

Inter-American Center of Tax Administrations – CIAT

45th CIAT GENERAL ASSEMBLY



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

Subtopic 2.1:

**“TAXPAYER ATTITUDES VIS-À-VIS THE TAX ADMINISTRATION:
DIFFERENTIATE AND CLASSIFY TAXPAYER BEHAVIORS”**

Federal Revenues of Brazil

**Quito, Ecuador
April 4 - 7, 2011**

Summary

This paper presents the experience of the Federal Revenue Secretariat of Brazil (RFB, as per the Portuguese acronym) in the implementation of the New Taxpayer Assistance Model for Individual Income Tax, which spurred the reflection on the importance of classifying taxpayers according to the tax morality criterion.

Firstly, we briefly explain the Brazilian Tax System, whose complexity generates the most diverse taxpayer profiles.

Then, it focuses on the Federal Tax Administration, under the authority of the RFB, highlighting the assessment modality adopted by this Administration – the “Self-assessment” – which requires better taxpayer assistance and leaves certain room for discretionary behavior to the taxpayer at the time of drafting tax documents.

Following, we elaborate on the importance of the taxpaying-capacity principle in promoting taxpayers’ tax morality and voluntary compliance with tax obligations, chiefly with respect to determining the ceiling for each citizen’s contribution.

Subsequently, it presents a proposal to classify taxpayers according to the tax morality criterion, considering two standpoints: willingness to reveal the taxable event (seven types identified), and the willingness to pay the applicable tax (five types identified). Thereafter, the paper shall refer to the dynamics among the different types.

Finally, we set forth the experience from the implementation of the new model for individuals’ assistance, which shows that the RFB is gradually overcoming old paradigms to adopt a more transparent stance before society, even acknowledging the need of relying on differentiated programs based on taxpayers’ morality. We shall pose the situation-problem, the role of strategic planning on process reviews, the solution adopted, preliminary results, the need to adjust to programs and the new outcomes.

To conclude, conclusions are presented to convey that taxpayer assistance, adopting a transparent stance and the respect for the principle of the taxpaying-capacity by the Tax Administration are factors that promote taxpayers’ tax morality and increase voluntary compliance with tax obligations.

1 - Introduction

The notion of tax morality is of utmost importance for modern Tax Administrations, which shall define their actions increasingly centered on transparency and respect for their taxpayers. The latter, in turn, usually adopt a behavior that reflects the behavior of the tax authority, so, if treated with respect and honesty, they shall react accordingly.

In spite of the difficulties implied in the classification of taxpayers according to the tax morality criterion, it is vital to move forward in such direction to promote a healthier and more authentic tax administration-taxpayer relation. Likewise, the deeper knowledge of the taxpayer universe enables the creation of specific programs for each group, which entails a benefit in terms of resource allocation and results achieved.

In such respect, the Federal Revenue Secretariat of Brazil (RFB) recently started moving towards this new approach for the tax administration-taxpayer relation, breaking old paradigms and accepting the challenge of reviewing its procedure. And, in fact, this is the process addressed herein.

2 – Development

The following paragraphs shall elaborate on the experience of the Federal Revenue Secretariat of Brazil (RFB) in the implementation of the program called “New taxpayer assistance model for individual income tax”, aimed at a specific group of taxpayers, which gave way to the reflection on the importance of classifying taxpayers according to the tax morality criterion.

2.1 – Context for the Brazilian tax system.

In Brazil, taxation is distributed according to three administrative levels: municipal, state and federal.

The Municipal Tax Administration applies central taxes, the Tax on Urban Property (IPTU) and the Services’ Tax (ISS). They are direct taxes, from the standpoint of the economic impact, collected by means of administrative assessments. In this assessment modality, the de facto taxpayer– which is mistaken for the de jure taxpayer – simply receives a payment plan, calculated by the tax office.

On the other hand, the State Tax Administration is responsible for the Tax on the circulation of goods and services (ICMS), whose de jure taxpayer is generally the business owner, who is in charge of calculating and collecting the tax, should not be mistaken for the consumer, who effectively bears the burden. It also enforces the Tax on the ownership of motor vehicles (IPVA), borne by the vehicle owner. In turn, the payment is made through the plan that is presented to the taxpayer.

On the other hand, the Federal Tax Administration is in charge of the RFB, the agency collecting the main direct tax, income tax. Such tax is collected by self-assessments, which entails completing statements and calculating the tax amount. Such functions, generally called, “ancillary obligations”, are conducted, in principle, by the taxpayer proper, except in the case of businesses, which rely on a specialized professional – the Accountant.

