
Income Tax Administration - Objectives, Programme and Activities

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Introduction

The paper first seeks to describe an income tax administration; its objectives, programmes and activities. It then elaborates strengths and weaknesses of such administrations in developed and developing countries. The reader should be reminded that much of what is reported applies to the collection of indirect as well as to direct taxes with which the paper is primarily concerned. Lastly some comparisons are made and conclusions drawn with a view to prompt further discussion of strategies available to strengthen income tax administrations in developing countries.

The paper concentrates on two aspects of management which are peculiar to the business of tax administration that is taxpayer service and monitoring and enforcement.

Income Tax Administration - Objectives, Programmes and Activities

Objectives

It is self evident that the collection of taxes is a mandate unique to revenue administrations with its own peculiarities in terms of programmes and activities. It is equally evident that this uniqueness does not exclude revenue administrations from the same sound management practices expected from any successful enterprise in the public or private sector.

One should expect a tax administration to exercise high standards in the management of expenditures and human resources. Therefore finance and human resource management Programmes and ensuing activities are not essentially different in tax administration from those found for example in a large private sector enterprise. Value for money spent and sound management of people are as essential to objectives achievement in a tax administration as they are in any worthwhile endeavour.

The distinctiveness of tax administration has to do with its statutory obligation to interpret, facilitate understanding of and administer enacted revenue laws. The mandate is interpretation of these Laws and their application in a manner such as to retrieve what is due. The tax administration is accountable to the political authority and to all taxpayers for ensuring there is fairness and equity; recovering from each person what is due - no more and no less. This clearly implies rights and obligations for both the tax administration and the taxpayers it serves.

For the former the obligations to serve its clients and to sustain equity in accordance with the laws administered are indisputable. For the latter the right to receive service and equitable treatment are equally mandatory. The obligations of a tax administration correspond directly with the rights of its taxpayers.

The taxpayer's obligation is to pay his or her fair share in accordance with an informed interpretation and uniform application of the revenue laws.

The taxpayer has a right to equity but the corresponding obligation to help achieve it by paying what is determined to be due.

Before expanding further on the objectives of a tax administration it is important to relate these to the accountability obligations of Government. The ultimate responsibility for equitable application of any statutes lies with those in authority to enact and amend the laws. Therefore a Government must insist on mechanisms to report on the actual results of enacted laws. There must be a process to measure, assess and evaluate the impact of enacted legislation. Otherwise a Government abdicates the obligation to account to its citizens. The examples where Governments have lost control are too numerous to relate. The recent abuse in the U.S.A. of the Savings and Loans statutes is a good example of a Government failing to insist on vigilance. As usual it will cost a great deal more to deal with a financial fiasco after it has been allowed to occur as opposed to an orderly "up front" investment towards sustained equity.

We can therefore isolate two very special objectives peculiar to an income tax administration:

- Interpret and effectively facilitate adherence with the revenue laws.
- Effectively determine assess and evaluate adherence with the revenue laws and take appropriate corrective action where it is necessary.

Programmes

These two objectives to facilitate and assess adherence of the revenue laws convert to two broad programmes:

- . Taxpayer service
- . Monitoring and enforcement

Taxpayer service means a capability to educate, assist and advise all those affected by the revenue Laws. It implies overt activities rendering the tax administration visible and accessible to all who are interested and have obligations because of these Laws. Tax officials have no right to expect prompt and accurate filings and payments from taxpayers unless they first foresee and meet their needs and demands.

Monitoring and enforcement is necessary to meet the objective of assessing adherence to the laws and the related accountability obligation of Government. A revenue administration must have a capability to assess and respond to taxpayer behaviour. The first step should not be confused with enforcement activi-

ties which may result from the monitoring efforts. The fundamental first step has to do with monitoring and analysis. This programme must produce data for measuring degree of adherence with the laws.

Monitoring and enforcement goes further and envisages activities to correct behaviour. The narrow view that would have this programme conceived as one to apply penalties and prosecute taxpayers is unfortunate and stems from the resource starved environment of revenue administrations. The activities to correct behaviour are as likely to fall under the categories of focussed taxpayer education; taxpayer consultation; forms design; technical advice and other assistance; amendments to the statutes etc. The fundamental issue is the need to equip the revenue administration with resources and technical skills to do a reasonable job of assessing taxpayer behaviour with respect to legislated provisions and then take appropriate action.

