

Opinion Statement on the OECD Consultation on Draft Report on Tax Morale (2019)

**Issued by the Global Tax Advisers Platform
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CFE Tax Advisers Europe together with the Asia-Oceania Tax Consultants' Association ("AOTCA") and the West African Union of Tax Institutes ("WAUTI"), established the Global Tax Advisers Platform ("GTAP") in 2013. GTAP is an international platform, representing more than 600,000 tax advisers in Europe, Asia and Africa, that seeks to bring together national and international organizations of tax professionals from all around the world. The principal aim of GTAP is to promote taxpayer and tax advisers' interests by ensuring the fair and efficient operation of the global tax framework, including recognition of the rights and interests of taxpayers, and the role of tax professionals. For further information, please contact Piergiorgio Valente, President of CFE Tax Advisers Europe or Aleksandar Ivanovski, Tax Policy Manager, at gtap@taxadviserseurope.org. For further information regarding CFE Tax Advisers Europe please visit our web page http://www.taxadviserseurope.org/about-us_gtap/

Statement

The Global Tax Advisers Platform (“GTAP”)¹ is pleased to submit a response to the OECD public consultation on the draft report on tax morale.

GTAP welcomes the findings of the report that suggest a global policy course of action which places greater emphasis on increased tax certainty and voluntary compliance in order to strengthen and improve the tax morale among individuals and business alike.² In particular, GTAP supports the findings of the report related to the need for increased tax morale with reference to developing countries. In respect to both businesses and individuals, improving tax morale would no doubt have a meaningful impact on tax good governance and capacity building.

1. Tax Morale and Tax Certainty

In such a context, GTAP endorses the findings of the OECD Report that tax certainty has a great impact on business decisions, in absence of which, modified business structures, increased costs, and changes to investment decisions could arise.³

GTAP has long advocated for increased tax certainty and strengthened taxpayers’ rights as a proxy for increased tax morale among individuals and businesses. In collaboration with the Asia-Oceania Tax Consultants’ Association (AOTCA) and the Society of Trust and Estate Practitioners (STEP), CFE has published Model Charter of Taxpayer Rights and Responsibilities between taxpayers and tax administrations.⁴

¹ The founding members of GTAP are:

- CFE Tax Advisers Europe,
- Asia-Oceania Tax Consultants’ Association (AOTCA), and
- West Africa Union of Tax Institutes (WAUTI).

Observers to GTAP are:

- International Association of Financial Executives Institutes (IAFEI),
- Society of Trust and Estate Practitioners (STEP), and
- Arc Méditerranéen des Auditeurs (AMA).

² Tax morale is defined as a voluntary, intrinsic motivation to pay taxes, both at the level of individuals and businesses

³ OECD Draft Report on Tax Morale, p. 33

⁴ The Model Taxpayer Charter and the Final Report can be accessed online at the following link:

<http://www.taxpayercharter.com/>

1.1. The Model Taxpayer Charter

The Model Taxpayer Charter highlights the characteristics of a well-functioning tax system, and sets out the following 10 basic principles that are perceived as underpinning the rights of the taxpayers, with significant impact on tax morale:

- integrity and equality;
- certainty;
- efficiency and effectiveness;
- the right to appeal and the right to dispute resolution;
- appropriate assistance;
- confidentiality and privacy;
- payment of the correct amount of tax;
- representation;
- proportionality; and
- honesty.

The Model Charter also sets out 10 taxpayer responsibilities, including:

- being truthful;
- providing information where reasonably required;
- being cooperative;
- making payment;
- complying with the law;
- maintaining accurate records;
- taking due care;
- retaining responsibility for information in filings;
- showing courtesy; and
- complying cross-border.

The overriding purpose of the Charter is to foster a relationship of mutual trust, respect and responsibility between taxpayers and tax administration by clarifying taxpayers' obligations while also clarifying the rights of taxpayers that should be upheld. The Charter aims to ensure that all taxpayers are treated equally and without bias or preference.⁵

⁵ At present, under the GTAP umbrella, CFE is revisiting this work with a forthcoming report of the Professional Affairs Committee on basis of a survey on the position of taxpayers' rights vis-a-vis tax administrations among a selected group of countries in Europe, Africa and Australia

The Model Taxpayer Charter is intended as a blueprint for what a good tax system should contain including best practice examples. It aims to provide a model based on mutual trust to be used and embedded in national laws. It constitutes the basis on which taxpayers' obligations to the state are balanced against the rights of taxpayers.