The multiplicity of taxes, in addition to the diverse forms of assessment and collection, leads to the creation of diverse taxpayers’ profiles, mainly if the classification criterion is the tax culture.

Therefore, we may observe certain taxpayers who are not even aware that they pay taxes, chiefly as regards excises and the taxes on the circulation of goods. The situation is even worse based on the fact that, in Brazil, in general, the tax burden is not detailed on invoices. On the other hand, when the tax is enforced directly, tax awareness improves, which triggers the discussion about the application of the collection proceeds.

2.2 - Tax Administration Federal Context– RFB

As it was specified on the foregoing sub-item, the Tax Administration in the federal sphere is a power of the Federal Revenue Secretariat of Brazil, hereinafter, the RFB. As mentioned before, it enforces, among other obligations, the income tax, which constitutes the central direct tax. Thus, taxpayers registered in this tax are aware of what they pay, as well as of the amount enforced upon them.

Additionally, the RFB adopted the self-assessment methodology for all the taxes and contributions enforced thereby. Such modality is provided for in the National Tax Code (CTN, Act Nº 5.172 of 1966):

“Art. 150. The self-assessment, which applies in the case of taxes which payment the taxpayer shall anticipate without prior examination by the administrative authority, as mandated by law, is materialized with the act by which said authority becomes aware of the activity undertaken by the taxpayer and expressly validates it”.

Therefore, according to the validation modality that the RFB adopts, the taxpayer shall meet the ancillary obligations, which consist in drafting the tax statements on his own, which are sometimes complex and contain information and calculations of the amounts’ payable. Subsequently, the taxpayer is required to duly file them with the Tax Administration, as well as make the applicable payments in due time.

This assessment system originates a discussion on two aspects:

- the commitment that the Tax Administration shall assume of offering the taxpayer all the information and facilities required to meet the tax obligations, in addition to providing assistance, especially in the cases in which the taxpayer does not rely on the assistance of a specialized professional;

- the relative discretionary behavior of the taxpayer at the time of reporting the taxable events tempts him, by a licit or illicit means, to reduce the amount payable, mainly when the Tax Administration does not meet the taxpaying capacity principle.

2.3 – Tax morality, voluntary compliance and the taxpaying-capacity principle.

The issue presented in the foregoing sub-item calls for a reflection on the fact that in the context of federal taxes, enforced by the RFB, any analysis applicable with regards to taxpayers' tax morality necessarily relates to the answer to the following questions:

- is the RFB doing its share, by offering the conditions required for taxpayers' voluntary compliance with tax obligations?

- is the RFB applying the principle of the taxpaying capacity and, consequently, respecting the notion of "minimum vital income"?

If the answers to the two questions are affirmative, it becomes easier to understand taxpayers' behavior, especially in an attempt to clarify aspects relevant to tax morality. On the other hand, should answers be negative, it shall be very difficult to define whether noncompliance with tax obligations is due to behavior based on poor morality or simply the lack of information and guidance, or even defiance to an unfair tax system.

It is relevant to emphasize that the taxpaying-capacity principle is enshrined in the Federal Constitution of Brazil of 1988, which sets forth the following:

"Art. 145. The Union, the States, the Federal District and the Municipalities shall enforce the following taxes:

(...)

§ 1º - Whenever possible, taxes shall be personal and calculated on the basis of the taxpayer's economic capacity, vesting upon the tax administration the special power, in order to fulfill these objectives, of identifying the property, income and economic activities of the taxpayer in compliance with individual rights and the laws in effect.

Klaus Tipke, in the work he co-authored with Douglas Yamashita, calls the attention on the importance of the taxpaying-capacity principle, which shall regard the need to determine and respect the minimum vital income:

"The taxpaying-capacity principle is also realistic, since only those with a taxpaying capacity are required to pay. The opposite of the principle ("everyone pays taxes in the reverse proportion to their taxpaying- capacity") would be unacceptable under the Social State. (...) The implementation of the taxpaying-capacity principle is a step forward in the face of arbitrary taxation, without principles, based on political opportunism, and limited pragmatism or taxation.

(...)

The taxpaying-capacity principle protects the minimum vital income. Unless income exceeds the minimum vital income, there is no taxpaying-capacity.” (Justiça Fiscal e Princípio da Capacidade Contributiva, São Paulo: Malheiros, 2002, pages 29/30 and 34).

On the basis of such notions, and considering millions of taxpayers, it is possible to envision the difficulty for the RFB in establishing the limit from which taxation would apply, in other words, the cutoff amount for the “minimum vital income” to determine the taxpaying capacity.