This monitoring and enforcement capacity must also encompass the impact of the laws. The revenue administration must assist the authors of tax policy in their fundamental task of evaluating proposed and enacted legislation. In most countries tax policy is properly a distinct and separate responsibility from revenue administration. There is justification and wisdom in this separation of mandates.

The setting of fiscal policy which encompasses tax policy is a major and broader responsibility of Government and encompasses many matters other than authoring tax laws and should remain separate from the revenue administration.

However, the revenue administration is expected to contribute to the tax policy authorship process and its evaluation after enactment. It must assist the authors in their evaluation of new tax policy initiatives which they will be required to administer. Secondly the revenue officials must report on unintended consequences and administrative concerns with respect to enacted laws and seek appropriate amendments. They must also assist in every way possible in the tax measures evaluation process which the authors will wish to conduct.

Activities

a) Taxpayer service objective

Activities one should expect to find in a revenue administration in order to meet the objective of taxpayer service include:

- systems to account for revenues assessed, paid and due and to control and finalize returns received and due;
- a capacity to respond promptly and accurately to enquiries in person, in writing or by telephone;
- a capacity to provide forms and guides to meet the needs of those who have filing obligations;
- technical bulletins to assist taxpayers and their advisors to meet their obligations and to introduce greater certainty of interpretation;
- a public affairs endeavour which results in proactive and overt activities which respond and seek out media and other opportunities for public contact with revenue officials;
- education activities to assist specific groups to instruct on legislation and significant revisions to statutes; expanded to schools if funding permits;
- activities to involve volunteers from the community to assist taxpayers meet their obligations;
- information circulars to explain in greater detail administrative policies and practices with respect to judgemental issues such as waivers, voluntary disclosures, sanctions, exemptions;
- advance rulings to remove uncertainty of tax incidence in intended financial transactions;
- pamphlets and booklets which consisely articulate and clarify provisions which enjoy broad application such as for example; child care deductions; medical deductions; education deduction; filing obligations; interest and gratuity income reporting etc.
- an advisory committee to the head of the revenue administration and its senior officials encompassing appropriate representation from the private sector.

b) Monitoring and enforcement activities:

As explained earlier, are meant first to establish if taxpayer behaviour is consistent with what the laws intended and secondly where warranted to take appropriate corrective action. They compel an orderly and coordinated effort to gather data for analysis concerning taxpayer compliance with the laws. Where the laws are not being adhered to at all or where they are being adhered to in a manner different than intended then corrective measures must follow. Monitoring and enforcement activities include:

- a capacity to assist significantly the tax policy authors; when considering new or revised poli-

cies; evaluating as well as monitoring enacted legislation;

- a coordinated compliance measurement process which permeates throughout the revenue administration to extract data for analysis;
- data analysis and research to determine the desirable nature and scope of enforcement activities;
- technical enforcement skills to:
 - . expeditiously generate written material and conduct educational, advisory, consultative sessions for taxpayers, advisors and other interested groups;
 - . screen, monitor, assess quality of returns filed;
 - . collect unpaid accounts;
 - . conduct tax audits of selected returns;
 - . conduct audits of entities with withholding, third party filing or similar obligations;
 - . conduct audits of complex avoidance cases and to apply appropriate sanctions when needed;
 - . conduct investigations of evasion cases and obtain conviction in criminal court where appropriate;
 - . sustain and develop bilateral and multilateral administrative arrangements consistent with the law to prevent double taxation and identify for appropriate action avoidance and evasion practices.

Adam Smith (1723-1790)

Adam Smith defined sound tax policy and revenue administration emphasizing the four principles of equity, certainty, convenience and economy as follows:

The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities.

The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. Where it is otherwise "the taxpayer" is put more or less in the hands of the tax gatherer.

Every tax ought to be levied at the time, or in the manner, in which it is most convenient for the contributor to pay it.

Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state.

Income Tax Administration in Developed Countries

Introduction

It would be too ambitious to explore in depth the income tax administrations of even a representative group of developed countries. The observations in this paper are therefore based on the considerable published material generated by the Organization for Economic Cooperation and Development (OECD) concerning its 24 members. They are also based on the personal experience of the author as well as the more in depth examination of income tax administrations in Canada (Revenue Canada Taxation - RCT) and the U.S.A. (Internal Revenue Service - IRS).

