

KEY FINANCIAL SECRECY INDICATORS

Key Financial Secrecy Indicator 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.

Specifically we ask whether the tax administration makes use of taxpayer identifiers for matching information reported by a) financial institutions on interest payments and b) by companies on dividend payments. In each case, where the tax administration uses taxpayer identifiers for information matching, it receives 0.4 credit points. A further 0.2 credit is awarded when the tax authority is equipped with a large taxpayer unit.

Our research draws on both the TJN-Survey 2015 and on the OECD publication entitled “Tax Administration 2015. Comparative Information on OECD and Other Advanced and Emerging Economies”¹. Table 9.4 of this publication 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 provides information as to whether a tax administration has a large taxpayer unit.

Why is this important?

National tax administrations face a globalising domestic economy with increasing shares of value added and income received from external sources. 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 increasingly complex environment through organizational and technical innovations will rapidly lose its ability to effectively levy taxes.

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

With respect to the taxpayer identifiers, the OECD noted (2015: 290)²:

“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.”

Taxpayer identifiers provide a practical means of detecting instances of non-compliance and improving information exchange between government agencies. They are therefore an effective deterrent to cross-border tax evasion.

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).

We would not argue that LTUs are a panacea to tax evasion, but 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.

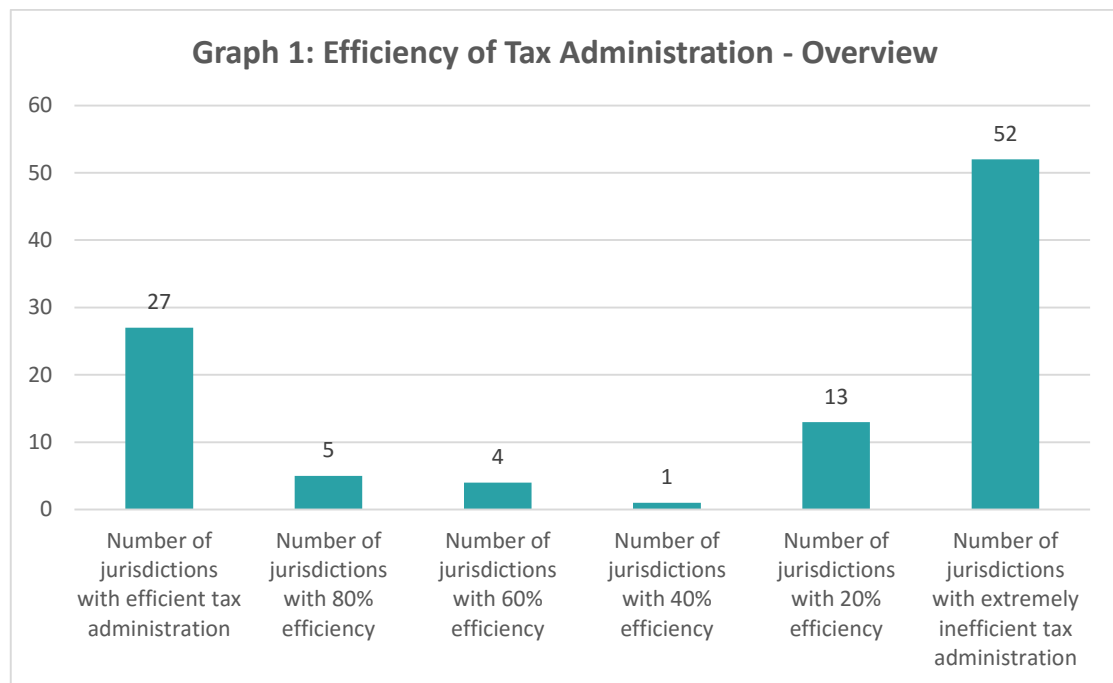
Furthermore, if a jurisdiction operates several regional LTUs without central management, this could potentially create incentives for tax wars and lax and uneven enforcement of tax laws between the different regions. In addition, multiple parallel institutions might create opacity through (unnecessary) complexity and restricted cooperation.

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

Tax evasion, hiding of the proceeds of bribery, 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 other crimes might be hidden behind the opacity that an inefficient tax administration provides.

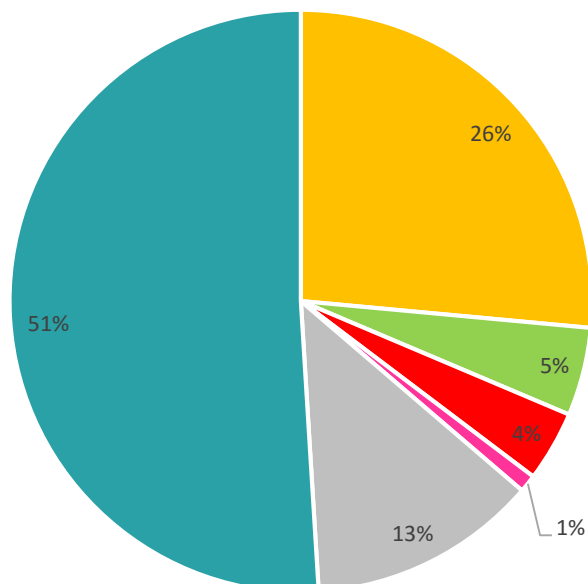
Results Overview

Number of jurisdictions with efficient tax administration	27
Number of jurisdictions with 80% efficiency	5
Number of jurisdictions with 60% efficiency	4
Number of jurisdictions with 40% efficiency	1
Number of jurisdictions with 20% efficiency	13
Number of jurisdictions with extremely inefficient tax administration	52



