

**VI EUROSAl Congress, Bonn, Germany**  
**29 May – 2 June 2005**  
***The Audit of Public Revenues***

**Sub-theme I Plenary Presentation -**  
**The Significance of Public Revenues**

09:00 – 10:15, Tuesday 31 May 2005

Chairperson: Ms Rasa Budbergyte, Auditor General of Lithuania  
Rapporteur: Ms Saskia J Stuiveling,  
President of the Netherlands Court of Audit

(SLIDE 1)

**CHAIRPERSON of the Session**

Delegates, colleagues

It gives me great pleasure, at this my first EUROSAl congress, to open the session and provide some background, before handing over to the sub-theme I rapporteur, Saskia Stuiveling.

About one and a half years ago, the three sub-theme working groups were formed and the first seeds of the issues to be discussed at this congress were sown. Under the able and expert coordination of the German audit office, and with the input of a large number of EUROSAl members, the theme of the Audit of Public Revenues has been placed under the magnifying glass and reviewed from different angles, resulting in some interesting findings, which I am convinced will be of great value to us in our day-to-day work as auditors.

(SLIDE 2)

**Audit of Public Revenues**

The sub-theme I working group was given the broad mandate of looking at the significance of public revenues for public financial managers and for the legislature's budget authority, whereas sub-themes II and III looked at the role and mandate of the SAl, and at techniques and approaches applied by SAls when engaging in the audit of public revenues. The interrelation of the subject matter led to close and fruitful cooperation and interaction between the three working groups.

(SLIDE 3)

### **Role of sub-theme I**

In the sub-theme I working group, composed of representatives of the SAIs of Austria, Lithuania, Portugal and the Netherlands as Chair, it was our aim to provide an overview of the magnitude and nature of public revenues in the EUROSAI member countries. We tried to go one step further by providing insight into the management of these revenues and the context within which they are determined and collected, making some observations about the implications of our findings for the audits of SAIs. Our objective was to provide a basis for the issues that will be raised in the sub-theme II and III plenary sessions.

On behalf of the working group, I would like to thank the more than thirty EUROSAI members who took the time to complete our questionnaire, to check the International Monetary Fund (IMF) data on their country and to prepare a country paper. Although not all the information can be used in the presentation today, it has been made available to you in the congress papers and on the website.

We would also like to give a special word of thanks to the *Bundesrechnungshof*, whose President and staff have provided excellent support and guidance throughout, and to the Chairs and members of the other two working groups, with whom we have had such a pleasant and productive exchange of ideas.

(SLIDE 4)

### **Session Aims**

In this session we aim to summarise the working group's findings, based on the information provided by you, the members of EUROSAI, and by a number of recognised sources such as the International Monetary Fund and Eurostat. Your reactions are most welcome.

In the first part of the presentation Ms Stuiveling will also introduce the first two congress issues, which I believe you have before you. These relate to the need for standards in public revenue auditing and to the choices SAIs might need to make to match their capacity with the wide remit that public revenues present. We can take a few questions or remarks on the issues in this session, but they will also come back onto the table in the sub-theme II session after the coffee break, when issues 1 through to 5 will be discussed.

We also have some surprises in store for you as we try to investigate in a light-hearted way the context within which taxation, the key source of public revenues in all EUROSAI countries, takes place. What strategies are employed to make people pay? Are there different tax morals? Are there tax taboos? Are there different focuses per country on particular groups or particular tax issues? What are the consequences of too harsh a compliance policy?

This is of course also the context within which supreme audit offices have to determine the regularity and value-for-money of transactions and policies.

We look forward to your reactions and hope that we can engage in a lively debate.

I now hand over to Ms Stuiveling, Chairperson of the sub-theme I Working Group and rapporteur for this session.

## **RAPPORTEUR**

(SLIDE 5)

### **Outline of presentation**

Thank you very much, Ms Chairperson, for your introduction and welcome to EUROSAI.

First I would like to draw your attention to the documentation handed to you in the blue binder:

You will find

- a booklet with definitions relating to the Congress Theme and specifically related to Sub-theme I
- the Questionnaire Results Paper
- our discussion paper
- and as annex to both, all the relevant graphs

Moreover you should have found a handout with the power-point slides that we will use in this session. The text will be made available later today.

So, what will I cover in this presentation?

I would first like to describe the importance of public revenues and the priority given to them and then consider the size and composition of public revenues – the financial side ; in fact the product of the collection process.

