

Taxation of High Net Worth Individuals

Monitoring and Policing



MONITORING AND POLICING

Korea, 28 April – 3 May 2014

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Overview

I. Offshore compliance:

- Identifying & tackling offshore evasion

III. Exchange of information

- Recent developments in exchange of information, including
- The Common Reporting Standards



OFFSHORE COMPLIANCE

Centre for Tax Policy and Administration



Offshore compliance

- A key focus of activity for Tax administrations across the world
- Voluntary disclosure backed by the credible threat of detection and enforcement
- Exchange of information and International co-operation are key - TIEAS and now the Multilateral Convention



Identifying & tackling offshore evasion

Catalogue of recent offshore compliance initiatives:

to share knowledge on achievements and to identify successful initiatives

Unilateral initiatives:

voluntary disclosure programs, information gathering or reporting, international cooperation, organisational structure and resource, data analysis, communication strategies and stakeholder relations, and other offshore strategies.



Identifying & tackling offshore evasion

Multilateral strategies:

- *cooperative stakeholder initiatives*, targeting voluntary compliance incentives: advisory sector compliance initiative, financial sector compliance initiative, information sharing network initiative, voluntary disclosure coordination initiative and effective exchange of information between TIEA's partners,
- *non-cooperative stakeholder initiatives*, targeting better action towards offshore non compliance: joint audits initiative, information exchange initiative, legislative measures coordination initiative and new strategies to increase the pressure



EXCHANGE OF INFORMATION

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Recent developments in information exchange

- Publication of Common Reporting Standards in February 2014
- Multilateral Convention on Mutual Administrative Assistance in Tax Matters
- “Keeping it Safe”-a practical guide to the protection of information that has been exchanged
- 2012 Update of Article 26



2012 Update: Highlights

Change to the **text** of Article 26

- Article 26(2) was amended to allow information received for tax purposes to be used for non-tax purposes provided:
 - Such use is allowed under the laws of both States and
 - The competent authority of the supplying State authorizes such use
- Supports a “whole of government” approach and is directly linked with the OECD’s work in connection with the “Oslo Dialogue”



2012 Update: Highlights

Clarifications to the **Commentary**

- Language describing the application of Article 26 to a **group of taxpayers**
- Clarifications on the meaning of “**foreseeably relevant**” and “**fishing expeditions**”
- Optional language providing for **default standard time limits**



Group Requests

- Standard of “foreseeable relevance” can be met in respect of a group of taxpayers that are not individually identified
- 3 requirements:
 - Detailed description of the group and the facts and circumstances that led to the request
 - An explanation of the applicable law and why there is reason to believe that the taxpayers in the group have been non-compliant with that law supported by a clear factual basis
 - A showing that the requested information would assist in determining compliance by the taxpayers in the group
- Usually, although not necessarily, a third party will have actively contributed to the non-compliance of the taxpayers in the group



Default Standard Time Limits

Optional language set out in paragraph 10.4 of the Commentary

- Default 2 months/6 months to provide information but competent authorities may agree to different periods
- Exchange still in accordance with Article 26 if the information is provided after the time limits



OECD WORK ON AUTOMATIC EXCHANGE

Centre for Tax Policy and Administration



Automatic Exchange of Information

- The Common Reporting Standard – the Standard for Automatic Exchange of Financial Account Information - was presented on 13 February 2014.
<http://www.oecd.org/ctp/exchange-of-tax-information/Automatic-Exchange-Financial-Account-Information-Common-Reporting-Standard.pdf>
- The systematic and periodic transmission of “bulk” taxpayer information by the source country to the residence country concerning various categories of income (e.g. dividends, interest, royalties, salaries, pensions, etc.).



Legal basis

- Exchange of information provision of a double taxation convention based on Article 26 of the OECD or UN Model Convention
- Article 6 of the Convention on Mutual Administrative Assistance in Tax Matters, or
- For EU member countries, domestic laws implementing EU directives which provide for automatic exchange.

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The main benefits of automatic exchange

