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“THE ROLE OF THE TAX ADMINISTRATIONS IN THE GLOBAL CRISIS”

Topic 1.3

**THE PROMOTION OF ETHICS IN THE TAX ADMINISTRATIONS: STRATEGIES
AND PROGRAMS FOR THE PROMOTION OF ETHICS**

Swedish Tax Administration

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Why should a tax administration focus on promoting ethics? How do issues concerning ethics and trust affect the outcome? In this paper you will find some experiences from The Swedish Tax Administration concerning these issues.

Summary

The Swedish Tax Administration aim to minimize the tax gap by increasing voluntary compliance. It is therefore important to have knowledge about the drivers that affects compliance and non-compliance. Trust is an important factor and ethics is mainly an issue of trust. In our view, promoting ethics contributes to create the best conditions for voluntary compliance.

Working with ethics and trust is about working with, and changing, the culture within the organization. In order to succeed with a culture change, the consequences must affect the whole organization, the goals, the way we measure the result, recruitment, employment policies etc.

A high level of transparency is something we think creates a good environment for high levels of trust. More or less unconditional rights for citizens to access information counteract abuse of government power and resources.

Understanding things from the taxpayers point of view is essential for improvement.

In 2004 we commissioned a study to learn more about the attitudes taxpayers perceive. The study showed three different attitudes (A, B, C) and how these affected trust. An attitude recognized by empathy and cooperation has the most positive effect on trust.

Another study concerning the change of trust after an audit showed that the most important reason for the change of trust was the tax administrations ability to listen and have a good dialogue. This was much more important than the size of the reassessment.

The studies have been used as the basis for communication activities and other actions within our organization.

To act in an ethical way is to respect the individual from his or her point of view. It's important to make it clear that acting in an ethical way is not about auditing or not, following the law or not, it's about how we do it.

INTRODUCTION

Why is it important to promote ethics?

Ethics is not an isolated issue that can exist on its own and it's mainly an issue of trust. The Swedish Tax Administration have a goal to minimize the tax gap by increasing voluntary compliance, but in order to succeed we need knowledge on taxpayers behaviour so we can prioritize the right actions. Our main focus is to get things right from the start.

In the past, we didn't have enough knowledge and instead we assumed that our actions would have the desired impact. We still have much to learn, and we think tax administrations have a lot to learn from each other because we more or less face the same challenges even if the conditions are different.

It is of course important to have knowledge in order to do the right things. To use audit resources to correct unintentional errors is expensive, instead we try to clarify information to the taxpayers, pre-populate tax-returns, take initiative to an early dialog etc.

When it comes to intentional evasion, we can see that there are many different factors that affect the behaviour. Some important factors are:

- Social norms
- Personal norms
- Opportunity
- Risk of detection
- Penalties
- Crises situations

We used to focus a lot on risk of detection and penalties, but now we can see that there is so much more that affects the taxpayer. It's important to have knowledge in order to do the right things but it's not enough. We also need a trustful relation with the taxpayers and carry out our activities in the right way. In order to get and maintain trust, promotion of issues concerning ethics is very important. The key question is of course, how an organization can deal with and improve within this area? A brief description is found below about how we handle these issues on a strategic level as well as some examples from studies we have done that underline the importance of a good taxpayer relation.

Ethics is a broad subject and the focus in this paper is on the relation between the taxpayer and the tax administration. The approach is more of promoting good ethics than handling serious unethical behaviour, even if this is an important part as well.

The global crises affect both citizens and authorities in many ways. The ability to understand taxpayers situation and relation with the tax administration helps us to prioritize the right actions.

Ethics and trust from a strategic point of view

The Swedish government model

The Swedish society has a long tradition of transparency and openness. The Freedom of Press Act is from 1766 and gives the citizens access to information from local and central governmental institutions. Most documents within authorities are accessible by any citizen as well as by the media. When someone asks to see these documents, authorities must provide them without delay and without asking about the purpose or who the person is. Of course, some information is not accessible in order to protect the personal integrity of whom the information concerns. The possibility to access information is a very important citizen right in the Swedish society. The purpose is to counteract corruption and abuse of government resources. The opportunity is commonly used by the media to look into how authorities and politicians spend money (e.g. travel expenses). There is also legislation on how authorities should communicate with citizens. It should be done in a way they understand and citizens should be treated with respect. This is of course easier said than done but it underlines the importance of a good relation with the taxpayers.

