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The Significance of Declarations of Taxpayers’ Rights and Global Standards for the Delivery of Tax Services by Revenue Authorities

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Introduction

Taxpayers’ rights have developed in a number of waves. The first wave of protection is found in the establishment and definition of modern tax systems. Basic rights are established, such as the right to a review of tax decisions, and basic due process rights in connection with tax collection and enforcement.

The second wave of protection sees the development of a legislative and administrative framework to govern the extensive interaction between taxpayers and revenue authorities. Specific substantive and procedural rights are introduced governing issues such as privacy, confidentiality, refining the scope of access, search and seizure provisions and providing a range of administrative rights to facilitate the administration process.

The third wave of protection involves the explicit adoption of declarations of taxpayers’ rights to increase voluntary compliance and to establish a tax framework for improved foreign direct investment and trade. Rights focus on improving taxpayer/revenue authority relationships and developing transparency so that there is a significant level of certainty both for domestic taxpayers and foreign investors. Such rights are often developed in the context of structural tax reform.

A fourth wave of protection is found in increasing supranational protection through treaties and trading blocs. Their effect is often indirect, but influences the development of domestic protection over time.

It is essential to see exactly where Declarations of Taxpayers’ Rights fit within the rights framework and to understand their purpose. They are concerned with tax administration and collection. They aim to enhance the taxpayer/revenue authority relationship, because all the research shows that voluntary compliance will improve and the risk to revenue will fall if the relationship is good. They aim to open up the tax system so that taxpayers have more certainty as to the law, so that there is transparency in the tax administration, so that revenue authority service levels improve and to ensure that there is accountability.

The effect of such Declarations is seen in the drastic change in culture within the revenue authority itself. As a service focus takes hold, taxpayers and their agents are provided with large amounts of information, documented service standards are produced, taxpayers are treated as clients or customers, and there is usually a significant and related
modernization of the tax administration system. In the words of the Australian Taxation Commissioner, Michael Carmody, describing his view of the new role of the Australian Taxation Office:¹

“As an organization we rely on community support for our operations and on their choice to by and large make their contributions under the tax and other revenue systems we administer. It follows that it is not only what we do but how we do it that is critical to our success in performing our role.”

It is equally important to understand exactly what Declarations of Taxpayers’ Rights are not intended to be. Declarations of Taxpayers’ Rights are not intended to expand legal or administrative rights. They usually only restate existing rights and set out service standards. It is important to note that they also usually reiterate strongly the obligations of taxpayers. The emphasis on service and voluntary compliance is normally balanced by a more efficient and focused audit and collection regime. It is made as easy as possible for taxpayers to comply. In this way, taxpayers that do not comply generate little community sympathy when they are caught and are subject to stringent penalties. The high level of penalty is heavily emphasized by the tax administration to encourage voluntary compliance and to act as a deterrent to non-compliance.

An Australian case study
The Australian Taxpayers’ Charter emerged out of international research that showed that the most effective way of improving taxpayer compliance was to change taxpayers’ behavioural responses to the revenue authority and to paying tax. The aim was to lock taxpayers into long-term self-regulation. The Taxpayer’s Charter was introduced in tandem with a sophisticated new model of ensuring taxpayer compliance.

The Australian Taxation Commissioner, Michael Carmody, identified the key commitments in the Australian Taxpayers’ Charter as:²

- People who deal with the Tax Office will be treated fairly and professionally, and their rights will be respected;
- People will be treated as individuals, recognizing their individual circumstances;
- People will receive professional service and assistance to help them understand and meet their obligations;
- People will be provided with clear explanations of decisions the Tax Office makes in relation to their tax affairs; and
- If people are dissatisfied with their decisions or actions, then their complaints will be dealt with.

¹ Address to the 1999 SOCAP Annual Conference, “Serving the Community’s Needs” at 1.
² Ibid at 3 and The Taxpayers’ Charter.
The Charter also specifically highlights its emphasis on protecting taxpayers’ privacy, keeping their information confidential and ensuring that taxpayers are aware of the right to representation, review and appeal.

In conjunction with the Charter, the Australian Taxation Office has developed standards, benchmarked against best practice in commercial service organizations. The service standards are measured regularly and the results are set out on the Australian Taxation Office website. You will see there, for example, that in the year to 31 March 2002, most of the basic services are provided within 10% of the benchmark standard. It is only in complex technical areas and, surprisingly, in correcting administrative and clerical errors, that the service standards slip, but never below 50% of the benchmark standard. This is really quite an extraordinary achievement for a bureaucratic government department with no history of personal service of the kind now demanded of it.

It is important to note that the huge improvement in service standards cannot occur in isolation. It must be seen in the context of a number of associated issues.

The Australian Taxation Office has had to undertake a significant modernization program. This has been boosted by recent massive structural tax reform, including the introduction of the Goods and Services Tax (a consumption tax equivalent to the European Value Added Tax). There has been modernization of systems, processes and resources, with the associated training for Australian Taxation Office personnel. In practical terms it means that the majority of returns and other communications on tax matters take place electronically. Without the ability to get vast quantities of information to taxpayers using the Internet, email and telephone, reform would have been significantly slower. Service standards would not have been met.

The public sector unions have been closely involved in the modernization process. Without flexibility on their part, the Charter goals would have been difficult to achieve.

For the Charter to work effectively, the Australian Taxation Office has had to implement a comprehensive internal complaints process. It was designed to comply with Australian Standards for Dispute Resolution Systems and is widely recognized as best practice. In support of the complaints system, the Government also established an ombudsman for taxation matters. Where administrative complaints cannot be dealt with satisfactorily within the internal complaints procedure, the ombudsman can intervene and reports directly to Parliament.

In conjunction with the modernization program and the emphasis on voluntary taxpayer compliance, there has been a strong focus on identifying and penalizing non-compliance. There is an emphasis on taxpayer education and support for taxpayers in getting their compliance right. But at the end of this program the Australian Taxation Office has increased its spending to ensure that it comes down extremely hard on those who attempt to avoid or evade tax. Sophisticated computer audit techniques allow audit teams to focus on particular segments and individuals within the taxpaying population. Data generation
and data use is far more effective. Information received from tax agents, and their client profiles, are increasingly used in targeting perceived high-risk taxpayers.

**Conclusion**

Declarations of Taxpayers’ Rights and global standards for the delivery of tax services by revenue authorities are very significant. The news is not all good for taxpayers and tax professionals. There are certain important issues about these declarations and associated delivery of tax services that must be understood.

- Declarations of taxpayers’ rights are about improving tax administration and taxpayer compliance; they are not about increasing taxpayers’ rights.
- If the government puts resources behind them, they inevitably act as a modernizing influence on the revenue authority and this can deliver significant efficiency gains to taxpayers.
- They can result in spectacular cultural changes within the revenue authority with a major focus on taxpayer service. However, these can usually only occur with the support of the relevant public sector unions.
- Increased efficiency in tax administration and significantly improved communication with taxpayers can provide the catalyst for increases in structural tax reform, as it becomes possible to deliver change more efficiently.
- Complaints handling within the revenue authority generally improves and other avenues for administrative review may be made available.
- In conjunction with the introduction of a taxpayer declaration and stated service standards there is usually a significant emphasis on identifying and penalizing taxpayer non-compliance.

Perhaps the most unexpected result of these changes is that tax agents are drawn into a closer partnership with the revenue authority. There are many advantages. However, tax agents need to be aware that they can effectively lose much of their independence through this process.