There is as well the considerable public material generated by these two latter agencies. Both are required to seek resourcing through a budgetary exercise, are the object of examinations by committees (House or Senatorial) plus probing evaluations by supreme audit authorities (Auditor General in Canada and General Accounting Office in U.S.A.) and generate considerable administrative and procedural printed information for public consumption. Both agencies are also extremely cooperative in assisting any endeavours which contribute to a better understanding of their challenging mandates.

A reading and understanding of the objectives, programmes and activities described for a model revenue administration in the first part of this paper is essential to an understanding of strengths and weaknesses of these two administrations. Both have pursued the two major objectives already mentioned in part I of this paper.

In the U.S.A. and Canada there have been spasmodic significant shifts of resources towards achievement of one objective at the expense of the other. It has not been possible in recent years to sustain resource levels necessary to satisfactorily achieve either of these objectives. A closer examination of these two administrations and the two fundamental programmes follows.

The Taxpayer Service Programme

This is the programme which has enjoyed the greater attention in developed countries in recent years. It stems from a variety of factors. In Revenue Canada's case (RCT) a political attack in the early eighties by the opposition of the then Minister of Revenue plus ever increasing tax policy initiatives which seek through the revenue administration to

deliver social and economic programmes have resulted in resource shifts to meet expanded inadequately resourced taxpayer service obligations.

The IRS deliberately reduced service in the early 1980s to meet increases in resource requirements for the monitoring and enforcement programme. It proved to be an unpopular decision, attracted public criticism and was compounded subsequently by unreliable automated processing systems. The solution has been considerably greater focus and funding of taxpayer service activities including considerable investment in hardware and software for processing systems.

In both countries, and this appears to be true in all developed countries, it has proved impossible to meet satisfactorily the technical advice requirements of taxpayers and their advisors. The shortcoming is despite many progressive and excellent initiatives by administrations such as RCT and IRS. These continue to include pamphlets, technical bulletins, information circulars, public enquiries automated information banks, advance rulings and taxpayers, problem resolution activities.

The response particularly from the taxpayer advisor audience has been that the services are not timely nor sufficiently ambitious in scope. For the ordinary taxpayer in both these countries the media have regularly alleged, from its own unscientific but nevertheless much reported samplings, that the taxpayer enquiry service is unsatisfactory because it often gives incorrect answers.

The truth of the matter is that the Income Tax Act in Canada and the Revenue code in the U.S.A. are extremely complex statutes which are regularly significantly amended. Without a concerted and exceptionally well coordinated effort these tax administrations are simply unable to provide timely and complete interpretative technical material particularly to the vocal, large and thriving audience of professional advisors.

The case against the enquiry service is largely a media issue although there is enough evidence to suggest that answers by revenue officials are not always correct. It is nevertheless damaging to the public's perception of revenue administration.

Overall in developed countries much creativity and effort have gone into providing service to taxpayers. The laws to be administered are extremely diverse and impose tremendous complexity. This has resulted in sophisticated, elaborate and costly automated, processing and accounting systems.

Monitoring and Enforcement Programme

This programme and its various activities to sustain equity of treatment is often alleged to be the "tax man's" preferred passion in developed countries. Yet the programme's goal is essentially to serve taxpayers; that is ensure each pays a fair share and no more nor less than what is due. This unfortunate misconception of this programme stems from a considerable misunderstanding of its objective not only amongst those who are empowered to fund it but within tax administrations as well. The emphasis has repeatedly been on very few and very specific enforcement activities rather than on an orderly general monitoring. For the central agencies who authorize funding their appeal to revenue administrations has been to "make the case", "prove to us that there is significant non compliance", "show us that for every enforcement dollar spent there will result a significant revenue yield".

For the revenue administration desperate for resources even to show a very modest and absolutely inadequate presence, the effort to "prove its case" has not been scientific. In Canada's case testimony at a public accounts committee in the late 1970s confirmed that there was no sense in attempting to scientifically monitor taxpayer behaviour to determine scope and nature of deviations from intended applications of the laws.

The conviction was that there were serious problems and the few resources available for this pro-

gramme had therefore to focus on the more serious known abuses.

The right answer was and still is, to fund an adequate monitoring initiative and to spend the money now as apposed to allowing further erosion of the system and associated further revenue losses. To restore a tax system which has lost its integrity is far more expensive than to spend "up front" to prevent its erosion.