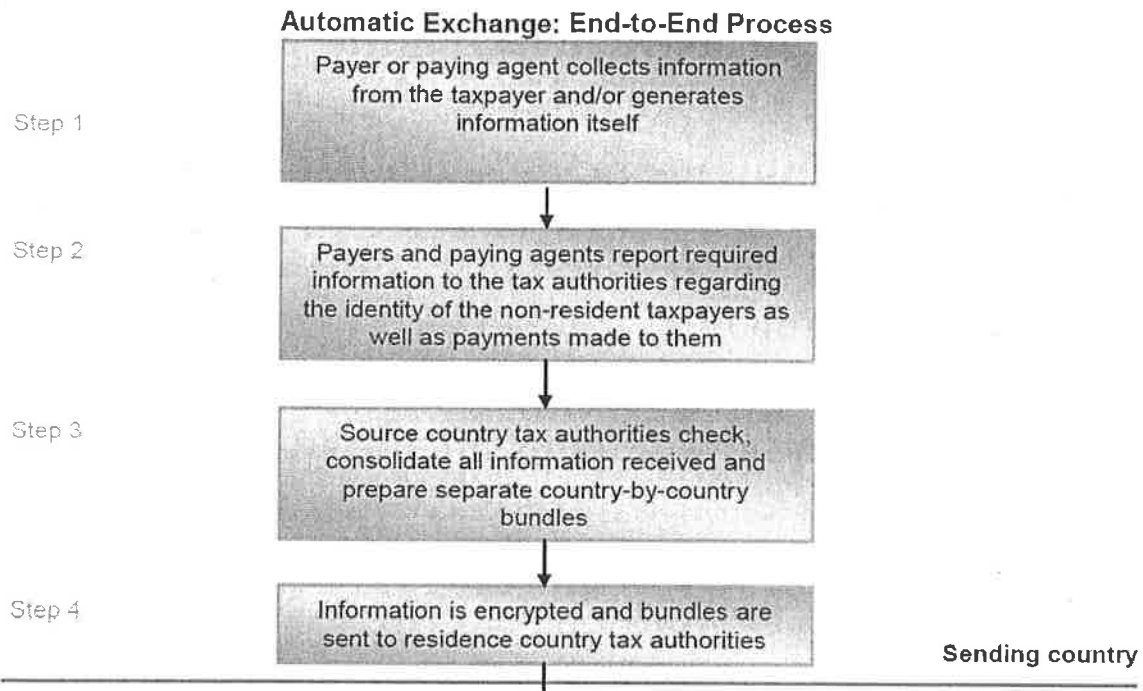
- It provides timely information on non compliance
- It helps detecting cases of non-compliance
- It has deterrent effects, increasing voluntary compliance and encouraging taxpayers to report all relevant information.
- It helps to educate taxpayers in their reporting obligations, increase tax revenues and thus lead to fairness – ensuring that all taxpayers pay their fair share of tax in the right place at the right time.
- The information received can be integrated with the tax systems such that income tax returns can be prefilled.
- For all stakeholders process simplification, higher effectiveness and lower costs

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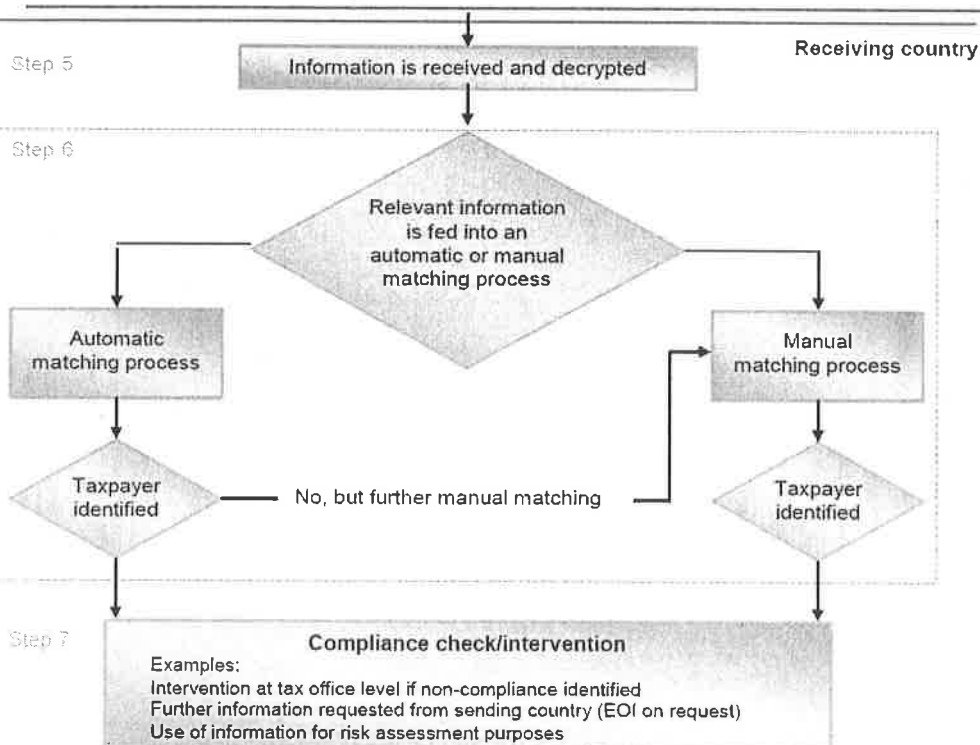
The End-to-End Process: Sending Country



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The End-to-End Process: Receiving Country



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OECD work on automatic exchange (1)

