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Case Study 2.1

**CRITERIA FOR ORIENTING EXAMINATION ON THE BASIS
OF TAXPAYER BEHAVIOR**

**Netherlands Tax and Customs Administration
The Netherlands**

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Case Study 2.1 : CRITERIA FOR ORIENTING EXAMINATION ON THE BASIS OF TAXPAYER BEHAVIOR

1. Introduction

The policy of the Netherlands Tax and Customs Administration (NTCA) is to maintain and strengthen the willingness of citizens and firms to comply with their tax obligations. This policy is also echoed in the standing mandate of the NTCA: *“The NTCA carries out the legislation which has been assigned to it as efficiently and effectively as possible. In its work it aims to maintain legal certainty and equality before the law. Servicing and respecting private individuals and businesses form an integral part of this work.”*. The mandate applies to all NTCA’s duties which include levying, monitoring and collecting state taxes, national insurance contributions and employee insurance premiums. Also the NTCA is responsible for distributing income-related benefits. Finally supervising the inflow, outflow and transit of goods and supervising compliance with legislation in the fields of economy, health, environment and safety, economic classification and financial integrity are NTCA-duties.

2. Contents

This presentation describes the compliance strategy in place in the NTCA, focusing on businesses. A brief description of this strategy (chapter 3) is followed by a more in depth look at the focus of it, taxpayer behaviour (chapter 4). In chapter 5 the different factors determining the strategy are described, focusing on the way choices are made. The new tools aiming at influencing taxpayer behaviour are described in chapter 6. Measuring the outcome of the tools used in the supervision strategy is the context for chapter 7. The use of intelligence plays an important role so a separate chapter is dedicated to that subject, including the knowledge on individual taxpayer behaviour (chapter 8). The presentation concludes with a brief insight into the organizational aspects (chapter 9). Throughout the presentation good practices are included.

3. Summary of the strategy: compliance and influencing taxpayer behaviour

3.1 Introduction

The work of the NTCA is about compliance. Compliance is when citizens and businesses report relevant facts correctly, on time and in full and pay the correct amount on time. The NTCA has to operate in a changing environment in which society demands a decrease of administrative burdens, a responsive tax administration and effective law enforcement. The NTCA has adjusted its compliance strategy to these expectations and developments in society.

3.2 Start of risk management

During the past 10-15 years the compliance strategy of the NTCA was risk based and tax return driven. This meant that tax returns were examined and actions with regard to non-compliance were re-active. One of the assumptions behind this approach was “re-active corrections improve taxpayer behaviour”. A risk based approach means that those tax returns that are deemed to carry the most significant risks are checked. Also a lot of data on individual businesses are gathered and kept. Due to the sheer number of businesses (1,2 million small enterprises) tackling all risks on an individual level is not possible. In addition to the changes in society and the call for effective enforcement, also research into fraud within the small businesses segment has shown that the risk based approach does not greatly influence taxpayer behaviour.

3.3 Rethinking compliance strategies

Based on the experiences with risk management, the changes in society, knowledge from behavioural science and developments in the way of approaching enforcement, the NTCA has from 2005 started to change its compliance strategy. Keywords are now:

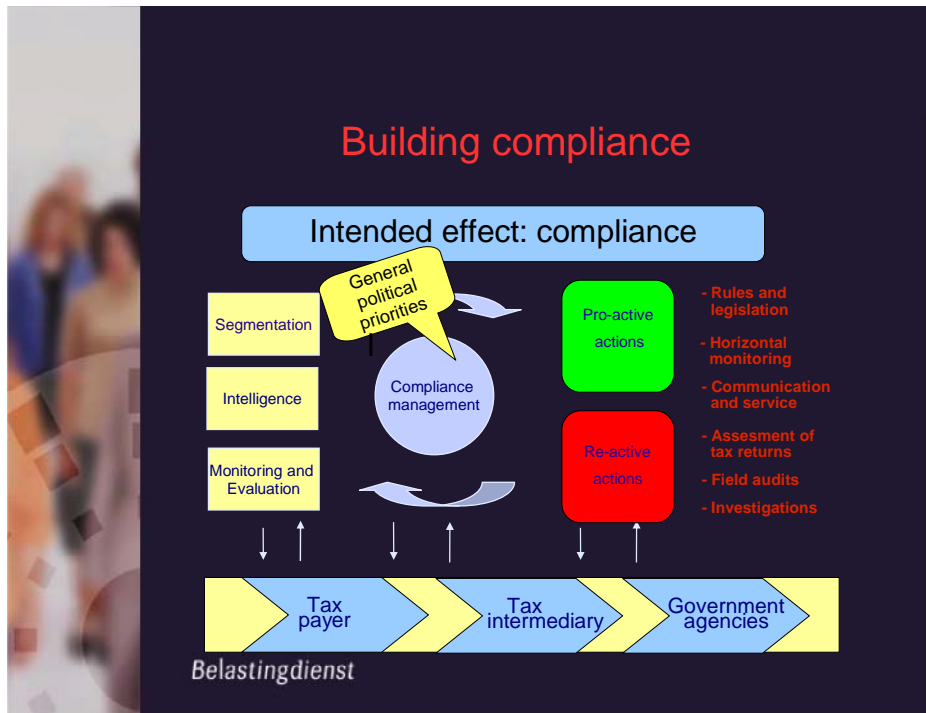
- from repression to prevention
- mutual trust, understanding and transparency
- shared responsibility
- working real time
- certainty in advance
- preventing double work
- thematic approach
- cooperation with other authorities
- visibility
- focus on outcome instead of just output

To achieve these goals the NTCA has added new tools to the more traditional, vertical ways of supervision. These include horizontal monitoring and communication. The aim of these new tools is to influence taxpayer behaviour: pro-active instead of re-active actions.

