identified drivers do, however, not only point to the moral and personal capability of the taxpayer, but also to the environmental factors.
19. Research shows that most people underestimate the importance of external factors when considering the possible reasons behind the behaviour of other people. Instead behaviour is often attributed to moral character. This is true even if the behaviour could be explained by situational factors. For instance, fast driving may be considered an expression of irresponsibility and preference for reckless behaviour even if in a particular instance it could be explained by the need to urgently get someone to hospital. Researchers refer to this attribution problem as "one of the most fundamental phenomena in social psychology" (Gilbert and Malone 1995).
20. Revenue bodies and tax officers are naturally not immune to this phenomenon. Taxpayer compliance behaviour is often attributed to the personal character of the taxpayer without much consideration to external factors that might cause or affect the behaviour. For example, as an employee taxpayer NN receives and confirms his pre-filled tax return and the revenue body perceives NN to be a compliant taxpayer. If NN then becomes a self employed restaurant owner, his compliance behaviour turns to evading taxes because he sees his competitors evading, running his business and complying with tax rules turns out to be difficult and the norms in the industry prescribe or allow non-compliance. Fully attributing this non-compliance to NN's personal character (and has that really changed?) may lead to a preference for compliance strategies that target the individual taxpayer rather than targeting the environment.
21. Consideration should be given to interventions in the compliance environment which increase the likelihood of compliance. In the case of speeding cars in residential areas would extra police presence be more effective or installing speed bumps? The latter option is relatively cheap, consistent and focuses on the essential: speed reduction, making it difficult not to comply.
22. Social research has demonstrated how even small changes in the way choices are presented can lead to significant behavioural changes in such different areas as economy, health, consumption and personal security. Behavioural scientists have used the term 'choice architecture' and 'nudges' (see Box 2 below) to describe this phenomenon.

**Box 2. Choice architecture and nudges**

Behavioural scientists Richard H. Thaler and Cass R. Sunstein use the term ‘nudges’ to refer to small changes in the ‘choice architecture’ designed to achieve particular outcomes (Thaler and Sunstein 2009).

One example of a nudge involves changing the order in which cafeteria food is arranged so that the healthy food was placed before unhealthy snacks, which led to customers making more healthy food choices. Another example shows how gradually reducing the distance between feedback stripes painted on the road before a dangerous curve prompted drivers to slow down by creating the illusion of increased speed.

These examples illustrate how even small alterations in the choice architecture can be effective in achieving significant changes in behaviour.

23. Applying these insights and terms to the context of compliance risk management, revenue bodies can look for ways to make changes to the choice architecture in the compliance environment that will serve as nudges increasing the likelihood of compliance. Through such deliberate changes to the choice architecture revenue bodies can contribute to the creation of a more pro-compliance environment that will offer benefits to the revenue body as well as the taxpayers and other stakeholders.
24. Similar efforts have been undertaken in other areas. One prominent example is road safety (see Box 3 below) where the importance of the physical environment may seem obvious, but one may also think of health care, where upstream interventions and alterations to the choice architecture are widely applied for instance for the prevention of cancer and heart diseases. Based on these examples it would seem plausible to suggest that ‘Right from the Start’ strategies represent an important trend in public regulation.

**Box 3. Trends in road traffic injury prevention**

The 2004 “World report on road traffic injury prevention” from the World Health Organization (WHO 2004) advocates for a systemic approach to road safety, which is identified in the report as a neglected public health concern for particularly developing countries. The report acknowledges that traffic injuries can be the result of individual error or bad judgement, but suggest that changing the immediate environment is a more effective strategy for reducing traffic injuries than attempting to change the human condition.

Alterations to the road systems will clearly not lead to the elimination of traffic injuries, but they represent effective instruments that should figure prominently in any strategy for improving road safety.

25. There are a number of elements that constitute or shape the compliance environment. These include the legislative context, the level of support that makes it easy for taxpayers to comply and the beliefs and attitudes in society and among groups of taxpayers towards the tax system. Direct interventions (for instance supervision or assistance) are also part of a compliance environment. Building a pro-compliance environment will involve a combination of designing systems, influencing processes, supporting norms and staging interventions at different times.
26. The compliance environment is the environment of the taxpayer. This means that the revenue body needs to understand the taxpayer’s perspective. To achieve compliance, it is important that the compliance environment fits the taxpayer’s needs and requirements. As this information note will illustrate, a revenue body has a lot to gain from working more closely with taxpayers, their representatives and other stakeholders in the compliance process.
27. When the significant impact of context and external factors is considered, it also becomes obvious that the design of compliance strategies cannot depart from a point where we simply distinguish between compliant taxpayers and non-compliant taxpayers. Compliant and non-compliant behaviours are a function of many factors and therefore the result rather than the starting point. So compliance behaviour can be influenced by influencing the external factors.

### ***A way of thinking and working in four dimensions***

28. 'Right from the Start' is an approach that affects all aspects of compliance. The purpose is not just to reduce unintentional mistakes; the purpose is also to reduce intentional evasion and to strengthen the overall willingness to comply. Taxpayers in general and the revenue body have a common interest in creating and sustaining a level playing field.
29. The SME segment is large and heterogeneous. Still there are a number of characteristics that are shared by many SMEs. For example, the limited size of the SME gives a certain constraint in terms of administrative capacity, specialised competencies (for example regarding tax issues), personnel management etc.
30. Many new SMEs are centred on inventive, innovative and upcoming ideas which form the core of their business. This focus in combination with rapid development, fast expansion and constant change does not constitute the ideal starting point for ensuring stable and reliable administrative practices. There is a risk that administration in general and tax administration in particular will not be given sufficient attention.
31. This provides both the need for and opportunities for influencing environment and processes. Smooth working processes reduce the administrative burden for the taxpayer at the same time as creating an environment conducive to compliance.
32. A number of options are available for revenue bodies wishing to create an environment more conducive to compliance. Compliance processes can for instance address events in real time, addressing taxpayers' processes or motives. This can be done by using a range of tools like legislation, co-operation with stakeholders, the application of new technologies, use of third-party data, education and support initiatives, field inspections, initiatives designed to influence social norms and other tailor-made interventions. Revenue body experience indicates that the outcome will often be better when several tools are applied in a concerted way.
33. Therefore it is important to determine those moments and events which can most effectively be influenced. Designing out errors can be a cost-effective way to increase compliance, but direct (and more costly) contact with some taxpayers will still be necessary to some extent. This can be done with a one-to-many approach. Revenue bodies can also explore opportunities for co-operation with other stakeholders who have direct contact with the taxpayers. This could for instance be tax intermediaries, industry organisations, other governmental bodies or other organisations that help and support the business community.
34. The 'Right from the Start' approach can, on the background of these elaborations, be described in the following four dimensions:
  - Acting in real time and up-front, so that problems are prevented or addressed when they occur;
  - Focusing on end-to-end processes rather than just focusing on the revenue body processes and try to make the processes of the taxpayer fit into them;
  - Making it easy to comply (and difficult not to); and
  - Actively involving and engaging taxpayers, their representatives and other stakeholders, in order to achieve a better understanding of the taxpayer's perspective and to cooperate with third parties.
35. The following chapters will elaborate on these four dimensions before the dimensions are brought together to present a holistic view of the approach.

### **III. ADDRESSING COMPLIANCE IN REAL-TIME AND UP-FRONT**

36. To get things ‘Right from the Start’ interventions are needed at the point in time where choices are made leading to compliance or non-compliance. It is too late to prevent a mistake once it has been made. Prevention requires working proactively and in real-time with events that have significance for tax compliance.
37. This understanding is very much in line with the results of the survey carried out among the revenue bodies of the participating countries. Almost all revenue bodies indicate that they find it either ‘important’ or ‘very important’ to:
- Direct attention to the pre-filing stage and pro-actively target high-risk areas and segments with tailored treatments; and
  - Identify and explore key moments (life events or events in the life-cycle of businesses, such as the start or the discontinuation of a business) to influence taxpayers in different segments.
38. Revenue bodies have historically had a tendency to focus on working reactively with the tax return as their starting point. Instead of working reactively, some problems could be addressed and taxpayers’ decisions could be influence at an earlier stage, when things actually take place in the business. This requires a proactive approach which differs from the traditional reactive one.
39. To influence events when they actually occur, rather than reacting to them after the tax return has come in requires knowledge and understanding of when and how the tax-relevant activities take place in the businesses. It also requires understanding of the behaviours and motivations of taxpayers and (their) businesses. Eventually it requires ideas for initiatives which would contribute to changing the compliance environment so that compliance becomes a natural process. This chapter will elaborate on these challenges.

#### ***When and how?***

40. When is the best time to influence taxpayers' behaviour? The easy answer to this question would be before taxpayers file their tax returns. But this is not specific enough. Revenue bodies need to identify the defining moments in compliance processes and in the business life cycle or operations. Such moments could for instance be when businesses are expanding, hiring staff or performing (complicated) administrative tasks crucial to compliance for the first time. Addressing compliance in real-time therefore means addressing events when they first occur. A lot of these first-time-events will of course occur for start-up businesses. A ‘Right from the Start’ approach therefore will have to pay particular attention to this sub-segment. This also makes sense from a perspective of behavioural change, as it is easier to influence emerging behaviours than established patterns of behaviour.
41. Identifying when things occur for the first time in the businesses is not a trivial issue. For example, a revenue body may know when a person registers a business, but the process of starting a business does not necessarily begin with registration. From the taxpayer’s point of view, the registration is more likely to come at the end of a range of considerations that have been made and maybe even after a period of testing business opportunities. The process of starting a business therefore begins when someone has an idea or sees a business opportunity. This is outside the view or immediate knowledge of the revenue body. Still, the revenue body can encourage taxpayers to seek advice and support at an early stage. But revenue bodies can do more than this.
42. Revenue bodies can work together with intermediaries and other stakeholders like tax advisors, lawyers, banks, other governmental bodies or industry organisations. Taxpayers usually have contacts with a number of these parties when starting up and running a business. Working with these stakeholders could both help the revenue body to achieve a better understanding of the

situation and it could make an entry point for the revenue body in its attempts to influence the taxpayers. As these stakeholders are also part of the taxpayer's environment they will often have good opportunities to influence the taxpayer's behaviour.