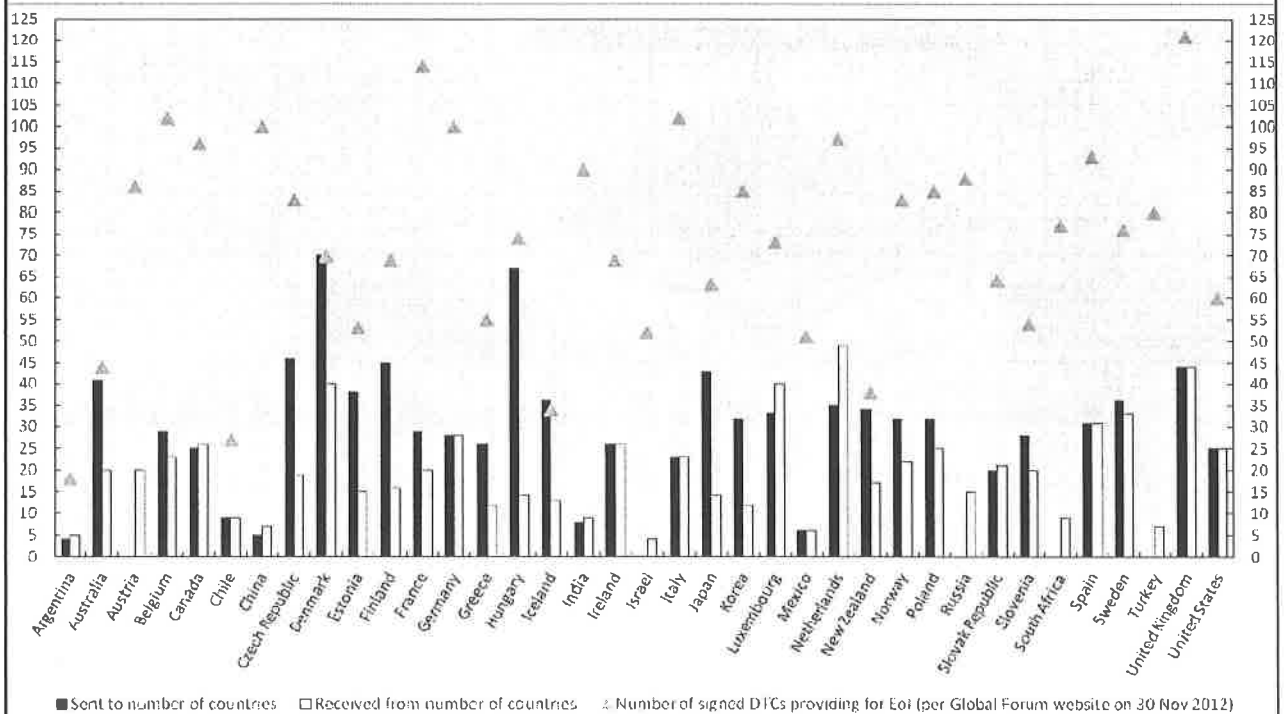
The OECD has been active in facilitating automatic exchange for the past 20 years

- Created legal framework, developed technical standard on format (STF) [*which was used by EU to develop FISC 153*], developed guidance, provides training, etc.
- 1997 TIN recommendation
- More recently renewed focus on automatic exchange work
- Creation of Common Reporting Standard

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Widespread use of automatic exchange ...





OECD work on automatic exchange (2)

What does the work on automatic exchange show?

- Widespread use both within Europe and outside
- Effective compliance tool (see also the benefits)

What still needs to be done? (key elements)

- Publication of the complete package, consisting of the standard with commentary and technical solutions in September 2014
 - Resulting in better and faster matching of relevant data at lowest cost to government and business in a secure environment.

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Background information

“Automatic Exchange of Information: What it is, How it works, Benefits, What remains to be done”

[http://www.oecd.org/ctp/exchange-of-tax-information/AEOI_FINAL_with%20cover WEB.pdf](http://www.oecd.org/ctp/exchange-of-tax-information/AEOI_FINAL_with%20cover_WEB.pdf)

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Taxation of High Net Worth Individuals