In this context it should be noted that the I.R.S. has persisted with a taxpayer compliance measurement activity and has wisely made use of these findings to obtain some funding for its monitoring and enforcement programme. The initiative has enjoyed the support of Government and the considerable interest, attention and encouragement of the General Accounting Office. The initiative has also helped greatly in the information exchange relationship between state revenue administrations and the IRS. This should not be construed to suggest that the IRS has enjoyed generous or even appropriate funding for its monitoring and enforcement programme.

The figures in schedule I and IA reflect the historical pattern of staff years (human resources) dedicated by Canada's RCT and USA's IRS for the more recent years. These administrations particularly RCT continue to dedicate an ever increasing percentage of their scarce resources to what is often referred to as mandatory work (taxpayer service) with no corresponding growth in resourcing for monitoring and enforcement.

Schedule I. Percentage distribution of person-years (human resources) to taxpayer service, collection of arrears and monitoring and enforcement

Revenue Canada Taxation				
Programmes	Fiscal Years			
	74-75	80-81	83-84	88-89
Taxpayer service *	30.8	36.1	44.6	47.6
Collection of arrears	3.4	4.7	5.7	8.9
Monitoring and enforcement	65.8	59.2	49.7	43.5
% Totals	100	100	100	100

* Includes activities such as public inquiries, requested adjustments, data processing, processing of objections and appeals.

From: Main Estimates

Schedule IA. Percentage distribution of person-years (human resources) to taxpayer service, collection of arrears and monitoring and enforcement

Internal Revenue Service (U.S.A.)		
Programmes	1979	
	1979	1988
Taxpayer service *	50	53
Collection of arrears	16	16
Monitoring and enforcement	34	31

* In addition to taxpayer service includes data processing employee plans, appeals and internal services.

From: Commissioner's Annual Report

Equally revealing are audit coverage figures as shown on schedule II and IIA. Here again is visible evidence of the eroding monitoring and enforcement presence of these two administrations.

Schedule II. Field Audit Activities Files Audited Versus Auditable Population

Revenue Canada Taxation

	Business Returns - Individuals		Business Returns - Corporations	
	# Received	# Audited	# Received	# Audited
1984/85	1,404,000	21,517	711,000	16,459
1985/86	1,453,000	20,140	702,000	16,535
1986/87	1,491,000	18,473	759,000	15,370
1987/88	1,576,000	18,257	783,000	15,379
1988/89	1,673,000	16,544	843,000	15,631
1989/90	1,688,000	15,825	835,000	15,756

Note A - This table reveals that 1.19% of auditable individual returns filed over a 5 year period were in fact audited. It also shows coverage erosion from 1.5% in 1984/85 to .9% in 1989/90.

Note B - This table also reveals that 2.1% of auditable corporate returns filed over a 5 year period were in fact audited. Coverage has eroded from 2.5% in 1984/85 to 1.8% in 1989/90.

Schedule IIA. Audit Coverage by Revenue Agents and Tax Auditors

**Internal Revenue Service - U.S.A.
Non Corporate and Corporate Business Returns**

Year	Intake	Non Corporate	Intake	Corporate
		Coverage (No. and %)		Coverage (No. and %)
1982	7,024,000	199,236 (2.8%)	2,279,000	107,705 (4.7%)
1988	7,935,000	147,212 (1.8%)	2,868,500	38,078 (1.3%)

Note 1: This schedule reflects a decline in examinations of individual business returns from 2.8% to 1.8% and a similar decline in examination of corporate returns from 4.7% to 1.3% over the period 1982 to 1988. Corporate audit coverage for 1964 fiscal year was at 13.58%.

Note 2: A more refined analysis to isolate percentage coverage by revenue agents only of non corporate business returns shows coverage of 1.2% in 1982 versus 1% in 1988.

Further evidence can be found from increasing unpaid taxes. The year end accounts receivable for six year periods as shown for both revenue administrations (Canada and USA) are given in schedule III and IIIA. The significant growth can only to a small extent be attributed to inflation.

Schedule III. Accounts Receivable (Tax arrears)

Revenue Canada Taxation

	Number of Accounts (thousands)	Write offs (millions \$C)	Balance (millions \$C)
1984/85	1,104	155	3,582
1985/86	1,161	265	3,239
1986/87	1,280	585	3,303
1987/88	1,467	301	3,953
1988/89	1,448	580	4,393
1989/90	N/A	784	5,200

Note: This represents a 44% increase in receivables over a 5 year period after writing off \$2,670 millions.

