

TAX ADMINISTRATION AND CORRUPTION TOPIC GUIDE

COMPILED BY THE ANTI-CORRUPTION HELPDESK

Transparency International is a global movement with one vision: a world in which government, business, civil society and the daily lives of people are free of corruption. Through more than 100 chapters worldwide and an international secretariat in Berlin, we are leading the fight against corruption to turn this vision into reality.

Topic guides are a series of publications developed by the Anti-Corruption Helpdesk on key corruption and anti-corruption issues. They provide an overview of the current anti-corruption debate and a list of the most up to date and relevant studies and resources on a given topic.

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This topic guide provides an overview of major corruption risks and anti-corruption approaches in tax administration, and a compilation of the most up to date and relevant studies and resources on the topic.

TAX ADMINISTRATION

OVERVIEW OF KEY ISSUES

Revenue administration covers the collection and management of domestic revenues such as taxes, customs duties, revenues earned from state-owned enterprises and other forms of revenues. Tax administration in particular is often perceived as one of the sectors most vulnerable to corruption due to complexity of tax laws, the high discretionary powers of tax officials and the low cost of punishment. Corruption undermines a country's tax structure and its revenue collection capacity, resulting in significant loss of revenues and funding available for public service provision. Not only does it lower the tax to GDP ratio, but also causes long-term damage to the economy by increasing the size of the underground economy, distorting the tax structure, corroding the tax morality of taxpayers as well as eroding public trust in government institutions¹.

OPPORTUNITIES FOR CORRUPTION

Corruption can affect all processes conducted by a state's tax administration, from the registration and removal of taxpayers from the national registry, the collection of tax dues, the identification of tax liabilities and the inspection and prosecution of alleged tax offences. Corruption in tax administration can be either collusive, where tax officials strike deals with taxpayers to allow the latter to underpay taxes in exchange for a share of the money "saved", or abusive, where tax officials use their discretionary powers to extort bribes from honest taxpayers and can take various forms²:

- **Tax evasion committed by taxpayers.** Taxpayers can abuse the complexity of tax laws to evade taxes by, for example, under-reporting turnover or over-reporting expenditure, with or without the involvement of tax officials. Rich and well connected groups and individuals can also use political corruption to exercise undue influence on the tax regulations, lower and circumvent tax rates as they have both incentives and resources to buy influence, both legally and illegally.
- **Collusion between tax officers and taxpayers.** Tax officials can abuse their position to issue tax exemptions, apply lower tax rates, un-register individuals from the tax registers in exchange for lower "private" tax, among others.
- **Corruption by the tax officers themselves, without any direct taxpayer interaction.** Tax officials can extort bribes from taxpayers by threatening them to pay above rates. They can also simply steal the tax revenues collected, sometimes with the complicity of bank officials or auditors. Internal auditing may also be inefficient or corrupt, reducing the likelihood of detection and punishment.

¹ Exploring the relationships between corruption and tax revenue. Nawaz, F., January 2010.

² Revenue administration and corruption. Odd-Helge Fjeldstad, OH. Bergen: Chr. Michelsen Institute, 2005. (U4 Issue, 2005:2). <http://www.cmi.no/publications/publication/?2558=revenue-administration-and-corruption>

- **Patronage networks.** Corrupt officials often operate in informal networks of patronage composed of internal and external actors. This is particularly common in developing countries, where patronage networks based on ties of kinship or community often permeate the operations of tax administration. Politicians can also use taxes to either favour their constituencies or burden their opponents.
- **International tax fraud and evasion schemes.** Tax fraud and evasion schemes often are built on legal loopholes providing for profits and assets being transferred to tax havens instead of being reported to domestic authorities. While such schemes make use of imperfect legislation in many cases, this implies a risk for corruption to influence law making and the judiciary to invent and utilise such legal loopholes and grey areas.