Setting up a HNWI Programme



SETTING UP A HNWI PROGRAMME

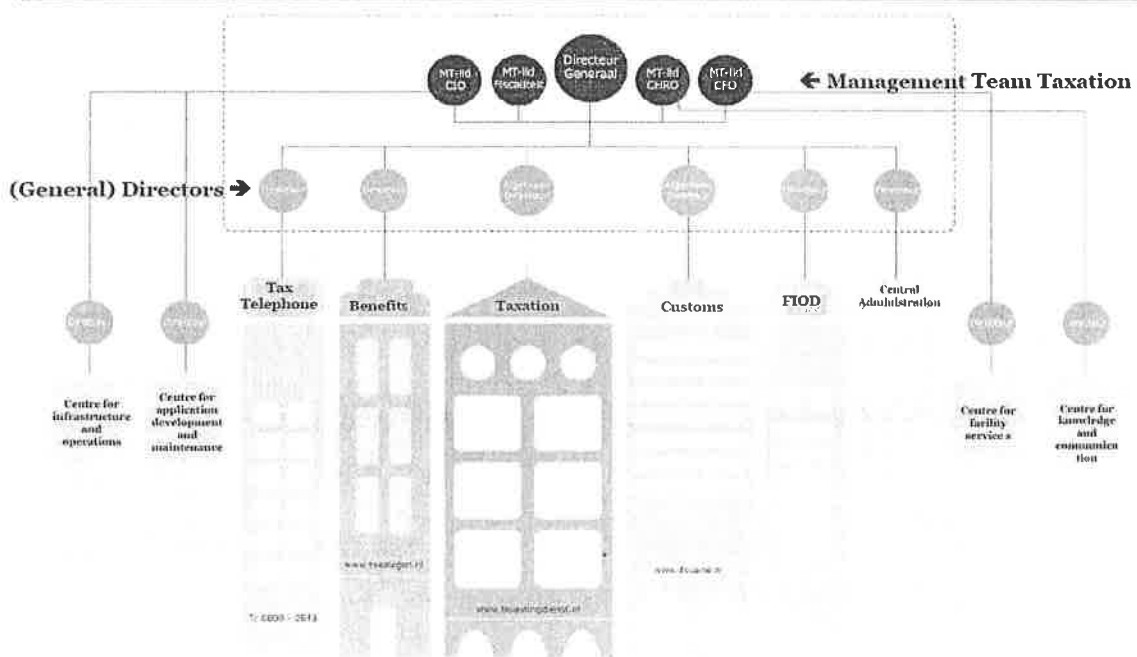
An example from the Netherlands

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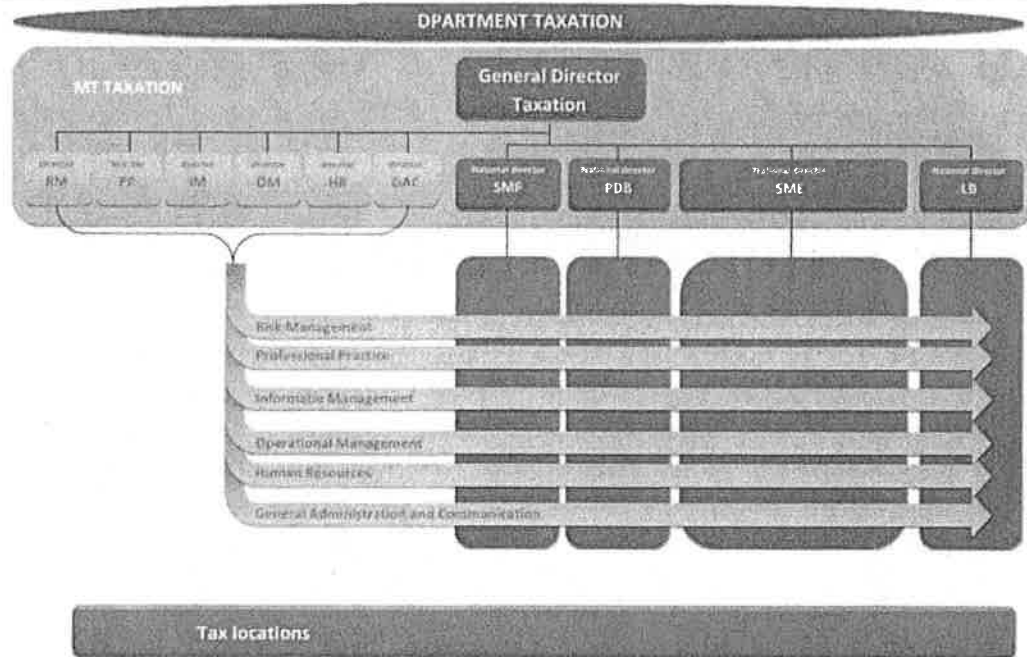


MT Tax Administration





The Netherlands Tax Administration



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Strategy of the NTCA

Mission Tax Administration:

“every citizen gets the treatment it deserves”

Also for HNWI:

Compliance improvement and Risk Management

By:

- Betting on improved relationship, towards HT where possible
- The target group experiences integrated monitoring
- Monitoring in real-time (improved information position, reducing dependency declaration)
- Influencing behavior HNWI and adviser

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Stakeholders and their interests

Tax Administration employee wants:

- Expertise
- Space professionalism
- Equality of rights
- Structural approach

Politics (MT Tax Administration) wants:

- Certainty tax revenue
- Also the HNWI gets the approach he or she deserves
- Implementing recommendations OECD

In case of a conflict of interest, the wish of the client determines the choices

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Stakeholders and their interests

HNWIs want:

- Certainty
- Empathy for their situation
- Speed
- Confidentiality

Advisers want:

- Expertise
- Point of contact (counter)
- Certainty

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Programma High Net Worth Individuals

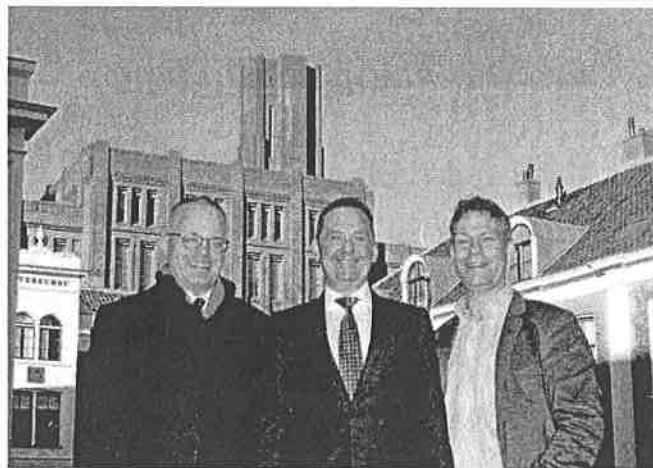


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The Team

- Leo Vollebregt
- Jan Bijmans
- Corné Brouwers



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Programma HNWI

- Who are they?
- What are we doing now about the HNWIs?
- Why a programma for HNWI?
- Design of the Programma HNWI
- Team HNWI
 - Aim
 - Relation to current risk management/ monitoring



History attention for HNWI

- Jan Nieuwenhuizen
- Richard Zwier and Corne Brouwers
- Recommendations OECD (2009)
- Strategic reconnaissance HNWI (end 2012)
- Programma HNWI
 - recruitment program manager (May 2013)
 - start programma September 2013
 - desing programma HNWI 18 October 2013
 - appointment staffing start 24 February 2014

» Who are they?

- National Monitoring Organisation (NMO) and OECD do not define the HNWI
 - Strategic reconnaissance HNWI
 - Engaging with High Net Worth Individuals on tax compliance
- Reports use the term loosely, individuals with high wealth and individuals with high-income > 1 mio \$
- Programma HNWI (gross) wealth > 25 ^{million} mio €
 - Ultra High Net Worth Individuals

» Who are they?

HNWI are difficult to identify in our files

A large part of the wealth is substantial interest (Box 2), the value of the substantial interest is not catechized/ registered.