Authorities are also very independent from the government in Sweden. As an example, it's not allowed for a minister to interfere in an ongoing case handled by an authority. The government provide resources and gives overall instructions to the authorities.

Ethics and trust on a strategic level within the Swedish Tax Agency

Trust is something that takes time to build but can be ruined over night, the consequences for us as a tax administration would be serious if the trust was ruined. Trust is built in many ways, most important is perhaps the experience people get when interacting with an officer but also what people read in the newspaper or hear from their friends and others.

In our opinion, working with ethics and trust is about working with, and changing, the culture. Therefore it's very important to realise that this takes time, and that it has to be dealt within all levels of the organization.

From a strategic point of view, we see trust as an essential factor for our organisation to succeed with our mission. A high level of trust is therefore a long-term goal for The Swedish Tax Administration, as well as good perceived treatment from our tax officers. It is, as described above, an important part of our compliance strategy. If we have a trustful relation, it's easier to solve things early, to interact with our taxpayers and to increase the possibilities to get it right from the start.

We are now more focused on the outcome of our activities than the output i.e. from number of audits, cases handled to the effects like perceived treatment, opinion about our audit activities in society etc. The way we measure have, as a consequence also shifted. Taxpayers perceived experience is much more important now as well as effects like less illicit work in a market segment.

When it comes to recruiting new staff we value social skills very high. It is important that the people who work for the Swedish Tax Administration have a good way of communicating and treating taxpayers. It's not enough that you can interpret the law; you must have the skill to do it in a way that ordinary people can understand.

In the employment policy it is stated that a high social skill is a very important condition in order to get a raise of the salary. On a strategic level we prioritize education and increased knowledge in order to be better in the taxpayers view.

We have a special board within the organization to handle serious unethical behaviour of our staff like unauthorized access of data, suspected corruption or Internet surfing on websites with pornographic or racist content. The consequences are usually a warning, deduction of salary, prosecution and dismiss from the job depending on the situation.

EXPERIENCES

The last years we have done a lot of qualitative studies in order to find out how we are perceived and the factors taxpayers think are important for a good and trustful relation with the Swedish Tax Administration. Some of them contain video interviews with taxpayers where they talk about their experience, treatment, thoughts etc concerning their situation and relation with us. We have used these surveys as an input for discussions with the staff in our organization and as an example, we can see that some of our staff are surprised over the strong feelings many taxpayers have concerning an interaction with an officer.

Two studies are described below and these studies have been very important for us in order to address the issue about trust and how we can affect the motivation to comply or non-comply. The surveys help us to understand our actions from a taxpayers point of view and the importance of treating people with respect.

Perceived attitudes

We are convinced that a trustful relation between the taxpayer and the tax administration is very important in order to create the best conditions for voluntary compliance. In 2004 we commissioned a study to learn more about this. The purpose of the study was to find out what attitudes we at the tax administration had and how these affect trust. It was a very comprehensive study with 84 in-depth interviews and 500 telephone interviews.

We wanted to know if there were any differences between different groups of taxpayers. Therefore we divided taxpayers into small businesses, large businesses, people with foreign background, old people, young people etc. There were no difference between the groups, all perceived the same attitudes. The result was that the taxpayers met three different attitudes within the tax administration, these were called A, B and C. Note that it is no difference in how we interpret the law, we follow the law in the same way with all different attitudes, the difference is how we are perceived when we carry out the work.

The A-attitude

This attitude is cold and insensitive. The officer thinks most taxpayers are dishonest and will do everything to try to avoid paying taxes. He or she thinks people complain too much and know too little about taxes. He or she has an arrogant behaviour and wants to use his or her power.

The attitude can lead to the following reactions from the taxpayer:

- Insecurity
- Anger
- Feels disrespected
- Feels powerless
- Disappointed

This attitude has a strong negative effect on the trust in the tax administration.