43. The need to involve the businesses and other stakeholders early in the process is also one of the important conclusions in a comprehensive small business assistance programme (see Box 4 below) carried out by the Australian Taxation Office (ATO). The ATO has also concluded that early support to the businesses is crucial and that a wide range of communication channels (direct meetings, phone calls, seminars, print and online information) should support each other in order to optimally reach businesses.

**Box 4. Australian small business assistance programme**

Small businesses often suffer from poor record-keeping and lack of awareness on tax obligations, which can impact on voluntary compliance levels and damage community confidence in the tax system.

The ATO Small Business Assistance Program is designed to address this risk by coordinating assistance to small business. The assistance products offered by the ATO include intensive one-to-one business assistance visits; one-to-many seminars and workshops; outbound telephone calls to new-to-business, new-to-employing, and newly incorporated taxpayers; and print and online information products and tools.

The program was at first directed at start-up businesses. With the significant change in the economic climate over the past couple of years, the program has evolved to take into account all stages of the business lifecycle: business intenders, new to business, established, growing, and ceasing. The program has a particular focus at micro businesses.

The program identifies regions and/or industry sectors that are affected by various factors that may require additional or more intensive support. Regions have been targeted due to the impact of drought; fire; floods; large scale impacts due to the closure of major industries or due to the impact of the financial environment.

Among the valuable lessons learnt from the implementation of the program is that stakeholders should ideally be involved from the early stages of the process when outcomes and goals are established; that assistance products and services should for optimum effects be targeted at businesses early in their business lifecycle; and that relevant online content should be developed early in the process to provide support to other channels of interaction like face-to-face meetings and phone conversations.

The Small Business Assistance Program has moved to adopt a whole-of-government approach. It is expected that this will provide greater benefits to small businesses and reduce duplication of efforts between government departments.

Quantitative measures used to evaluate the effectiveness of the program have confirmed that small businesses that have received assistance show improvements in progressing towards meeting the desired outcomes.

### ***Compliance 'Right from the Start'?***

44. The 'Right from the Start' approach could be seen as a way for the revenue body to reduce unintentional mistakes. This would, however, limit the scope of the approach unnecessarily and thereby reduce the potential. Considering opportunities for facilitating and enhancing compliance (rather than reducing non-compliance) as the starting point will have the biggest potential towards the many businesses that mostly want to do things right. But alterations to the compliance environment can also be aimed at reducing intentional evasion and strengthening the overall willingness to comply.
45. This is to some extent because evasion is partly driven by taxpayers' annoyance with the administrative trouble caused by tax processes. Also the norms and practices of taxpayers will in some industries favour non-compliance. This could be influenced by initiatives from the revenue body on the basis of a 'Right from the Start' approach. One important aspect related to this is early intervention towards newly established businesses, to make sure that non-compliance will not be established as a norm which it will be difficult to change later.

46. The 2010 information note “*Understanding and Influencing Taxpayers’ Compliance Behaviour*” identifies ‘loss aversion’ as an important factor for understanding behaviour. The concept of loss aversion implies that people tend to give potential losses greater weight than potential gains. People are far more tolerant of a foregone gain than a loss even though in strictly economic terms they are equivalent. A person can be expected to accept greater risks in order to avoid a loss than the same person would be willing to accept in order to achieve an economically similar gain.
47. These insights are important for a ‘Right from the Start’ approach, as they relate to first time events. The implication is that it is difficult to change established lucrative behaviour. Once a behaviour of fraud or evasion has been established, a change will lead to losses (more tax to pay) from the perspective of the taxpayer. But a taxpayer who is not evading will most likely not perceive to be losing anything, but only to be missing a potential gain. Therefore a taxpayer whose behaviour of fraud and evasion has already been established is likely to be willing to accept greater risks than the same taxpayer would accept when embarking on the non-compliant behaviour in the first place. This implies that measures designed to prevent tax evasion are likely to be more successful than measures designed to stop ongoing tax evasion. Tax evasion should therefore be met with early measures in order for the measures to be most effective. It is therefore of great value to the revenue body to get new businesses on the right track from the beginning. Early measures are more likely to be effective and will reduce the need for more costly interventions later. This also means that it can be of great value to deal with attempts to evade very early (ideally the first time they occur) even if the tax amount involved can be relatively insignificant.
48. ‘Right from the Start’ interventions also potentially include inspections and checks, especially those designed to encourage better record-keeping. These interventions can include compliance activities carried out before the time of filing. For example in the UK, the HMRC plans to carry out a programme of business records checks (see Box 5 below) over the next four years in order to increase awareness on the importance of good record-keeping. The checks will also provide an opportunity for the businesses to communicate with HMRC about how to do things right.

**Box 5. Business Records Checks in the UK**

Poor record-keeping has a significant negative effect on compliance outcomes. Therefore HMRC plans to carry out a programme of risk-based inspections of business records (involving the legal possibility of imposing penalties for record-keeping failures) annually over the next four years. The purpose is to encourage businesses with significantly deficient records to improve their practices. Whilst penalties are not part of the current test and learn interventions, HMRC is considering the possibility of imposing a sliding scale of penalties for the degree of record-keeping failures evidenced from visits.

Among the expected benefits, HMRC expects to demonstrate to businesses that significant record-keeping failures will not be tolerated; achieve a greater degree of assurance as to the accuracy of returns in cases where there has been an inspection; and reduce the tax gap associated to failure to take reasonable care.

For the businesses, the inspections will provide an opportunity to improve their record-keeping; reduce the likelihood of subsequent interventions for those who are complying with their obligations; and lead to improved chances of business success.

49. The example from Finland (see Box 6 below) where the revenue body has proactively approached businesses and stakeholders involved in a major construction project illustrates that compliance behaviour can be influenced through a range of information, education and guidance activities. The most important lesson emphasized by the Finnish tax administration is that simply approaching the businesses and their representatives contributed to the building of trust.

**Box 6. Working up-front with large construction projects in Finland**

The construction of a nuclear power plant in Finland involves hundreds of foreign companies and thousands of migrating workers. To handle the related tax compliance risks, a special project was set up. The project aims to provide information to foreign businesses and workers in order to increase awareness on tax obligations and facilitate compliance. The aspiration is to reduce the need for subsequent control measures by providing early assistance to those that are willing to comply, but need assistance to do so.

A counselling group of seven persons was charged with the planning and execution of the project, including the building of the necessary service channels. The counselling group has established links to other



authorities and main contractors; held meetings and training sessions with clients and their representatives; and has prepared manuals (some of which have been translated into other languages like German, French and Polish) for clients and tax officers. A website has been prepared ([www.vero.fi/ol3](http://www.vero.fi/ol3)) and an e-mail address is available for enquiries. The group has also been present at the construction site on a regular basis.

The experience has so far been very positive. Registrations and other system entries document a reasonable level of compliance. The project has thereby contributed to reducing the work-load in local tax offices that would otherwise have had to carry out substantial enforcement activities to manage the compliance of the same taxpayer population further downstream.

Probably the most important lesson learnt has been about the importance of building trust with the clients and their representatives. Fear of authorities was at first the biggest obstacle to the success of the project. As the word has spread that the tax administration is actually very approachable and service-oriented, this fear has diminished and many new clients have come forward.

50. An example from Sweden (see Box 7 below) shows a slightly different approach. It involves the signing of letters of intent between the revenue body and individual businesses in certain sectors, in order to increase their responsibility for not employing illicit labour. The letters of intent establish mutual obligations, thereby establishing a win-win situation benefiting both the business and the revenue body.

#### **Box 7. Co-operation with contractors in Sweden**

The Swedish Tax Agency encourages large contractors to sign letters of intent regarding the use of unregistered labour. The initiative started out with large infrastructure projects, but has expanded to include contractors in all types of (labour intensive) services as well as authorities involved in the privatisation and/or outsourcing of health-care and other services.

Contractors that sign the letter of intent commit to abstaining from the use of unregistered labour in the supply chain. Contractors are assigned a contact point at the tax agency where they can direct inquiries. The tax agency also provides potential sub-contractors with documentation on their compliance history.

The letters of intent are not legally binding. Their value resides in the mutual commitment. It is therefore important that a win-win situation is established. The contractor must feel reassured that following the commitment expressed in the letter of intent will lead to increased quality, efficiency and goodwill in the dealings with the tax agency.

The programme employs about 30 full-time staff and presently includes the following activities:

- Agreements and letters of intent with about 250 large contractors concerning around 400 (mostly infrastructure) projects;
- An organisation for providing these contractors with tax information of potential subcontractors, including an automated e-service for inquiries (currently only for public bodies);
- From 2011, increased support to contractors regarding international taxation issues due to the rise of subcontractors based abroad;
- Co-operation with industry organisations supporting specific initiatives to reduce tax evasion; and
- From 2011, enhanced information on the tax agency website regarding tendering processes and the related compliance risks.

The co-operation with each contractor is a long-term project. It includes many visits in order to make sure that the contractor fulfils the commitment according to the letter of intent.