Belastingdienst

+



➔ provides a picture to start



Who are they?

Now focus on:

- Wealth > 25 mio and/or record in public sources
 - For Large Business < 500
 - For Individuals/ Services/ Objection (PDB) and SMEs < 200
- 1400 Wealthy persons > 10 mio and/or record in public sources
- Coming years, efforts to get a better picture



What are we doing now about the NWIs?

- Regular approach large Business, SME and Individuals/ Services/ Objections (PDB)
- Attention from Coordination Group Construction Combatting (CCB) projects, projects foreign assets
- Improvements
 - Large Business now sometimes to little attention for individuals.
 - SME now sometimes to little integral, no customer knowledge.
 - Individuals/ Services/ Objection (PDB) mass-oriented, no customer knowledge

From incidental attention to structural attention



Why a programme for HNWI?



OECD

BETTER POLICIES FOR BETTER LIVES

Why focusing on HNWI?

- The complexity of their affairs
- The amount of tax revenue at stake
- The opportunities to undertake aggressive tax planning (ATP)
- The impact of their behaviours on the compliance of other taxpayers

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Why a programme for HNWI?

- Strategic reconnaissance HNWI
- Tax Administration/ National Monitoring Organisation
- Advice:
 - Give specific and integral attention to HWNI
 - Invest in knowledge about this group
 - Give the HNWI the attention it deserves (Risk Management broadly)
 - Start with a small group

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Programma HNWI

1. Develop appropriate treatment HNWI
 - development by doing
2. Develop knowledge line
 - develop fiscal technical expertise
 - develop a customer picture (individual and group)
3. Establishing communication
 - internal and external
 - involve internal and external stakeholders in the development of the approach
4. Explore issues high income earning taxpayers with high social profile
 - Think of directors, athletes, artists,...
 - developed desired treatment of these groups



What is the assignment of the program?

- Proposal for an effective and efficient treatment concept
 - the group experience appropriate monitoring (within the appropriate monitoring it is clear how co-operative compliance can be used) and
 - the tax revenue is guaranteed
- Monitoring of the group of HNWIs and on the individuals is enlarged
- Proposal for embedding treatment in the organisation

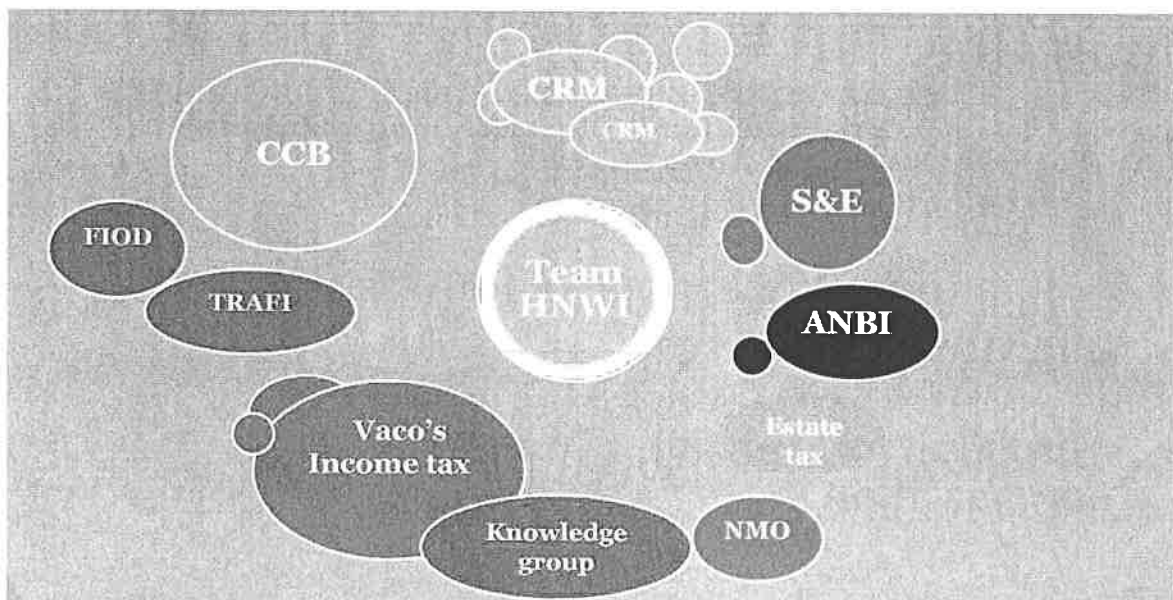


Team HNWI with respect to the current treatment:

- Structural customer treatment based on knowledge of the circumstances (customer picture), which means:
 - SME and Individuals/Services/Objection (PDB) way of individual customer treatment
 - Large Business more focus on individuals (the “private wealth” side)
- Consequent attention to Gifts & Inheritance Tax and affiliated Public Benefit Organisation (Anbi's)
- Focus allows for increased knowledge and experience