Results Detail

Graph 2: Efficiency of Tax Administration - Details



- Number of jurisdictions with efficient tax administration: AU, BR, CA, CL, CN, CR, CZ, DK, FI, GR, HU, IN, IL, IT, LV, MX, NL, NZ, NO, PL, RU, SA, SI, ZA, ES, SE, US
- Number of jurisdictions with 80% efficiency: EE, IS, KR, MO, MT
- Number of jurisdictions with 60% efficiency: BE, IE, PT, GB
- Number of jurisdictions with 40% efficiency: LU
- Number of jurisdictions with 20% efficiency: AT, CY, FR, GH, GT, JP, MY, MU, PA, SC, SG, SK, TR
- Number of jurisdictions with extremely inefficient tax administration: All other jurisdictions

KFSI 8: EFFICIENCY OF TAX ADMINISTRATION

Table 2: Efficiency of Tax Administration - Transparency Credits

ID	Country	ISO	Credits	ID	Country	ISO	Credits
1	Andorra	AD	0	52	Latvia	LV	1
2	Anguilla	AI	0	53	Lebanon	LB	0
3	Antigua & Barbuda	AG	0	54	Liberia	LR	0
4	Aruba	AW	0	55	Liechtenstein	LI	0
5	Australia	AU	1	56	Luxembourg	LU	0.4
6	Austria	AT	0.2	57	Macao	MO	0.8
7	Bahamas	BS	0	58	Macedonia	MK	0
8	Bahrain	BH	0	59	Malaysia (Labuan)	MY	0.2
9	Barbados	BB	0	60	Maldives	MV	0
10	Belgium	BE	0.6	61	Malta	MT	0.8
11	Belize	BZ	0	62	Marshall Islands	MH	0
12	Bermuda	BM	0	63	Mauritius	MU	0.2
13	Bolivia	BO	0	64	Mexico	MX	1
14	Botswana	BW	0	65	Monaco	MC	0
15	Brazil	BR	1	66	Montenegro	ME	0
16	British Virgin Islands	VG	0	67	Montserrat	MS	0
17	Brunei	BN	0	68	Nauru	NR	0
18	Canada	CA	1	69	Netherlands	NL	1
19	Cayman Islands	KY	0	70	New Zealand	NZ	1
20	Chile	CL	1	71	Norway	NO	1
21	China	CN	1	72	Panama	PA	0.2
22	Cook Islands	CK	0	73	Paraguay	PY	0
23	Costa Rica	CR	1	74	Philippines	PH	0
24	Curacao	CW	0	75	Poland	PL	1
25	Cyprus	CY	0.2	76	Portugal (Madeira)	PT	0.6
26	Czech Republic	CZ	1	77	Russia	RU	1
27	Denmark	DK	1	78	Samoa	WS	0
28	Dominica	DM	0	79	San Marino	SM	0
29	Dominican Republic	DO	0	80	Saudi Arabia	SA	1
30	Estonia	EE	0.8	81	Seychelles	SC	0.2
31	Finland	FI	1	82	Singapore	SG	0.2
32	France	FR	0.2	83	Slovakia	SK	0.2
33	Gambia	GM	0	84	Slovenia	SI	1
34	Germany	DE	0	85	South Africa	ZA	1
35	Ghana	GH	0.2	86	Spain	ES	1
36	Gibraltar	GI	0	87	St Kitts and Nevis	KN	0
37	Greece	GR	1	88	St Lucia	LC	0
38	Grenada	GD	0	89	St Vincent & Grenadines	VC	0
39	Guatemala	GT	0.2	90	Sweden	SE	1
40	Guernsey	GG	0	91	Switzerland	CH	0
41	Hong Kong	HK	0	92	Taiwan	TW	0
42	Hungary	HU	1	93	Tanzania	TZ	0
43	Iceland	IS	0.8	94	Turkey	TR	0.2
44	India	IN	1	95	Turks & Caicos Islands	TC	0
45	Ireland	IE	0.6	96	United Arab Emirates (Dubai)	AE	0
46	Isle of Man	IM	0	97	United Kingdom	GB	0.6
47	Israel	IL	1	98	Uruguay	UY	0
48	Italy	IT	1	99	US Virgin Islands	VI	0
49	Japan	JP	0.2	100	USA	US	1
50	Jersey	JE	0	101	Vanuatu	VU	0
51	Korea	KR	0.8	102	Venezuela	VE	0

¹ http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/tax-administration-2015_tax_admin-2015-en#page1; 26.08.2015.

² Organisation for Economic Co-Operation and Development 2015: Tax Administration 2015. Comparative Information on OECD and Other Advanced and Emerging Economies, Paris, in: http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/tax-administration-2015_tax_admin-2015-en#page1; 1.9.2015.