I will then look at the operational side, the collection process itself, and thereafter highlight some related audit aspects.

Finally, I will consider the relationship with the outside world – the taxpayer. Where possible, I will illustrate the cultural aspect with the aid of cartoons as well as with factual information. The cultural dimension, the emotional side , might not be the first thing we think about as auditors but it sheds a very clear light on the 'tax experience' in all our countries.

This by the way was very well illustrated yesterday in the discussion following the very interesting lecture of Professor Isensee. In reply to our Swiss colleague, Professor Isensee

explained the huge psychological difference for people between the Swiss gross salary payments and the German net salary payments.

(SLIDE 6)

## Introduction

The opening sentence of our Discussion Paper describes the importance of public revenues as follows:

“The importance of public revenues is self-evident: without revenues, there can be no expenditure.”

This issue of *no public expenditure without taxation* is one of the themes tax offices use to convince the public to pay their taxes. We will show you some examples at the end of this presentation.

In recognition of the importance of an efficient revenue collection system this VI Eurosai conference is dedicated to the subject. But in no way are we the first to pay attention to this side of the public budget.

As early as **1959 , the Rio de Janeiro INTOSAI Congress** addressed the issue and made the following recommendations:

*Supreme Audit Institutions ought to exercise the broadest possible supervision of revenues and the audit should not be limited to the checking of collection of revenues, but also a check should be made to see whether or not tax payments are in line with legislation. With regard to a SAI's expertise, the following statement was made: The supreme audit institutions ought to be equipped to carry out their duties, especially as regards supervision of revenues, with mechanised Accounting and Statistical Services.*

Now we cross over to **Madrid in 1974**, five INCOSAI's later. There it was again emphasised that supreme audit of equal significance as the control over expenditures. This “equal significance” is an important point, one that will come back later in the congress.

But lets return to South America, to **Lima in 1977** and the adoption of the Lima Declaration of Guidelines on Auditing Precepts.

In article 3 of section 18 (constitutional basis of audit powers: audit of public financial management), we read: *‘All public financial operations, regardless of whether and how they are reflected in the national budget, shall be subject to audit by Supreme Audit Institutions. Excluding parts of financial management from the national budget shall not result in these parts being exempted from audit by the Supreme Audit Institution.’*

This strong statement of “we audit everything, nothing excluded” reminds me of the mission statement of our colleague, the Auditor General of the State of Mississippi. Do visit his website and you'll see the most condensed version of a mission statement I know:

*"In God We Trust, all others we audit".*

The key word in the Lima declaration of course is **All** (public financial operations). It means we are talking about the revenues and the financial management and the expenditures. The complete Holy Trinity.

Although this Lima Magna Carta of Government Auditing covers it all, on the revenue side it focuses only on tax audits. In a separate section, number 20 it reads:

- *'Section 20. Tax audits: Supreme Audit Institutions shall be empowered to audit the collection of taxes as extensively as possible and, in doing so, to examine individual tax files....*
- *Tax audits are primarily legality and regularity audits; however, when auditing the application of tax laws, Supreme Audit Institutions shall also examine the system and efficiency of tax collection, the achievement of revenue targets and, if appropriate, shall propose improvements to the legislative body.*

The Lima declaration was followed up by the **Bali Declaration of June 1988**. It provides fairly detailed guidelines in the area of tax audit and includes such subjects as:

- Audit Mandate
- Audit Methodology
- Socio-Economic Implication of Taxation
- Reporting on the Results of Tax Audit, and
- The Training of Tax Auditors

Ten years later in **1998** , so seven years ago, our regional colleagues from **ASOSAI** published their fourth **Research Project which was on Government Revenues-Accountability and Audit**.

And finally, at the **Seoul INCOSAI in 2001**, the **INTOSAI Auditing Standards** were adopted, several of which consider the audit of revenues, and the activities of the International Public Sector Accounting Standards Board.

(SLIDE 7 )

This overview of nearly fifty years of developments and outputs in the form declarations, studies and standards gives you some background to be able to discuss the first issue raised by the congress:

#### **Issue area 1**

***Are adequate standards and bases in place for the audit of revenues?***

***Is there a need to update the statements of the Declaration of Lima (1977) to reflect the progress achieved by SAIs in the audit of revenues?***

We will return to this topic later in the discussion.

(SLIDE 8)

First I want to share with you some facts and findings partly based on the survey we held.

