

Key Financial Secrecy Indicators 8: Efficiency of Tax Administration

What is measured?

This indicator shows whether the tax administration of a given jurisdiction uses taxpayer identifiers for efficiently analysing information, and whether the tax administration has a dedicated unit for large taxpayers.

Concretely, we ask whether the tax authority makes use of taxpayer identifiers for matching of information reported by a) financial institutions on interest payments and b) by companies on dividend payments. For each of the two types of income payments a jurisdiction makes use of taxpayer identifiers for information matching, it receives 0.4 credit points. In addition, 0.2 credit points are awarded if the tax administration is equipped with a large taxpayer unit.

In order to measure this indicator we have relied on both our TJN-Survey 2013 and on the OECD publication entitled "[Tax Administration 2013. Comparative Information on OECD and Other Advanced and Emerging Economies](#)" published in May 2013¹. Table 9.4 of this publication (OECD 2013: 288) provides information as to whether taxpayer identifiers are used for information reported by both financial institutions on interest payments and companies on dividend payments. Table 2.1 (ibid.: 61) in turn provides information as to whether a tax administration has a large taxpayer unit.

Why is it important?

National tax administrations face globalising domestic economy with increasing shares of value added and income received involving an international element. Scale effects realised through cross-border economic activity are among the most relevant factors for strategic business investment decisions and among the chief reasons for the existence of transnational corporations. A tax administration that does not adapt to this new environment of growing complexity through organizational and technical innovations will rapidly lose its capacity to effectively levy taxes.

The absence of adequate organizational and technical capacity of a tax administration, whether by accident or design, can attract personal wealth and corporations wanting to evade taxes.

With respect to the taxpayer identifiers, the OECD notes (2013: 283):

“Regardless of whether the identification and numbering of taxpayers is based on a citizen number or a unique TIN, many revenue bodies also use the number to match information reports received from third parties with tax records to detect instances of potential non-compliance, to exchange information between government agencies (where permitted under the law), and for numerous other applications.”

Therefore, the use of taxpayer identifiers is a common sense means of detecting instances of non-compliance and improving information exchange between government agencies.

Large taxpayer units (LTU) make sense on the grounds of efficiency for a number of reasons. The taxpayers dealt with by these LTUs share common characteristics which require highly specialist and skilled expertise that can hardly be mobilised in a context of a decentralised tax administration. The arguments in favour of having an LTU include high concentration of revenue in the hands of a small number of taxpayers, the high degree of complexity of their business and tax affairs, major compliance risks from the viewpoint of the tax authority and the use of professional tax advice on behalf of the large taxpayers (ibid.: 84-85).

While certainly not in itself a measure to guarantee proper taxation of large taxpayers, the absence of an LTU might indicate a willingness on the part of a jurisdiction to allow large taxpayers to go untaxed. In this case, the tax and financial dealings of a multinational corporation can be expected to remain unchallenged, effectively contributing to financial opacity.

In addition, if a jurisdiction operates several regionalised LTUs without central management, incentives for tax competition and lax and uneven enforcement of tax laws are created among different LTUs in different subnational regions. Furthermore, multiple parallel institutions create secrecy through (unnecessary) complexity and restricted cooperation.