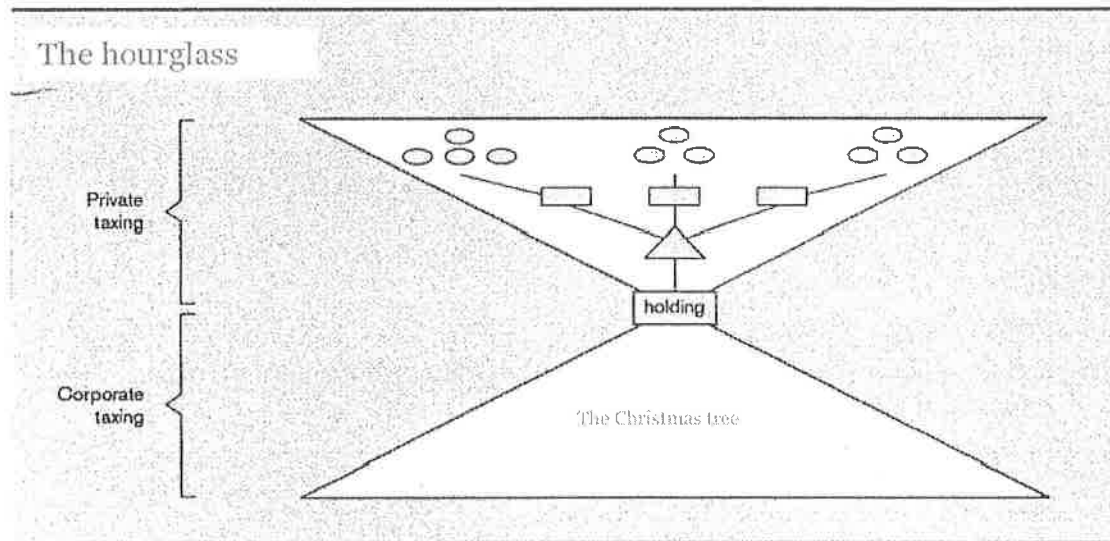


That means working with...





Where we focus on?



• Jan Nieuwenhuizen, *Horizontaal Toezicht voor Private Wealth?*, Private Wealth Sept/Oct 2010



Staffing team HNWI

- Appointment 24/2/2014: starting with the treatment of 15 HNWIs per department
- Individuals/ Services/ Objection (PDB) (1/2) and SME (3/4) recruit through a registration of interest (internal application procedure) staff for a virtual team
- Large Business connect via the persons who levying taxes/ customer relationship manager of 15 (largest) HNWI
 - the VACO's Income Tax Large Business (still to be recruited) is given a special role
- Intended Timeline:
 - Registration of interest in March
 - Launch Conference May



Virtual Team HNWI

- Getting Started with the aforementioned objectives by working in practice
- Employees will stay formally at their own place, commitment period 2 years (interim job fulfillment/temporary contract)
- Profile:
 - Broad Wage Tax knowledge
 - Knowledge interfaces Gifts and Inheritance Tax, Corporate Income Tax, etc.
 - Level Bachelor/ Master

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Picture development route HNWI

March	Registration of interest / selection
May	Start conference
May-July	Orientation route, weekly meetings Take stock
July-Oct 2014	Working and experimenting Monthly meetings (knowledge sessions also for others)
Nov 2014	Evaluation first half year
Dec '14-Nov '15	Monthly meetings, speakers also for relevant environment
Oct 2015	Big session Tax Administration and externals?
Nov '15-May '16	Consolidate, progress towards advice
May 2016	Conference: advice to Management Team Taxation



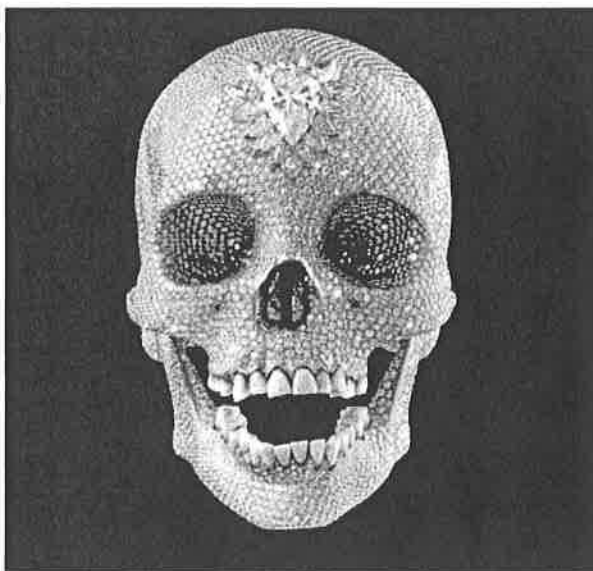
Summary why HNWI

- Economic and fiscal interests
- Specific issues
- Specific network of advisors (including family offices)
- Almost unlimited possibilities, another world
- Effect on other taxpayers

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Questions and advice?



Damien Hirst, *For the love of God*

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Taxation of High Net Worth Individuals

**Key Trends and development
in Tax Administration**



KEY TRENDS AND DEVELOPMENT IN TAX ADMINISTRATION

Korea, 28 April – 3 May 2014

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Overview

I. Introduction to tax administration

II. Key trends and developments

- Institutional reforms
- Organisational reforms
- Strategic management
- Taxpayer service delivery

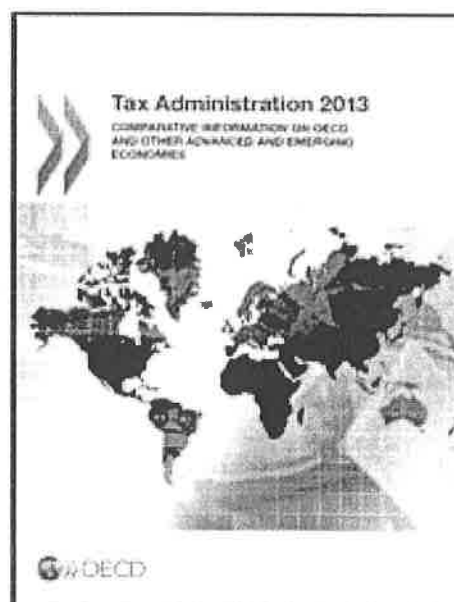


INTRODUCTION



Introduction

Internationally comparative data on aspects of tax systems and their administration in OECD and other advanced and emerging economies





