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**“TAX MORALE AS DETERMINING FACTOR IN IMPROVING THE
EFFECTIVENESS OF THE TAX ADMINISTRATION”**

Subtopic 1.3

**“METHODOLOGIES FOR MEASURING THE TAX MORALE OF TAXPAYERS
AND THE RESULTS ACHIEVED”**

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Introduction

According to a literal definition, morality is the set of ethical values of individuals, expressed through their attitude and behavior.

If applied in the tax sphere, it certainly constitutes an essential factor in improving the effectiveness of the tax administration.

This paper shall address the methodologies to measure taxpayers' tax morality based on the results of the administrative policy driven by objectives measured in figures.

The paper is centered on the following topics:

- A description of the historic context that includes tax morality as a principle of the republican agreement;
- The key measurement indicators of tax morality;
- The objectives defined in a context of performance-based missions;
- Results' analysis;
- Cyclical corrective measures implemented by DGFIP to improve tax morality;
- The long-term structural consolidation of the quality of service to users.

I) Historic basis for the morality notion, in line with a relationship of trust with users

1) Morality highlights the constitutional principles defining taxpayers' rights and duties.

Tax constitutionality comprises three provisions that stem from articles 13 and 14 of the Declaration of the Rights of Man and of the Citizens (DDHC), which is set forth in the preamble of the Constitution of October 4th, 1958, the founding text of the Fifth Republic.

Let us remember that this founding text of the republican institutions originates in the French Revolution of the 18th century, one of whose causes was the completely unfair and inequitable nature of taxes.

The three principles of the fundamental of taxes are the following:

- The principle of **necessity** stemmed from Article 13: «a common contribution is vital in order to sustain public forces and administration expenses».
- The principle of **equality** before the tax, also stemming from Article 13 «the common contribution shall be equitably distributed among citizens based on their powers». Thus set forth, the principle of equality is the translation into tax law of the broad principle of equality among citizens.

- The principle of **consent to taxes** contained in Article 14 of the Declaration: «all citizens are entitled to determine, per se or through their representatives, the tax rate, the tax base, the collection means and the validity of taxes».

This power of the Legislative branch to enforce principles is reasserted in the current Constitution. No autonomous texts are admissible, other than the wording of the law, except for those relative to the organization of the tax administration, which, as we shall address, has undergone deep changes in recent years.

2) The constitutional changes were supplemented with the pursuit of a relationship of trust with users.

The supplements to the constitutional principles are the result of a set of actions driven by the administration.

Such actions are defined in a specific Administration document.

To such purpose, a letter from a taxpayer published in 2005 summarizes clearly and accurately the rights and duties of taxpayers with the tax administration.

This document seeks to find a balance between:

- ✓ Responsible users that respect their duties as citizens;
- ✓ And the responsible administration at the service of users, which bases its relationship on three fundamental values: simplicity, respect and equality.

The actions included in this document have been considerably developed by the improvement in the quality of service attained in recent years (cf § VI supra).

II) The definition of tax morality and the key performance-management indicators that apply.

1) Definition of tax morality

The notion makes reference to norms that determine citizens' virtuous behavior with respect to their obligations towards the State; such norms include the set of duties that taxpayers bear in the framework of laws and norms that constitute the fundamentals of tax legislation.

2) Tax morality measurement indicators

These are the central axes of the administrative policy whose strategy is based on performance-management.

Performance indicators measure the integral nature of the actions in the chain of tax transactions. Three types of transactions apply:

- the obligation to file returns;
- the payment obligations;
- Audit-related actions.

a) Indicators for the obligation to file returns

They are dependent on two categories, based on professional or individual taxpayers.

● Measures that apply to professionals:

They refer to:

- The sector of professional users who make their payments within the legal timeframe in relation with their obligations to file VAT returns (**CIV1** indicator), arising from the computer system that manages the relevant population.

This indicator measures **on a monthly basis** the proportion of taxpayers who fulfill their obligation to file their tax returns as required.

- The delinquency rate vis-à-vis corporate tax returns (indicator **DEF1**).

This indicator measures **on an annual basis** voluntary compliance with the obligation to file income tax returns by users under the scope of services for management of professionals on the territory.

● Measures applicable to individuals:

- They pertain to individual users who meet their obligations to file income tax returns (CIV 2).

This is an **annual** indicator that calculates the percentage of individual taxpayers who have filed their tax returns, compared with the population of taxpayers subject to the obligation to file tax returns.

b) Tax payment measurement indicators:

They include both individual and corporate taxes.