ANTI-CORRUPTION MEASURES AND APPROACHES

A wide range of measures at various levels of the administration can be envisaged to address corruption in tax administration³:

- **Simplification of tax regulations.** Clear and easy-to-follow tax legislation reduces the individual discretion of tax officers and asymmetry of information between the taxpayer and the tax officer.
- **Strong, independent and well placed management,** including the degree of autonomy of the revenue collection service in the government administration and the performance criteria applied. A clear separation between the tax administration that manages taxpayer datasets and revenue bases and the Ministry of Finance, which develops tax policies, is recommended.
- **Staff management.** Transparent and merit-based recruitment, training and career opportunities are important to prevent nepotism or people buying what is considered a lucrative position. Staff also needs to be paid wages they can live on to reduce incentives for corruption. Ethical standards can be raised through the adoption and enforcement of codes of ethics for tax revenue administration. Staff rotation where tax collectors remain only for short periods of time may prevent the constitution of corrupt networks and reduce patronage.
- **Internal audits, monitoring and investigations.** Wage-based policies are unlikely to have an impact on corruption without effective monitoring systems as well as enforcement of sanctions. It is important to conduct regular audits and have effective and skilled internal investigation teams, with effective links to other law enforcement agencies.
- **The use of technology** for filing and paying tax declarations and bills (e-taxation) can reduce corruption by limiting opportunities for direct interaction between taxpayer and tax official.
- **Transparency** of tax administration is essential to ensure taxpayers have certainty in their dealings with tax agencies and consistent application of tax regulations. Tax laws, regulations and procedures should be made publicly accessible in a user-friendly manner to raise taxpayers awareness and knowledge of their rights and obligations.

³ Revenue administration and corruption: what works? Fjeldstad, O.H., U4, 2005; Key steps to address corruption in tax and customs. Child D., U4, 2008.

- [International cooperation](#), exchange of information and harmonisation of legislation will reduce tax evasion, fraud and illicit enrichment with an international, cross-border dimension.

THE ROLE OF DONORS

Donors have supported tax administration in many developing countries by providing technical assistance, supporting tax administration modernisation programmes, contributing to the revision of tax legislation and supporting human resource management reforms. One of the major lessons learned is that beyond technical approaches, reforms of revenue administrations are highly political by nature and need to be tailored to the social and political circumstances of the country and backed by a strong political will at the highest level of government.

RESOURCES ON TAX ADMINISTRATION

Background papers

Corruption in tax administration. Purohit, M.C., World Bank, 2007.

in Anwar Shah (ed.), Performance Accountability and Combating Corruption

<http://siteresources.worldbank.org/INTWBIGOVANTCOR/Resources/CorruptioninTaxAdministration.pdf>

Although not recent, this paper remains a good summary of key issues related to corruption in tax administration and of the tools and approaches to address them. The paper focuses on the broad range of developing and emerging economies in the world. After explaining causes of corruption in tax administration and discussing the impact of corruption on the economy, it presents policy measures for combating corruption in tax administration, with a comprehensive summary of applicable tools to implement them.

Revenue administration and corruption.

Fjeldstad, O.H., U4, 2005.

<http://www.cmi.no/publications/file/2558-revenue-administration-and-corruption.pdf>

The aim of this U4 Issue paper is to identify and discuss major challenges, appropriate responses, and relevant tools for addressing corruption in revenue administrations. How does corruption affect revenue collection, and what are the consequences for development indicators such as growth and poverty? This paper explores the driving forces behind fiscal corruption, emphasising the economic, social and political dimensions of anti-corruption reforms and limitations of some technical approaches. The paper argues that reforming tax administration requires looking beyond formal institutional structures and functions to take into account the politics of how revenue administration works in practice.

Standards, principles and guidelines

Declaration on the promotion of ethics in tax administration.

Inter-American Center of Tax Administrations (CIAT), 2007.

http://www.ciat.org/biblioteca/opac_css/doc_num.php?explnum_id=1968

CIAT supports the efforts of national governments by promoting the evolution, social acceptance and institutional strengthening of tax administrations, encouraging international cooperation and the exchange of experiences and best practices. CIAT member countries endorsed the CIAT Promotion of Ethics Tool Kit that includes this declaration. The declaration states that tax administrations must have an integrity programme addressing the following key elements: leadership and commitment; legal framework; fairness; automation; management autonomy; efficient accountability mechanisms; codes of conduct; and human resource management practices.

Standard for automatic exchange of financial account information in tax matters.

OECD Global Forum on Transparency and Exchange of Information for Tax Purposes, 2014.

<http://www.oecd.org/ctp/exchange-of-tax-information/standard-for-automatic-exchange-of-financial-information-in-tax-matters.htm>

This standard, approved by the OECD Council on 15 July 2014, calls on jurisdictions (states and territories) to obtain information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis. It sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered, as well as common due diligence procedures to be followed by financial institutions. The standard does not specifically refer to prevention of corruption. It will, however, contribute to curbing corruption by reducing possibilities for tax evasion, tax avoidance, money laundering and other forms of benefiting from collusion between taxpayers and authorities.