The B-attitude

This attitude is recognized by impersonality. The taxpayer feels that he or she is like a tax return form or a case, not a person in the view of the tax administration. The officer treats the taxpayer as an object. The officer thinks all taxpayers should be treated in exactly the same way. Everybody should know the law but those who fail to fulfil their obligations must take their consequences.

The attitude can lead to the following reactions from the taxpayer:

- Not relaxed
- Insecurity
- He or she tries to show that he or she got knowledge
- He or she feels inferior
- Leaves the meeting without understanding what the officer meant or said.

The perceived attitude indicates a distance between the officer and the taxpayer and can as a consequence lead to a situation where the taxpayer won't ask questions because of the risk of feeling stupid. A typical statement from a taxpayer who perceives this attitude is: "We don't speak the same language".

This attitude has a negative effect on the trust in the tax administration.

The C-attitude

This attitude is recognized by empathy and cooperation.

The officer is helpful, human and wants to find a solution for the taxpayer.

He or she knows it is difficult for the taxpayer to understand legislation and therefore needs a helping hand. The officer thinks we are equals, most people are honest, and that the taxpayer is important. He treats the taxpayer with respect.

The attitude can lead to the following reactions from the taxpayer:

- Relaxed
- Feels that he or she can discuss the case
- Opens up and talks
- Optimistic
- "We can solve this together"

This attitude has a strong positive effect on the trust in the tax administration. Taxpayers also feel they can accept a negative answer in a better way if they are treated with this attitude.

How common are the different attitudes?

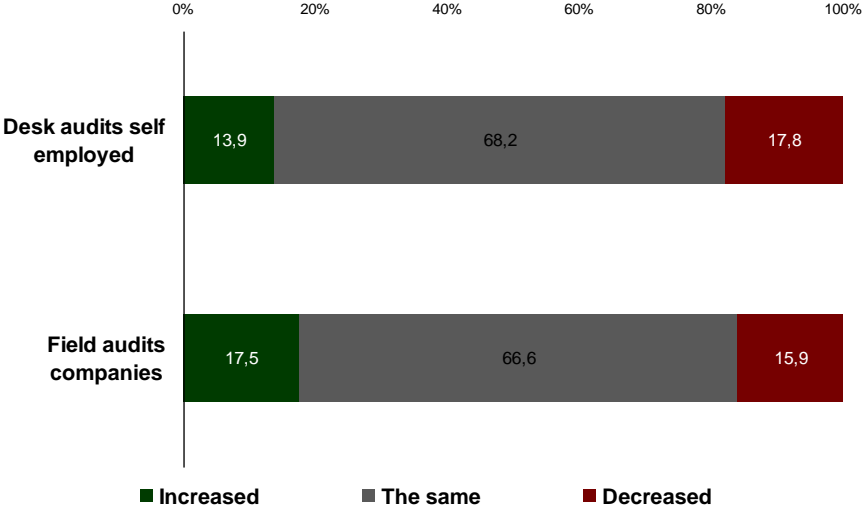
The most common attitude is the C-attitude. 60 percent of the Swedish taxpayers perceive that they meet this attitude, 50 percent state that they meet the B-attitude and 20 percent the A-attitude. A person can perceive more than one attitude and that's the reason why the sum is not 100 percent. In connection with the survey concerning the taxpayers perceived attitudes, we commissioned a study to find out

our staffs perception about how we are perceived. The result from this study showed the same relation between the different attitudes were C-attitude was the most common and A-attitude the most uncommon. However, there was a big difference concerning the perception of how common they are. Approximately 90 percent of the staff thought that taxpayers perceive them with the C-attitude and only 4 percent with the A-attitude.