Compliance management is about determining which instruments and activities have to be used, and how, when and directed at whom, to positively influence tax compliance.

Figure 1: building compliance (next page)

Figure 1: building compliance



4. Taxpayer behaviour

4.1 Motives

Why people do or do not comply with tax legislation is an important question for tax administrations. The reasons or motives underlying taxpayer behaviour can be used as a starting point for compliance activities. Understanding taxpayer compliance behaviour is therefore crucial for tax administrations. Scientific literature points at different motives and conditions for tax (non-)compliance. Economic or instrumental models of tax behaviour assert that people weigh the (expected) profits of evasion against the (perceived) chances of getting caught and the penalties imposed when evasion is being detected. These economic models appear to form important basis for policies developed by many tax administrations to stimulate compliance and reduce evasion. However, economic models cannot explain the existing high level of compliance. Other factors are of importance. Research has shown that the possibility and opportunity for non-compliance are of significance. Furthermore, the importance of personal and social norms as determinants of compliant behaviour has also long been acknowledged; people are not solely motivated by self interest and do not act as a result of cost-benefit analyses only. Rather, people's personal convictions about the way one should or should not behave and the anticipated reactions from their social environment are important motives for compliant or non-compliant tax behaviour. Research has shown that a purely repressive approach with corrections and sanctions does not have a lasting impact on taxpayer behaviour.

Good practice

A study of the effects of publicity has been carried out in the Netherlands. Taxpayers were given the chance to make a voluntary disclosure to the NTCA that they held a foreign bank account not previously declared on their tax returns. In exchange for disclosure they were guaranteed exemption from penalties - although they were still required to pay the tax due, with interest, going back up to twelve years. The possibility of voluntary disclosure already existed but was publicised by means of press releases. These were carefully worded; some sentences appealed to the internal (personally relevant coverage) or social (attention on the standards and actual behaviour of others) norms, others pointed to the ease of making a voluntary disclosure (a form published on the internet) and others referred to the consequences of non-compliance (repressive element). The number of taxpayers making a voluntary disclosure was then monitored and matched to these sentences in the press releases. The results were that messages appealing to the internal norm and the social norm were particularly effective. Also the ease of making a voluntary disclosure turned out to be important. The repressive element proved to be the least effective. This knowledge has set the standards for press releases in similar cases.

4.2 Regulations

By regulating behaviour, the government itself creates important conditions for compliance. Due to their instrumental nature, complexity and tendency to change, many socio-economic regulations are conducive to violations. Perception of a regulation as unreasonable or arbitrary may also become a motive for not complying with it. Furthermore, unclear regulatory prescripts, an abundance of regulations or regulations subject to different interpretations, can give rise to efforts to find loopholes in the law. In this sense, a regulation itself can create opportunities for violations.

Good practice

NTCA tests the simplicity and feasibility of proposed laws and rules beforehand. This is standard practice and results may lead to a change in the proposals. Non-compliance due to unnecessary complexity is prevented.

Complexity of rules and processes is a major issue for tax administrations. The NTCA has instituted a complexity reduction programme. Part of this programme is to research the possibilities for simplification of tax rules; this enables compliance and reduces administrative burdens on taxpayers. Major legislative changes are discussed beforehand with taxpayers' bodies, business organizations and organizations of tax intermediaries.

4.3 Use of behavioural indicators

The practical use of insights from behavioural science is included in the NTCA's strategy. Behavioural indicators as motivation, capacity and opportunity play an important part in the NTCA's approach towards making well balanced choices.

5. Making balanced choices

5.1 Diversified approach

The NTCA is putting its efforts towards improving supervision. It wants to enhance the effect of its actions and, at the same time, reduce the administrative burden involved in supervision. The principal challenge for the years ahead is to make supervision more selective and to see where the NTCA shares responsibility with taxpayers. The basis of the NTCA's actions is trust so taxpayer's dealings are made as straightforward as possible. In cases where trust turns out to be misplaced, a more repressive approach may be chosen; the NTCA will take effective measures. By deploying a more diversified approach, the NTCA is able to keep its increasing – and highly dynamic – client volume at an acceptable compliance level.

This approach involves well-considered choices that weigh the compliance effect to be achieved, and the supervision instruments required.

5.2 Segmentation

Well-balanced supervision choices require segmentation. Segmentation involves breaking down the total pool of taxpayers into groups with shared features such as financial interest, complexity of the tax issues faced, scale, etc. The NTCA has created four segments: Private Taxpayers, Small Businesses, Medium-Size Businesses and Large Businesses.