#### **Other important considerations**

51. To better understand the taxpayer perspective remains the most important entrance point if the revenue body seeks to influence the right events at the right time. The purpose of engaging with the taxpayers and their representatives, as well as third parties, is not only to influence but also to be influenced. Revenue bodies can learn a lot about when and how to carry out different activities and thereby improve their results while using fewer resources.
52. Education is an important element in addressing compliance risks up-front. Education works best when the person being taught is motivated and knows how to use the knowledge. The right education at the right time is therefore important. In the United States, the Internal Revenue

Service has developed virtual workshops (see Box 8 below) as a cost-effective way of reaching small businesses.

**Box 8. Virtual small business tax workshop in the US**

The virtual workshop introduces new businesses to a variety of requirements and responsibilities in order to increase awareness and facilitate compliance.

The focus is on what the business-owners need to know about federal taxes; how to pay taxes using a computer; running a business from home; establishing a retirement plan; classifying workers as employees or independent contractors; withholding the proper amount of employment and social security taxes; and how to properly determine unemployment insurance contributions.

The goal is to ensure that businesses understand their responsibilities when starting a business, and to ensure that they properly withhold and remit employment and social security taxes.

53. An example from Singapore (see Box 9 below) of making phone calls to newly established businesses which had proven to have difficulties with filing tax returns on time, demonstrates that early and direct education to support businesses in their tax processes is an effective tool, which has the potential of saving substantial resources both in the revenue body and in the businesses.

**Box 9. Outreach programme for newly incorporated businesses in Singapore**

An outreach program was initiated with the aim to assist newly incorporated companies by educating them on their tax obligations as well as to inculcate a voluntary compliance mindset during their infancy.

A pilot run was done in 2010 for which a group of 113 newly incorporated companies was selected. The key criteria used to select this pilot group were that they were not represented by tax agents and that they have been late in filing their first income tax returns. Telephone calls were made to the selected taxpayers and covered the following aspects understanding the reasons for late filing; educating taxpayers on filing obligations; going through record-keeping requirements if help is needed; and raising awareness on availability of e-services and tax seminars.

Feedback from the pilot run show that almost 90% of taxpayers contacted found the outreach assistance useful and felt that it helped them become better informed about tax obligations and e-services.

54. Also by addressing young people at the beginning of their taxpaying career, revenue bodies can increase general awareness of events that have tax consequences at an early stage. Support and education does not always need to come from a party actively engaging with the taxpayer. Different self-help tools can be provided. The taxpayers can then choose what kind of support they want and when to use it.
55. Educating young people as well as new immigrants about tax in a more general context could influence personal and social norms. Acting 'Right from the Start' implies that education should start at an early stage, for example, in high school, college and university. An example of this is the Canadian Trade School Initiative (see Box 10 below). Social media can also play a role in this respect. This contributes to establishing an environment more conducive to compliance.

**Box 10. Canadian trade school initiative**

The initiative's goals are to target trade students and educate them on the requirements of the tax system as well as to caution them on participating in the underground economy. The strategy is to educate students who are ready to enter the workforce either as a self-employed business or as an employee rather than target those who may have already been in business and may be operating in the underground economy already. The intention is to advise them about the risks associated with working in the underground economy versus the benefits of reporting their income and paying their fair share of tax.

56. The examples show that timely measures do not need to be expensive and that the relevant moments of influence are not necessarily difficult to identify. The difficult part is to incorporate this way of working into the ordinary processes of the revenue body rather than treating it as an add-on. Increased trust in the revenue body by both taxpayers and their representatives is a likely effect if a more systematic co-operative approach is successful.

#### IV. FOCUS ON END-TO-END TAX PROCESSES

57. Addressing events in real-time may not always be the most practical solution in building compliance 'Right from the Start'. Situations or events relevant for tax compliance are numerous, especially in a business environment. If we want to have a tax return that is a correct representation of all tax-relevant transactions, it is not efficient, if possible at all, to focus on all single events: a better way to deal with this is to focus on the business processes dealing with these transactions. This implies that especially in a business environment focusing on end-to-end tax processes (from transaction to tax return and payment) is necessary.
58. Focusing on end-to-end processes would mean:
- Building customer understanding through feedback from compliance activities and systematic institutional learning;
  - Adapting or simplifying legislation in order to limit the scope for error and/or allow for cost-effective handling (including automatic mass-handling) of error;
  - Addressing tax more as a part of all (legal) obligations for businesses (regarding the whole- of-government); and
  - Introducing or extending obligations or requirements for bookkeeping and accounting in order to prevent error and/or diminish failure.
59. All of these are considered important by the revenue bodies answering the survey, though the last point about bookkeeping obligations and requirements was not ranked as high as the others.

##### ***Trimming tax processes***

60. In considering tax processes in an end-to-end perspective, revenue bodies may find inspiration in such disciplines as process optimisation and quality management. The founder of total quality management (although he didn't use the term itself), Edward Deming, offered a set of principles for transforming business effectiveness. One of these (i.e. principle 3) says.....“*Cease dependence on inspection to achieve quality. Eliminate the need for massive inspection by building quality into the product in the first place.*” Following this principle means that by doing more up-front and focusing on and building in quality 'Right from the Start', there will be less need to allocate resources for inspection. 'Lean manufacturing' or 'lean production' is an example of a more recent concept based on the work of Deming. The concept of 'lean' implies a 'slim' or 'trimmed' production practice where the expenditure of resources for any other goal than the creation of value for the customer is considered wasteful and thus a target for elimination.
61. Tax processes often involve a lot of rework due to mistakes at registration, filing etc. This is particularly the case when the entire process is considered from the first administrative steps made by the taxpayer to the post-filing scrutiny and individual case administration of the tax return carried out by the revenue body. Working from a lean perspective would mean trying to drive out error throughout the process from taxpayer to revenue body. There is thus a potential simply in considering the tax process not as detached activities, but as a flow beginning at the taxpayer and ending at the revenue body, although there will of course be limits (due to legal and other constraints) as to how far a revenue body can go in this direction.
62. Focusing on end-to-end (tax) processes means striving for efficient and lean processes that are also reliable and difficult to manipulate. The use of standards can make it easier to build and support such processes. The introduction of Standard Business Reporting (SBR) for tax purposes is an example of such a standard. Tax returns based on Standard Business Reporting use a standard taxonomy (eXtended Business Reporting Language – XBRL). The use of SBR means that

the report (i.e. the tax return) is extracted automatically from the bookkeeping records and that the data are subjected to quality checks. This adds quality to the tax return.

### **Technological end-to-end solutions**

63. Adherence to such standards also creates market opportunities for instance for software providers to develop simple and easy to use products that can easily generate tax reports. The use of such standards can increase efficiency while at the same time raising the quality of the tax return. So the business case for focusing on end-to-end (tax) processes lies not only on the side of the revenue body. The taxpayer (the business) will also benefit in terms of more straightforward administrative procedures, increased certainty and reduced administrative costs. The revenue body will of course benefit from receiving tax returns of higher quality and reduced need for treatment of individual cases.
64. Examples of market end-to-end solutions could be certified online accounting systems or certified cash registers. Revenue bodies can advocate the use of such systems and contribute to their development. They could even consider specifying certain risk parameters which are a part of the revenue body's information systems and make them available for software providers to be built into their software.
65. The Netherlands' Tax and Customs Administration are seeking to use market developments and new technologies to their advantage by co-operating with software companies and other stakeholders to develop online bookkeeping systems (see Box 11 below). The advantages of such systems are numerous. They can support correct bookkeeping by providing an updated bookkeeping system, they can improve compliance with tax rules and results from the accounts can be transferred directly to the tax reporting systems of the revenue body.

#### **Box 11. Using market developments and new technologies in the Netherlands**

The growth of online bookkeeping through cloud computing (which is expected to be the most common method of bookkeeping for start-up businesses in the Netherlands within a few years) offers an opportunity to improve the bookkeeping among smaller businesses, where compliance failures can often be traced back to poor bookkeeping.

The Netherlands' Tax and Customs Administration is seeking to take advantage of this development in the market by working with providers of on-demand accounting software to develop standards and promote end-to-end solutions (for instance a security certification mark) to enhance certainty, reliability and integrity of data. The aim is to gradually develop a highly automated online administrative environment offering convenience, certainty and security to businesses while also reassuring the tax administration and other stakeholders (accountants, banks, other government bodies etc.) of the integrity and reliability of the bookkeeping. The learning capabilities of the system (its intelligence) are also of interest in this respect.

The project, which is part of the Horizontal Monitoring programme, is in the starting phase.

66. Also the French Tax Administration has developed data exchange standards in co-operation with IT developers (see Box 12 below).

#### **Box 12. Data exchange and business reporting standards in France**

Data exchange standards and standard business reporting have been designed and approved for the electronic filing of the annual profit tax return in France, allowing data for 70% of businesses to be extracted directly from the electronic bookkeeping records through an online data exchange solution. A next stage could make it possible for enterprises to provide bookkeeping records through a secure platform accessible by all public entities so that data would have to be provided only once. This would involve significant gains in terms of reducing the administrative burden, as businesses may at present be required to report the same information to various public entities six to nine times a year.

67. The Swedish Tax Agency has also made use of technology in order to improve compliance within the cash economy industries (see Box 13 below). By forcing the cash handling businesses to use certified cash registers, the chance that cash is registered immediately when a sale has taken place

increases, thus minimising the possibilities for later tax evasion. The technological solution is supported by enhanced co-operation with the industries, an increase in audits and other measures.