Change of trust after an audit

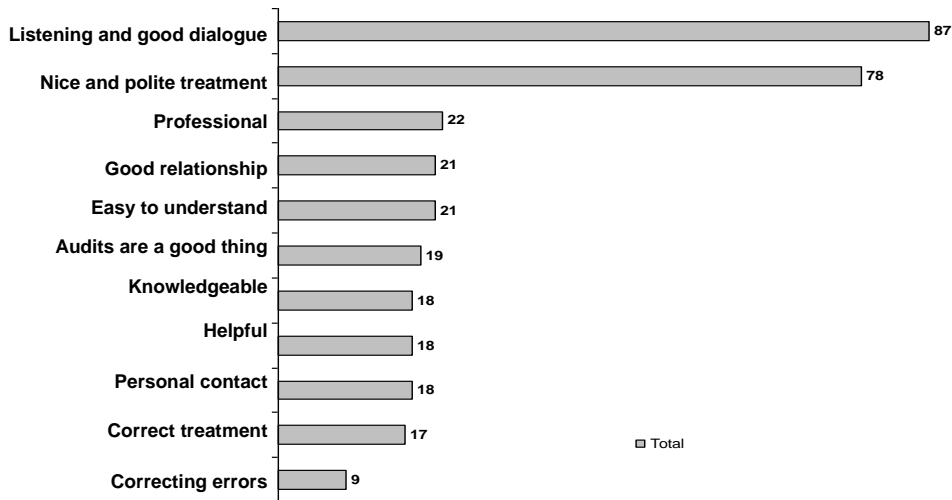
We wanted to see if the trust in the tax administration increased or decreased after an audit, and the reason for the change. Therefore we let a company do a study on audited businesses in different categories. The result shows a slightly more negative impact for desk audits compared to field audits when it comes to the change of trust.

Have your trust in the tax agency increased or decreased after the audit?



The most interesting question is however, why did the trust increase? This is what the survey shows as the most important reasons:

Reasons for the change in trust Why the trust has increased

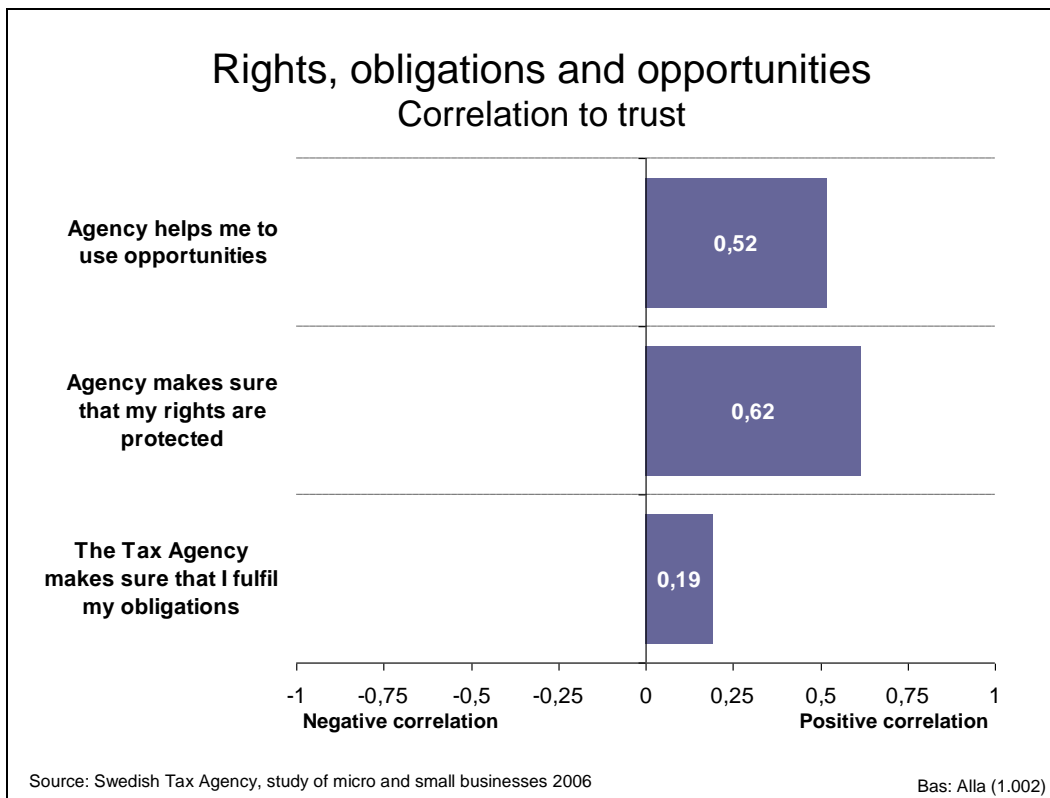


What most taxpayers stress as the most important factor for increased trust after an audit is the capability to listen and have a good dialog. Nice and polite treatment was also very important. Note that this was much more important than the size of the reassessment. When it comes to decreased trust, the result was almost the same. The most common explanation for reduced trust was the lack of the tax administrations ability to listen and have a good dialog; the taxpayer perceived that the auditor did not treat him or her with respect etc.