They comprise:

- The index of direct taxes collected from individuals, calculated **on a monthly basis** based on the amount of taxes paid voluntarily and compared with the volume of the expected tax plus the enforced collection amount;
- The portion of taxes paid voluntarily by corporations (**CIV3R**).

Calculated **annually**, this indicator, expressed in terms of indexes like most indicators, seeks to assess the timely payments arising from returns, made by taxpayers who undertake a professional activity;

- The corporate tax enforced collection index (**DEF2**).

This **monthly** indicator measures the percentage of net collection on the overall pending claims, unpaid by taxpayers.

c) Audit measurement indicators:

In essence, they constitute a percentage of audits exclusive of the most serious breaches (**CF1R**).

This **quarterly** indicator assesses the business volume that was the basis for penalties that exclude good faith or the penalty for the failure to file tax returns after notification, and compares with the set of transactions from onsite audits.

On the other hand, it is worth highlighting that the collection index for taxes after notification following an audit also requires monitoring.

3) The administration implements actions aimed at promoting taxpayers' civic compliance.

Voluntary actions are undertaken based on objectives set forth in figures that the administration sets for itself and constitute an object for measurements as well.

Such action pertains to the relationship of trust that the administration permanently seeks to establish with users.

Such actions may be described according to two types:

- **A set of service commitments** by the tax administration in favor of their users through the program «Tax facilitation». All the indicators for quality of service are monitored **quarterly** based on results' objectives defined for each base service.

The program spans a complete series of commitments: the telephone calls' index, the reception confidentiality, the identification of the agents who assist users, forms forwarded within 48 hours.

Likewise, customer-assistance offices may be subject to a certification process whose qualification attributed by an external agency is subject to annual compliance controls.

This certification is based on benchmarks, such as customer assistance in the public finance offices. Quality standards pursue good practices and provide the quality- monitoring framework, which, if otherwise, would make quality difficult to assess.

The setback is the relative burden implied by monitoring benchmarks – in particular for heads of service – as well as the quality of service issue that calls for renewal of the actions towards users.

- **Actions** aimed at enabling users to benefit from their rights as soon as possible.

Such last actions chiefly cover:

- The VAT credit refund requests and corporate tax refunds that the administration processes to the benefit of corporations within a term not exceeding 30-days. The objective for processing services is to follow the 80% rate;
- The index of contentious proceedings filed by individuals pertaining to income tax claims and real estate tax claims processed within 30-days.

III) Results within the framework of the performance-management policy.

1) Legal framework

- New budget governance

The implementation of the performance culture arises from the Organic Law relative to the Finance Legislation (LOLF) adopted in August 2001 that defines a general and renewed framework for the State budgetary and accounting process.

This new budget governance relies on the results-centered culture and pursues a twofold objective:

- It extends the powers of Parliament by delivering more information on the performance of the administrations in the framework of a clearer and more transparent framework;
- It assigns responsibility to public officials.

For clarification purposes, the State budget is currently submitted by **public policies** named «missions» (one per ministry), structured according to **programs** with a global and restrictive credit treatment. The purpose of credits in each program is defined by the **actions** approved by parliament.

- The Annual Performance Project (PAP, as per the French acronym)

For each program, the PAP defines the following:

- A strategy;
- Actions implemented;
- Objectives pursued;
- The results achieved and the expected results for subsequent years, measured with accurate indicators.

A document with identical structure to the PAP, as attached, is also included in the text of the Finance Law: the Annual Performance Report (RAP, as per the French acronym) indicating the performance achieved in the preceding year with respect to the objectives, indicators and values defined in the PAP for the same fiscal year.

PAPs are developed based on the **programs' operating budgets (BOP, as per the French acronym)**.

- The Program Operating Budget (BOP)

The operative implementation of this document, based on two key notions –means and performance – depends on the responsibility of the DGFIP units.

The BOP 2011 comprises 20 indicators whose national objectives translate the strategic DGFIP priorities described in the PAP; the level by objective has been defined jointly with the Budget Ministry Directorate, in charge of providing the human and financial resources to the administration.

Among the objectives defined in the Finance legislation, we may mention the following:

- **Objective N°2 : favoring voluntary compliance with tax obligations ;**
- **Objective N°3 : facilitating taxes;**
- **Objective N°4 : strengthening efforts against tax fraud;**
- **Objective N°7: reducing the timeframes to make tax payments.**

2) Objectives-based performance

Objectives-based performance is based on the engagement rationale defined at each level of responsibility.

Definition of objectives between the central and the departmental level.

It applies in the framework of a dialog between the inter-regional Delegates and the operational head of department.

As representatives of the Director General before the local DGFIP heads, Delegates act on the basis of the performance scope and the monitoring requirements, guaranteeing a functional role differentiated from the operational role, guaranteed by the heads of department.