**Box 13. Certified cash registers in Sweden**

All traders in Sweden selling goods or services in return for cash (or card) payments are required as of January 2010 to use a certified cash register and provide customers with receipts. The cash register must be manufactured after specifications defined by the tax agency. The cash register must also be registered with the tax agency.

The tax agency conducts unannounced visits to traders to enforce the legislation. The tax agency has powers to make inspections as well as disguised visits (involving control purchases) to see if all transactions registered and that receipts are provided to customers. Failure to comply means that the trader is charged with a fine. The control visit can escalate to a full scale field audit if deemed relevant.

The background to the legislation was significant tax evasion in industries with high cash turnover. The problem was acknowledged both by trade federations and the tax agency, but proved difficult to deal with by traditional enforcement measures. A political initiative consequently involved strengthening the control chain by introducing certified cash registers.

The initiative is supported by trade associations, as it makes a significant contribution (far outweighing the costs involved) to achieving a level playing field for businesses in sectors affected by unfair competition.

***The revenue body's end of the tax process***

68. Working with an end-to-end approach is not only about the processes used by taxpayers. An end-to-end approach also includes revisiting the processes of the revenue body. Errors and lack of quality in the tax returns can also be caused by errors resulting from the internal processes of the revenue body. Contradictory or unaligned systems, mistakes during registration, inaccurate digitally produced information, incorrect tax assessments or incorrect information in general are likely to lead to high costs of correction, both for the taxpayer and the revenue body.
69. Working with an end-to-end approach to achieve what might be described as “operational excellence” is closely related to the concept of quality management. Focusing on end-to-end processes would mean that revenue bodies (and taxpayers) can benefit a lot from quality programs which strive for continuous improvement of the processes, particularly when they are considered in their entirety from taxpayer to revenue body. Designing and implementing quality checks upstream is in general far more cost-effective than optimising control measures further downstream.
70. From this perspective it could be a good investment to involve the taxpayer and other stakeholders in the process of continuously identifying problems and developing improvements. First of all the taxpayers can indicate which problems cause them the most trouble, at the same time they can help thinking about possible solutions by providing perspectives on the end-to-end process as a whole. Structured customer feedback can be a very valuable source for improvement and institutional learning, as indicated in the survey. Consultation, collaboration and co-design are keywords when it comes to driving out error.

***Legislation***

71. While collaboration and learning are acknowledged to be important for improving compliance and creating better service, the survey indicates that revenue bodies are reluctant to make end-to-end quality a matter of changing rules and legislation. This could be due to concerns that additional legislation could complicate things further for the businesses. But new legislation could also contribute to simplification and facilitate the provision of end-to-end solutions.
72. This has happened in Denmark, where the random audits programme has provided the tax administration with detailed information about errors and non-compliance (see Box 14 below). 42% of the businesses had errors but in only 7% of the cases this was due to deliberate fraud or

evasion. The study has resulted in several proposals to design out errors and while they are still being considered by the Minister for Taxation, some initiatives (regarding third party information on buying prices of shares and stocks) were already included in the comprehensive tax reform implemented from January 2010.

**Box 14. Measures to design out errors in Denmark**

The Danish Tax and Customs Administration has carried out a large-scale random audits programme on the basis of 22,000 tax returns for the tax year 2006. The results (as far as businesses are concerned) have been analysed in two comprehensive reports, which present detailed information about compliance failures among businesses, including a break-down of error types and tax gap for 16 business sectors.

Some of the key findings are that errors are present in 42% of cases; that only 7% of cases seem to involve deliberate attempts at fraud or evasion; that most errors can be classified as non-intentional; that there is a large volume of low-value errors; and that errors more often than not occur in combination.

A task group has worked to identify a range of possible legislative or administrative remedies to the top ten error types. Based on this work, the administration has prepared a set of proposals for legislative and administrative measures.

While these proposals are now under consideration, some related measures (including the introduction of third-party data on buying prices of shares and stocks as well as the blocking of some particularly error-prone fields on the electronic tax return) were included in a tax reform implemented from January 2010.

The reports from the random audits are available in English translation at the International Tax Dialogue website.

**Other important considerations**

73. The principles of looking at processes end-to-end and throughout the production chain are already applied in many industries and within revenue bodies. Still, the application of these ideas across the tax chain from the first invoice in the business to the final tax return submitted to the revenue body is still relatively new. One of the reasons for this might be that both the taxpayer and the revenue body traditionally have perceived themselves as occupying opposite or contradictory positions in the fiscal chain, rather than having shared interests in high quality of the end-to-end tax process.
74. It should be recognised that for businesses tax is just one of the obligations imposed by government, albeit an important one. It is important to look at the effect on businesses from a whole-of-government perspective. The number of examples provided by the revenue bodies related to this issue was very limited. Revenue bodies probably could do a better job from the business' perspective if they would to a greater extent coordinate their requirements, procedures and compliance strategies with other government agencies.
75. While revenue bodies and businesses will have different purposes and roles, there is a growing recognition that the different stakeholders in the tax chain have some shared interests. By identifying these shared interests and setting shared agendas or similar frameworks for co-operation the revenue bodies and the taxpayers will be able to save worries, time and other resources.
76. The 2008 "*Study into the Role of Tax Intermediaries*" by the FTA explores the 'enhanced relationship' between revenue bodies, taxpayers and tax intermediaries. The key finding of the study is that co-operation based on trust and mutual understanding offers significant benefits to all parties involved. These benefits include earlier certainty, smoother case resolution and lower compliance costs for businesses, and more cost-effective compliance risk management for the revenue body.

## V. MAKING IT EASY TO COMPLY

77. The importance of reducing complexity in tax legislation is now widely acknowledged and many governments attempt to reduce the administrative burden and cutting red tape. Tax legislation in a complex society will most likely never become simple, but there is a tendency to give greater emphasis to engagement and involvement of taxpayers and other stakeholders in order to reduce the administrative burden. But despite these efforts of simplification, the tax legislation often remains vast and complex. Therefore it is a continuous challenge to revenue bodies, to present the most important and relevant information to the taxpayers in a way so it is easy to find, to understand and to use and to make being compliant as easy as possible.
78. Making it easy to comply is an important objective for revenue bodies when designing and building registration, filing and payment processes. One example of changing the revenue bodies' processes in order to facilitate compliance is the introduction of pre-filled tax returns for taxpayers. Making it easy to comply also relates to building taxpayer services and educating taxpayers about the tax system and their rights and obligations. Over the last years revenue bodies have invested a great deal in improving taxpayer services. Especially the building of web-based services has had a high priority.
79. Making it easy to comply implies focusing on the following areas:
- Revisiting internal processes, procedures, systems, interfaces, etc. in order to make it easy to comply and/or prevent errors;
  - Developing and expanding online (web) facilities and (interactive) online tools for filing and educational purposes; and
  - Providing support throughout the life-cycle through tailored education, information and guidance to taxpayers or relevant third parties (bookkeepers, accountants, advisors or others).

### ***Processes and procedures***

80. A lot of data about several sources of income or deductions are often available to revenue bodies as third-party information or as part of a tax return. This information can be used to check the tax return which is lodged by the taxpayer. But it is far more efficient to use this data to pre-fill the tax return. This makes it easier for taxpayers to complete their tax return and at the same time improves quality, i.e. reduces non-compliance.
81. In most OECD countries, taxpayers can file their tax return electronically and online facilities are available to support tax processes. Some revenue bodies have adopted information channel strategies with internet as the preferred channel of interaction with taxpayers. The French Tax Administration has for example implemented a structured service approach (see Box 15 below) that includes the provision of a wide range of channels for interaction (i.e. information, assistance, contact and answers to specific questions) with customers.

#### **Box 15. Modernising customer relations in France**

To offset the complexity of tax legislation and improve compliance, the French Tax Administration has adopted a structured taxpayer service approach. Customer relations have been streamlined and simplified to be as user-friendly as possible and ensure that taxpayers can get adequate answers to their questions quickly and easily.

This involves various initiatives:

- Multi-channel access to user services (internet, phone, offices);
- Online services: users can now get information and forms, calculate and pay their taxes, file returns and check their account without visiting a tax office (as of October 2011, SMEs with a turnover above a certain threshold will have to file VAT returns and make VAT and tax payments online);

- Improved phone assistance through dedicated teams at the time of duties (filing and payment) and substantial investment in equipment and more efficient management of call traffic;
- Customer service windows: one single entry solution with extended opening hours for assessment and collection of all business taxes (VAT, CIT, local taxes);
- E-mail: questions sent by e-mail are guaranteed a reply within 48 hours; and
- PVFI programme (Pour Vous Faciliter l'Impôt – making your taxes easier): a programme designed for both individuals and businesses to improve service quality through a series of user service commitments regularly measured, internally and externally.

Positive changes have been noted and highlighted by professional organisations and the businesses, even if it is difficult to determine with certainty to what extent the modernisation of tax administration have led to improved tax compliance.

82. The New Zealand Inland Revenue has had a special internet-based information and guidance tool developed with a focus on the needs of small businesses; its motto is “tell me, show me, let me do it” (see Box 16 below).

#### **Box 16. Business tools in New Zealand**

Small business owners tend to be busy and have little time for consuming large amounts of information. Therefore the Inland Revenue (IR) set out to develop a tool making it easy for SME customers to quickly find the information and guidance they require to become and stay compliant.

The idea was that Tools For Businesses (TFB) should be a better way of communicating a large amount of information. The tool is intended to help those who prefer to find tax and business information for themselves rather than calling the IR or attending a workshop. The tool will be promoted through government websites, intermediaries, business associations etc.