Procedural justice

An important concept here is procedural justice. It refers to how a tax administration handles its taxpayers. For a taxpayer it can be more important how the tax administration treat him than the actual monetary outcome of a case.

The perception of fairness is important in order to achieve high level of voluntary compliance. Fairness is correlated to trust in the tax administration which also is important in order to achieve compliance. The following diagram from another study concerning the micro and small businesses shows how the Swedish tax administrations behaviour is correlated to trust:



To create trust is it very important to protect the taxpayers right and to help the taxpayer use opportunities.

Implications of the results of the surveys

We could see a gap between the taxpayers view and our own insight concerning the attitude study. The result from the comprehensive study and the potential for improvement were important factors when we decided to communicate the survey in the whole organization and to prioritize activities to strengthen the relation with the taxpayers.

Working with issues concerning ethics and trust is to a high degree to work with the internal culture. One example of this is the way we talk about our taxpayers within the organization. Is it in a respectful and understanding way or not? Does our staff just see a case or the person with a case? The way we talk about our taxpayers will be reflected in our attitude and therefore in the way they perceive us. Therefore we think it's of great importance that we do not, even within the organization, talk in a negative way about our taxpayers.

To act in an ethical way is to respect the individual from his or her point of view. It's important to make it clear that acting in an ethical way is not about auditing or not, following the law or not, it's about how we do it. We are trying to show the taxpayer respect by writing with a more plain language and by better explaining the consequences for the taxpayers. The written language is very important because it reflects the attitude of the tax administration in a strong way. We want to open up for questions and dialogue so we can solve things in an early stage but if the taxpayer feels distrusted or not respected the taxpayer will avoid communication or have

negative feelings about the tax administration which will affect trust and the willingness to comply in the future.

Changing the internal culture towards more respectful treatment based on knowledge from taxpayers is not easy for everyone within the organization. Strong traditions of using bureaucratic language are not changed overnight but our insight of how taxpayers perceive it helps us underline the importance of a change.

We have trained our staff in order to strengthen the insight of how we are perceived. A very important factor has been the connection to the willingness to comply. By showing the connection to a good result, it's easier to get acceptance within the organization. Working with ethics and trust is not something we do in addition to the ordinary work; it's actually an important part of the usual work.

One of our actions was a group exercise where ethical dilemmas were described and six different suggested actions. The dilemmas reflected situations like when a colleague is arrogant and abuses a taxpayer, what do you do? The aim of the exercise was to use the knowledge from the surveys in a more practical way.

CONCLUSIONS

A high level of transparency is something we think creates a good environment for high levels of trust. More or less unconditional rights for citizens to access information counteract abuse of government power and resources.

When trying to create the best conditions for voluntary compliance, our surveys show that the relation with the taxpayers and their trust in the tax administration is of great importance. We have used this knowledge in order to communicate and discuss the treatment of taxpayers with our staff and this way of communicating has been successful, but changing the culture takes time.

By shifting the focus and looking more at the tax payers situation in relation to the tax administration, we have become more aware of how we can strengthen our insights and treat taxpayers in a way that will create the best conditions for a good result. The importance of perceived procedural justice, if taxpayers feel we treat them in a respectful way, will have a great impact on trust and on future compliance.

In order to succeed with a culture change, the consequences must affect the whole organization, the goals, the way we measure the result, how we write to the taxpayers, recruitment, employment policies etc.

It's not good enough to use our resources to do the right things; we must also do them in the right way.

Even if we have done a lot of improvement concerning our insight, strategies and activities in order to promote a good taxpayer relation, we have still much to do. Our future strategy will continue to focus on how we can increase trust and get deeper understanding of tax payer's perception of the relation with us.