The process to define objectives by departments is an overall growing trend at the inter-regional level. The heads of department set forth objectives, through the inter-regional Delegates, subsequently consolidated by the Directorate General that ensures the proposals' consistency with PAP objectives.

The objectives set forth are mostly validated by the central level; if otherwise, owing to insufficient proposals, a «second round» is held, which leads certain departments to define better objectives with respect to the first proposal.

The set of objectives is formalized on the departmental BOPs. These elements that are related to figures are then applied at the sub-departmental level in each one of the operational services, always based on the contract between the local Director and each head of service.

3) The performance dialog

Upon obtaining validation for departmental BOPs, the performance dialog is structured around a twofold mechanism:

- ✓ The «incoming» performance dialog between the Delegate and the head of department within a term of 6 months from the time a new local director is hired;
- ✓ The submittal of an annual performance report.

- The «incoming» performance dialog

The conference with the Delegate is the occasion to conduct an analysis on the departmental implementation of the strategic guidelines and on the evolution of the results, which also constitutes the validation of the principle for the strategic action plans set forth by the Director with full responsibility.

It is supported with a file forwarded to the Delegate by the newly appointed responsible individual, which shall, at least, address the indicators issued by the PAP and arising from the local BOPs.

- The performance report

The annual performance report constitutes, above all, a milestone that marks the degree of completion of the priority action programs defined by the Director to meet the objectives of the departmental BOP.

Each local head shall forward this performance report to the Delegate. The latter evaluates whether a meeting with the local head is relevant in order to elaborate on certain issues, chiefly in the situations reflecting a shortcoming of the results achieved in the framework of the departmental BOP.

IV) Results' analysis

The implementation of performance-management indicators enabled to improve the effectiveness of the tax administration and measure its evolution accurately.

The index of voluntary compliance with VAT returns has increased considerably in the course of the last few years, from 84% in 2003 to 92% in 2010.

1) Results with respect to collection obligations.

The payroll tax compliance index grew from 97% to 99% in the period between 2003 and 2010.

The voluntary compliance index for self-assessed taxes (**CIV3R**) remained more stable but is already at a high level, close to 98%. It stood strong in 2009 in a very unfavorable economic context, with the crisis facing corporations.

☞ It is worth highlighting that the trend of the curves shows that this improvement is not infinite and we may empirically conclude that once the 98% threshold is reached, it becomes increasingly difficult to make significant progress. Therefore, the results achieved shall be consolidated.

2) Indicators of the combat against tax fraud.

They progress sustainably and significantly in the period between 2005 and 2010.

Example: the percentage of audits that exclude the most serious fraud cases grew from 18% at the end of September 2008 to 19% two years later.

And the same applies for the tax collection index after an external tax audit.

Example: between September 2008 and September 2010 the index for payments of fines grew from 75% to 80%.

3) Indicators for «promotion» of tax compliance

They rank high and remain consolidated for the overall period.

Example: from 2008 to 2010, the segment of individual users who duly pay income tax evolved between 98.61% and 98.66%.

☞	Although the implementation of a system of performance measurement indicators has enabled better results for the missions, the mechanism features certain limits . A clear consequence is the administration of the mission only according to the result expected, to the detriment of quality and an overall vision of operations.
☞	Outlook as from 2011: the local heads shall receive new instructions. Such instructions shall limit the number of indicators by keeping objectives at their current level, in a context of staff reduction.

V) Implementation of administrative action adjusted to improve taxpayers' tax morality.

Although performance is very good at the national plan level, certain departments may feature lower-level results, which may eventually pose a negative risk to the overall level.

In the face of a downturn in the level of the objectives achieved, action plans are required. Such plans entail adopting prevention measures towards a better reaction to the shortcomings and they shall be inherent in the organization of the role.

For example, in the case of a downturn in **indicator CIV1, which measures the degree of compliance for professionals**, the improvement levers might be the following:

- Mandatory monitoring of noncompliant taxpayers, with friendly telephone calls or letters at the beginning of each month. On the other hand, an IT application is underway to support such operations;
- Strict enforcement of penalties for chronic noncompliance cases;
- Official notifications to said noncompliant taxpayers in the shortest timeframes;
- Preserve the quality of the records for the delinquent population (systematically delete delinquent taxpayers who have closed their business).

● **In the face of a reduction in the number of individuals who meet their tax-filing obligations**, beyond enforcing penalties upon noncompliant taxpayers, the external communication shall be extended in order to create awareness among certain groups with respect to their duties: foreign students' population, with specific bilingual assistance and good surveys during the annual filing season.