TFB is designed to help small businesses with just the information they need. Each section contains 80% of what a small business needs to know. Common misconceptions are covered quickly, and FAQs (based on research, call centre traffic and input from field staff) are available with quick answers and references to more help and information. There also are a range of different interactive elements and resources (such as Excel spreadsheets) that have been created exclusively for the TFB.

The tool has been built with SME customers in mind by a company that specialises in small businesses. The text is drafted in a conversational tone to ensure that it makes for easy and enjoyable reading. All content is based on the established educational practice of ‘tell me’ (main text on each page), ‘show me’ (interactive elements) and ‘let me do it’ (downloads).

Feedback shows that small business owners find the tool easier and more helpful than the current IR website. There has also been a reduction in the number of basic query calls since the introduction of the tool.

83. Another example of a strategy to make it easier to comply is the creation of one-stop-shops for registering new businesses. In the Netherlands, for example, new businesses will register at the Chamber of Commerce. The information provided is also used to register the business at the revenue body. Educational programmes for new businesses are a joint activity of the tax administration and the Chamber of Commerce.

### **Information and support**

84. In Japan, the different segments of business taxpayers have been given the opportunity to receive briefings about their obligations and support to handling their tax issues (see Box 17 below).

#### **Box 17. Taxpayer briefings in Japan**

Various briefings are held in tax offices in order to help corporations and sole proprietors better understand the tax procedures and tax reforms. Each initiative includes new businesses in its target group.

For corporations: guidance is provided on proper corporate tax treatment, and briefings are held on the tax laws and directives and appeal proper filings and payment by the due date, co-operating with private organizations if necessary. Where relevant laws and directives are amended, the briefings on the amendment will be held. For sole proprietors: briefings are held on how to prepare financial statements and implement guidance on bookkeeping in order to help taxpayers better understand the importance of keeping books and records.



85. In the UK, HMRC has developed an overarching compliance segmentation model (see Box 18 below) based on customers' willingness to comply. Adopting an approach that aims for earlier intervention, education and advice, a mix of channels and communication tools are then used to ensure that customers in each segment are provided with appropriate support in the most effective and efficient way possible.

**Box 18. Business education programme in the UK**

HMRC's business education programme is based around extending the reach and targeting of education for small and medium enterprises (SMEs). It is focused on:

- Targeting SME customers with a comprehensive offering of online educational support, webinars and interactive tools at key points in their business life cycle (e.g. becoming self-employed, taking on their first employee, reaching the VAT threshold etc);
- Working with intermediaries (e.g. trade groups and small business associations) to syndicate our education messages to hard-to-reach customers; and
- Retaining a face-to-face education offering, but targeted at those who really need help.

In addition to the new products, processes and practices involved in developing the online channel, this also involves the implementation of a strategic outbound e-mail capability. Furthermore, it requires a change in organisational culture as the roles of face-to-face presenters expand to reflect the wider range of channels for education.

The target group (HMRC's 'needs help' customer segment) forms an integral part of HMRC's customer segmentation model. This was underpinned by a more detailed analysis of the SME customer base, which was used to inform the development of the approach for each customer segment. Key elements of the development of the education programme are:

- Developing a comprehensive online 'journey' of education for each of the key lifecycle events, using detailed customer understanding data (e.g. learning styles, reading age, attitudes etc) and common causes of error as a starting point;
- Putting in place a programme of interactive webinars to enable SMEs to access a face-to-face style workshop at a time and place that suits them;
- Developing the capability to use outbound e-mails to signpost customers to the online support available; and
- Putting in place a strategic framework for working with intermediaries to ensure that this activity is aligned with the wider strategy.

HMRC is monitoring a range of data (e.g. the number of 'click-throughs' from e-mails to the online material, the numbers of customers changing behaviour as a result of an educational intervention etc) to measure the impact.

86. Tax intermediaries or tax agents play a very important role for the tax compliance of many SMEs. Irish Revenue has made an effort to make it easier for the businesses to allow access for their tax agents to their files and to handling their tax issues (see Box 19 below). The initiative has been successful in achieving the goal for its first year within just a few months of operation.

**Box 19. Revenue On-line Service in Ireland**

The financial and time costs involved in complying with legislation are a major source of frustration for businesses. Irish Revenue is committed to reducing compliance costs and making it easy to deal with the tax administration.

One recent initiative that testifies to this commitment is the Revenue On-line Service (ROS). Of primary importance to the development of ROS was agents' access to their clients' tax files and the availability of the following facilities: access to their taxpayer clients' payments, balances, returns compliance and payments compliance information on Irish Revenue's database; the ability to change the taxpayer's 'agent representation' details on Irish Revenue's files; and the allocation and maintenance of access security within the agent's firm.

In the initial stages of electronic filing, feedback from filers was registered, monitored and obtained to ensure satisfactory and efficient operation of the system, compatibility of software and reliability of security systems. The ultimate aim was to make the customers interaction with Irish Revenue for payments, declarations or information available electronically in their home or place of business.

The on-line revenue target of £64 million for the first year was actually achieved within a few months. This success can be attributed to the co-operation of customers, who embraced this new technology, and to the staff, who were instrumental in the design of the service and its promotion amongst customers.

87. The Australian Taxation Office has developed self-help tools designed specifically to empower small businesses to manage more of their tax issues themselves (see Box 20 below). The tools were co-designed with small businesses to ensure that the products were relevant and useable.

**Box 20. Digital tools for small businesses in Australia**

The Australian Taxation Office (ATO) has developed a suite of electronic tools (downloadable from the ATO website) to support new to business taxpayers: 'Is your business tax ready?', 'Record Keeping Evaluation Tool' and 'Your small business tax calendar'. These products were developed through consultation and were co-designed with small businesses, including using simulation centre technology. This ensured that products were relevant, useable and targeted at the risks and issues of small business.

Small businesses' understanding of record keeping requirements and adopting good record keeping practices has long been an identified risk for the ATO. The provision of free self help tools gives small businesses an ability to understand what is required without the need to necessarily engage a tax advisor.

Evaluation shows that the use of the Tax Calendar leads to improvements in compliance with reporting and payment obligations.

88. Requirements for information and guidance depend to a large extent on where businesses are in their life-cycle. The Chilean Tax Service has on this background structured information and guidance on their internet facility around main events in the business life-cycle from the initial registration to the termination of a business (see Box 21 below).

**Box 21. Managing taxpayers' lifecycle by internet in Chile**

The initiative aims to reduce tax compliance costs and facilitate compliance by providing online information and guidance organised around main events in the business life-cycle. The elements considered are: business start-up and registration; issuing of electronic documents; electronic ledgers; sworn statements, monthly and annual payments; modification or updating of taxpayer information; and close of business.

89. Internet tools can also be applied successfully for more specific purposes. The Canada Revenue Agency has for instance developed a tool for calculating payroll deductions (see Box 22 below). The tool was originally intended for use by payroll professionals, but the success prompted the agency to redesign the tool for use by first-time payroll users and SMEs.

**Box 22. Canadian payroll deductions online calculator**

The Canada Revenue Agency has developed several online tools to assist businesses in remitting payments accurately. One example is the payroll deductions online calculator, which is aiding businesses in calculating pay-cheques for their employees and remitting their deductions. The tool was first intended for use by payroll professionals. In order to reach a broader taxpayer segment, however, the tool was redesigned to be useable by first-time payroll users and the SME segment.

**Other important considerations**

90. Taxpayers may for a variety of reasons have little interest or inclination to invest a lot of time or effort in tax issues. In consequence, the easier the tax rules are to understand and comply with, the better the chances are that compliance will be the outcome. Complex rules lend themselves to misinterpretation. When rules are perceived to be too complex, taxpayers are also less likely to make a dedicated effort to even search for information (which is expected to be overwhelming and confusing) or to attempt to do things right (assuming that this will not be possible for them at all). Instead they will rather follow available (if dubious) advice, intuition or their own judgment and just hope there will be no trouble.
91. Probably all revenue bodies engage in efforts to make it easy to comply either by improving processes, procedures and providing products that are easy to understand and use or by providing tailored and timely information and support. Making it easy or easier to comply can take many forms, as the examples show. Even though the improvement of processes, products and providing information and support is rated as highly important, resource constraints limit how much can be done.

92. Information channel management and steering taxpayers towards online information and facilities (online information, tools and self-service interfaces) appear to be fruitful ways to make it easier to comply in a cost-effective way. This is still a developing area, and it can reasonably be expected that over the next years new opportunities will arise and new best practices will emerge.

## **VI. INVOLVING AND ENGAGING TAXPAYERS AND STAKEHOLDERS**

93. The three dimensions discussed in the previous chapters all require revenue bodies to have sufficient information about taxpayers' perceptions, processes and procedures. There are several ways of building and maintaining this kind of knowledge. As is clear from the survey results, almost all respondents have established ways of obtaining some information from and about taxpayers. For instance, many revenue bodies consult with representatives of industry and stakeholders and conduct customer satisfaction and attitude research among different groups of taxpayers.
94. Often, a revenue body will be better able to contribute to the improvement of the compliance environment if these changes have been designed with the involvement of taxpayers or other stakeholders. Revenue bodies can opt for different levels of involvement. The first basic level is consultation. The next level is co-operation. The third level is co-design: involving taxpayers directly in the development and implementation of initiatives to create a pro-compliance environment and the tax system.
95. The importance of involvement with and engagement of taxpayers was also confirmed by the findings of the survey. Countries rated the importance of four distinct ways of involving and engaging taxpayers:
- Co-operating and co-designing with taxpayers or relevant third parties (bookkeepers, accountants, advisors, industry organisations, software developers or others) in order to improve procedures, systems, interfaces or control chains;
  - Identifying and exploring opportunities for influencing taxpayers through third parties (bookkeepers, accountants, advisors, industry organisations, customers, partners, investors or others);
  - Building customer understanding by engaging in dialogue with taxpayers or their representatives (bookkeepers, accountants, advisors, industry organisations or others), including formal or informal mechanisms of consultation; and
  - Building customer understanding through research conducted by the revenue body or partners or by taking on board knowledge from the scientific community.
96. The participating countries indicated that they consider these issues important, though the research issue did not score as high as the others.