In the large businesses-category, which includes around 2,000 of the largest mostly multinational companies, the nature of the tax issues and the scale of the interests necessitate a customised approach. Around 12,000 companies belong to the medium-size businesses segment. Here, individual client handling is key. A similar approach is ineffective in the rapidly-expanding category of small businesses (1,2 million small enterprises). In this category a further segmentation has to take place. The compliance strategy used takes into account the specific characteristics of the "sub-segment" involved and the desired effects of a supervision strategy. The steps to be taken are listed in paragraph 5.3.

5.3 Steps towards a well balanced choice

Choices are made with regard to issues where compliance is at risk or needs improving. Once a risk of non-compliance has been identified it needs to be assessed, weighed and a strategy has to be chosen. It is important to realize that improving compliance is at the heart of the NTCA's strategy; an approach working towards influencing taxpayer behaviour is now in place. This means making well balanced choices. The NTCA has recently developed a step-by-step plan for making these choices. This approach builds on the experiences with the strategy of managing risky tax returns but new elements have been added:

- analysis of the intended effect of the supervision strategy
- determination of the causes and behavioural facets of non-compliance
- segmentation based on causes and behavioural facets
- using both preventive and reactive supervision tools

This step-by-step plan applies to issues dealt with at a national level and to issues which are researched in the regional offices of the NTCA.

1. First orientation

The NTCA (both on a national level and tax regions) receives signals on risks from different sources. A signal points to possible non-compliance or insufficient compliance regarding taxpayers obligations (registration, filing, payment and reporting). Once a risk has been indicated it is important to determine a number of aspects:

- Which tax rules are concerned?
- Is a specific group of taxpayers (segment) involved?
- Are certain objects or tax events concerned?

This step aims at describing the risk of non compliance, including legal aspects and the segment of taxpayers concerned.

Good practice

The NTCA checks screens proposed legislation on a number of aspects, including the ease for taxpayers to comply with the (new) rules; changes can then be made in the draft.

2. Analysis

The second step is a more in depth analysis. This means the size and intensity of non-compliance and its seriousness are analysed. Also priority is determined. This step leads to a go/no go decision for developing a compliance strategy.

3. Outcome

The general aimed for outcome is compliance and in the third step it is important to determine precisely the desired outcome of the supervision strategy. The result of this step is to describe the intended improvement with regard to the following areas of taxpayer behaviour:

- a. Registration
- b. Filing
- c. Payment
- d. Reporting

At this stage it is important to realise that measuring outcome (the effect on taxpayer behaviour) is not always easy or straightforward. Measuring output is more concrete: it is about figures: the numbers of audits or the amount of taxes collected. Measuring outcome is about measuring changes in behaviour which is not easy and which cannot be easily attributed to single causes or tools.

4. Analysis causes of non-compliant behaviour

This step involves research into the possible causes for non-compliance. Why do taxpayers not comply? At this stage the three contributing factors (motivation, capability and opportunity) are researched in depth and in relationship with each other. Determining factors are knowledge and motivation on the part of the taxpayer but also the perception of the tax administration's supervision strategy. This step results in a list of causes.

5. Group of taxpayers

This step focuses on the subject; the taxpayer or group of taxpayers who are not complying. In the case of a group of taxpayers, the analysis is aimed at determining the causes of this segment's behaviour and whether differences exist in this group. This step results in a list of the main segments of taxpayers, their (non) compliance behaviour and the causes for this behaviour.

6. Supervision tools

The NTCA has a broad range of supervision tools at its disposal. Besides preventive instruments such as assessing legislation, communication, services and visits to companies, there are repressive tools such as audits, fraud investigations, administrative fines, etc. Relatively new tools in the mix are measures such as horizontal monitoring, supervision communication and working with other supervision agencies. These tools intend to prevent non-compliance and influence taxpayer behaviour beforehand. Repressive instruments are not always the most suitable means for bringing about long-term shifts in behaviour. When taxpayers continue to default out of ignorance, communication and services provide by visiting start-up businesses, may prove more effective instruments.

7. Planning

8. Execution of the strategy

9. Evaluation

In this phase one of the most difficult aspects of the supervision strategy is addressed. It is about measuring the outcome of the supervision strategy. This subject will be dealt with more in depth in chapter 7.

5.5. Visible supervision

It is important for NTCA to be visible as an supervision organization. Visibility is also aimed at compliance. Therefore NTCA carries out a large number of audits. To reinforce visibility, audits will be carried out on the basis of theme, wherever possible. In addition to risk-based and interest-based selections, a large number of small audits will be conducted which will focus on one specific risk and be of shorter duration.

Good practice

In 2007 the NTCA carried out a nationwide examination on private use of company cars. The employee has to pay income tax when exceeding 500 kilometres per annum. If an employee produces a declaration stating no more than 500 private kilometres will be driven with the company car, the employer does not have to withhold wages tax. Random checks showed that a number of employees declared less than 500 kilometres of private use, but in fact drove more. This called for visible supervision. The NTCA published its intent to examine this issue beforehand so employees could change or withdraw their statement. Supervision was carried out using recognizable “NTCA-cars” taking pictures of cars using automatic number plate recognition to read vehicles’ number plates. If the statement “less than 500 kilometres” had not been changed or withdrawn, taxes were re-assessed as well as fines imposed.