Schedule IIIA. Accounts Receivable (tax arrears)

Internal Revenue Service - U.S.A.

	Number of Accounts	\$ Balance (thousands)
1980	Not available	15,782,000
1989	" "	66,534,000

Written off accounts data available for last four years only of the above mentioned period. They totalled \$6,503,000.

The I.R.S. (U.S.A.) is one of the few income tax administrations in the world with some degree of sophistication in its monitoring and enforcement programme.

Yet the underfunding for this programme continues to be a serious concern. For typical enforcement activities such as audit, examination, investigation and advanced collections, the required skill levels in developed countries such as Canada and the U.S.A. are difficult to sustain at all levels, but the skills

actually deployed are nevertheless often impressive. Training plans to provide appropriate skills continue to enjoy a high priority. There is of course the ongoing difficulty of competing with earning potential in the private sector for the very highly technical specialists.

The capacity to follow up on delinquencies and take appropriate action is also impressive although more effective use could be made of information returns filed.

These initiatives depend on the basic and extensive automated systems to account for revenues and

returns which is a strong feature of income tax administration in most developed countries.

As to tax policy, revenue administrations in developed countries work closely with those responsible for authoring the legislation (usually the Ministry of Finance). The influence of revenue administrations is usually considerable. Tax models are essential to this exercise and the revenue administrations must provide the data.

There are two main issues however which repeatedly surface in this working relationship. First the authors of the laws often find fault with what they construe to be narrow technical interpretations of the statutes by the administrators. The latter are alleged to complicate the application of the law, insisting very often on further precision in already very complex statutes. The authors of the laws are in turn repeatedly criticized because of the never-ending stream of amendments.

These are simply symptoms of the considerable complexity and taxpayer interest in these statutes. The laws attempt to provide relief, concessions, deferments, exemptions, special credits etc. to many taxpayers in a great variety of ways. The result is an immense industry of tax advisors and considerable interest and activity by an ever increasing number of taxpayers to minimize taxes payable.

The second issue has to do with assessment and evaluation of tax policies prior to and after implementation. Supreme audit authorities in developed countries such as Canada and the U.S.A. repeatedly express interest in tax expenditure analysis and evaluation.

The argument is that Governments redistribute and forego revenues through tax abatements and that there should be an evaluation of these abatements because a revenue foregone to government is tantamount to an expenditure of government money. The further point made is that such tax expenditures are not different from grant or subsidy programmes which Governments are expected to regularly report upon, through ongoing evaluations.

Both these issues of exceptionally complex Laws and tax expenditure evaluation compel revenue administration involvement in the tax policy setting and evaluation process. The extent and sophistication of the evaluation effort is entirely determined by the authors of tax Policy and at the direction of Government. Generally it appears that efforts to evaluate tax expenditures are spasmodic and often superficial.

Overall therefore in developed countries monitoring and enforcement takes second place to taxpayer service activities. There is a conviction that the tax gap (the difference between the amount that would be paid if laws were adhered to, and the amount actually paid) is significant. Some attempt at measurement has been made by the IRS and it appears to indicate cause for concern about the tax gap in that country.

It therefore appears more than timely for developed countries to reconsider what they have a right to expect from their income tax administrations. There should be concern about the incapacity of these administrations to report with reasonable exactitude on whether the laws they are expected to administer are adhered to.

Supreme Court of Canada - March 29, 1990 Canada versus McKinlay Transport Limited

"Detecting non compliance serves an important public purpose". "The state has legitimate requirements which must be satisfied" - and use must be made of the "least intrusive means by which effective monitoring of compliance with the act can be effected."

Income Tax Administration in Developing Countries

Introduction

It would take much time and effort to explore in depth the income tax administrations of a large number of developing countries.

There is considerable information available however from the extensive mission work completed by various U.N. agencies. Income tax administrations in a number of African and Asian countries have been reported upon as a result of missions and are in some cases the object of technical assistance projects. UNDTCD continues to find itself as it has over many years in projects and mission work concerning revenue administrations in developing countries.

This paper attempts to elaborate generally on the strengths and weaknesses of income tax administrations in developing countries. First it is essential to return to the two basic programmes of taxpayer service and monitoring and enforcement.

Taxpayer Service

Developing countries rarely have mature taxpayer service systems. Often the basic systems to assist taxpayers which identify and follow up on actual or potential obligations or returns do not work. Yet this is the first fundamental priority to be attained. Automated systems where they exist are frequently not operating satisfactorily. In some cases manual systems which had not been operating reasonably well were prematurely replaced by automated systems which had not been satisfactorily tested and proven.