If the Tax Administration already faces difficulties in establishing the minimum amount from which the taxpaying capacity applies, it is practically impossible for it may to define its maximum amount accurately. In other words, the maximum amount for each taxpayer’s contribution. And, precisely, in the context of the “self-assessment” – given the small dose of discretionary behavior in determining the amount payable – the importance of the taxpayer’s tax morality is made evident. It becomes the determining factor for the taxpayer’s decisions, according to the analysis in the following sub-sections.

2.4 – Classification of taxpayers’ behaviors from the standpoint of tax morality.

With respect to tax morality, two classification trends shall be defined for the taxpayers subject to the payment of the federal taxes and contributions enforced by the RFB:

- based on the taxpayer’s willingness to reveal the taxable events, in the context of the self-assessment;
- based on the taxpayer’s willingness to make the payment of the taxes and contributions already filed or calculated by the administration.

2.4.1 – Classification of taxpayers’ behavior - tax morality and disclosure of the taxable event.

Prior to discussing the classification itself, it is worth defining certain basic terms, owing to the multiplicity of meanings that theory has attached to them.

It is worth highlighting that in this paper, the definition of certain terms is not intended as absolute or conclusive, but is merely aimed at guaranteeing the internal consistency of the text. Additionally, the diversity of meanings attributed to certain legal-tax terms was already addressed by Ricardo Lobo Torres:

“Other important entities also bear relation with the taxable event: tax evasion, tax avoidance, misrepresentation and tax fraud. Semantic difficulties exist with respect to each one of these notions in Portuguese as well as the other languages, in addition to theoretical differences on

their legality.” (Course on Financial and Tax Law, 15th edition, Rio de Janeiro: Renovar, 2008, pages 246/247).

Therefore, in this paper the moral typology of taxpayers, from the standpoint of the occurrence of the taxable event, is based on the following basic notions, taken from Wikipedia:

- Evasion – employing illicit means to avoid the payment of the applicable tax once the taxable event has occurred;
- Avoidance – employing legal means to avoid the occurrence of the taxable event and, consequently, avoid paying the tax.

Type A – the “legal” tax evader

This taxpayer is aware that the occurrence of the taxable event, and the mandatory nature of the respective tax payment, pursues within the Legislative Branch a special legal solution that favors its economic group. The solution pursued seeks to avoid the incidence of the tax, or simply modify the form of taxation in order to reduce the amount owed.

This type of taxpayer normally enjoys sufficient economic power and social prestige to hire highly specialized professionals who draft favorable opinions on the claim and submit the bill to Parliament. These are a group of procedures that seek to legitimate a type of behavior that is not provided for by the Tax Administration. Generally, the solutions set forth do not resist a more sophisticated ethical analysis, since they are exclusively based on the intention of avoiding taxation, and not on any specific cause of need or impossibility.

A pertinent example is the case of intellectual services, of a very personal nature, mainly artistic and cultural. The tax administration has always deemed that the progressive individual table should apply, since this type of service shall not be rendered by a corporation.

In the light of this, and after countless proceedings, certain segment of society with great taxpaying capacity to face the maximum tax rate of the individual progressive table, obtained from Parliament the right to a special and more favorable taxation system applicable to corporations, from Act N^o 11.196 of 2005:

“Art. 129. For tax and pension purposes, intellectual services, including scientific, artistic or cultural, whether rendered personally or otherwise, with or without designating an obligation for the partners or employees of the corporation delivering the services, when provided thereby, shall be only subject to the legislation applicable to corporations, without detriment to the provisions in Art. 50 of Act N^o 10.406 of 10 January- 2002 – Civil Code of Law.”

Type B – Tax evader by fraud

This taxpayer seeks to conceal the occurrence of the taxable event, or reduce the amount owed, by resorting to fraudulent means, such as false documentation, forged invoices, third-parties, etc.

Type C – Evader by simple omission

This type of taxpayer simply seeks to conceal the occurrence of the taxable event from the tax administration, omitting the income or earning. This is the most common tax evasion practice. In such cases, doubts always exist with respect to the genuine taxpayer awareness on the act of omission.

Type D – Abusive planner (illegal avoidance)

The abusive planner has broad knowledge of the tax legislation and, generally avails himself of a sequence of step-by-step transactions, which although individually legal, are illegal as a whole. These are related transactions, anchored by intent (*animus*) that does not exist in reality, since it all serves the purpose of misrepresentation in order to conceal the occurrence of the taxable event.