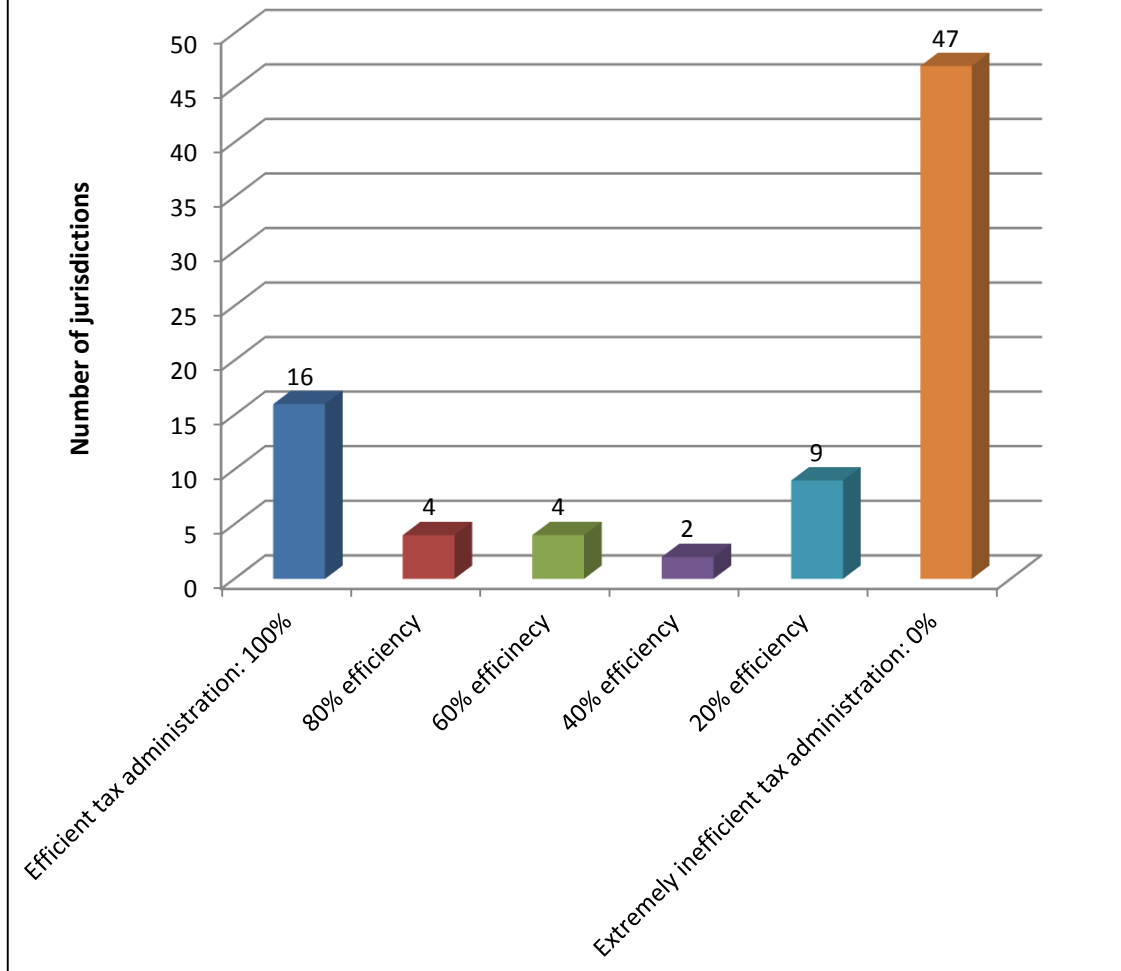
Which crimes might hide behind a lack of efficiency in the tax administration?

Tax evasion, hiding of the proceeds of corruption, organised crime (especially drug trafficking), illegal arms trade, trafficking in human beings, money laundering, the covering of illicit intelligence activity, non-payment of alimonies, and more besides might hide behind the opacity that an inefficient tax administration provides.

Results Overview

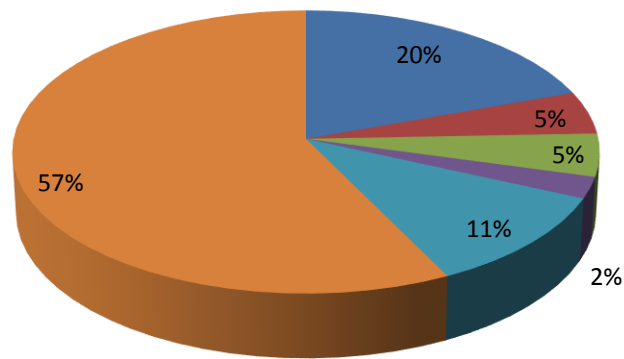
Table 1: Efficiency of Tax Administration Overview	
Number of jurisdictions with efficient tax administration	16
Number of jurisdictions with 80% efficiency	4
Number of jurisdictions with 60% efficiency	4
Number of jurisdictions with 40% efficiency	2
Number of jurisdictions with 20% efficiency	9
Number of jurisdictions with extremely inefficient tax administration	47

