Key Financial Secrecy Indicator 11:
Tax Administration Capacity

What is measured?

This indicator considers the capacity of jurisdictions' tax administration to collect and process data for investigating and ultimately taxing those people and companies who usually have most means and opportunities to escape their tax obligations. The indicator assesses organisational capacity, informational data processing preconditions as well as the availability of rules for targeted collection of intelligence about complex and risky tax avoidance activities.

As concerns organisational features, two aspects are considered:

1. Regarding Large Taxpayers: the indicator assesses whether a jurisdiction has one centralised unit for large (corporate) taxpayers within the tax administration;
2. Regarding High Net Worth Individuals (HNWIs): it assesses whether a jurisdiction has one centralised unit for HNWIs.

With respect to informational data processing preconditions, the prevalence of taxpayer identifiers is considered:

3. Regarding taxpayer identifiers: the indicator assesses whether a) all natural persons subject to personal income tax and/or b) all legal persons subject to corporate income tax are provided with unique and mandatory Taxpayer Identifier Numbers (TINs) which are mandatory for filing their tax returns.

As for rules for targeted collection of intelligence about complex and risky tax avoidance activities, two types are analysed:

4. Regarding tax avoidance schemes: the indicator reviews whether a) taxpayers and/or b) tax advisers are required to report at least annually on certain tax avoidance schemes they have used/sold/marketed.
5. Regarding uncertain tax positions: it assesses whether a) taxpayers and/or b) tax advisers are required to report at least annually on details of uncertain tax positions for which reserves have been created in the annual accounts.

Accordingly, we have split this indicator into five components. The overall secrecy score for this indicator is calculated by simple addition of the secrecy scores of each of these components. The secrecy scoring matrix is shown in Table 1, with full details of the assessment logic given in Table 3 below.

Table 1: Secrecy Scoring Matrix KFSI 11

Regulation	**Secrecy Score Assessment** [Secrecy Score: 100% = full secrecy; 0% = full transparency]
COMPONENT 1: Large Taxpayer Unit (12.5%)	
Large Taxpayer Unit (LTU) There is one centralised unit for large (corporate) taxpayers within the tax administration.	0%
There is no LTU	12.5%
COMPONENT 2: High Net Worth Individuals Unit (12.5%)	
High Net Worth Individuals Unit (HNWI) There is one centralised unit for HNWIs within the tax administration.	0%
There is no HNWI Unit	12.5%
COMPONENT 3: Taxpayer Identification Numbers (25%)	
TINs for both natural persons and legal entities All natural persons subject to personal income tax are provided with unique and mandatory Taxpayer Identifier Numbers (TINs) which are mandatory for filing their tax returns. **AND** All legal persons subject to corporate income tax are provided with unique and mandatory Taxpayer Identifier Numbers (TINs) which are mandatory for filing their tax returns.	0%
TINs for either natural persons or legal entities, but not both	12.5%
No TINs for legal entities or natural persons	25%
COMPONENT 4: Reporting on tax avoidance schemes (25%)	
Taxpayers reporting schemes Taxpayers are required to report at least annually on certain tax avoidance schemes they have used.	Reporting by both taxpayers and advisers: 0% Reporting by either taxpayers or advisers: 15%
Tax Advisers reporting schemes Tax advisers (who help companies and individuals to prepare tax returns) are required to report at least annually on certain tax avoidance schemes they have sold/marketed.	
No reporting by taxpayers or tax advisers	25%

COMPONENT 5: Reporting on uncertain tax positions (25%)	
Taxpayers reporting uncertain tax positions Taxpayers are required to report at least annually on details of uncertain tax positions for which reserves have been created in the annual accounts.	Reporting by both taxpayers and advisers: 0% Reporting by either taxpayers or advisers: 15%
Tax Advisers reporting uncertain tax positions Tax advisers are required to report at least annually on details of uncertain tax positions for which reserves have been created in the annual accounts of the companies they advised.	
No reporting by taxpayers or tax advisers	25%

For assessing the indicator, our research draws on several sources: a) the TJN-Survey 2017; b) the OECD publication entitled "Tax Administration 2017"[1]; c) OECD's portal on Tax identification numbers[2] within its Automatic Exchange Portal; d) local websites of jurisdictions' tax authorities; d) local tax legislation of jurisdictions; e) the OECD publication entitled "Mandatory Disclosure Rule. Action 12: 2015 Final Report"[3]; f) IBFD Country Analyses[4]; g) Bloomberg BNA Global Tax Guide.[5]

All underlying data can be accessed freely in the FSI database. To see the sources we are using for particular jurisdictions please consult the assessment logic in Table 3 at the end of this document and search for the corresponding info IDs **(IDs 317 and 400 to 406)** in the database report of the respective jurisdiction.