Themes involve a project approach which preferably involves several risks faced by objects or subjects, resources, processes and tools. Naturally, supervision communication, a preventive measure, is also used as an instrument for enhancing the visibility of the activities. To step up the impact of its actions, the Fraud Division within the NTCA (FIOD-ECD) will focus on cases with significant social visibility such as combating money-laundering. The number of campaigns carried out to trace unknown taxpayers and flows of income and to recover outstanding tax debts, will be stepped up.

Good practice

In 2007 and 2008 the NTCA used both preventive and repressive tools in examining compliance with the obligation to issue an invoice. In a pilot project with regard to catering wholesale businesses letters communicating about their obligations were sent to these businesses. Also the NTCA visited these businesses to explain the rules. The consequences of not complying were also explained. In cases of persisting non-compliance NTCA will interview leaving customers at the exit of the building asking for their invoice and matching it to their purchases. This strategy has worked as a deterrent.

5.6 Collaboration

Collaboration enhances the efficacy of the supervision and reduces the administrative burden by preventing double work. First and foremost, collaboration within the NTCA is of great importance. Stepping up collaboration relates to both strengthening the information position, and the concrete way in which projects are tackled.

The NTCA is also seeking collaboration with supervision agencies outside NTCA. Some aspects of fraud, where various types are in evidence, can only be tackled effectively by multidisciplinary teams. Consequently, the NTCA is taking part in intervention teams where the joint focus is on determining the administrative integrity of companies. Within the investigation process, too, it is increasingly working in multidisciplinary teams, where the FIOD-ECD works closely with other investigative bodies such the Social Intelligence and Investigation Service (SIOD) and the National Investigation Service (Nationale Recherche). The collaborative effort is often still of a repressive nature. In the period ahead, the collaboration with other supervision agencies can also give 'advance action' a more central role.

Increasing globalisation means that collaboration with partners abroad is of greater importance and intensity with regard, for instance, to bilateral and multilateral audits and mutual assistance. Fraud is a cross-border activity and tackling it effectively requires cross border collaboration. The NTCA wants to help to improve international fraud prevention efforts by clustering knowledge and exchanging information within the European Union. For non-EU countries, the collaboration and information exchange set out in the bilateral conventions serve as a basis for preventive operations. International assistance in collecting taxes is also deployed in the battle to combat international fraud.

5.7 Thematic approach

NTCA is aiming for a thematic approach in supervision. A theme covers a number of years and it focuses on an integrated, broad approach. This means issues and branches are targeted where not only tax risks are concerned but also other socially relevant subjects feature. A good example of this is the theme commencing in 2009: the labour market. Not only tax risks are concerned here but also issues involving illegal labour, temporary work agencies, human trafficking etcetera. This is a broad subject which needed more focus. Therefore the theme has been narrowed to the supply of and demand for paid labour through intermediary agencies. This issue is currently being researched and developed along the steps described in paragraph 5.4.

6. Influencing taxpayer behaviour: Horizontal monitoring and communication

6.1 Brief history

The NTCA's general policy objective is to strengthen taxpayer compliance. This objective has, in line with the standing mandate, remained constant for years. But that does not mean the approach has not changed. What was efficient and effective ten years ago is not necessarily so today. Insights shift, society is in a constant state of flux, and technological capabilities are increasing. In recent years the NTCA's supervision strategy has shifted from 'control based on an absence of trust' to monitoring through trust. This evolution of thought is not unique to the NTCA. In its 2002 report 'The future of Law-Based Society'¹ the Advisory Council on Government Policy refers to the 'horizontalisation' of society as a major development. In future, according to the Council, government and citizen will work together more and more: citizens and businesses want fewer rules and increased responsibility. This also transpired from meetings held in 2003 with the NTCA, the largest employers' organisation and with some multinationals. These organisations reported that a culture of distrust existed between the NTCA and companies. At the same time backlogs of 7 or 8 years were no exception. Tax inspectors confirmed that they too experienced that the relationship with businesses was not always a perfect one. Also they reflected that they too found it difficult to work with a backlog. In a nutshell, the NTCA and businesses used to have insufficient trust in one another and consequently shared little information.

In order to resolve these issues in 2005 the NTCA introduced a concept known as horizontal monitoring.

6.2 Key elements of horizontal monitoring

Key elements of the concept of horizontal monitoring are mutual trust, understanding and transparency. Making well-balanced choices with regard to supervision strategy means that the NTCA ascertains where it can share responsibility for compliance with social parties. The NTCA believes that the majority of people, businesses and institutions can and wish to be socially responsible. By making a sharp distinction between high risk and less risky businesses and leaving certain supervision tasks to bona fide businesses, there is scope in the NTCA own supervision activities for tackling those who do not adhere to the rules very closely. So, in this regard, horizontal monitoring proves an effective addition to traditional, vertical supervision, in which (in a top-down approach) the government supervises adherence with the rules.