### ***Information, consultation and co-operation***

97. There are several reasons why involvement and engagement is important:
- In order to make it easy to comply it is necessary to know how taxpayers are affected by tax rules and requirements in their daily life and business; this knowledge can be used to improve laws, processes, procedures, etc., and thus prevent risks and errors from arising.
  - Engaging and involving taxpayers provides opportunities for taxpayers to voice their concerns and complaints before processes and procedures are in place or implemented.
  - By involving taxpayers, a revenue body can create opportunities to communicate its intentions and viewpoints; this can increase understanding and acceptance of policy measures and decisions.
  - In the same way, a revenue body can involve third parties (such as tax intermediaries, software developers and professional and trade organisations) who play a role in tax processes. Acknowledging their role in the process, obtaining insight into their processes and experiences and gaining their support is important in order to efficiently and effectively ensure a high compliance rate for the growing number of SMEs.

98. Two aspects are central to involving and engaging taxpayers and other stakeholders. First of all, it is important for revenue bodies to build and maintain information and insight into the processes of taxpayers and other stakeholders. Secondly, interacting with taxpayers and other stakeholders provides an opportunity to gain understanding and commitment. The second and third levels— involving and engaging taxpayers (co-operation and co-design)—combine both aspects which are explained further in the following paragraphs.
99. The first aspect—building and maintaining information and insight into taxpayers’ and other stakeholders’ processes— is crucial in order to make sure that tax requirements do not disturb or complicate their daily business unnecessarily. This is part of making it easy to comply, but can also lead to more efficient processes both for the business and the revenue body.
100. Several good examples of this were identified in the survey. The Spanish Forum for Large Enterprises (see Box 23 below) illustrates a mechanism for dialogue with large businesses and industry sectors. The regular meetings between the Finance Ministry and the Federal Chamber of Tax Consultants in Germany (see Box 24 below) is an example of how such an approach may be applied to the SME segment by involving the professional body representing accountants, tax agents and tax consultants.

**Box 23. Forum for Large Enterprises in Spain**

In 2008 the Spanish Tax Agency launched the Forum for Large Enterprises in order to improve voluntary compliance and foster an enhanced relationship with large enterprises.

The forum provides a platform for dialogue (based on transparency, confidence and trust) on the main issues that arise between large companies and the tax administration. The membership is comprised of the tax agency and 27 large companies representing 15 economic sectors.

The forum work through individual meetings, economic sector meetings or general assemblies. The individual meetings focus on the relationship between the company and the tax officials, especially if there has recently been an audit; responses to tax risks detected during previous control activities; and the handling of present tax risks.

It is still too early to evaluate the initiative, but it is clear after ten meetings that the companies have responded positively and that the forum has proven a very useful and effective mechanism for learning about their concerns as regards the interpretation and application of the tax law.

The tax agency is working to further improve the operation of the forum. It is for instance considered desirable that the decisions of the forum will have legal effect and that surveillance mechanisms will ensure the timely resolution of issues raised in the forum.

**Box 24. Meetings with the Federal Chamber of Tax Consultants in Germany**

Since the beginning of 2009, meetings have been held on a roughly semi-annual basis between the German Finance Ministry and the Federal Chamber of Tax Consultants (representing Germany’s more than 88,000 accountants, tax agents and tax consultants) to discuss current tax collection issues.

Similar events take place at different levels within the regional revenue administration (regional ministries, intermediate authorities and tax offices). In the case of SMEs, tax returns are generally completed by tax advisors, and not the businesses themselves. It was therefore considered advisable to hold meetings about current tax collection issues with representatives of those professions.

The Finance Ministry’s organisational division is in charge of preparing and following up on the meetings. Other relevant units at the Finance Ministry may be called upon to participate depending on the topic. The meetings take place alternately on the premises of the Ministry and the Federal Chamber of Tax Consultants. Frequent topics include compliance, risk management and e-government.

The main objective is to nurture a climate of transparency and mutual understanding, allowing for tax collection issues to be identified and resolved at an early stage.

The meetings have led to changes in tax forms and provided valuable input for the development of the electronic tax return.

101. Other examples in the same vein are the Federal Government Relations Advisory Council in Canada (see Box 25 below) and the French strategy (see Box 26 below) of promoting a partnership with taxpayers and other stakeholders.

**Box 25. The Federal Government Relations Advisory Council in Canada**

The Federal Government Relations Advisory Council discusses strategic issues coming forward and shares high-level trends affecting the employer community.

The Council is comprised of the Canada Revenue Agency (CRA), the Canadian Payroll Association and Human Resources and Skills Development Canada.

The Council provides a platform for two-way advocacy and discussions on payroll issues in order to increase the efficiency and effectiveness of payroll legislation and administration for all stakeholders (employers, government, employees and the general public).

The Council has provided the CRA with important input resulting in several policy changes in order to reduce administrative difficulties and increase fairness.

**Box 26. Involving and engaging taxpayers and stakeholders in France**

The French Tax Administration is promoting an efficient and dedicated partnership with taxpayers and other stakeholders through its efforts at three levels.

First of all, the tax administration participates in the professional organisation of accountants. This gives many opportunities to exchange views on matters of mutual interest.

Second, French tax legislation provides for the accreditation of professional bodies promoting sound accountancy practices and compliance with tax legislation. Accredited associations receive tax reductions and have privileged access to the tax administration for information and advice. Accreditations are renewed every six years on the basis of complete audits of the activities of the associations in question. Annual interviews (that may focus on specific issues identified in audits) are also carried out with the boards of all accredited associations.

Finally, national and local users' committees have been established to maintain a constructive dialogue between the tax administration and its users. These committees have proven very useful for the tax administration in providing knowledge about the needs and views of taxpayers, and in finding efficient solutions in close co-operation with the taxpayers themselves.

102. The second aspect, interacting with taxpayers and other stakeholders, provides an opportunity to gain understanding and commitment. An excellent example of this is New Zealand's initiative (see Box 27 below) to involve taxpayers and other stakeholders in the preparation of a tax reform package as part of a wider budget process. This encouraged debate in society, which contributed to the success of the reform package.

**Box 27. Transparent and inclusive budget process in New Zealand**

The goal of this initiative was to improve the integrity of the tax system by aligning the top income tax rate for individuals with the tax rate for other entities such as trusts. It was designed to promote savings by reducing income taxes and increasing consumption taxes.

The key element of the initiative was the process that was followed which included a working group of leading business people, practitioners, academics and officials. The work was collaborative and transparent. All papers were publicly released as they were produced.

This promoted debate and raised issues among society more widely and contributed to an increase in general knowledge about tax policy issues and helped ensure the outcomes were broadly accepted. There was substantive debate and media comment as issues were raised by the working group.

The Government implemented a successful reform package which is seen as sustainable, fiscally responsible and contributing to growth. Overall the integrity of the tax system has improved.

The initiative confirmed the importance of open consultation and was generally perceived as a major success for the New Zealand Government.

103. Involving taxpayers and engaging in dialogue is strongly linked to the perception of procedural fairness of the treatment of the revenue body. Research shows that if citizens feel they are treated fairly and with respect, they feel recognised and valued by the authority and show stronger understanding for the authority and identification with the society it represents (Tyler and Blader 2003). In the context of tax, it has also been demonstrated that procedural fairness enhances identification which in turn supports positive tax attitudes and reduces the inclination towards tax evasion (Hartner et al 2008, Murphy 2005).

## Research

104. Not all survey respondents place equal emphasis on carrying out research to gain knowledge about taxpayers, which may reflect that research is to some extent considered a heavy and troublesome task. The research efforts of UK's HMRC concerning tax agents, however, shows how valuable research can be for building products and processes based on customer understanding (see Box 28 below).

### **Box 28. Customer understanding research on tax agents in the UK**

It is desirable to build product and processes around current customer understanding. In developing and maintaining that customer understanding, it is important to involve customers in the development and testing of solutions.

HMRC has developed a research programme to establish a better understanding of its agent customer base. Initially there was no central knowledge bank; very little was known of the channels of interaction; and tax agents were not actively involved in the re-engineering of business processes.

It was envisaged that research would be conducted over a couple of years, as one study alone was not considered sufficient. The intention was to gradually build a better understanding of tax agents and use this knowledge in scoping and developing new products and processes.

The starting point was a usage and attitude survey that allowed for a better understanding of the tax agents as a customer group. This survey has been followed up by other pieces of research, including studies on agent telephone usage and how to develop a dedicated facility meeting their needs; customer relationship management (including service requirements) for tax agents; and the compliance implications of the relationship between tax agents and their clients.

Some of these services are still being developed and implemented, but it is already clear that the programme has been central to building a product and process service offering that better meets the needs of tax agents and the tax administration. This research has in turn led HMRC to develop its Agents Strategy.

A business case that will deliver further significant benefits while reducing costs is currently being developed.

105. Co-operation with stakeholders may also prove worthwhile in the field of research. An example of this from the Italian Revenue Agency is the involvement of industry associations in approving statistical estimates of expected revenue for different sectors of the economy.