Practical insights: handbooks and toolkits

Bribery and corruption awareness handbook for tax examiners and tax auditors. OECD, 2013.

<http://www.oecd.org/tax/crime/bribery-corruption-awareness-handbook.htm>

This handbook is targeted at tax inspectors, with the view of providing them with tools and indicators to detect possible bribery or other forms of corruption in the course of regular tax examinations and audits. Tax examiners and auditors can contribute to reducing corruption by identifying bribery and denying tax deduction for such illegal payments and by referring suspected other forms of corruption and economic crime to law enforcement agencies. The 2013 book is an update of a 2009 edition which is available in many languages.

CleanGovBiz toolkit on tax administration. OECD, July 2012.

<http://www.oecd.org/cleangovbiz/toolkit/taxadministration.htm>

The OECD initiative, CleanGovBiz, supports governments, business and civil society to build integrity and fight corruption. It draws together existing anti-corruption tools, reinforces their implementation, improves coordination among relevant players and monitors progress towards integrity. CleanGovBiz does so for a range of sectors, including tax transparency, tax administration, PFM and many more. The full range of topics can be accessed [here](#). The toolkit for tax administrations comprises of a priority checklist and an implementation guidance which is illustrated by a number of country case studies.

Key steps to address corruption in tax and customs. Child, D., U4, 2008.

<http://www.u4.no/publications/key-steps-to-address-corruption-in-tax-and-customs/>

Based on experiences from a wide range of countries, this U4 Brief gives some examples of corrupt activities and outlines practical steps to minimise the problem. For staff of tax administrations and customs, opportunities for corruption and temptation to engage in it are numerous, including speeding up services, undervaluing cargo and helping with tax evasion. Mitigation measures proposed include appropriate staff management, training, operational procedures and internal investigations.

CIAT promotion of ethics tool kit.

http://www.ciat.org/biblioteca/opac_css/index.php?lvl=notice_display&id=2123

CIAT works, among other objectives, to promote mutual cooperation programmes between the tax administrations of its member states to prevent and combat all forms of fraud, tax evasion and facilitate voluntary compliance. To this end, CIAT provides a toolkit to promote ethics and integrity in tax administration. The toolkit consists of a declaration on the promotion of ethics in tax administration, the CIAT model code of conduct, a self-assessment guide for tax administration, and guidelines for the self-assessment of an ethics programme workshop in a tax administration.

Assessment tools and datasets

Tax Administration Diagnostic Assessment Tool (TADAT). IMF, forthcoming.

<http://www.tadat.org>

Hosted by the IMF, and currently in the pilot and testing phase, TADAT is expected to be fully launched by mid-2015 and will complement the [PEFA programme](#) by applying a detailed methodology to produce objective, evidence-based assessments and baselines of a tax administration's performance. The objective is to inform stakeholder dialogue on reform priorities. A TADAT assessment will focus on tax administration outcomes rather than inputs or processes. Nine high-level performance outcome areas will drill down to 27 indicators, including: external oversight of the tax administration; level of internal controls; public perception of integrity of the tax administration; and publication of activities, results and plans.

Resources from Transparency International's Anti-Corruption Helpdesk

Approaches to curbing corruption in tax administration in Africa.

Martini, M., 2014.

http://www.transparency.org/whatwedo/answer/approaches_to_curbing_corruption_in_tax_administration_in_africa

Corruption in tax administration in Africa remains a fundamental barrier to effective and fair taxation and to building trust between government and citizens. There are very few recent studies assessing the extent to which and how corruption affects tax administration in Africa, but surveys on citizen experience and perceptions of corruption within tax administrations paint a worrying picture. Studies and anecdotal examples also demonstrate that corruption in tax administration takes different forms, from bribery to patronage, to revolving doors and regulatory capture. Approaches to fighting corruption in tax administration include measures to enhance the autonomy and capacity of tax agencies, for example, through the establishment of semi-autonomous tax agencies, higher salaries, measures to improve tax services and reduce taxpayers' interactions with tax officials by, for instance, investing in technology and taxpayer education, as well as measures to improve internal control and oversight and encourage informants to report corruption.

Corruption in tax administration.

Bridi, A., 2010.

