Key Financial Secrecy Indicators
8: Efficiency of Tax Administration

What is measured?

This indicator shows whether the tax administration of a given jurisdiction uses taxpayer identifiers for efficiently analysing information, and it shows whether the tax administration has a dedicated unit for large taxpayers.

Concretely, we ask whether the tax authority makes use of taxpayer identifiers for matching of information reported by a) financial institutions on interest payments and b) by companies on dividend payments. For each of the two types of income payments a jurisdiction makes use of taxpayer identifiers for information matching, it receives 0.4 credit points. In addition, 0.2 credit points are awarded if the tax administration is equipped with a large taxpayer unit.

In order to measure this indicator we have relied on both our TJN-Survey 2011 and on the OECD publication entitled "Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series (2010)" published in March 2011[1]. Table 47 of this publication (OECD 2011: 214) provides information as to whether taxpayer identifiers are used for information reported by both financial institutions on interest payments and companies on dividend payments. Table 5 (ibid: 43) in turn provides information as to whether a tax administration has a large taxpayer unit.

Why is it important?

A local tax administration faces a globalizing domestic economy with increasing shares of value added and income received involving an international element. Scale effects realised through cross-border economic activity are among the most relevant factors for strategic business investment decisions and among the chief reasons for the existence of the multinational corporation. A tax administration that does not adapt to this new environment of growing complexity through organizational and technical innovations will soon see decrease its capacity to effectively levy taxes.

The absence of adequate organizational and technical capacity of a tax administration, by accident or design, can serve as a means of attracting personal wealth and corporations that shy the light of the day and are rather looking to operate in jurisdictions with low and lax tax enforcement, and low risks to be challenged about the way in which the corporation structures its tax affairs.

With respect to the taxpayer identifiers, the aforementioned OECD-report notes (2011: 210):

> "Regardless of whether the identification and numbering of taxpayers is based on a citisen number or a unique TIN, many revenue bodies also use the number to match

> information reports received from third parties with tax records to detect instances of potential non-compliance, to exchange information between government agencies (where permitted under the law), and for numerous other applications."

Therefore, the use of taxpayer identifiers is a common sense means of detecting instances of non-compliance and to improve information exchange between government agencies, thus contributing to financial transparency in a given jurisdiction.

Large taxpayer units (LTU) make sense on the grounds of efficiency for a number of reasons. The taxpayers dealt with by these LTUs share common characteristics which require highly specialist and skilled expertise that can hardly be mobilised in a context of a decentralised tax administration. Among these reasons figures the high concentration of revenue in the hand of a small number of taxpayers, the high degree of complexity in their business and tax affairs, major compliance risks from the viewpoint of the tax authority and the use of professional tax advice on behalf of the large taxpayers (ibid.: 54-55).

While certainly not in itself a measure to guarantee proper taxation of large taxpayers, the absence of a LTU can nowadays be interpreted as willingness by a jurisdiction to let large taxpayers go untaxed. In this case, the tax and financial dealings of a multinational corporation can be expected to remain unchallenged, effectively contributing to financial opacity.

What are the crimes that might hide behind a lack of efficiency in the tax administration?

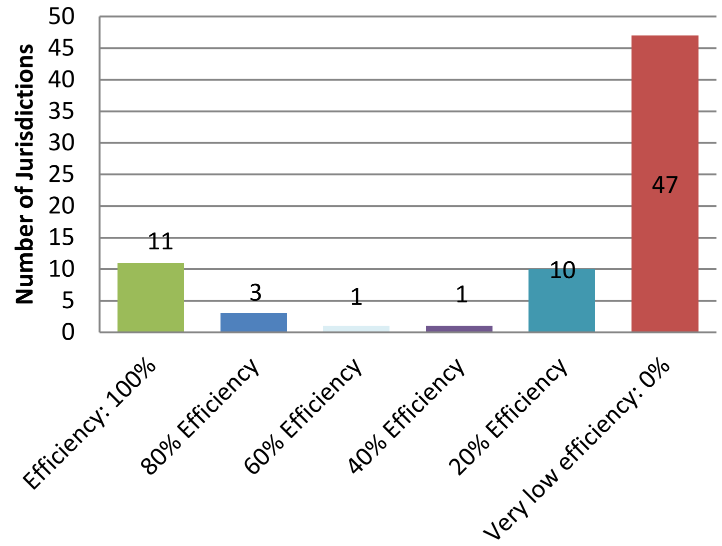
Tax evasion, hiding of the proceeds of corruption, organised crime (especially drug trafficking), illegal arms trade, trafficking in human beings, money laundering, the covering of illicit intelligence activity, non-payment of alimonies, and more besides might hide behind the opacity that an inefficient tax administration provides.