The starting point works on the principle that supervision is a responsibility shared by all partners in the tax chain. In other words, it is a partnership. In brief, the collaboration is based on the conditions trust, transparency, equality, and acknowledging mutual interests. The collaboration aims at resolving problems beforehand if possible, and preventing double work in the chain. It is a strategy that offers taxpayers speedier

¹ [De toekomst van de nationale rechtsstaat], the Advisory Council on Government Policy [Wetenschappelijke Raad voor het Regeringsbeleid (WRR)] (2002)

certainty; also, fewer time-consuming checks will need to be performed afterwards. By stepping up legal certainty and reducing the administrative burden, the NTCA intends to help create an attractive climate for establishing businesses. It is an approach in which the Netherlands is at the forefront in the international field. The OECD is propagating tightening up the relationship between taxpayers, tax administrations and intermediaries; the Netherlands approach is cited as an example of this.

The horizontal approach has its value for all segments of business taxpayers. The segment's characteristics determine how the principles of horizontal monitoring are applied.

6.3 Large businesses

6.3.1 Compliance agreements

The segment of large businesses consists of about 2,000 enterprises. The approach of horizontal monitoring is in line with international developments relating to financial reporting, which aim to increase and compel transparency. Since the beginning of the 1990's a number of leading corporations have run into problems because their internal and external control systems functioned inadequately. In response a considerable number of corporate governance codes and laws have been drafted and enacted. Common to these codes is the obligation for the management of a company to make an "in control statement" in the annual report. This statement applies also to tax risks. Most material weaknesses in the business processes have to do with taxes. Result of this development is that tax is becoming increasingly important in the boardroom.

This development is part of the NTCA's implementation of horizontal monitoring for this segment. The goal is that both parties have an understanding of the current risks and be up-dated on each other's standpoints. Any problems in implementing new legislation, and the consequences of new legislation, are also discussed.

Good practice: compliance agreements

With regard to the segment large businesses the NTCA started in 2005 with a pilot project in which "compliance agreements" were drawn up with 20 large businesses, mostly listed on the stock exchange. As commitment at the highest level is of crucial importance for this new approach "Board to Board" meetings were called. During these meetings the Board of the NTCA asked for the commitment of the company's Board for this new way of co-operation. Based on the Board's commitment, a compliance agreement was drawn up between the business and the Tax Administration.

Compliance agreements are agreements about the manner and intensity of supervision. The foundation of the compliance agreements rests on the key values of horizontal monitoring: mutual trust, understanding and transparency. This trust has to be justified. That is why the Tax Control Framework of a business has to be solid (see paragraph 6.3.2).

The core characteristics of a compliance agreement are:

- significant tax risks are disclosed by the company on a real time basis
- the company submits facts and its view on the tax consequences
- the tax administration in return provides its view on the tax consequences expediently.

This results in a tailor-made approach where both parties acquire certainty in advance. And audits don't need take place so frequently or in detail as they used to. It is important to note that the company is not obliged to submit tax advice, internal or provided by tax intermediaries. The process of drawing up the agreements also included the solution of tax issues which were part of the backlog and had been pending during a number of years.

Compliance agreements cover all taxes; they also include tax collection. It is important to note that agreements are not about putting aside the boundaries of law, tax policy and jurisprudence and they do not create additional rights or obligations for the partners. A compliance agreement is not a legal document. It is no more than 1,5 pages and it is available in English, German, Spanish and Russian.

The first part of the pilot has been evaluated. Both parties, large businesses and tax inspectors, stated that this new way of cooperating is more effective and efficient. Both listed the following advantages:

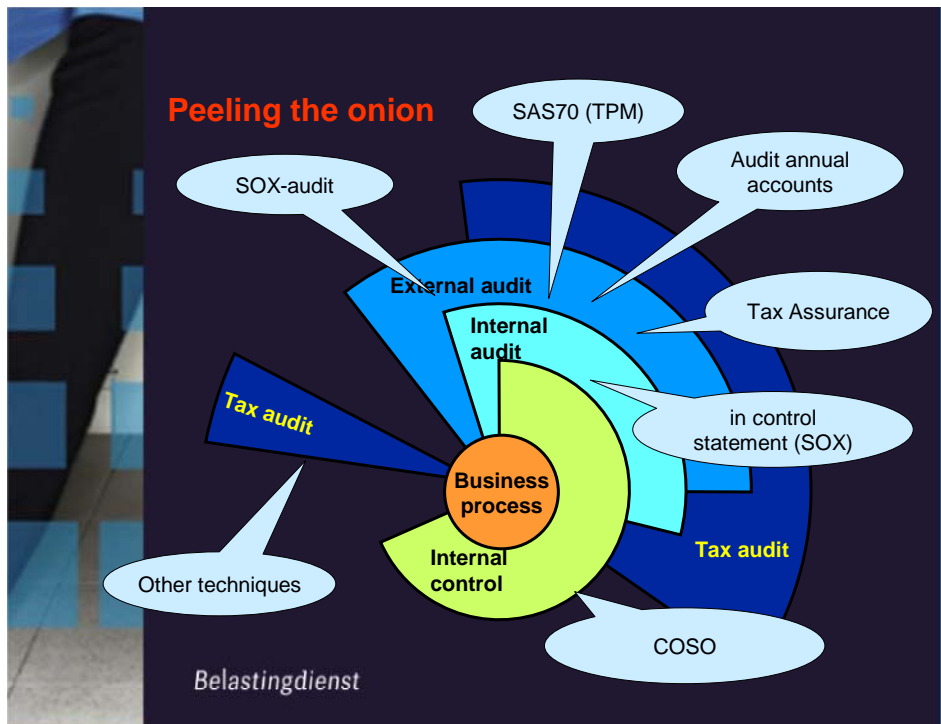
- working on actual issues
- reduction of uncertainties
- expedient dealing with issues
- The tax inspectors added that they noted an increased transparency and mutual trust. Also communication with the businesses had increased and improved. Agreements have also made for faster internal processes and the involvement of management is considered an improvement. Due to the success of the pilot this has been extended with 20 businesses in 2006.