● A reduction in collection indicators shall serve as the basis for a specific policy based on the nature of noncompliant taxpayers. In the case of debtors facing temporary financial distress, the payment deadlines may be extended, by applying late interest and under the promise of meeting the installment facilities granted by the administration.

With regards to chronic noncompliant taxpayers, a firm sanction policy shall apply, based on important penalties enforced without extensions, up to enforced proceedings in the contentious sphere.

VI) Application of a policy to promote tax morality.

1) Consolidating actions already implemented with the strength of a new merged tax administration.

The creation of the General Public Finance Directorate (DGFIP, as per the French acronym), in 2008, originated from the merger between the General Tax Directorate and the General Public Accounting Directorate has enabled **a qualitative leap in improving the relationship between the public service and users.**

Notwithstanding all the efforts carried out until that time, the two former administrations were not fit to overcome the serious setback for users from the onset, based on the fact that the two organizations shared the tax and collection base for individuals.

When taxpayers wished to submit a formality, query or objection, they had to infer the correct service in which to file their request (the tax office responsible for the all tax bases and the collection of professional taxes or the office in charge of collecting taxes from individuals).

Frequently, the difference was not clear and numerous users filed with the wrong service. In many cases, it became necessary to file with both services, for example, in the case of a formal objection followed by a request for extension of the Income Tax deadline.

The creation of a one-stop shopping window for individuals constitutes the heart of the reform by the creation of the single directorate.

With this new one-stop shopping window, the individual taxpayer no longer wonders about the competent service to process his request. The unified service is competent on all matters.

The one-stop shopping window is marked by two aspects:

a) Creation of tax services for individuals

The tax service for individuals is a single service that serves the overall tax base and sees to the overall collection from taxpayers, regardless of their geographical area. It was created in all the communities in which a tax office and a treasury office operated before, owing to the merger of the two services and the unification of their agents.

From now on, the complete record for a taxpayer is carried in the same service. If the user makes a phone call or visits the window, he shall find a qualified agent to answer his questions. If the request relates to administrative and collection issues at the same time, it shall be processed in the same service.

b) Implementation of tax assistance facilities in the proximity

After the creation of all the tax services for individuals in the urban areas, 55% of users shall be covered. Therefore, in the small communities, the rural communities or peripheral urban communities, in order to provide a complete service to users, all the treasury offices guarantee assistance for users not only vis-à-vis collection issues, but also tax assessment matters. This is the notion of **1st level of tax assistance in the proximity**.

This new service enables the user to obtain the answer to most administrative matters from the treasury office. In the case of a more complex question or a contentious proceeding, the user is not required to file a new proceeding. The treasury takes over the record, delivers it to the back office and monitors its evolution. The user relies on the same timeframes to receive an answer as those applicable for the administrative service.

Upon the creation of the tax services for individuals and the treasury offices in the proximity, the DGFIP adopts a strong approach to improve users' service. From now on, the content of the service delivered at each site increases.

Likewise, the DGFIP extends its fiscal proximity network by adding treasury offices (over 3000 centers) in the rural areas.

The tax services for individuals are deployed expeditiously, with 260 SIP in 2009, 608 at the end of 2010 and 698 at the end of 2011, amounting to 90% of the overall services to be implemented.

Proximity tax assistance was implemented across the whole territory in September of 2009 and its creation was mentioned on tax notifications. In spite of the limited communication, proximity tax assistance has been a true success, which was included in the last Income Tax season. It immediately facilitated supplemental service to users and has only increased since then.

2) Extending actions to enable better user access to the service.

The DGFIP seeks to be increasingly accessible to users in order to deliver the quality of service they expect.

a) Multi-channel access.

The DGFIP seeks to multiply the access channels to the administration based on the multi-channel access policy. A user is currently enabled to obtain information via the Internet, make a call, visit the window or enjoy the postal or e-mail service.

b) On-line services

Users are no longer required to move or depend on office hours owing to the availability of online information. On the Internet portal «impots.gouv.fr », taxpayers may directly find the information and contacts they require, download documents, assess their Income Tax, make payments and query their tax account with all the information on their tax returns.

The portal is a true success, with 54 million hits in 2009 and 25 million online Income Tax calculations for a population of 32 million taxpayers.

The portal «cadastre.gouv.fr» enables users to query the cadastre system and download forms. Also, the portal had 7.3 million hits in 2009, 76 million pages queried and 76,000 form downloads.

c) Telephone service

Telephone access was completely renewed with significant investment in telephone equipment for better traffic management.

At the same time, national telephone service centers were implemented with calls at the price of a local call, to answer users' questions.