1.2. Relationship between Tax Morale and Taxpayers' Rights

The tax morale is significantly affected by the nature of the relationship between taxpayers and government. An emphasis on taxpayers' rights and certainty in the OECD countries and worldwide will benefit the tax morale, in particular due to the fact that tax morale is closely linked to what some authors refer to as 'taxpayer ethics', as norms of behaviour governing citizens as taxpayers in their relationship with the government.⁶ As such, the tax assessment and enforced compliance strategies utilised by governments are likely to create tension with the taxpayers, with negative influence on their tax morale as a consequence.

Equally, the concept of tax morale is dependent on strengthening the relationship of trust between the taxpayers and governments, as well as empowerment of the taxpayer's position. Policy developments in this direction are welcomed by GTAP as these will have a positive impact on taxpayers' tax morale and the tax compliance in general.

Further, GTAP members strongly believe that well-functioning institutions, trust in the governments and an atmosphere of positive returns from the system back to citizens will produce results such as higher tax morale and willingness of individuals to voluntarily contribute to the 'social contract' by paying more taxes. Thus, a sustainable system should be based on a fair tax environment, responsive governments, reciprocally related with the tax contributions of citizens and the supply of public goods. With taxpayers' perception that their 'social contract' commitments are adequately represented, their identification with the national governments increases, and consequently the tax morale and their willingness to contribute voluntarily to the budget and pay taxes.⁷

GTAP concurs with the proposition that effective public services are a means to demonstrate how well governments turn tax revenues into beneficial expenditures, so these can produce a double dividend comprising both the intrinsic benefit of the service provided and the spill over benefits from public satisfaction generated

⁶ James Alm and Benno Torgler, "Culture differences and tax morale in the United States and in Europe.", *Journal of economic psychology* 27.2 (2006): 224-246.

⁷ Ronald Cummings et al. "Tax morale affects tax compliance: Evidence from surveys and an field experiment." *Journal of Economic Behavior & Organization* 70.3 (2009): 447-457

by its provision.⁸ GTAP welcomes the findings that the need for increased focus on tax morale is particularly relevant for developing countries, where the improved public service delivery is directly related to an improved tax morale.

On this basis, GTAP highlights the intrinsic link between the taxpayers' rights and the voluntary compliance, as citizens and businesses alike will be more likely to comply with the law if the relationship between the taxpayers and the government is found to be equitable.⁹

2. Policy considerations with respect to the tax morale

2.1. Gender- Responsive Fiscal Policies

The OECD reports concludes that an important divergence from the global analysis is that women appear to have lower tax morale than men, with reference to Africa. To address these issues, GTAP endorses the UN- led projects that have recently promoted the awareness of gender mainstreaming in the field of public finance management through its gender responsive taxation and budgeting initiatives.¹⁰

In strengthening the tax morale among both genders, GTAP fully supports government actions that deliver budgets and promote taxation policies that work for everyone. By promoting gender-neutral distribution of resources and raising of revenues, governments contribute to more equitable societies and more opportunities for all. In such a context, GTAP members fully endorse the proposition to work on gender-responsive policies in developing countries in particular, as a means for both improving the perception of fairness and establishing fiscal equality among all citizens, regardless of gender.

⁸ The OECD Draft Report (2019) highlights that improved public service delivery appears to be a driver of tax morale, in particular with reference to Africa

⁹ Benno Torgler, "Tax morale, rule-governed behaviour and trust." *Constitutional Political Economy* 14.2 (2003): 119-140. Torgler suggest that there are other possibilities to increase tax morale, ie. taxpayers are likely to follow rules they know or trust to produce good results or when they trust both the public officials and the legal system, *op. cit.*

¹⁰ According to the United Nations: "gender responsive budgeting helps to track the way that budgets respond to women's priorities and the way that governments use funds to reduce poverty, promote gender equality, reverse the spread of HIV and lower the rates of maternal and child mortality. It helps ensure government accountability to the commitments made to women in the Cairo Programme of Action on Population and Development and the Beijing Platform for Action for Gender Equality and Women's Empowerment and to achieving the Millennium Development Goals", *Gender Responsive Budgeting in Practice*, United Nations Textbook (2013)

2.2. Tax Morale and the Post-BEPS Complexities - Cooperative Compliance

In a post-BEPS environment, with the proliferation of measures to combat tax avoidance and evasion, there is a notable lack of certainty, which affects the compliance levels among businesses. For these reasons, GTAP members believe that protecting the legally held rights of taxpayers, business or individuals, is all the more significant given the current state of public opinion regarding tax avoidance and as important as ensuring the continuance of legally enforced compliance and voluntary compliance alike.