6.3.2 Tax control framework

One of the major principles of horizontal monitoring is mutual trust. The tax administration trusts that companies will identify and report significant tax risks. This trust is not blind trust. In order to be able to issue an 'in control statement', a business needs to have set up an Internal Control Framework (ICF). Its objective is to control business processes. The 'Tax Control Framework' (TCF) is part of an ICF and focuses on the internal control of tax processes. The main premise for the NTCA is that compliance agreements are concluded with businesses whose TCF's are solid. The TCF gives a business an ongoing and up-to-date view of its tax position. All taxes but also correct and timely payment of these taxes, fall within the scope of a TCF. Tax strategy is regarded more and more as the responsibility of all levels of business management including the highest level ('tone at the top').

Because the TCF is a tailor-made product, made for and by the business itself, the NTCA provides no model for a TCF. Until recently supervision meant focusing directly on risky tax returns. Now however, the NTCA wish to focus on an assessment of the design, occurrence and operating effectiveness of a TCF. The Tax and Customs Administration must be able to determine whether a TCF is equal to the task of providing reliable tax information. The “onion model” is used.

Figure 2: peeling the onion



All layers of controls surrounding the business processes are peeled away, building of course on work already done by third parties for example the external accountant, tax auditor, internal auditor, tax department etc. Important here is to determine whether the business has drawn on tax expertise and, if so, to what extent. In doing so, we also work together with various disciplines. The number of tax risks will decrease as internal control improves. If a TCF is solid and in line with the principles of the compliance agreement and tax aspects are discussed “real time” then tax returns require only very limited monitoring. If a TCF is solid, our monitoring focuses on the effect of internal control measures and preliminary discussions.

Control of tax processes and tax assurance are currently not only a point of interest for the NTCA, also the major firms for tax consultants have developed expertise in this field. Also the Netherlands Business University has taken up the subject in research and programs.

6.4 Medium-size businesses

The next-largest businesses are about 12.000 in number. We call these medium size businesses. The supervision strategy with regard to this segment is aimed at individual client handling. The aim is to explore the possibilities to conclude compliance agreements with these businesses as well. At the moment the NTCA is focusing on businesses in the non-profit sector. Compliance agreements have been drawn up with three municipalities and provinces. A pilot project has also begun in this segment to see if compliance agreements can be made with the business and external adviser at individual level regarding the audit which will be performed at the company by the external adviser.

6.5 Small businesses

Horizontal supervision also has added value for the Small Businesses segment. Due to the great number of small enterprises, about 1.2 million, it is impossible to conclude individual compliance agreements with all of them. The principles of horizontal monitoring however can also be applied for this large group of taxpayers. This is not done by way of an individual approach but a collective approach is used. Real time co-operation means certainty in advance. It also means that the tax administration and the taxpayer do not have to discuss issues after the tax return has been filed. This in turn leads to a reduction in the administrative burden for taxpayers.

6.5.1 Branch organizations

The first strategy is that NTCA has started a dialogue with branch organizations. In this dialogue the tax issues that arise specifically in their branch are determined. Jointly solutions for these issues are researched. If a solution is found, an agreement is drawn up with the branch organization. Individual entrepreneurs then sign in to the agreement, stating that they will apply the solution in their tax processes and tax return. This means no discussion afterwards on this issue and tax returns will not need specific checking on these points. A number of agreements are currently in place with specific branches.

Good practice

In 2007 agreements were concluded between the NTCA and the trade organization for paper and leaflet distributors. 100.000 'newspaper boys' are at work in this branch and 80 distribution companies. A history of problems existed with regard to wages tax, specifically about the fiscal position of distributor and employee (distributor's obligation to withhold wages tax). The agreement settled the fiscal position in determining the criteria which apply for determination of a "newspaper boy" as employee. The agreement creates a level playing field and gives the branch an improved public image. The agreement also entails audits by public auditors.

6.5.2 Administrative software

Another way in which the NTCA try and avoid discussion on the tax return afterwards is by promoting the use of “trusted” administrative software. This is done by assessing software, for example on bookkeeping or a cash register, in advance thus providing certainty on the tax facets of the software.