For example, the apparent donation of an asset that upon completing the set of transactions, returns to the property of the donor via an offshore company, many times located in a tax haven; therefore, the intent of donating (*animus donandi*) is not confirmed. Likewise, corporate reorganizations that actually conceal a sale, diluting the intent of chartering a corporation (*animus societatis*).

Type E – Legitimate planner (legal avoidance)

This is a taxpayer who also benefits from the deep knowledge of the tax norms to pay less tax, but does not incur in abusive behavior or misrepresentation. Although this type of taxpayer incurs in planning knowingly and with intent, he shall not be deemed immoral from the taxation standpoint.

For example, we may refer to the case of the inapplicability of the “Tax on Financial Transactions” in the case of transactions among joint accountholders. In fact, it was the case of the CPMF – Temporary Contribution on Financial Transactions, which always applied in any financial transactions with bank accounts (checks, deposits, etc.). At that time, many taxpayers who did not hold a joint account, but owing to their family situation, made deposits in their relatives’ accounts regularly, decided to convert such accounts into joint accounts, thus avoiding the incidence of the CPMF.

It is clear that, in such cases, it is impossible to avoid, or even show surprise when spouses, or siblings, or parents and sons, for example, conduct this procedure, since the financial “confusion” among family-members is common. Additionally, it is not reasonable to presume that individuals with no affinity would keep joint accounts, simply to avoid the incidence of the CPMF.

Type F – Simple compliant taxpayer

The simple compliant taxpayer is the one who fulfills tax obligations exactly as determined by legislation. Although frequently lacking in great tax culture, he strives to meet his obligations as taxpayer and normally remains concerned upon receiving any type of communication from the tax administration. This type of taxpayer is proud of his honesty and makes it a purpose to keep an unblemished name in the market.

Type G – Under-compliant taxpayer

This is a taxpayer with poor tax culture, who keeps an intermittent relation with the tax administration. Therefore, he does not clearly understand his rights and duties. Normally, he is surprised and fearful upon receiving notifications or simply letters from the RFB. He feels incapable of solving the problems with the tax administration and generally requests assistance from third parties. The latter, in turn, are not specialists, but laymen who, in their effort to assist, many times tend to complicate the situation of the under-compliant taxpayer even more.

2.4.2 – Classification of taxpayers’ behaviors - tax morality and compliance with key obligations (paying taxes).

Tax morality not only implies matters relative to the occurrence of the taxable event, but also influences the collection phase of the outstanding tax. In the foregoing sub-section the different types were analyzed from the standpoint of admitting to the debt. Under this title, we shall present a classification according to the behavior adopted before the tax debt proper, whether the taxpayer admitted to it or by assessment in the auditing proceeding.

Type H – Illegitimate withholder

This refers to taxes withheld from third-parties, normally deducted from the payroll (Source withholdings, Pension contributions, etc.). Thus, the taxpayer is entitled to deduct the tax at the time of making the payment to the third-party and, subsequently, make the respective payment to the tax administration. The illegitimate withholder, to the contrary, applies the tax deduction on the payment to the third-party (generally, his employee), but does not make the applicable payment to the administration, unduly withholding the deducted amount. Criminal legislation typifies this action as a crime.

Type I – “Legal” debtor

This type of noncompliant taxpayer generally has no difficulties in meeting the payment of taxes, but ceases to do so under the certainty that in the future a law shall be passed that shall provide for the possibility of breaking down the debt into installments. Commonly, such taxpayers are organized in groups representing economic sectors. Such groups seek, by proceedings in Parliament, the approval of norms that frequently exceed the simple breakdown into installments and even reduce the tax debt to infinitesimal levels.

A recent example of this practice resulted in the enactment of Act N° 11.946 of 2009, called “Refis da Crise”, which upon conclusion of the proceedings in the Legislature featured a much broader scope than that of the original bill.

Type J – Defiant debtor

This taxpayer systematically ceases to pay tax debts or makes late payments. In general, they are taxpayers who, upon establishing the priority hierarchies, fail to include tax debts, whether by conviction or mere lack of organization.

Type K – Occasional debtor

The occasional debtor is the one who is normally in good standing, but owing to a given circumstance becomes noncompliant. This situation occurs frequently in times of economic crises, as in 2009, which even leads to the application of installments under Act N ° 11.946 – Refis da Crise, mentioned above.

Type L – Compliant taxpayer

This refers to the taxpayer who, no matter the circumstances, is concerned about meeting the debts with the tax administration.

2.4.3 – Dynamics of the different types of taxpayers

It is worth noting that the two classifications defined herein are not exclusive– the same taxpayer may be listed on both lists, by adopting a more transparent behavior at a certain time and a less transparent behavior at others, as typified.