Increasingly, with BEPS-implementing measures, taxpayers in different jurisdictions are facing equal tax obligations but are not treated equally by tax administrations in terms of their rights. As a means of providing advance certainty for taxpayers by tax administration, GTAP is supportive of any programmes that establish such protection for taxpayers. We support both cooperative compliance programmes and tax ruling practices that comply with the OECD and the EU tax good governance standards.

Similarly, cooperative compliance was recently endorsed by the IMF/OECD, on the basis that “cooperative compliance programs could reduce uncertainty for low risk companies, assist tax administrations to better focus their resources and promote a culture of greater trust”.¹¹

In the same vein, where tax administrations provide tax rulings and Advance Pricing Agreements (APAs) these have proved to be an effective tool for the prevention of tax-related disputes, especially with respect to transfer pricing issues. They provide the taxpayer with advance knowledge of the tax treatment of particular transactions and therefore allow certainty for taxpayers in planning for the future, and also prevent the risk of subsequent disputes. In light of the debate about strengthening the tax morale among businesses, GTAP encourages governments to establish legal frameworks that promote simple and effective procedures for the conclusion of bilateral/multilateral APAs and/or confirmative tax rulings as means for increased tax certainty.

2.3. The response of the international tax professionals’ community

GTAP members share the concern that the complexity arising from the international aspects of taxation affect the incentives for voluntary compliance, in particular in relation to developing countries. Digitalisation is posing significant challenges to the *modus operandi* of the international tax framework. The boundaries are increasingly

¹¹ OECD / IMF Report to G20 on Tax Certainty, March 2017

becoming irrelevant, and as a result jurisdictions find it quite challenging to effectively tax modern value producing activities. As a consequence, a global tax jurisdiction is being *de facto* constituted.

In this vein, GTAP welcomes the new models of collaborations, platforms where stakeholders across the board sit together and work with legislators and policy-makers to address the new circumstances. We believe that only through effective collaboration, the complexities of the international tax system can be addressed, as well as the related issues of compliance with the rules. We participate in all the international and supranational initiatives that aim to define internationally acceptable rules that will be appropriate and effective in an ever-shifting tax landscape. The likely result of such initiatives is indeed increased tax morale: seeking to unite stakeholders across the board will ensure that the outcomes have only beneficial consequences, for taxpayers and governments, as intended by democratically elected legislators worldwide.

In line with these initiatives, tax advisers from all over the world launched the GTAP, aiming to contribute to the global debate on addressing the system deficiencies in an international context. Moreover, this platform is more than a cooperation tool: it enables effective partnership among tax advisers across the globe and shall hence ensure their prompt and adequate responses in the new framework. Most importantly, it shall ensure that tax advisers' knowledge, skills and expertise are in the service of policy-makers for the construction of a new international tax framework. Consequently, in light of the discussion for improved tax morale and the related policy considerations, GTAP members highlight the *Ulaanbaatar Declaration*: on 12 September 2018, GTAP members and observers signed the Declaration, setting out the platform's 10 key priorities for international taxation.¹²

Finally, GTAP encourages cooperation at all levels to address the inconsistency of the international framework, to address the lack of expertise of tax administrations in particular in developing countries. One key benefit of the globalised tax environment and the post-BEPS world are the equal learning opportunities for both developed and developing countries in adopting international standards in tax, such as the BEPS Actions, in addition to effective capacity building in implementing such standards. As a response to the globalised tax governance environment, GTAP serves a unique purpose: to encourage tax professionals to take up the challenge of proposing a new system: simple, flexible and fit for purpose, a system that can reclaim taxpayers' confidence and increases the tax morale of both individuals and businesses.

¹² The *Ulaanbaatar Declaration* sets out common key priorities for the collective promotion of an optimal tax framework worldwide, including strong cooperation among tax professionals, inclusiveness, revision of existing tax rules, safeguarding taxpayers' rights, and digitalisation of the tax profession, available at: <http://taxadviserseurope.org/blog/the-ulaanbaatar-declaration-global-tax-advisers-platform-signs-declaration-setting-out-key-priorities-in-international-taxation/>

In conclusion, growth demands tax policies instilling confidence to taxpayers. Entrepreneurship needs systems from which it can hold, to plan and to create a vision. There is growth where there are efficient tax systems, where legislators can inspire voluntary tax compliance. Sustainable tax systems are the ones that give good reasons for compliance to taxpayers, their main stakeholders. Due respect to taxpayers' rights is the primary prerequisite in such an endeavour.