6.5.3 Tax intermediaries

With regard to small enterprises a chain exists from transaction to tax return. For this chain the NTCA is building a tax control framework in cooperation with the other links in the chain. The NTCA’s partners in this are the tax intermediaries. Agreements are concluded between tax intermediaries and the NTCA. The focus of these agreements is not to solve a specific tax issue but to agree on attitude and responsibilities in the tax chain. By aligning work processes and trusting the internal quality systems of the intermediary double work is prevented. The NTCA, in processing tax returns, can build on the work done in previous links in the chain without having to check it. NTCA currently has four agreements in place with large organizations of tax intermediaries. The subjects vary: from wages tax to all taxes. The agreement between the tax intermediary and the NTCA involve a third party: the tax intermediary’s clients. Their part is to subscribe to the agreement. If this is done, they are part of the agreement and this creates a “green lane” for their tax returns.

It is important to note that, as with the compliance agreements with large businesses, trust of the tax administration has to be justified. This means that the tax intermediary has to have an internal quality system to which clients also have to adhere.

NTCA is no longer “just” working with tax intermediaries in discussing individual tax returns. An enhanced relationship is being built with them, with benefits for both parties. This enables both parties to monitor on a meta-level. All parties have to invest in a learning circle and solve issues which may arise such as incorrect returns.

6.6 Communication

Horizontal monitoring is one of the new tools in the supervision strategy of the NTCA. Another one is using communication and service to promote compliance. The NTCA undertakes a large number of visits to companies, particularly to start-up companies. This is founded on the conviction that, regarding compliance, the greatest impact on companies’ tax return behaviour is achieved when companies are in the start-up phase. Visits to companies perform two key aspects of supervision - service provision and prevention. During the visits, a clear picture of the company is gained and potential risks in the company’s administrative system can be assessed. Start-up businesses are informed of their obligations and the criteria their administration must meet. Where possible, these visits are carried out in collaboration with other parties - Chambers of Commerce, fiscal intermediaries and branch organisations.

7. Measuring effects

7.1 From “output” to “outcome”

For tax administrations performance measurement can take place at different levels. The first level would be to measure the effectiveness of each step in the compliance strategy by asking relatively simple and straight forward questions: were the right risks identified, were they correctly analysed, was the right form of treatment chosen, etc. At the second level the compliance strategy as a whole is evaluated, by examining how and to what extent the application of the process contributed to the achievement of the tax administration's objectives. Finally, the evaluation can help to ascertain the effectiveness of the organisation's strategy itself.

Traditionally, “output” is measured. Output is what is produced, such as the number and quality of audits, the number of reassessments or collected revenue. This output however is not the ultimate goal of the NTCA; its aim is to strengthen compliance and thus influencing taxpayer behaviour. The evaluation should not focus on output alone. Nowadays outcome measurement is gaining popularity. A completed audit is regarded as output. Outcome however has to do with a higher level of compliance. The outcome is the impact or effect of the strategy employed by the tax administration. Measuring the effects of a strategy is to provide an insight in the effects of supervision/compliance activities on taxpayer compliance behaviour.

7.2 Measuring effect

It is important to distinguish measuring of effects from monitoring and evaluation. Monitoring is about gaining an insight on a segment of taxpayers during a specific period of time. Evaluation is about testing to what extent internal and external goals have been reached. Measuring effect is about the impact of a supervision activity on taxpayers' attitude and behaviour.

Within the NTCA measuring effects on taxpayer behaviour is a new and very important part of the supervision strategy. This activity takes place on a national level as well as within tax regions where the effects of specific supervision activities are measured. A brochure has been developed in which the process of measuring effects is described in a series of checks. It is for example very important to determine the goal of the supervision activity as precisely as possible and to break this down in sub-effects that can actually be measured. A number of methods are available for actually measuring the determined sub-effects. Both quantitative and qualitative methods exist and are applied separately or jointly. It is important to then plan the measuring activities and hire well-qualified staff to undertake this task. It is also important to realise that a change in behaviour will usually take some time to become visible.

7.3 Performance measurement on a national level

On a national level data are also gathered and analysed. First by way of random checks on businesses. Secondly the compliance monitor is being developed. Both ways of measuring are carried out on a nationwide scale. The results yielded are used for evaluating the compliance strategy and finding out the taxpayers perceptions. By systematically measuring, analysing and evaluating the interventions of the NTCA, (the effects of) its supervision instruments can be understood and it can alter its approach if necessary. This is how the intelligence learning curve has been designed.

8. Intelligence

Intelligence is more than just a product (information); it is also a process (gathering information) as well as a way of working: dealing with people, data and tools intelligently.

In the Netherlands the supervision strategy is for a large part determined by themes, projects and approaches which are determined for the NTCA as a whole. The other part of the supervision strategy is established on a regional level. Intelligence plays a major part in this and therefore the NTCA has decided that all its departments and units (Tax and Customs Administration Regions, Customs, Fraud division FIOD-ECD and Benefits) will have their own intelligence organisation. Organising intelligence close to the primary process ensures lines are short and information exchange is speedy. It also helps to keep the organisation at a manageable scale. The approach and know-how are shared and the computer systems of the various units are harmonised. The tactical/operational intelligence is structured at regional level. This means that for large and medium size businesses tax risks with regard to individual taxpayers are available and registered. With regard to small businesses more segment-oriented information on the branch and its behaviour patterns is made available.