Therefore, although the most honest and transparent taxpayers in terms of reporting the occurrence of the taxable event are generally the most compliant at the time of paying taxes, there are cases in which the features merge in a surprising manner: certain taxpayers who strictly meet their ancillary obligations, calculate the amount payable correctly (Simple compliant taxpayer), but do not make the payment (defiant debtor); some also fail to report the occurrence of the taxable event (evader by simple omission), but when they are detected and receive the notification with the official assessment, make the payment without delay (compliant taxpayer).

Lastly, it is worth remembering that when classifying taxpayers, it is important to consider that any typology, no matter how well-grounded, shall not be deemed absolute, since behind the taxpayer is the human being, subject to the influence of many factors, even the capacity of reflecting and reviewing his behavior.

2.5 – Specific RFB program

The way in which the Tax Administration classifies its taxpayers basically depends on the organizational culture, chiefly on beliefs, principles and values guiding their actions. In such respect, the experience presented in the following sub-sections shows that the RFB has gradually overcome old paradigms and adopted a more transparent stance before society, even acknowledging the need to rely on special programs based on taxpayers' morality.

2.5.1 – Situation-problem

In the course of the years, the RFB has classified its taxpayers according to the traditional criterion as micro, small, medium and large taxpayers without considering “tax morality” when defining the groups. Following this trend, a number of specific programs were implemented for each taxpayer category, as follows:

- Large Taxpayers’ Program developed by a central Coordination office and with local and specialized Delegations.
- National Simple Program, a system of simplified calculations and payments for small and medium-sized entrepreneurs, based on unifying taxes from the three levels of government (federal, state and municipal);
- Individual Micro-entrepreneur Program aimed at formalizing economic activities not registered with the administration and lacking pension benefits.

With regards to this classification into groups and controlling compliance with ancillary and core obligations, the RFB had always applied a basic system, regardless of the group: the taxpayer meets the ancillary obligations (generally completing a statement) by which he admits to the occurrence of the taxable event and calculates the tax amount payable, and makes the payment.

Once the RFB receives the foregoing statement, it crosses the information provided by the taxpayer with the data in their databases, regardless of their being third-party data that the taxpayer obtains or whether they were gathered in a tax audit. If no mismatches are identified, the RFB implicitly validates the so-called “self-assessment”. If mismatches are detected, the RFB conducts the official examination and notifies the taxpayer of the new assessment, normally by adding 75% to the tax or contribution amount. Should the mismatch have been grounded on intentional behavior, as frequently occurring in the cases requiring the tax audit, the penalty shall amount to 150%.

Regarding taxpayers bearing the Individual Income Tax – totaling almost 5 million – the system described above was proving deficient, based on the following issues:

- most individuals do not rely on a specialized professional to complete the statement and conduct the tax assessment;
- when the statement processing is completed, the innumerable mismatches detected between the information filed by taxpayers and the one held in RFB databases caused millions of statements to be retained in the Tax Control mesh, popularly known as “Fine Mesh”;
- retaining such statements in the Tax Control mesh – many times for long time periods, over three years – exerted great pressure and significantly impaired the tax administration –

taxpayer relation, since it would not make any distinction between the simple error and potential willful intent;

- in the period during which the statement remained under the Tax Control stage, the taxpayer was required to visit the Tax Administration offices on countless occasions, concerned and trying to solve his situation, but it was impossible to do so. We shall highlight that this regularization, in almost all cases, implied correcting simple errors or simply filing documents. The taxpayer was told to await the notification, which was generally accompanied with a fine from the administration, of at least 75% of the Income Tax amount;

- when the taxpayer finally received the notification, years after the occurrence of the taxable event, he was no longer able to gather the evidence required regarding the events; additionally, the fine and charges (interest) increased the debt, terribly hurdling its reduction;

- thus, the taxpayer was required to respond to the assessment by the administration via a legal proceeding, many times with the exclusive purpose of delaying events.

2.5.2 – Strategic planning and processes’ review.

Beginning in 2009, with the implementation of the strategic planning initiative in the RFB, relevant objectives and indicators were established, to make way for the review of the organizational processes. Regarding the Tax Administration-Taxpayer relation, such processes included promoting awareness in the sense that a good share of the institution’s scarce resources were being allocated to actions arising from the system described in the foregoing sub-section without looking into the degree of honesty and transparency of the relevant taxpayers. Thus, the practice was applied for individuals, as if all of them belonged in the poor tax morality group, even if they belonged to the “evader by simple omission” type (type C).