### **Diagram – Public revenues**

I will start with the product of collection (the revenues) and the process of collection, paying attention to some audit aspects related both to the product and process.

The audit topic that springs to the mind immediately as we talk “product” is whether or not the tax revenues collected are complete. Should and could the tax office have collected more? Can we say the amount they collected is the regular amount and give a positive opinion?

I asked my colleague at the Dutch tax office whether the heads of the tax offices of Europe have a congress tradition comparable to our own. And yes, they have a comparable habit. So, I asked, did you ever discuss this issue of ‘completeness’ of the collection of taxes amongst one another? Yes, and no, was the answer. We do discuss topics like tax fraud, tax evasion, etc. , but we never discuss or benchmark the effectiveness of tax offices in collecting all taxes from all relevant citizens and entities. Performance in that sense is a taboo.

Interestingly, my contact explained that the tax authorities share the feeling that we, national audit offices, are rather naïve in our audit approach of them on this topic. They feel that in our audits and recommendations we focus only on increasing the amount collected, and pay no attention, or at least not enough, to the psychological context that is the day to day reality of professional tax collectors. Psychological studies in Austria, Australia and the Netherlands, for example, conclude that 70 to 85 % of people do realize that paying taxes is of benefit to society and to the nation, and are therefore willing to do so. If in their communications with these people - the majority – the tax authorities take a hard line and emphasise sanctions, the willingness of these taxpayers to comply with the tax authorities ironically decreases, because they feel offended. In our audit minds this may sound like a contradiction – but the studies to prove their point are there.

The potential tension between the tax collector and the taxpayer is an old reality that inspired cartoonists everywhere . You will find some very nice examples just outside this conference hall on the right hand side. Take some time to study them – it is a rewarding exercise. To give you some taste for it, here are some examples.

(SLIDE 9) Taxpayer as hostage and Delft riot

Here you can see Dutch taxpayers apparently willingly lining up to be robbed at gunpoint by the tax collector, whilst normally a cashier himself would be the victim of this kind of hold-up.

And here the consequences of really going too far: tax riots. In this case it is 1616 in Delft, the Netherlands. The collection of taxes in that period was farmed out to tax entrepreneurs and one of them, living in this house, collected very angry women protesting against a rise in the tax on flour.

(SLIDE 10) Printing press symbolising tax authority's public relations campaign

Here the cartoonist gives his view of the announcement by the tax authority that it will improve its public relations. It shows how most citizens view their tax authority.

Riots, as in Delft, were a regular occurrence in other parts of Europe, too. Our Lithuanian colleagues mentioned several riots in the fourteenth and eighteenth centuries.

(SLIDE II) The Illusionist and the reappearing road tax

Lithuania produced a wonderful cartoon poking fun at a road tax that was first cut and then reintroduced under a new name.

Rasa, would you like to explain? (Auditor General of Lithuania provides some explanation)

### **Public Revenues Product**

(SLIDE 12)

**Taxes:** most of the time an envelope like this means it is time to pay. These envelopes are from: Spain, Lithuania and the Netherlands.

When we receive the blue envelope in the Netherlands, we at least know we are registered - that is the first step towards completeness.

But taxes are not the only source of public revenue.

## **Public Revenues - Product**

### **Division of Public Revenues**

(SLIDE 13)

Public revenues can be broken down into:

- Taxes
- Social contributions
- Grants
- Other revenues

National data for 30 EUROSAI countries show that the division of public revenues over these components has been fairly stable for many years:

the left column being the year 1992

the middle column 1997

the right column 2002

Taxes and social contributions account for the major part (about 80 to 85 per cent of the total). The figures are averages. National percentages differ from the average, of course, but if we look at the individual percentages over the years, we can see that the pattern is relatively stable.

(SLIDE 14)

Another breakdown is by the level of government that receives the revenues: central, state or local. Again, the pattern is more or less stable over the years. Central government receives between 80 and 90 per cent of all public revenues. There is an intermediate state level in only a handful of countries and its influence on the overall picture is negligible. The local level receives between 10 and 20 per cent of total public revenues.

We also compared the total public revenues with the level of GDP – which of course itself relates to the extent of the black economy in any one country.

(SLIDE 15)

This poster campaign from Portugal tackles the problem of the black economy and encourages consumers to ask for paper receipts, in order to increase public revenues from VAT.