Results Overview

Table 1: Efficiency of Tax Administration - Overview

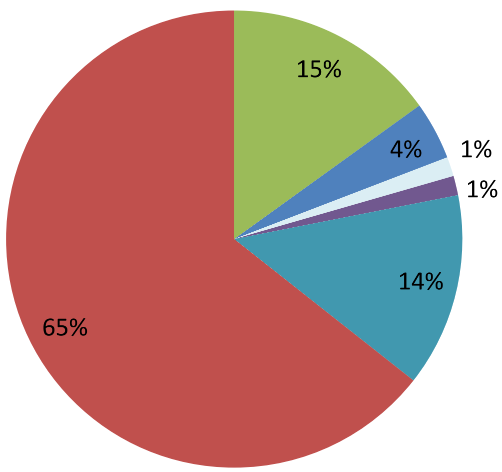
Number of jurisdictions with efficient tax administration:	11
Number of jurisdictions with 80% efficiency:	3
Number of jurisdictions with 60% efficiency:	1
Number of jurisdictions with 40% efficiency:	1
Number of jurisdictions with 20% efficiency:	10
Number of jurisdictions with very inefficient tax administration:	47

Graph 1: Efficiency of Tax Administration - Results Overview



Results Detail

Graph 2: Efficiency of Tax Administration - Details



- Efficient: CA DK HU IN IL IT KR LV NL ES US
- 80% Efficiency: CY MY MT
- 60% Efficiency: IE
- 40% Efficiency: LU
- 20% Efficiency: AT BE FR DE GH JP MU PT SG GB
- Very low efficiency: AD AI AG AW BS BH BB BZ BM BW VG BN KY CK CR DM GI GD GT GG HK IM JE LB LR LI MO MV MH MC MS NR AN PA PH WS SM SC KN LC VC CH TC AE UY USV VU

Table 2: Efficiency of Tax Administration - Details							
ID	Jurisdiction	ISO	Efficiency	ID	Jurisdiction	ISO	Efficiency
1	Andorra	AD	0	38	Korea	KR	1
2	Anguilla	AI	0	39	Latvia	LV	1
3	Antigua & Barbuda	AG	0	40	Lebanon	LB	0
4	Aruba	AW	0	41	Liberia	LR	0
5	Austria	AT	0,2	42	Liechtenstein	LI	0
6	Bahamas	BS	0	43	Luxembourg	LU	0,4
7	Bahrain	BH	0	44	Macau	MO	0
8	Barbados	BB	0	45	Malaysia (Labuan)	MY	0,8
9	Belgium	BE	0,2	46	Maldives	MV	0
10	Belize	BZ	0	47	Malta	MT	0,8
11	Bermuda	BM	0	48	Marshall Islands	MH	0
12	Botswana	BW	0	49	Mauritius	MU	0,2
13	British Virgin Islands	VG	0	50	Monaco	MC	0
14	Brunei	BN	0	51	Montserrat	MS	0
15	Canada	CA	1	52	Nauru	NR	0
16	Cayman Islands	KY	0	53	Netherlands	NL	1
17	Cook Islands	CK	0	54	Netherlands Antilles	AN	0
18	Costa Rica	CR	0	55	Panama	PA	0
19	Cyprus	CY	0,8	56	Philippines	PH	0
20	Denmark	DK	1	57	Portugal (Madeira)	PT	0,2
21	Dominica	DM	0	58	Samoa	WS	0
22	France	FR	0,2	59	San Marino	SM	0
23	Germany	DE	0,2	60	Seychelles	SC	0
24	Ghana	GH	0,2	61	Singapore	SG	0,2
25	Gibraltar	GI	0	62	Spain	ES	1
26	Grenada	GD	0	63	St Kitts and Nevis	KN	0
27	Guatemala	GT	0	64	St Lucia	LC	0
28	Guernsey	GG	0	65	St Vincent & Grenadines	VC	0
29	Hong Kong	HK	0	66	Switzerland	CH	0
30	Hungary	HU	1	67	Turks & Caicos Islands	TC	0
31	India	IN	1	68	United Arab Emirates (Dubai)	AE	0
32	Ireland	IE	0,6	69	United Kingdom	GB	0,2
33	Isle of Man	IM	0	70	Uruguay	UY	0
34	Israel	IL	1	71	US Virgin Islands	USV	0
35	Italy	IT	1	72	USA	US	1
36	Japan	JP	0,2	73	Vanuatu	VU	0
37	Jersey	JE	0				

[1] http://www.oecd.org/dataoecd/2/37/47228941.pdf; 23.05.2011.