In this context, the attempt at measuring the degree of honesty and transparency of individuals brings forward the two questions presented in sub-section 2.3:

Is the RFB doing its share, by offering the conditions required for taxpayers’ voluntary compliance with tax obligations?

The number of discrepancies verified between the information presented by individuals and the one on the RFB databases suggested that maybe the problem of these taxpayers was not precisely the poor morality level, but the lack of information and guidance on how to manage their tax obligations. In such case, it became necessary to acknowledge that the RFB was effectively not doing its part.

2.5.3 – Suggested solution: new taxpayer assistance model for Individual Income Tax.

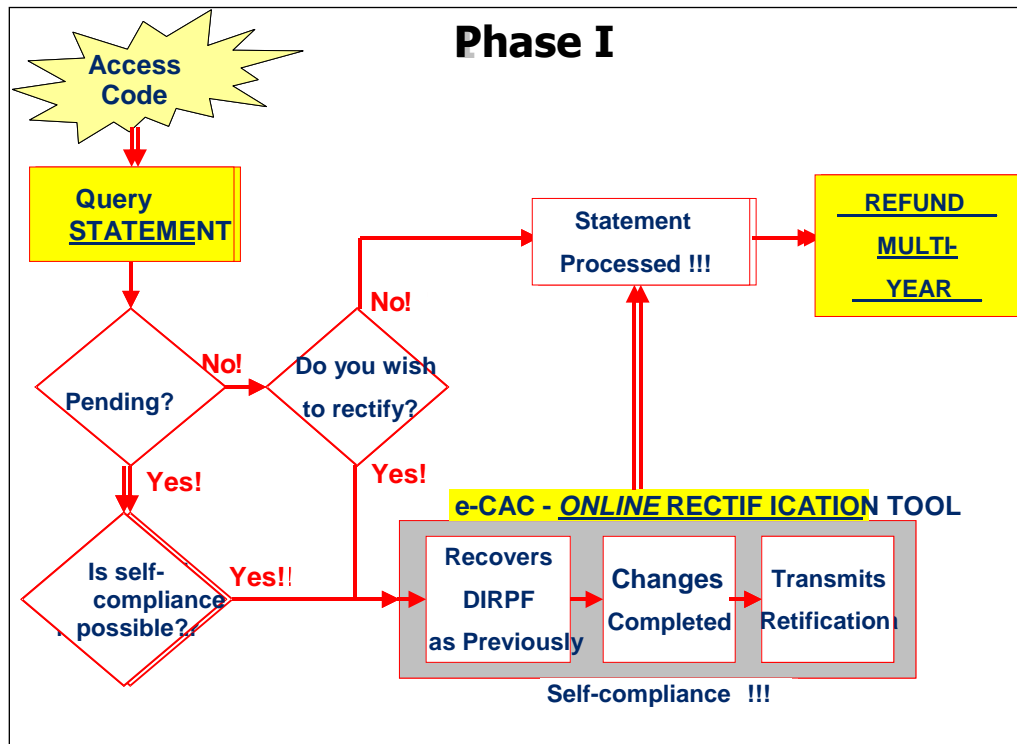
In the face of the situation-problem defined above, the New taxpayer assistance model for Individual Income Tax was implemented in 2009, which introduced the innovation of transparency in the treatment of the eventual mismatches on the statement drafted by the taxpayer. Said initiative implied an unprecedented change in paradigms in the RFB, as summarized hereinafter.

After submitting the Income Statement, the processing phase begins. Prior to the adoption of this new model, it was a “black box” for the individual taxpayer. As defined in the situation-problem, even if the citizen was aware that his statement had been retained in the Tax Control stage, he was not informed about the reason, and was unable to take the initiative and submit the evidence of the information delivered on the statement. The practice that the RFB had adopted required the taxpayer to wait for the assessment notification, frequently for over three years, since it included a fine from the administration amounting to 75% over the tax value and the late interest charges.