## **Public Revenues - Product**

### **GDP and Public Revenues**

(SLIDE 16)

In our Discussion Paper we wanted to highlight the importance of public revenues by showing the relationship with GDP. For our presentation we have relied on the information 28 of you



provided supplemented with information from the IMF. We also sought information from Eurostat. Under the auspices of the Directorate General Taxation and Customs Union it issued a weighty document in 2004 on the Structure of Taxation Systems in the European Union (1995-2002). It is not easy to gain an overall view. The European study is restricted to the members of the EU, whereas the IMF publications do not provide data on all EU Member States up to 2002. In addition, the assumptions and calculations are not consistent with each other.

This slide includes all revenues at all levels of government. The IMF calls this the "general level".

As you can see for the countries for which this information is known, it ranges from 25 per cent (Kazakhstan) to 60 per cent (Sweden).

In passing, I would like to mention a recent change in the data that can be downloaded from the Eurostat website. The site now provides comparable data on all the EU's 25 Member States.

By the way, we tried to put together a slide showing the tax burden per capita, but there is no way we could construct that figure from the available data.

### **Public Revenues – Product**

#### **Other Revenues**

(SLIDE 13)

Please return to slide 13.

This slide shows the distribution in time over four components of revenues.

It was clear from the documents for this congress that we had to make choices. It is impossible to discuss all the issues. We therefore decided to concentrate on taxes and the tax audit. But to make sure the other categories of revenue are not entirely overlooked, however, I will take a brief look at them too.

Without wanting to draw conclusions, there seems to be a tendency in many countries not to count social contributions as tax revenues. The whole issue of social contributions is so vast, that we should perhaps save it for another congress. Nonetheless, it is worth noting here that they account for a considerable proportion of total public revenues. And as this slide shows over time the average has risen slightly from 26 to 30 per cent.

This brings me to another, closely related point. Some public funds are not collected or spent through the national budget. So they are even not reflected in this slide. They include revenues that are collected by organisations outside the direct sphere of government. Since these organisations spend public funds, they should also account for themselves publicly. As SAIs, are we paying enough attention to them? My own Court of Audit developed a strategy

and launched a multi-year audit programme for them some years ago. As a result, the importance of public accountability for these quangos is now widely recognised. So this at least was a success for our strategy.

Let us take a quick look at grants and the other revenues. You cannot see it here, but the study shows that they are relatively more important to local government than to central government. And at the local level – contrary to this grand total - grants are more important than other revenues. Other revenues, by the way, come for instance as fees, from licences and natural resources.

Grants and the other revenues together account for more than 40 per cent of all revenues received at the local level. Apart from revenues from loans and subsidies, transfers from central government account for the lion's share.

The financial transfers between different levels of government are of course of interest to us as audit institutions. What are the conditions for the transfers? What legislation and regulations are in place for the transfers? Do we as SAIs have a proper understanding of them? More questions here than answers.

At central level, the average of grants and other revenues is about 10 to 15 per cent. Obviously, the pattern of other revenues will not always be smooth and predictable. There may be windfall revenues, for example from the sale of state property.

## **Public Revenues - Product**

### **Taxes**

Back to taxes.

At the central level, taxes represent about 60 per cent of total revenues and are diminishing very slightly in relation to the other revenues. Countries where the proportion is considerably higher include: Denmark, Finland, Iceland and Kazakhstan. Countries well below the average include Germany and Switzerland. The reason for this is that social contributions represent a high proportion of total revenues in these countries but do not count as taxes.

The collective term 'taxes' covers a multitude of revenue streams. Both the IMF and Eurostat recognise nearly 30 different types. Most tax revenues, however, are raised through taxes in four ways

- Direct tax on Personal income
- Direct tax on Corporate income
- Indirect tax in the form of VAT
- Excise

## **Public Revenues – Product Observations**

(SLIDE 17)

To close this block, a few observations:

- Taxes and social contributions are the most important categories of public revenues
- The central level of government is responsible for 85 per cent of the total public revenues.
- There has been little change, but still some, over the years in the composition of the public revenues.

In that sense it should be a rather stable audit environment for us. But it is not, dear colleagues, due to the dynamics the survey brought out in the collection **process**.

## **Public Revenues – Process**

(SLIDE 18)

Lots of changes in the tax offices are under way due to

- Automation
- and partly related to automation lots of reorganisations
- there is a call for Transparency  
What do we know about the efficiency and effectiveness of the tax authorities?
- There is an issue with Tax allowances  
What do we know about these tax subsidies?