### **Box 29. Involvement of Italian industry associations in research**

Sector Studies are a statistical procedure using econometric functions for estimating the level of revenue that small businesses and self-employed individuals in different sectors of the economy can be expected to generate. The estimated value is then compared with the revenue actually declared. If a taxpayer declares lower income than could be expected based on a comparison with the estimated revenue for the corresponding economic activity, the tax administration can proceed to carry out an audit.

The peculiarity of this procedure is in the involvement of industry associations during the approval process. The industry associations co-operate with the Italian Revenue Agency in assessing the estimated revenue for distinct economic activities.

106. Research efforts do not always need to be that comprehensive. Carrying out minor studies (for example qualitative interviews with target groups and key stakeholders) in relation to particular issues as a natural part of starting up new projects could for instance be a valuable practice. Experience indicates that even relatively small efforts at understanding a particular problem from a taxpayer's perspective can be beneficial.

### ***Other important considerations***

107. As has become clear from this chapter as well as the previous chapters, involvement and engagement with taxpayers and other stakeholders may serve several purposes. First of all, interaction with taxpayers and other stakeholders can be used to obtain information in order to improve processes and products to make it easy to comply and drive out error. Secondly, it can be used to provide information to taxpayers. Thirdly, engaging in dialogue and consultation provides the opportunity for taxpayers to be heard and have their say, which will increase perceptions of procedural fairness and the acceptance of decisions made by the revenue body.
108. Internet-based media and social media carry substantial potential for revenue bodies in distributing information and guidance to taxpayers, but also in receiving comments from taxpayers and in engaging in a continuous dialogue with taxpayers about the compliance environment. All revenue bodies are to some extent exploring the possibilities offered by these new channels. Sharing experiences and ideas in this field remains an important task as there seems to be a significant potential in involving and engaging taxpayers and other stakeholder. Revenue bodies will benefit from learning about methods, technologies and effects.



## VII. BRINGING IT TOGETHER

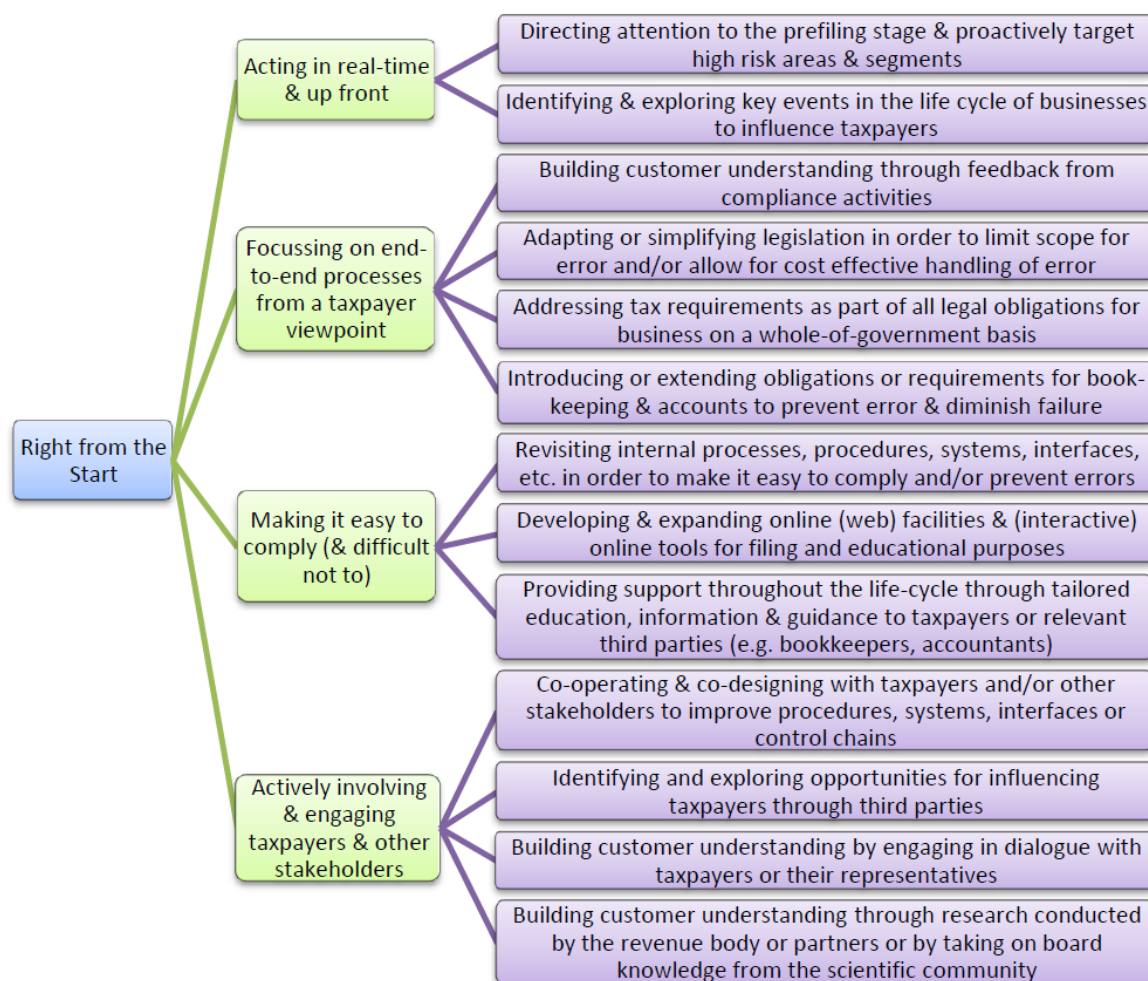
109. The four identified dimensions of the ‘Right from the Start’ approach have in previous chapters been explored separately. This does not mean, however, that they should be considered in isolation. Taken together, they provide a practical way of conveying the multi-faceted nature of the approach. They are interlinked—addressing compliance in real-time and up-front means focusing on taxpayers’ processes end-to-end. This is a way to make it easy to comply. This is achieved successfully by involving and engaging taxpayers.

110. This chapter presents the holistic view and describes the complex structure of interactions between the dimensions. To this end, it offers a framework for applying the approach as well as some considerations regarding the dynamic nature of the compliance environment and the implementation of the ‘Right from the Start’ approach.

### Framework for applying the approach

111. Revenue bodies seeking to identify opportunities for applying the approach will need to see it as a whole. For that purpose, it is useful to bring together the four dimensions in a framework providing an overview (see Figure 1 below) of the key elements and activities of a ‘Right from the Start’ approach.

**Figure 1. Dimensions and related activities of the ‘Right from the Start’ approach**



### ***A compliance environment with dynamic interactions***

112. The goal of the 'Right from the Start' approach is influencing the environment and thereby influencing taxpayer compliance behaviour. It is important to bear mind that this environment is constantly changing as it is exposed to the dynamics and the complexity of the society in which the taxpayer is trying to manoeuvre. Therefore interventions in the environment need to be adjusted all the time because of the dynamic nature of the environment. But as the environment affects taxpayer behaviour, at the same time, taxpayer behaviour affects the environment. For instance, new legislation may influence behaviour, but behaviour may also lead to new legislation. Complex interactions lead to complex changes. So a measure that works today will not necessarily work tomorrow.
113. These constant and dynamic changes can be illustrated by an example: An increase in excise duties on alcohol or tobacco creates a risk of more illicit trade and smuggling. Once this risk has materialised, it cannot be totally neutralised simply by reducing excise duties to previous levels, as new patterns of behaviour (and infrastructure to support them) will have emerged and norms will have changed. The original change in legislation will thus have led to changes in the compliance environment that affect the potential impact of any initiative a revenue body might take.
114. All actions create reactions, sometimes in unexpected ways. More third-party reporting, for instance, can in many cases lead to significantly higher levels of compliance and reduced compliance costs. But if businesses perceive further reporting requirements as intrusive or burdensome, these measures can backfire and provoke non-compliant behaviour. Taxpayers might start to obstruct or evade. Because one solution has worked well in the past it does not necessarily mean that a similar solution will work in the future. Revenue bodies need to be sensitive to changes in the environment and interact with taxpayers to learn about their reactions and views.
115. Taxpayers respond not only to the current activities of the revenue body or to the design of the compliance environment. Taxpayers will react to how they think revenue bodies will act and how they expect the compliance environment to develop in the future. This can change the impact of the revenue body's measures in unexpected ways. Implementing a 'Right from the Start' approach therefore requires careful crafting on the part of the revenue body as well as an iterative approach which includes interaction with the environment, flexibility to react to its dynamics, taking on board taxpayers' and other stakeholders' perspective.

### ***Implementing 'Right from the Start' strategies***

116. 'Right from the Start' is a strategic approach and a way of thinking, rather than a blueprint for revenue bodies to implement. Key issues are taking early measures, focusing on the compliance environment and starting from the taxpayers' perspective. Concrete activities will depend on the context and specific conditions, such as legislation, compliance issues at stake, existing level of co-operation with stakeholders and so on.
117. The 'Right from the Start' approach can be applied to any of the revenue bodies' processes. It is important to start from a revenue body's daily business. This can be a specific project dealing with identified non-compliance, the implementation of new legislation or the redesign of specific service processes. In any case it is worthwhile to start involving the taxpayer and other stakeholders, in order to understand their situation. This means interacting with them and their organisations. The purpose of this is also to monitor developments and adjust activities when deemed necessary. Such adjustments should not be seen as failures, but rather as a necessary part of iterative learning and implementation processes.
118. To identify relevant initiatives is not necessarily a troublesome task adding more stress to the revenue body's limited resources. Mainly it will demand that staff and management involve themselves more directly with taxpayers and engage in dialogue in order to understand their perspective.