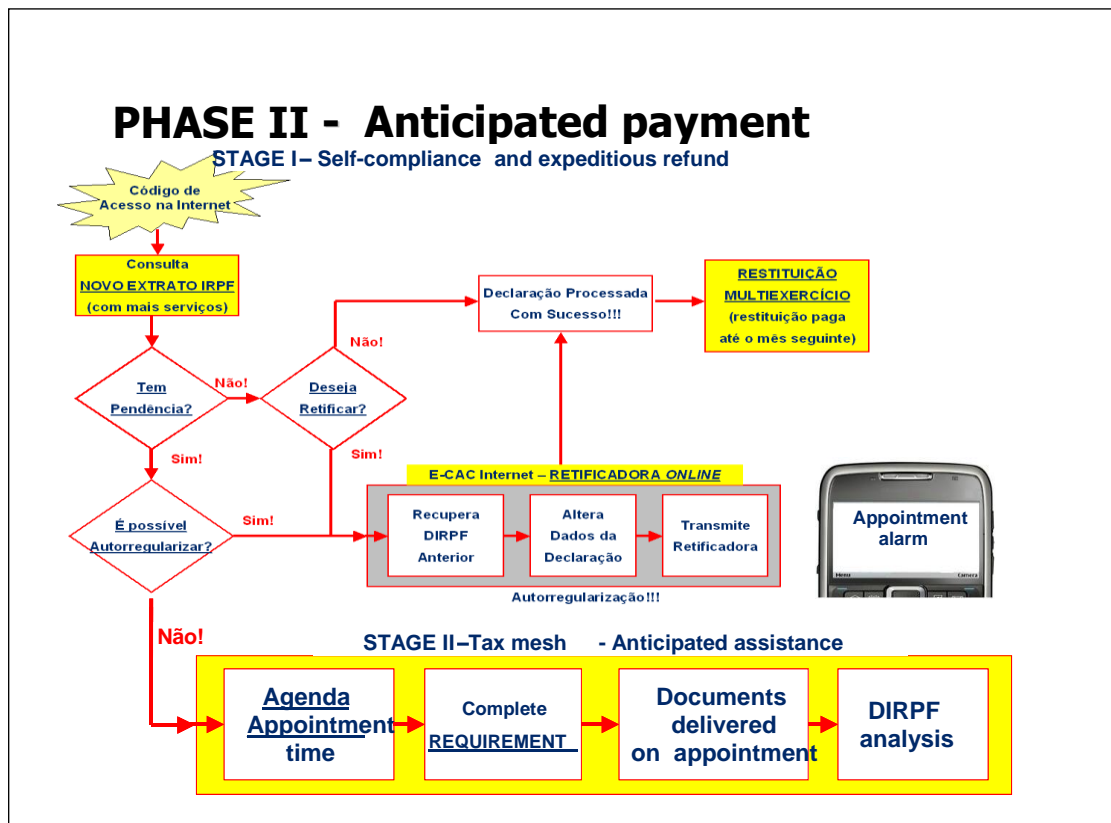
Thus, by breaking all paradigms, the RFB adopted an unprecedented transparency policy upon establishing two phases:

1st Phase – Self-compliance

The Statement report was posted on the Internet for taxpayers’ access with the code-access key or digital certificate. The report reveals all the mismatches that the administration detected, as well as the proceedings to regularize the situation. Additionally, the statement features functions to monitor payments and reimbursements. When the mismatch requires rectifying the statement, the taxpayer may do so on his own and automatically by the Online Rectification Statement. It is worth highlighting that the eventual rectification that renders a higher amount does not generate the 75% fine but simply a late charge never to exceed 20%.



These taxpayers feature mismatches on the statement, but are not eligible for self-compliance, since they do not intend to rectify the statement, but wish to verify the information filed. In this case, instead of having to wait for years for an RFB notification, the taxpayer may request an anticipated analysis of his statement and request an appointment to visit the Tax Office and submit the pertinent documentation.



2.5.4 – Results from the program implementation.

The results were truly surprising:

- when the program was implemented, in fiscal year 2009, almost four million individual taxpayers registered on the RFB Website for the code-access key, to view the Statement Report and, if applicable, file for self-compliance, according to the system mentioned above. Thus, they were relieved from the Fine Mesh instantly and from the comfort of their home;
- out of the total statements retained in the Fine Mesh in fiscal year 2009, close to 63% were relieved via the self-compliance mechanism, that is to say, by simply correcting the errors made upon completing their information, without any willful intent;
- as regards the statements for fiscal year 2009 that had been retained on the Fine Mesh, over one hundred thousand taxpayers requested an anticipated analysis and called for an appointment.

The figures prove that a large number of mismatches verified on the individuals' statements were based on simple errors, from plain ignorance of the rules applicable to complete the tax document. Thus, the final conclusion was that most of such taxpayers were Simple Compliant Taxpayers or Under-compliant Taxpayers, who, if properly informed and guided by the Tax Administration, would tend to voluntarily meet their tax obligations.

2.5.5 – Program adjustments - strengthening taxpayer assistance.

Considering the foregoing conclusions, it became evident that, at least with regards to individuals, the RFB was not doing its share, that is to say, offering the conditions required for taxpayers' voluntary compliance with tax obligations.