The NTCA is reinforcing its intelligence so that administrators and managers will be able to make a well-considered choice and select the appropriate type of supervision strategy, and maximise the effect of their actions. Choices are based on knowledge of taxpayers and the efficacy of the tools to be used. The basis of the intelligence comprises details available to the NTCA: tax returns, the basic registries, collection, recovery, services, investigation etc. It is also expanding the information and expertise position with regard to branches/segments. . New information terrains are being explored to pinpoint phenomena and trends. Some of the key tools are physical supervision ('on the street') to gain insight into economic reality and digital supervision (online). These 'eyes and ears' give staff at the NTCA information on activities that develop outside the official bounds of the modern information society.

9. Organization

9.1 Pooling expertise and central coordination

Supervision and compliance management take place both on a central, national level and within the tax regions.

The central level is organised by the NTCA's Nationwide Supervision Organization (NSO). The NSO is a joint venture between all tax regions. Expertise on all aspects of the supervision strategy of the NTCA is brought together in this organisation. The aim of pooling resources is to improve compliance and influence taxpayer behaviour. The responsibilities of the NSO include:

1. Making well-balanced choices on the nationwide approach of certain risks

The NSO gathers and disseminates risk-related knowledge. This central part is highly geared to the automatic selection of (risky) tax returns, based on selection rules and parameters. These selection rules are based on the results of the random audit programme for tax returns. Parameters are used to tune the workload to the available resources.

2. Central coordination of nationwide themes and projects

3. Central coordination of intelligence

4. Developing and implementing new supervision tools such as horizontal monitoring and communication

5. Coordination of measuring effects through random checks and the compliance monitor.

As the NSO is not a directorate or division which is separate from the tax region the NSO also lends support and provides expertise and intelligence to the tax regions.

Local responsibilities focus on influencing taxpayer behaviour on an individual or segment level with regard to registration, filing, payment and reporting. Compliance is strengthened by communication and sharing information, for example during informative visits to starting businesses. Risks of non-compliance are detected by the use of data (and the correlation between them) from the different sorts of tax and information gathered from external sources (intelligence) or the results of the random audit programme. The tax region then uses the 9 steps described in paragraph 5.4 to determine the proper compliance strategy.

9.2 Educating staff

Building an enhanced relationships with large and medium sizes businesses as well as branch and tax intermediary organizations is not done overnight. It is not just about drawing up agreements on paper but it is also – and perhaps even more so – about the attitudes taken by both parties. The NTCA has found that this new way of working demands a change in culture and behaviour. Building a relation of trust means being able to build and maintain relations and this involves being empathic as well as having listening capacities. But it also means having and exercising decision making capacities; a commercial service level and expediency in making decisions. Building a relation of trust also means having a continuous dialogue, not only on tax matters but also on the process and the behaviour of the parties involved. The central and regional management of the NTCA has put a lot of effort to include the tax inspectors in the development of horizontal monitoring. They are very important in enhancing relationships with businesses and therefore in promoting compliance.

9.3 Developing and implementing new Tools

The development of new tools such as horizontal monitoring and supervision communication has commenced on a central level in the NTCA. It is very important however to also use the input and creativity of the regional offices in implementing new tools further. That is why “new supervision” has been made part of the business goals of the NTCA.

Good practice

In 2009 30% of the supervision capacity will be allocated to 'new supervision'. The capacity has to be used for acting in advance instead of acting on tax returns, it has to be project based (using the 9 steps), it has to be visible en where possible in cooperation with other authorities. In addition, 5% of capacity is to be used for innovation.

Based on this goal a number of tax regions have started pilot projects experimenting with new supervision tools. Two examples:

- Organizers of pop-concerts or musical events are not always aware of the tax consequences of their event. This means that every tax matter will have to be discussed after the event has taken place. Also, the A licence from the local council or municipality is needed for organizing the event. When an organizer applies for a licence, he will also receive a letter from the NTCA. This is sent through the municipality. The NTCA joins organizing meetings and makes arrangements on tax matters; this provides certainty in advance to the organizers. After (and sometimes during the event) the event NTCA checks compliance with the agreements. About 100 events are being supervised in this manner.

- A research project on the use of intuition has started. This project involves using intuition of experienced tax inspectors in making decisions on whether or not to conduct an audit. The project was started because scientific research has shown that using intuition leads to better decisions, especially in complex cases. The research project at the NTCA was set up with 50 NTCA- colleagues (experts and non-experts with regard to the income tax act). They all conducted meeting with taxpayers who were randomly selected. Based on this meeting they assessed, on seven set moments, whether the taxpayer's return would contain material faults. So no extensive examination was carried out, but an intuitive judgement was made. In the meantime these tax returns were checked by specialists. This was done to compare intuitive results with the results of the examination. The results: experts in the income tax laws were excellent in judging tax returns intuitively; this judgement was at its best about one week after the meeting: it turned out that intuition works best where extensive experience is combined with subconscious thought.