Similarly well communicated, up to date, in house administrative policies, procedures and instructions to support the processing systems are often uncoordinated, incomplete and out of date. What is often in place is a series of memos and directives emanating irregularly from a variety of authors and not kept up to date.

Taxpayers also need forms, instructional material with these forms, guides, accessible and well informed tax officials, and comprehensive written technical material to enable them to meet their obligations. The technical material must be in understandable format for specific audiences. It is meant to serve all those who have obligations under the law as well as employees at all levels in the income tax administration. Such material is scarce in most developing countries.

Other activities which might seek to educate children, taxpayers or specific taxpayer groups; involve volunteers to assist taxpayers; and communicate through the media are also modest in most developing countries.

Monitoring and Enforcement

The concentration in developing countries is on enforcement. There is no orderly endeavour to monitor taxpayer behaviour before applying resources to correct whatever may be inconsistent with the intent of the Laws.

Much of the enforcement activities are reactive operating by "gut" feeling and there is an attempt to develop skills on many fronts at the same time. All of this often goes on in an environment where the basic systems referred to earlier to serve taxpayers, are not operating satisfactorily. For example the processing of annual returns from individuals and corporations plus more frequent returns from em-

ployers and others is rarely managed in a satisfactory manner. There are often unacceptable delays, lost returns, and misplaced assessments.

Other enforcement activities are often uncoordinated and the skills to perform these tasks are rarely adequate and never in the numbers required. For example investigations activity is almost always limited to prosecution for evasion. Yet in countries where such investigations occur there have been few or no successful prosecutions and the skill levels and investigation methodology are not likely to produce this result. It is often difficult to distinguish this work from ordinary field tax audit work.

Similarly audit activity, (tax audits at taxpayer premises) often selects its workload randomly. Although this is an environment where audit resources and skills are scarce, rarely is an orderly process in place to identify those most worthy of this expensive attention. In audit work a tax return must enjoy a special reason for its selection and the investment must be worthwhile. Tax auditors in developing countries often need some hands-on leadership from those who have recent successful experience with this work.

Collections of persistent cases of unpaid taxes require special skills and knowledge from those who would engage in this difficult task. Yet the technical training essential to success has rarely been provided to collectors. These technical skills should not restrict themselves to a knowledge of the appropriate provisions in an Income Tax statute but accounting, auditing and legal training as well. It is quite unreasonable to expect collectors to take on large business accounts where cash flow analysis is essential, if they have not been trained to do this work.

Receivables are not like wine - they do not improve with age - source unknown.

Income tax administrations do not enjoy the luxury of selecting their clients - D. Brooks a former canadian tax official

There is also the essential link that must be made between enforcement activities. Collectors, auditors and investigators, (the major players who contribute to the monitoring and enforcement programme in most developing countries) must share information towards one coordinated effort.

As to tax policy it is not unfair to say that first of all the macro fiscal policy capacity is often not

sustained in developing countries. More pertinent to this paper, there is rarely a tax policy strength within the appropriate ministry.

Comparisons and observations for discussions

Comparisons developed versus developing countries

Tax Policy

Tax policy, as explained in the paper, stems and flows from fiscal policy. There is no given level and structure of taxation that is suitable for all countries. What is required is an individual country approach that is responsive to the conditions that exist in that particular country. The macroeconomic conditions, its social structure and priorities, its external debt situation, its administrative capabilities and other relevant considerations must be taken into account in developing tax policies best suited to a particular country.

Before proceeding to the development of tax policy (specific tax recommendations) the country's social and economic objectives must be expressed in official documents. The country's expectations should be realistic and explicit about the ranking (or the trade-offs among) the objectives that they wish to achieve through taxation.

Developed countries generally have the skills, capacity and discipline to examine macro economic issues in order to arrive at and articulate fiscal policy objectives. From these, Tax Policy recommendations, best suited to achieving these objectives, can be authored and evaluated for eventual enactment. Developed countries also have the skills to evaluate proposed or enacted amendments to tax laws although this is rarely done to everyone's satisfaction.

For developing countries the orderly process of articulating fiscal objectives and authoring/evaluating appropriately supportive tax policy recommendations is rarely adhered to. The technical capacity to author tax laws consistent with specific fiscal policy objectives and to evaluate their impact before enactment is often not well developed.