Thus, in 2010, adjustments to the New Taxpayer Assistance Model for the Individual Income Tax were required, aimed at strengthening information delivery, guidance and tools for perfect compliance with ancillary obligations.

This arm of the program consisted in drafting specific content on the RFB Website (www.receita.fazenda.gov.br), which addresses all the information required in preparing the

Individual Income Tax statements for fiscal year 2010. Such information was organized according to a sequence that visually reminds the railway, guiding the taxpayer through the road to follow. Along such lines, the four central "stations" represent the main phases of the process, while the "sub-stations" represent the specific information in each phase:



1st “Station”: Statement

Sub-stations: Program downloads, News, Mandatory requirements, Drafting instructions, Delivery Date, Form-filling, Questions and Answers, Transmission, Rectification, Fine for Late Filing and Statement of Permanent Absence from the country;

2nd “Station”: Payment

Sub-stations: Issue of the Darf (payment guide), Automatic Debit, Installment maturity and late payment;

3rd “Station”: Processing

Sub-stations: Statement Extract, Settlement of mismatches, Demand for payment and Notification;

4th “Station”: Reimbursement

Sub-stations: Queries, Data on the Allocations, SMS notification, Account change.

2.5.6 – Results obtained after the adjustments to the program.

Transparency in the treatment of the mismatches detected on the statements from individual taxpayers, together with the availability of specific informative content, lead to the following results:

- In fiscal year 2010, 4.5 million codes-access keys were generated by individuals, amounting to a total of 8.5 million;

- the number of statements retained in the Tax Control stage in fiscal year 2010 dropped by 50% with respect to the previous year, since 40% of these taxpayers were released after they completed the self-compliance proceeding and close to 70 thousand called for an appointment.

Regardless of the specific results obtained in fiscal years 2009 and 2010, other advantages were also detected:

- Improvement of the RFB image, originated on the respect and transparency in taxpayer treatment, even with a positive image on the media;
- increased convenience and taxpayer satisfaction, upon replacing an obsolete and deficient system with a more expeditious and modern one;
- More taxpayers chose the self-compliance mechanism and, therefore, the anticipated tax credit calculation (increased collection);
- Taxpayer education with a multiplier effect, since the media communicated the cases of debts settled with the “railway line” system that the RFB posted on the Internet;
- Potential reduction of errors in subsequent fiscal years, since, once the eventual error is notified, the trend is that taxpayers will not repeat it;
- Expansion of the taxpayer assistance capacity, for taxpayers whose statements were retained in the Tax Control stage, by using the appointment tool;
- Fewer legal proceedings;
- Fewer taxpayers with statements retained in the Tax Control stage because of simple errors;
- Tax officials became relieved to take over the fraudulent cases involving poor tax morality groups.

3 – Conclusions

- the Tax System complexity, along with the diverse forms of assessment and collection, require classifying taxpayers according to different profiles, those with low tax culture, who are not even aware that they pay taxes, to those with high tax culture enabling sophisticated planning to reduce the tax amounts’ due;
- Self-assessment, requires the Tax Administration to assume a greater commitment towards taxpayer assistance, and requires from citizens a certain dose of tax morality from the moment it determines the ceiling for their taxpaying capacity;
- when it comes to tax morality, the effort by the tax administration in improving taxpayer assistance and respecting the taxpaying-capacity principle facilitates the task of classifying taxpayer behavior, enabling to identify noncompliance based on poor tax morality, excluding noncompliance by mere ignorance of the law, or by the understandable defiance of an unfair system;

- It is important that Tax Administrations renew the traditional taxpayer classification criteria and apply the tax morality criterion and promote specific programs for each group within this new vision;
- once the classification based on the tax morality criterion is applied, the specific programs for each group become more effective with regards to the broad programs, since the former leads the taxpayer to perceive that the administration is aware of his reality, which increases risk perception.
- in the case of the RFB, the large number of mismatches between the information recorded on the Individual Income Tax Statements and the one in the administration's database posed a problem that was addressed on a general basis. In 2009, the implementation of the specific program for individuals, centered on transparency in the treatment of these divergences, proved they were in fact simple errors, caused by the mere ignorance of the rules in place to fill the tax document. Thus, it was concluded that most of these taxpayers were Simple Noncompliant Taxpayers or Under-compliant taxpayers, who, upon relying on better assistance, made fewer mistakes in 2010.
- The more assistance the administration renders, the greater the transparency and respect for the taxpaying capacity, the more it succeeds in developing the taxpayer morality and, consequently, in improving voluntary compliance with tax obligations, whether ancillary or central.