Introduction

FRAMEWORK, STRUCTURES & BASIS

- Overall framework of a tax administration
- Structure and organisation
- Tax legislation

HUMAN AND BEHAVIOUR ISSUES

- Ethics
- Human resources management

SYSTEMS AND FUNCTIONING

- Revenue collection
- Tax Audit
- Administrative co-operation
- Fraud and tax avoidance

TAXPAYER SERVICES

- Taxpayers rights and obligations
- Systems for taxpayers' management
- Voluntary compliance

SUPPORT

- Information technology
- Communications

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Introduction

Features of an ideal tax administration

Tax Administrations need to have

- Sufficient level of autonomy
- Clearly designated missions, responsibilities, visions, objectives
- Adequate sources
- Stable legal framework
- Power to operate

Tax Administrations should be

- Accountable for its operations and
- Subject to control and assessment

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Introduction

Institutional setup

- A single directorate in ministry of finance (MOF)
- Multiple directorates in MOF
- Unified semi-autonomous body
- Unified semi-autonomous body with board

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Institutional arrangements for tax administration

Country	Nature of body*	Major tax types administered by the national revenue body/multiple directorates						
		FIT	SSC	CIT	VAT	Excises	Real estate	Other taxes: Estate: E; Wealth: W; Motor vehicle: M
<i>OECD countries</i>								
Australia	USB	✓	n.app.	✓	✓	✓	x	-
Japan	USB	✓	x	✓	✓	✓	x	E, M
Korea	USB	✓	x	✓	✓	✓	✓	E
New Zealand	USB	✓	n.app.	✓	✓	x	x	-
Turkey	Other	✓	x	✓	✓	✓	✓	
<i>Non-OECD countries</i>								
China	Other	✓	✓/2	✓	✓	✓	✓	
Hong Kong, China	SDMOF	✓	x	✓	x	x	x	-
India	USB	✓	x	✓	x	x	x	W
Indonesia	SDMOF	✓	x	✓	✓	x	✓	-
Malaysia	Other/1	✓	x	✓	x	x	✓	-
Saudi Arabia	SDMOF	z/1	x	✓	x	x	x	-
Singapore	USBB	✓	x	✓	✓	x	✓	E

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Introduction

Powers of autonomous revenue bodies

- Budget expenditure management
- Organisation and planning
- Performance standards
- Personnel recruitment, development, and remuneration
- Information technology
- Tax law interpretation
- Enforcement
- Penalties and interest

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Delegated authority of national revenue bodies

Country	Delegated authority that can be exercised by the national revenue body without requiring external approvals /1								
	Make tax rulings	Remit penalties/i nterest	Design internal structure	Allocate budget	Fix levels/mix of staff	Set service standards	Influence staff recruitment criteria	Hire and dismiss staff	Negotiate staff pay levels
<i>OECD countries</i>									
Australia	✓	✓	✓	✓	✓	✓	✓	✓	✓
Japan	✓	✓	x	x	x	✓	✓	✓	x
Korea	✓	✓	x	✓	x	✓	✓	✓	x
New Zealand	✓	✓	✓	✓	✓	✓	✓	✓	✓
Turkey	✓	✓	✓	x	x	✓	x	✓	x
<i>Non-OECD countries</i>									
China	✓	✓	✓	✓	✓	✓	✓	✓	x
Hong Kong, China	✓	x	✓	x	x	✓	✓	✓	x
India	✓	✓	✓	✓	✓	✓	✓	✓	x
Indonesia	✓	✓	x	x	✓	✓	✓	x	x
Malaysia	✓	✓	✓	✓	x	✓	✓	✓	✓
Saudi Arabia	✓	x	x	✓	x	✓	✓	x	x
Singapore	✓	✓	✓	✓	✓	✓	✓	✓	✓

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KEY TRENDS AND DEVELOPMENTS



Key trends and developments

Tax Administrations are being asked

- **to do more with less,**
- to take on **new tasks**, and at the same time,
- to ensure that governments have the revenues they need to **finance important services** that benefit their citizens.



Key trends and developments

Institutional reforms

- Adoption of 'unified semi-autonomous body'.
- Allocating additional roles to revenue bodies.
- Integration of collection (tax and social security contributions).
- Merger of Tax & Custom Administration.
- Special governance arrangements.
- Special complaints handling bodies.

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Key trends and developments

Organisational reforms

- Moving from a '**tax type**' structure to a '**functional**' structure.
- Structuring the compliance (i.e. service and verification) functions on the basis of '**taxpayer segment**'.
- Consolidating office networks.
- Fundamental business process redesign underpinned by more effective use of modern technology.