Graph 1: Efficiency of Tax Administration - Overview



Results Detail

Graph 2: Efficiency of Tax Administration - Details



- Efficient tax administration 100%: AU; BR; DK; ES; HU; IL; IN; IT; LV; NL; NO; NZ; RU; SE; US; ZA
- 80% efficiency: CA; CY; MO; MT
- 60% efficiency: BE; IE; PT; GB
- 40% efficiency: KR; LU
- 20% efficiency: AT; FR; GH; JP; MY; MU; PA; SA; SG
- Extremely inefficient tax administration 0%: All other jurisdictions

Table 2: Efficiency of Tax Administration - Transparency Credits

ID	Country	ISO	Credits	ID	Country	ISO	Credits
1	Andorra	AD	0	42	Korea	KR	0.4
2	Anguilla	AI	0	43	Latvia	LV	1
3	Antigua & Barbuda	AG	0	44	Lebanon	LB	0
4	Aruba	AW	0	45	Liberia	LR	0
5	Australia	AU	1	46	Liechtenstein	LI	0
6	Austria	AT	0.2	47	Luxembourg	LU	0.4
7	Bahamas	BS	0	48	Macau	MO	0.8
8	Bahrain	BH	0	49	Malaysia (Labuan)	MY	0.2
9	Barbados	BB	0	50	Maldives	MV	0
10	Belgium	BE	0.6	51	Malta	MT	0.8
11	Belize	BZ	0	52	Marshall Islands	MH	0
12	Bermuda	BM	0	53	Mauritius	MU	0.2
13	Botswana	BW	0	54	Monaco	MC	0
14	Brazil	BR	1	55	Montserrat	MS	0
15	British Virgin Islands	VG	0	56	Nauru	NR	0
16	Brunei	BN	0	57	Netherlands	NL	1
17	Canada	CA	0.8	58	New Zealand	NZ	1
18	Cayman Islands	KY	0	59	Norway	NO	1
19	Cook Islands	CK	0	60	Panama	PA	0.2
20	Costa Rica	CR	0	61	Philippines	PH	0
21	Curacao	CW	0	62	Portugal (Madeira)	PT	0.6
22	Cyprus	CY	0.8	63	Russia	RU	1
23	Denmark	DK	1	64	Samoa	WS	0
24	Dominica	DM	0	65	San Marino	SM	0
25	Dominican Republic	DO	0	66	Saudi Arabia	SA	0.2
26	France	FR	0.2	67	Seychelles	SC	0
27	Germany	DE	0	68	Singapore	SG	0.2
28	Ghana	GH	0.2	69	South Africa	ZA	1
29	Gibraltar	GI	0	70	Spain	ES	1
30	Grenada	GD	0	71	St Kitts and Nevis	KN	0
31	Guatemala	GT	0	72	St Lucia	LC	0
32	Guernsey	GG	0	73	St Vincent & Grenadines	VC	0
33	Hong Kong	HK	0	74	Sweden	SE	1
34	Hungary	HU	1	75	Switzerland	CH	0
35	India	IN	1	76	Turks & Caicos Islands	TC	0
36	Ireland	IE	0.6	77	United Arab Emirates (Dubai)	AE	0
37	Isle of Man	IM	0	78	United Kingdom	GB	0.6
38	Israel	IL	1	79	Uruguay	UY	0
39	Italy	IT	1	80	US Virgin Islands	VI	0
40	Japan	JP	0.2	81	USA	US	1
41	Jersey	JE	0	82	Vanuatu	VU	0

¹ http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/tax-administration-2013_9789264200814-en; 21.05.2013.