

## Current Developments in UK Tax Compliance Research

John Connor, John Hasseldine, Peggy Hite, Simon James, Marika Toumi – Nottingham University ESRC Project “Role of Tax Agencies in Increasing Voluntary Tax Compliance”  
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### Overview of Talk

- Context of Tax Research in UK
  - Culture of government
- Role of Inland Revenue
  - Policy, structure, external links
- Current Tax Compliance Research
  - Individual developments explored
- Future Challenges

### (1) CONTEXT OF TAX RESEARCH IN THE UK

- Reviews on *Modernising Government*
- Lord Grabiner’s Report into the Informal Economy (March 2000)
- Integration of Benefits into Tax System
- ON/Off Proposals of IR/C&E merger
- Lobbying on Costs of Compliance and Burden of Taxes (e.g., CBI)

#### Reviews on *Modernising Government*

- “Adding it Up” and “Modernising the Policy Making Process”
- Fundamental change in culture will require:-  
Leadership; Openness; Better planning; Spreading best practice; Recruit/retain best people
- Objective is: Evidence Based Policy

#### Lord Grabiner’s Report

- Focuses on the Informal Economy
- Asked to investigate, ways to promote legitimate activity, and for action plan
- Incentives to join.....
- Prevention and Detection
- Punishment – new offence
- Publicity – use of advertising as tool to change public attitudes

### (2) ROLE OF INLAND REVENUE

- Evidence Based Policy
- Structure: Research Board

- Research Programme
- External Links e.g. TMR
- Encouraging compliance and identifying non-compliance still at the heart of Compliance Strategy

#### Evidence based Policy

- Review of Analytical Services: More analysts, Central Research Unity, Focus on LBO compliance
- Evidence based policy requires:  
cost/yield; distributional impact, economic impact, behaviour effects, compliance costs assessments
- In past, no post implementation review

#### Structure: Research Board

- Analytical Services paper led to RB – which will provide research for entire Department (internal and external)
- Four member RB – with criteria for research being: Significance of research (tax at risk); political sensitivity; costs/results; and contribution to long term strategy

#### Research Programme – 9/2000

- Tax Credit / Income Tax Evaluation / NI
- Compliance Costs
- Business Tax / Corporate Models
- Capital and Savings
- Compliance Research – [sec. 3 of talk]
- Market Research – behaviour/views
- Strategic Planning – e.g., new tech.

#### External Links

- TMR Net – Steering group from University of Bath (C&E, IR, OECD):-  
– Multidisciplinary team will focus on both external environmental influences and internal management issues;  
– Currently identifying research priorities.
- Tax Research Network

#### (3) CURRENT TAX COMPLIANCE RESEARCH

- Income Tax SA Enquiries (Audits)
- VAT – Working towards best practice
- VAT Compliance – Exeter report

- Leverage Experiments
- Joint Compliance Costs Programme
- ECU Advertising

#### Income Tax SA Enquiries

- Collaborative study between IR and CIOT – Report November 2000
- Innovative Survey of 1786 Revenue Officers (intranet) and 332 Agents
- Reviewed process of tax enquiries (audits) – legn., procedural, OCC/WT
- Study shows disagreement on “conduct” and “process” of tax audits. May contribute to adversarial approach.

#### VAT: Best Practice

- Collaborative Study between C&E and CIOT (Ann Hansford)
- Differences exist between perceived quality of advice and knowledge base of each group (Agents and Tax Officers)
- Poor knowledge on either side results in increased costs
- Attitude change re: tax admin research

#### VAT Compliance

- University of Exeter report to C&E
- Shows factors that help compliance are:
  - Peer attitudes; disagreement with statement that evading increases profits; quality of service perception; community oriented personality
- Balance of publicising noncompliance, but that most people are honest

#### Leverage Experiments

- Leverage is a targeted program of education and publicity with follow up measures to improve compliance
- Designed to achieve measurable and sustained improvement in compliance
- NC Risks: Fundamental; Technical; Procedural
- Measures will include income returned, date of return filing, audit adjustment

#### Joint Compliance Costs Programme (Over 4 years)

- Aim: to measure costs of compliance
- To: allow estimation of aggregate costs, allow comparisons, look at causes, keep burden to minimum
- All main taxes – currently two studies on Corporation Tax and VAT have been awarded after being put out to tender.
- Results expected – from May 2001

### Results of Advertising Expts

- Publicity campaigns: fairly recent eg SA
- ECU: “Tax and Benefit Confidential” stems from L. Grabiner’s report
- Aims were to create awareness, encourage calls, drop #'s inf. economy
- Tricky to target & low spend meant most calls didn’t directly result in more legit. Taxpayers
- Working with other agencies

### (4) FUTURE CHALLENGES

- Corporate Tax – rarely studied
- Incentives – sound good, much harder in practice
- Role of Tax Practitioners – complex role as both enforcers and exploiters, Under-researched in UK
- Attitude/Behaviour links

### Role of Tax Practitioners

- Already studied in Ann Hansford’s work
- Decision to Engage Preparer
- Factors that contribute to Aggressiveness of Tax Practitioners  
– Are they enforcers/exploiters of system?

### Attitude/Behaviour Links

- Focus on customer management initiatives e.g., Customer Service Performance Indicators
- Some work completed in NZ, but little in UK to link attitudes toward tax agency, and fairness with behavioural compliance.
- New Marketing Director likely to take close interest in this area.

### TO CONCLUDE

- Ideal situation is to assist people to comply “in advance”
- Will require some cultural changes as new “compliance models” are adopted
- Time is ripe for international collaboration between researchers and tax agencies.
- Thank you.