This will lead me to some observations.

## **Automation**

(SLIDE 19)

Automation and taxation are inseparable. The influence of automation is growing by the day. Whether we like it or not, we all have to be plugged in as this Austrian cartoon shows.

(SLIDE 20)

In about 80 per cent of the EUROSAI countries, taxpayers – both private and business - can file their tax returns electronically. We also found that the tax authorities in most countries keep electronic data on taxpayers' bank balances, mortgages, property and cars.

At the moment, the tax authorities are still using a relatively high number of staff to carry out traditional administrative work. To increase the capacity available for supervision, all mass selection and processing routines will probably be digitised in the near future. Paper documents will gradually disappear as they are replaced with e-documents. As the survey results show: business is in the front row. In the longer term, bulk processes will be fully automated and offered to individual and business taxpayers in a 'personal domain': the request to file a return, the receipt of an assessment, the settlement of objections and payment will all be done electronically. In effect, the roles will be reversed. Instead of requesting information, the tax authority will reveal what information it keeps on the taxpayer.

(SLIDE - 21)

These two posters from Estonia and The Netherlands show how tax authorities in different European countries are working along the same lines to convince the public how comfortable tax paying can be if you just use electronic filing.

(SLIDE 22)

The advance of automation has consequences for the design of the tax authority's primary process and thus for the SAI's audits. A tax authority might make a distinction, for example, between mass checks, with the taxpayers' returns being checked automatically against information from third parties, and intensive checks, with the system using programmed variables to select individual returns that are checked by hand. We can already see this development occurring in a number of countries.

What we note is that tax authorities are more IT mature than we as auditors. The IT audits of these developments are lagging behind. The SAI's IT audit would then and should check compliance with legislation and the operation of computer systems, and also investigate the reasons for the choices made and the transparency of the process. The fact that tax authorities are saving more confidential information electronically will also have implications for data security.

A point of concern is that the cooperation with private individuals and businesses will lead to changes in the ICT infrastructure. It is already being said that obliging businesses to file some returns over the Internet is causing technical problems. In this respect, the Internet has benefits for the tax authority, but not necessarily for the taxpayer. A different infrastructure requires a different security policy.

Another trend is the closer cooperation with other government bodies. Tax authorities are supervising the work of other bodies and in some cases even taking them or part of their processes over. In the Netherlands, for example, the Tax and Customs Administration will become responsible as of next year for paying social housing benefits.

Collecting and processing all the data on private and business taxpayers in one place makes heavy demands on the integrity of the tax authority's staff. Staff integrity is an absolute must: they handle confidential information and major financial interests every single day. A tax authority must be able to assure its customers that their data are protected and will be used only for the purposes for which they were provided.

We did not collect data in our survey about the image of the tax office when we talk about the public's trust in its integrity in handling privacy sensitive information.

In as far as your country has a official watchdog for privacy protection it might be a suggestion to see what their opinion about your tax authority is. The day before I left for Bonn the annual report of the Dutch privacy watchdog was published . They had a nice chart comparing the importance of several types of organisations that handle privacy data and the trust of the public in these organisations that they would protect the data well. Highest on this list both in importance and I am happy to say in trust scored the tax authority.

In the middle came the insurance companies with high importance but considerably lower public trust.

And the red flag barriers in terms of trust are Non-governmental organisations and shops.

### **Next dynamic: reorganisations**

(SLIDE 23)

The tax authorities in most countries have recently been reorganised. The main reasons for the reorganisations have been: the influence of the European Union (new Member States), economy drives and modifications of computer systems.

And this cartoon shows how reorganisations of tax offices are felt:  
Lot of changes but the core business stays the same.

The German audit office's country paper provided an excellent description of the changes the tax authority had undergone and the consequences for audit.

### **Process - Transparency**

(SLIDE 24)

From your country papers came some other points of interest:

- Non-financial information is rare
- Optimising tax revenues
- Almost no "in-control" statements

The answers we received reveal that only a handful of countries provide non-financial information in their annual reports. For example, information on the tax authority's effectiveness or in-control statements are rare.

It is very difficult to establish the effectiveness of a tax authority's work. It is determined by its success in collecting the taxes subject to the applicable political conditions, legislation and available resources. In three of the countries studied, the annual report referred to the tax authorities' efficiency and effectiveness. In a minority of the countries, the policy implemented to optimise tax revenues is reported to parliament. In two countries, the responsible minister submits an in-control statement to parliament. The tax authority's transparency vis-à-vis parliament also determines our work. We have to decide to be pacemaker in Isensee's concept, for more transparency. The focus might shift away from substantive testing of compliance with regulations towards testing the operation of the system that generates the accounting information. This will require a different form of expertise from the auditors.