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Selected features of the organisational structure of revenue bodies

Country	Selected features of revenue bodies' internal organisational structure							
	Main criterion* for structure	High net worth individual unit	Large taxpayer division/unit	Dedicated processing centres	Debt collection function	Tax fraud function	Dedicated disputes function	Full in-house IT function
<i>OECD countries</i>								
Australia	All	✓	✓	✓	✓	✓	✓	✓
Japan	All	✓/1	✓	✓	✓	✓	✓	✓
Korea	All	x	x/1	x	✓	x	✓	✓
New Zealand	All	✓	✓	✓	✓	✓	✓	✓
Turkey	F	x	✓	✓	x	✓	✓	✓
<i>Non-OECD countries</i>								
China	All	✓	✓	✓	✓	✓	✓	✓
Hong Kong, China	All	x	x	✓	✓	✓	✓	✓
India	F	x	✓	✓	✓	✓	✓	✓
Indonesia	F	✓	✓	✓	✓	✓	✓	✓
Malaysia	F	✓/1	✓	✓	✓	✓	✓	✓
Saudi Arabia	F	x	✓	x	✓	✓/1	✓	✓
Singapore	F,T	x	✓/1	✓	✓	✓	x	✓

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Office network for tax administration role-number of office types

Country	Revenue bodies' office network for tax administration (number of formal operational units) at end 2011					
	Headquarters	Regional offices	Local/branch offices	National data processing centres	Call centres	Other offices
<i>OECD countries</i>						
Australia	1	31	31	2	8/1	5
Japan	1	12	524	-	-	-
Korea	1	6	107	1	1	2
New Zealand	1	-	17	3	6	-
Turkey	1	30	1 063	2	2	45
<i>Non-OECD countries</i>						
China	1	-	70	72	70	-
Hong Kong, China	1	-	-	-	-	-
India	1	18	500	1	-	-
Malaysia	1	12	67/1	2	2	-
Saudi Arabia	1	11	-	-	-	-
Singapore	1	-	-	-	-	-

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Key trends and developments

Strategic management (1)

Drivers of managing improved performance

- A commitment open government (transparency, accessibility, responsiveness)
- More formalised planning approaches
- A much increased focus on performance
- Institutional and organisational restructuring,
- The use of market based mechanisms
- And modernising employee management arrangements

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Key trends and developments

Strategic management (2)

Measuring performance

- Focus of planning and performance evaluation towards the "outcomes".
- Direct and indirect measures of taxpayers' compliance.
- Measures that reflect the quality of services.
- Reductions in taxpayers' compliance burden.
- Measures reflecting the level of taxpayer satisfaction with, and confidence in, the revenue body.

Managing compliance

- Formal process for identifying, assessing and prioritising key compliance risks areas.
- Potential to increase awareness, serving to deter non-compliance, by greater use of the media.

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Strategic approach for managing taxpayers' compliance

Country	Aspects of revenue body's approach for managing taxpayers' compliance						
	Formal risk management process is in place	Key risks and strategies are published	Reports of outcomes are made public	Periodic estimates required of tax gap	Periodic estimates made of tax gap	Estimates of tax gap are made public	Random audits used for research
<i>OECD countries</i>							
Australia	✓	✓	✓	✓/1	x	n.a.	x
Japan	✓	✓	✓	x	x	x	x
Korea	✓	x	x	x	x	x	x
New Zealand	✓	✓	✓	x	x	n.a.	x
Turkey	✓	x	✓	✓	✓	✓	x
<i>Non-OECD countries</i>							
China	✓	x	x	x	✓	x	x
Hong Kong, China	✓	x	x	x	x	x	✓
India	✓	✓/1	✓	✓	✓	✓/1	✓
Indonesia	✓	x	✓	✓	✓	x	x
Malaysia	✓	x	x	x	x	x	x
Saudi Arabia	✓	x	✓	x	x	x	✓
Singapore	✓	✓	✓	x	x	x	✓/1

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Key trends and developments

Taxpayer service delivery

- Service delivery is an important component of the work of revenue bodies given the size of their client base and the complexity and range of taxes administered.
- Quality has many dimensions: e.g. timeliness, accuracy of advice and ease of access to information. Responsiveness is a key criterion in the context of what constitutes good service.
- Technology driven changes enable enhanced service delivery.
- 'Whole of government' service delivery approach.

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Revenue body staff usage for fiscal year 2011 and related ratios/1

Country	Staff usage aggregates (FTEs)			Staff usage ratios		
	All revenue body functions	Tax and related support functions)	% FTEs for tax and support functions	Citizens/FTEs on tax and support functions	Labour force/FTEs on tax and support functions	Factors affecting comparability of countries' computed ratios (i.e. ratios in columns 5 and 6)
<i>OECD countries</i>						
Australia	21 764	18 169	83.5	1 245	663	
Japan	56 261	56 261	100.0	2 272	1 113	
Korea	19 671	18 145	92.2	2 743	1 383	
New Zealand	5 513	8 789	68.7	1 163	625	
Turkey	40 298	40 268	99.9	1 836	664	
<i>Non-OECD countries</i>						
China	755 000	755 000	100.0	1 779	1 054	
Hong Kong, China	2 818	2 574	91.3	2 779	1 439	
India	40 756	n.a.	n.a.	n.a.	n.a.	Data for direct taxes only
Indonesia	31 736	31 736	100	7 632	3 721	
Malaysia	10 209	10 209	100.0	2 358	1 167	Data for direct taxes only
Saudi Arabia	1 336	1 336	100.0	19 145	5 505	Very limited range of taxes
Singapore/2	1 851	1 851	100.0	2 892	1 767	

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Further Reading

Tax Administration 2013: Comparative Information On OECD and Other Advanced And Emerging Economies

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