119. Developing a 'Right from the Start' approach influences many areas within the revenue body. Therefore it is important to set priorities and coordinate initiatives in specific programmes and projects. Flexibility is, however, very important: a plan should not be a goal in itself. A readiness to change plans during implementation is necessary to cope with a dynamic reality. Flexibility and creativity are needed to successfully implement a 'Right from the Start' approach.

## VIII. ONGOING DEVELOPMENTS AND POSSIBLE NEXT STEPS

120. The previous chapters have explored four dimensions that are central in developing and implementing a 'Right from the Start' approach. This chapter will look at ongoing developments and possible next steps. Revenue body experience with developing and implementing systematic 'Right from the Start' strategies is still at an early stage, but developments will likely be influenced by some important tendencies in society. These will be explored in more detail below.

121. Tax processes have for a long time been seen as processes on their own, that is not seen as a part of the business processes as a whole. In this line of thinking tax compliance was considered to be the concern of the revenue body in the first place and perhaps to some extent as a concern of tax agents and accountants. There are a number of developments which are contributing to shifting the opinion and behaviour of the public and businesses in this respect:

- In response to a number of corporate and accounting scandals, additional legislation and rules have entered in effect in many countries. One prominent example is the Sarbanes Oxley Act in the United States, which aims to improve corporate governance. These new rules also apply to tax issues, making it more important for companies to be in control of their tax position. This relates first and foremost to the larger businesses, but it also has relevant implications for the SME segment.
- Modern technologies like web-based services, standardization and electronic filing have promoted the use of full-service accounting services, in which filing the tax return is integrated in the accounting system as a whole.
- More emphasis is placed on social responsibility, meaning that a business is expected to behave as a responsible citizen and contribute to the benefit of society as a whole.

122. These developments create fertile soil for a 'Right from the Start' approach. At least three issues that will influence future developments can be identified at this stage: improved understanding of factors that drive compliance; technological developments; and co-operation with stakeholders. These issues will be explored in more detail below.

### ***Improved understanding of factors that drive compliance***

123. A better understanding of factors in the compliance environment that drive taxpayer compliance behaviour will make it possible to design and implement more targeted approaches. An important issue in this respect is getting a better understanding of what can be referred to as 'moments of influence' – behaviour is most likely to be influenced when important choices have to be made by the taxpayer: this can be a choice of whether or not to start a business, certain investments, hiring staff, engaging a tax intermediary, setting up an accounting system etc. Once choices have been made, behaviour is far more difficult to influence. Revenue bodies need to gain a better understanding of these key moments and which of them are most relevant as moments of influence – this will provide direction to compliance activities and especially to mass media and communication strategies.

### ***Technological developments***

124. Standardisation, such as the use of Standard Business Reporting (based on the XBRL taxonomy), and the increasing importance of online accounting services, including cloud computing, create a kind of infrastructure for accounting and financial reporting. This includes fiscal reporting. These systems necessarily need a high level of internal control: they must be trusted from the perspective of the user. This means that they provide a high level of data integrity, including validation of data and the existence of an audit trail. Some systems generate an automatic booking entry, based on the knowledge embedded in the system about a large number of similar entries. In future a further integration of accounting services and automated financial reports for stakeholders such as banks,

insurance companies and of course revenue bodies will provide more certainty about the quality of tax returns.

125. Further integration in the end-to-end process from taxpayer to revenue body could even make it possible to abolish the tax return. The amount of tax could be calculated and paid automatically. The involvement of independent service providers as third parties in the tax processes can contribute to this development. Regardless of what the actual developments will be, they will no doubt create new and better opportunities to embed compliance measures in the systems and processes and ensure compliance 'Right from the Start'.

126. Another interesting development is the importance of social media. They provide an opportunity for revenue bodies to improve their services and communication, work in real time and co-operate with taxpayers as a community to provide better service with limited resources. Apart from that they also can be a source of valuable information for the revenue body.

### ***Co-operation with stakeholders***

127. Paying attention to developments in society such as social responsibility can give great leverage to the compliance efforts of revenue bodies. The challenge will be to make tax a concern not just for the revenue body. This means discussing compliance issues with stakeholders such as trade and industry organisations, software providers, professional bodies and tax practitioners etc. In this way consultation, collaboration and co-design represent important mechanisms for improving compliance. Gathering structured and high quality feedback on the performance of the revenue body is an important aspect of this approach.

128. A possible development could be that relevant stakeholders in society co-direct the compliance efforts of the revenue body. Further insight in how to involve and engage stakeholders is likely to lead to new ways of working. This relates also to the idea of a revenue body presenting the tax system as a community asset.

## **IX. CONCLUSIONS AND RECOMMENDATIONS**

129. This information note has explored the approach of 'Right from the Start' and provided practical examples of its current application among revenue bodies in the FTA as well as perspectives for the future.
130. 'Right from the Start' is not a single specific compliance strategy. It is an approach based on the knowledge that interventions at the start of the taxpayer's 'tax chain' is more effective than checking individual returns afterwards. The approach also recognizes that influencing the taxpayer's environment is more effective in terms of influencing behaviour than trying to influence taxpayer's intentions.
131. The approach points to an environment in which compliance is promoted and if possible will be 'the inevitable outcome' of actions and transactions performed by taxpayers. The information note identifies four dimensions of the 'Right from the Start' approach:
- Acting in real-time and up-front;
  - Focusing on end-to-end processes from a taxpayer viewpoint;
  - Making it easy to comply (and difficult not to);
  - Actively involving and engaging taxpayers, their representatives and other stakeholders.
132. A 'Right from the Start' approach based on these four dimensions can bring about considerable benefits to revenue bodies as well as taxpayers and other stakeholders in the compliance process, including society at large. A 'Right from the Start' approach will support compliant behaviour, drive out error and at the same time reduce the possibilities of non-compliant behaviour. The purpose is not just to reduce unintentional mistakes; the purpose is also to reduce intentional evasion and to strengthen the overall willingness to comply. The use of 'Right from the Start' strategies by revenue bodies leads to compliance, can be cost-effective and can save resources. It will also create benefits for the taxpayer through better service provision, reduced administrative costs and improving the quality of tax processes as well as relations between taxpayers, other stakeholders and revenue bodies.
133. In implementing a 'Right from the Start' approach it is important revenue bodies realize that the approach starts with an organisation-wide awareness that investing in up-front compliance efforts can have significant payback in terms of improving voluntary compliance, confidence in the revenue body as well as increasing tax awareness in society. The approach therefore involves a significant shift in perspective from a purely traditional enforcement approach. That is not to say traditional enforcement is no longer necessary; investing up-front cannot be separated for addressing non-compliance further down the line. Moreover, co-operation with taxpayers and other stakeholders and asking them to do their share, is only credible when the revenue body is doing its share by addressing non-compliance in a firm and effective way. Any modern compliance strategy will therefore need to encompass a wide range of tools and initiatives; traditional enforcement tools and 'Right from the Start' measures are both pillars of such a compliance strategy.
134. Most revenue bodies already are adopting 'Right from the Start' measures and strategies. There is a shared consensus that the approach needs to include a focus on a number of specific strategies and these have been highlighted throughout this information note, structured along the lines of the four dimensions. Individual revenue bodies will have to study these dimensions; tax administrators have to decide on appropriate strategies for their revenue body and determine milestones and decide on the right ones for their administration and which milestones and checkpoints will be adopted.

135. Sound development of compliance strategies involves understanding the context, including threats and risks, of the revenue body's work in society. This should include identifying and understanding the drivers of compliance behaviour. This will provide revenue bodies with opportunities for developing effective compliance strategies. This becomes even more central in the context of a 'Right from the Start' approach. Revenue bodies that devote resources to building a solid understanding of the context of compliance behaviour and its drivers, will be well positioned to develop and implement solutions along the four dimensions identified and explored in this information note.
136. To this end, it will be worthwhile, as has also been illustrated by a number of the examples featured in this report, to involve taxpayers and/or other stakeholders in an early stage of the adoption of a 'Right from the Start' approach. Often this will add significant value to the analysis of the problem as well as contribute to choosing the right strategies and tools for addressing it. Furthermore, taxpayers and other stakeholders can be important allies and contributors in creating a facilitating compliance environment.
137. Sound development of compliance strategies also involves establishing the outcomes that the revenue body is seeking to achieve by addressing compliance risks. This becomes no less important with a 'Right from the Start' approach. Expected outcomes expressed in terms of impact on the compliance behaviour of specific taxpayer populations are desirable in order to be in a position to evaluate the effectiveness of the strategies. Measurable indicators of success will likely cover immediate, intermediate and long term effects. These need to be viable and it is important to understand the nature and cost of required data as well as purpose. The indicators need to enable linking back to the overriding purpose.

### ***Recommendations***

138. Revenue bodies are strongly encouraged to study the contents of this note to identify opportunities for enhancing their compliance strategies by:

- **Applying the 'Right from the Start' approach**

While most revenue bodies in the FTA already carry out substantial activities that fall within the scope of the 'Right from the Start' approach, it is also clear that there is considerable space to make use of it in a more systematic way in developing and implementing key processes, strategies and specific activities.

- **Making use of technological developments and improved understanding of behaviour**

Technological developments and improved understanding of the factors that drive taxpayer compliance mean that revenue bodies are likely to encounter exciting opportunities and experience significant progress in this area over the coming years.

- **Taking up the challenge of evaluating compliance strategy outcomes**

In this context it remains a challenge to design and implement appropriate mechanisms for evaluating outcomes.

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