These «tax service centers» answer all the general questions on allocations and collection for individuals and professionals, until 10:00 p.m., including Saturdays.

The «taxation centers» process users' requests regarding their payment agreements and monthly installments.

The «tax service centers» and «taxation centers» serve a genuine need since they have processed 7 million calls in 2009.

d) Information from the window

Service-related processes were also subject to deep transformation. The service hours have been extended and the administrative services are available every day. The visits to service offices are widespread. For improved access, the addresses of the service offices are noted on all the documents forwarded to taxpayers.

In order to better serve taxpayer needs, the DGFIP also adopts an organization in line with the service area to receive tax returns in May/June, the peak demand time for such services, with 3.5 million visits per window.

During this time, an important media campaign is also conducted to inform taxpayers at the national as well as local level. Special attention is placed on population groups with special needs such as the visually and hearing-impaired, who receive special assistance in certain areas.

If assistance is an integral part of the services' mission, **it shall move forward with greater professionalism from the agents involved.**

e) E-mail

Users may also forward their queries via e-mail. The administration assumed the commitment of answering e-mails within 48 hours. The e-mail address of the services is systematically featured on all the documents forwarded to taxpayers.

Close to two-million messages have been received via e-mail in 2010.

3) Facilitating tax understanding to offset complexity

For the last few years, the DGFIP has been undertaking very important efforts vis-à-vis the content and presentation of the documents forwarded to taxpayers.

a) Returns

With respect to tax returns, every finance law introduces amendments and adds supplemental information. Every year, the DGFIP reviews the contents of tax returns, which are increasingly dense.

In order to offset this evolution, the administration adopted a system of special returns according to users: simplified returns for the most common categories and complete returns for the most unusual or complex returns.

This process is appropriate for the income returns for individuals and is in the process of extending it to the returns of professionals.

b) Information transparency

An important factor for transparency and facilitation of relations is the appropriate identification of interlocutors. The reference for the services is systematically featured on the administrative notifications, just as the data of the person processing the record. Likewise, clear information is rendered on the mechanism to file claims.

c) User guides

Simplified guides are made available for users regarding the most frequently asked questions.

From the time they register with the services, the new professional taxpayers systematically receive the tax book with the explanation on their tax system and their obligations.

4) Greater data breakdown to relieve filing and payment formalities

Improving tax morality implies facilitating the management of the returns and payments that taxpayers make. Beyond the formal complexity of the tax, the formality shall be as simple as possible and the administration shall reduce the complexity for the user to the minimum extent possible.

a) Individuals

The largest share of taxes from individuals relies on new processes to facilitate taxation.

With the pre-completed return, the income information known by the administration is pre-printed on the income return sent to individual taxpayers or pre-completed on the electronic return. Since the incorporation of income from personal property last year, over 90% of returns enjoy the pre-completed information function.

For many years, individuals have been able to file electronic returns and this feature is being adopted. The DGFIP received over 9.7 million electronic returns in 2009.

To a great extent, the procedure has improved. All users may file electronic returns, even new taxpayers and those whose family situation has changed in the course of the year. From now on, electronic returns may be filed without certificates from any computer.

In order to simplify the process even more, taxes may be paid with new electronic means of payment. Taxpayers enjoy the option of debiting the tax on the payment deadline or making the online payment, which saves 10-days in processing time by the treasury office. They may also choose to pay on monthly installments.

Such payment means are increasingly successful: 51% of direct tax payments and 78% of Income Tax payments are electronic.

b) Professionals

Professional taxpayers also rely on new electronic procedures.

Businesses with business volume in excess of 500,000€ HT are required to **file their returns and make payments via electronic means**. As from October-2011, the threshold shall drop to 230,000€.

Other businesses are free to choose between the electronic VAT return and the online VAT payment. Likewise, they may pay the Corporate Tax, Payroll Tax, or the new corporate value added premium electronically. A total 800,000 businesses use the TeleVAT (TéléTVA) and 82% of VAT collection is electronic. Additionally, 48% of the Corporate Tax and 31% of the Payroll Tax is paid online.

Businesses may also choose to file their income or VAT by sending files from their accounting software: 500,000 businesses have chosen this formula for VAT and more than 2 million businesses file electronic income returns, over a total of 3 million.

This online procedure was specifically adjusted for Accountants who process returns for their clients.

5) A mediation agent: the tax mediator.

The department has designated a tax mediator per department across the territory. The underlying philosophy in this institution is finding solutions based on compromises to minor disputes.

Taxpayers may resort to such agents for all disputes against the administration relative to administrative or collection matters, or the services, to find amicable solutions.