Tax authorities handle a large proportion of public revenues. We think they should account publicly for their work and should explain the relationship between their plans, results and costs.

The Dutch tax authority, for example, has a strategic objective: **to maintain and strengthen the taxpayers' willingness to comply with their statutory obligations**. The processes are monitored by means of effect and output indicators such as filing and payment behaviour. Output indicators are used if an effect cannot be measured directly. They include the amount of adjustments, the number of hours spent monitoring (Customs) and the percentage of open assessments that are older than one year.

#### **Process – tax allowances**

the country papers also raised the question of tax allowances.

(SLIDE 25)

Nearly every country has tax expenditure. But the information, as you see in this chart, indicates that about half of them have no insight into the amounts involved, never mind into the efficiency and effectiveness of this instrument. Keep this information in the back of your mind when discussing later this congress the proposal of our host for a coordinated audit into tax allowances.

## Observations on Process

(SLIDE 26)

I will close this part with what I think are the most important observations on the process of tax collection

- Electronic filing is a growing trend, but IT tax audits are lagging behind – in other words, tax offices are more IT mature than we are
- There have been widespread reorganisations of the tax administrations and we have not yet seen the end of it
- Reporting on non-financial issues is rare
- Tax allowances are an important instrument, but little information is available.

## Public Revenues – Audit Aspects

(SLIDE 27)

I have mentioned in passing a number of factors that influence our audits. They relate chiefly to automation and reorganisations.

It is clear from your answers that parliament has no direct influence on audit policy. I would stress: no direct influence. But if there are shortcomings, scandals or outrages, one politician or another will no doubt order the tax authority to carry out an investigation. If only to save his own political skin. So there is definitely an indirect influence. The presentation of sub-theme II will undoubtedly consider this in more depth.

Interestingly, the tax authorities in a large number of countries themselves do not have a strictly defined audit policy. I think there is an important pacemaker task here for the SAIs. We could for instance be interested in the level of automation and the level of internal control, and in the professionalism of the tax offices' risk analysis .

## Issue area 2

Which brings me to introduce the second congress issue

(SLIDE 28)

1. **Is there a need for SAIs to shift their focus on the audit of public revenues?**
2. **In what fields should they strengthen their audit capacities?**
  - **Specialised taxes, e.g. VAT?**
  - **Tax allowances, as subsidies?**
  - **Tax administration?**
  - **Other?**

This second congress issue and the first issue, if you remember, about the declaration of Lima and standards will be carried forward to the next session when you will have a more complete overview .

I will conclude my presentation with a summary and a viewing of some tax authority public relations campaigns.

(SLIDE 29)

## **Summary**

### **Product**

- taxes and social contribution are the most important public revenues (approximately 85 per cent)
- the composition of public revenues is stable over time with a tiny decrease in taxes and a slight increase in social contributions

This seemingly stable audit environment becomes rather dynamic when looking to the process:

### **Process**

- e-tax is increasingly important and tax offices are more IT-mature than SAIs
- there is a widespread pattern of reorganisations of tax offices partly related to automation
- and the transparency of tax offices can be improved, to put it mildly.

### **Audit**

- formulating an audit strategy covering products and processes of the revenue side of the budget seems a worthwhile exercise

### **Tax culture**

- under the surface, but very important

The cultural aspect is, I think, of vital importance. Taboos have to be broken.

(SLIDE 30 )

In the course of my presentation, I have already touched upon various cultural and social phenomena, which directly or indirectly influence the volume and type of public revenues in each of our countries.



For example, the tension between the tax administration striving for high compliance and high revenues on the one hand, and the ability or willingness of the taxpayer to pay on the other hand. In sub-theme II we will probably also hear something about the various influences that come into play when the level of taxation and the allocation of subsidies are determined by the government and parliament - influences behind the scenes, out of the public eye, which nevertheless have huge implications for the strategy and organisation of the tax administration, without them having any control over them. Perhaps this is something we as audit offices ought to have in the back of our minds when developing our audit strategies.