Monitoring and Enforcement

There is first the science of monitoring to determine taxpayer behaviour with respect to revenue laws. It has to do with establishing with some

acceptable degree of confidence the nature and scope of non adherence with the laws. It assumes that non compliance with tax laws raises serious social problems and that a revenue administration has the obligation to determine if equity prevails (each paying a fair share).

There is then the capacity of a revenue administration to do something about non adherence with the tax laws; technical skills to interpret explain, educate, and advise taxpayers and their advisors as well as to audit, investigate, prosecute and collect arrears where appropriate to do so are essential capabilities.

In developed countries the extensive, modern and effective automated systems which serve to record and control the many administrative contracts with taxpayers also contribute to the data base for monitoring taxpayer adherence with tax laws.

There is creative use of this data towards identification of non adherence practices. There are also design initiatives in the tax paying process to make non adherence easier to detect. This involves for example the use of computers to audit tax returns and match third party information reports. It can also involve legislative measures to make income more visible through information reports.

The United States (IRS) appears to be leading the way with its taxpayer compliance measurement program. Document 7430 (3-89) entitled taxpayer compliance Volume I: An Agenda for Research published by the University of Pennsylvania Press is an initiative funded by the IRS which is essential reading for anyone interested in compliance measurement.

In developing countries the monitoring is not orderly nor is it scientific. The automated data base of considerable use to developed countries in their monitoring efforts is often non existent or unreliable in developing countries. As explained in this paper the basic systems to determine and control returns and monies received or due are generally not satisfactory in developing countries.

Enforcement

There is considerable successful experience in developed countries with enforcement work. The emphasis has historically been on audits, investigations, and collection of arrears. There are usually orderly processes to identify and meet training needs. The emphasis has not been on exploring other ways

to influence actual or potential non compliance. Making compliance easier by simplifying tax laws or by defining compliance requirements in terms of information that taxpayers may already record for other purposes has often not obtained the serious attention deserved; nor has the practice of reminding taxpayers of social commitments and of tax supported services they receive. Another enforcement support activity which receives little attention is encouraging compliance through tax practitioners. These practitioners review more tax returns each year than the revenue administration itself.

In developing countries tax administrations lack the skill and knowledge levels to conduct audits, investigations and collect taxes. In-country skills need to be developed and sustained. There are very few other activities in most of these countries which seek to improve adherence with the laws.

Observations for discussion

There are 3 stages in the process before revenue laws can be complied with by all those required to do so.

First the Government must determine, articulate and communicate its objectives, that is its fiscal plan. Secondly the fiscal objectives must to the extent appropriate, convert to and be supported with tax policies. These tax policies must enjoy pre enactment evaluation and be administratable by the revenue administration.

Thirdly the revenue administration must have the capacity to:

- a) interpret the laws and effectively permit and facilitate compliance for all those affected.
- b) monitor adherence with the laws and take appropriate action to sustain their equitable application.

These 3 phases when matched to what appears to be in place in most developing countries raise a number of questions including:

- What steps have been taken to articulate fiscal policy and what in-country capacity is there to do this? Should this not be the first step

towards effective and efficient administration of tax policies?

- What process has been used in order to arrive at enacted tax policies? Was there a clear link to fiscal policy and was there a pre enactment evaluation? Was the revenue administration thoroughly involved in the process? Is there an in-country capacity to develop, evaluate, enact and monitor tax policies? Is there a capacity in the revenue administration to significantly assist in policy setting and monitoring process? As in the case of fiscal policy what priority should this tax policy capacity enjoy?
- How does a revenue administration proceed to put in place the diverse activities essential to an effective taxpayer assistance programme? Which activities amongst many are to enjoy the priority?
- Similarly with respect to monitoring and enforcement how does one proceed to put in place the capacity to deliver these various activities; and which of the many should receive priority?

Mandate of an Income Tax Official

The first part of this paper reflects an effort to express, clarify and justify the main objectives of a revenue administration. What follows to "close" the paper are two concise versions of this mandate.

Long Version

Demonstrate your understanding, as well as compel and embarrass, your human, recalcitrant and unwilling legislated clients, to adherence of the laws, through sincere, creative, impeccable and visible service activities and overtly, unflinchingly and equitably identify and address those who innocently or deliberately still fail to satisfactorily comply.

Short Version

Taxpayers and tax officials have rights and obligations - all are of equal importance.

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