<http://www.u4.no/publications/corruption-in-tax-administration/downloadasset/422>

A state's revenue processes involves several major stakeholders and make the opportunities for and motivations to engage in corruption both numerous and widespread. These stakeholders include the tax officials, politicians, patrimonial networks and the taxpayers themselves. Drawing from experience from Mexico and Bolivia, Bulgaria and Tanzania, this Helpdesk answer presents various

approaches to combat fiscal corruption, including value added tax refunds, semi-autonomous revenue authorities, increasing transparency and citizen participation and employment practices, and strengthening management, performance objectives and taxpayer participation, among others.

Exploring the relationships between corruption and tax revenue.

Nawaz, F., 2010.

<http://www.u4.no/publications/exploring-the-relationships-between-corruption-and-tax-revenue/downloadasset/421>

Corruption has a significant negative impact on the levels of tax revenue collected in a country. The current understanding of the correlation between corruption and tax revenue, however, is incomplete since there is insufficient information available on the impact of taxation on corruption. Corruption not only lowers the tax to GDP ratio, but also causes long-term damage to the economy by detaching investment, increasing the size of the shadow economy, distorting tax structures and corroding the tax morality of taxpayers. All of these in turn further reduce the long-term revenue generating potential of the economy. The impact of taxation on corruption is less explored in the existing research literature. A limited body of research data indicates that higher tax rates can induce more corruption in an economy by incentivising tax evasion.

Actors and stakeholders

African Tax Administration Forum (ATAF)

<http://www.ataftax.net/>

Founded in 2008, ATAF strives to provide a platform to improve the performance of tax administration in Africa. Better tax administration will enhance economic growth, increase accountability of the state to its citizens and more effectively mobilise domestic resources. To this end, ATAF will work towards improving the capacity of African tax administrations to achieve their revenue objectives: advancing the role of taxation in African governance and state building; providing a voice for African tax administrations; and developing and supporting partnerships between African countries and development partners.

Inter-American Center of Tax Administrations (CIAT)

<http://www.ciat.org>

CIAT supports the efforts of national governments by promoting the evolution, social acceptance and institutional strengthening of tax administrations, encouraging international cooperation and the exchange of experiences and best practices. CIAT provides specialised technical assistance for the modernisation and strengthening of tax administrations. Founded in 1967, CIAT currently has 38 member countries and associate member countries from 4 continents: 31 countries of the Americas, 5 European countries, 1 African country and 1 Asian country.

International Centre for Tax and Development (ICTD)

<http://www.ictd.ac/>

ICTD is a global policy research network focusing on the political economy of taxation policies and practices in poorer parts of the world. It was established in 2010. Among its partners are academic institutes (including the Chr. Michelsen Institute in Bergen, Norway, the Institute of Development Studies, University of Sussex, UK, along with tax practitioners such as ATAF and the Zambia Revenue Authority. ICTD research areas include tax administration and reform, international tax and evasion, informal sector taxation, and taxpayer compliance and perceptions.

International Tax Compact (ITC)

<http://www.taxcompact.net>

ITC is an informal platform supporting the establishment of better tax systems that allow partner countries to increase domestic revenues and fight tax evasion and inappropriate tax practices more effectively. ITC works to promote national tax reforms and enhance donor coordination (for example in Ghana, Uganda, Nigeria, Zambia, Guatemala, El Salvador and Indonesia) to promote South-South sharing and exchanging best practices in the field of development and taxation (for example, by promoting the exchange of knowledge between CIAT and ATAF). ITC also supports member countries in implementing the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes.

International Tax Dialogue (ITD)

<http://www.itdweb.org/>

ITD is a joint initiative of the European Commission, Inter-American Development Bank, IMF, OECD, World Bank Group and CIAT. ITD aims to encourage and facilitate discussion of tax matters among national tax officials, regional tax organisations, international organisations and other key stakeholders. Among the objectives of the ITD are the promotion of an effective international dialogue and networking between international organisations, governments, and their officials on tax policy and administration matters, and to identify and share good practices in taxation. ITD operates an [online library](#).

Tax Justice Network (TJN)

<http://www.taxjustice.net/topics/inequality-democracy/corruption/>

TJN is an independent international network launched in 2003, dedicated to high-level research, analysis and advocacy in the field of international tax and the international aspects of financial regulation. TJN maps, analyses and explains the role of tax and the harmful impacts of tax evasion, tax avoidance, tax competition and tax havens. The world of offshore tax havens is a particular focus of TJN's work.