To give an example from the Netherlands, there is a taboo in parliament on discussing the question of reducing or cancelling the tax rebate on mortgage payments. None of the major parties want to burn their hands on the issue. (In most European countries this tax allowance has long been withdrawn, or never existed in the first place).

When I first started looking at the question of taxation culture, I was surprised by a number of things and now I am curious to see and hear how you react. No two countries are the same, but what is striking is that certain common issues and themes can be identified. I would like to explore some of these with you now.

### **Language**

Firstly language. Have you ever stopped to consider the way in which a moral culture is reflected in language? How many of you have colloquial, commonly-used words in your own language that refer to tax evasion or the black economy? I can think of a few in Dutch. These words would not be necessary if the phenomenon of tax dodging was not common. Even phrases, which in first instance seem positive, such as "tax paradise", carry a negative connotation.

### **Political Satire**

Political cartoons are often a quick way of getting a feel for the moral context in a country. Within the working group, we had a quick scan of cartoons relating to taxation and the tax administration, some of which you have seen earlier in the presentation. Interestingly, in almost all countries, taxation is depicted as a necessary evil, rather than as a positive instrument for the general well-being of the citizens. On the other hand psychological studies tell us that people are very well aware of the benefits for society in general of paying taxes. In the films I will show you shortly, you can see how tax authorities 'play' with this image of paying taxes.

### **Tax Museums**

I had never realised that we had a rare museum, The Museum of Taxes & Customs, in The Netherlands, and as a matter of fact, in my hometown Rotterdam.

They informed me that many countries have a customs museum, but that in only a few is there attention for and a collection of (historical) taxation-related materials. You might be interested to know that Germany is one of the only other European countries with such a museum, and it is situated very close to Bonn in Brühl. As I said, they provided the cartoons and other enlightening pieces of information you'll find just outside this room.

I was enthralled with the materials available – cultural attitudes to taxation are sketched across the centuries, as are the political consequences, as we saw in the beautiful old prints of the riots in Delft.

### **Taboos - Completeness**

I would like to return now to the present day and to the issue of completeness. When we tried to find out what the level of compliance was in terms of tax payment in the Netherlands, I was surprised that this information was not available. My colleague at the Tax authority also informed me that although there is a European network of tax offices, there is a taboo about discussing the question of 'completeness' – nobody wants to say what their actual recovery rate or level of compliance is. As an auditor I have a problem with this. I want to know whether or not there is 100% completeness, and if not why not. Is it due to laxity on the part of the tax administration, or to fraud, or to poor information..?

My friend at the tax administration says that we supreme audit offices should not be naïve and think that it is possible to achieve 100% compliance or even a clear picture of the tax base – there are far too many factors at stake under the surface, which the tax administration has no control over.

I would be interested to hear your ideas on this issue.

### **Tax authority public relations campaigns**

To close my presentation, I would like to look with you at the issue of taxation from the perspective of the tax administrations. The techniques they use worldwide can vary widely. Some employ a permanent team of psychologists to make profiles of the typical taxpayer and the most likely fraudsters, in order to know where to focus their resources. In Portugal, when you go to take money from a cash-point, you first see a message from the tax administration reminding you of the deadline for returns.

I particularly like the approach of the Indian city of Rajasthan with regard to tax defaulters. They recently sent a group of twenty drummers to stand in front of the houses of citizens with tax debts and play continuously as a reminder of their public debt. It seemed to work – within a week, 18% of the unpaid taxes had been received!

I want to share with you a number of short television spots developed by tax authorities from around Europe. I am very grateful to my colleagues at the Dutch tax authority both for collecting these and other paper materials and for financing their compilation on a DVD.

Now I will just show you the films. Later today you will receive a copy of the compilation DVD in your pigeon holes, which also includes examples of posters, stickers, calendars and other materials used in media campaigns.

My intention is just to provide some images for you to think about over the coming days and to draw your attention to a few common themes.

(SHOW FILMS)

**1. Importance of tax revenues, including focus on new or future tax-payers**

What you can do with tax revenues and the chaos if they not paid. Campaigns highlighting the moral obligation to contribute to the general well-being and the consequences of defaulting.

[Azerbaijan, Sweden, Denmark \(moonlighting\), Italy \(children\)](#)

**2. Importance of receipts and transactions being registered**

[Moldova, Serbia](#)

**3. Information on how to file, including deadlines and sanctions for non-compliance.**

**Also changes to system and ease of electronic tax returns**

[Norway, Spain, Ireland, Belgium, Estonia, Netherlands](#)

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