Why is this important?

National tax administrations face a globalising domestic economy with increasing shares of value added and income received from external sources. 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 transnational corporations. A tax administration that does not adapt to this increasingly complex environment through organisational and technical innovations will rapidly lose its ability to effectively assess and collect taxes.

The absence of adequate organisational and technical capacity of a tax administration, whether by accident or design, can attract wealthy individuals and corporations wanting to escape taxation.

Components 1 and 2: Large Taxpayer Unit and Unit for High Net Worth Individuals

In the case of large taxpayers units (LTUs), the OECD argues in their favour because of the high concentration of revenue in the hands of a small number of taxpayers, the high degree of complexity of their business and tax affairs, major compliance risks from the viewpoint of the tax authority and the use of professional tax advisers by large taxpayers (ibid.: 84-85).

LTUs and units dedicated to the taxation of high net worth individuals (HNWIs) make sense on the grounds of efficiency for a number of reasons. The taxpayers dealt with by these units share common characteristics which require highly specialist and skilled expertise that can hardly be mobilised in a context of a decentralised tax administration.

We would not argue that these specialist units are a panacea to tax evasion and aggressive tax avoidance, but their absence might indicate a willingness on the part of a jurisdiction to tolerate such practices by large taxpayers and wealthy individuals. Such permissiveness on the part of governments effectively contributes to financial opacity.

While the threshold for defining a high net worth individual or a large taxpayer may vary between jurisdictions, there is undoubtedly a high concentration of revenue in the hands of a small number of taxpayers and their tax affairs are complex and often require a more in-depth analysis of relevant tax laws. In absolute terms, this group poses the greatest risks for tax losses because of the high concentration of taxable income/wealth in their hands. But recent research also suggests that in relative terms, both (large and multinational) corporations and wealthy individuals are more likely to engage in tax evasion and/or avoidance than their smaller competitors/those with lower levels of income and/or wealth.[6]

These risks are significantly exacerbated by the fact that both large corporations and high net wealth individuals are usually represented by teams of highly specialised lawyers, accountants and tax advisers. Therefore, dedicated units that foster cooperation among highly skilled tax experts in the tax administration increase the chances to match the expertise mustered by the private sector to ensure that tax laws will be strictly applied and complex disputes resolved in an evenhanded way.

Furthermore, if a jurisdiction operates several regional specialist units without central management, this could potentially create incentives for tax wars and lax and uneven enforcement of tax laws between the different subnational regions. In addition, multiple parallel institutions might create opacity through (unnecessary) complexity, interagency rivalry and restricted cooperation.

Component 3: Taxpayer Identifiers

With respect to the taxpayer identifiers, the OECD notes (2015: 290)[7]:

> "Regardless of whether the identification and numbering of taxpayers is based on a citizen 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."

Unique and mandatory taxpayer identifiers are a basic building block for data mining and other tools for efficiently analyzing risks, detecting instances of non-compliance and improving information exchange between government agencies. They are therefore an effective deterrent to cross-border tax evasion.

Component 4: Reporting of tax avoidance schemes

Regarding mandatory reporting of tax avoidance schemes, there are several significant reasons to support the imposition of such a requirement: **firstly**, the reporting requirements help the tax administration to identify areas of uncertainty in the tax law that may need clarification or legislative improvements, or regulatory guidance, or further research.[8] **Secondly**, providing the tax administration with early information about tax avoidance schemes allows it to assess the risks they pose before the tax assessment is made and focus audits more efficiently. This is significant mainly because in many jurisdictions, tax administrations do not have enough capacity to fully audit a large part of the tax files and hence flagging up certain files which impose a higher risk for tax avoidance is likely to increase the efficiency of tax administration and its ability to increase tax revenues. **Thirdly**, requiring mandatory reporting of tax schemes is likely to deter taxpayers from using these tax schemes because they know there are higher chances that files will be flagged, exposed and assessed accordingly. **Fourthly**, such mandatory reporting may reduce the supply of these schemes by altering the economics of tax avoidance of their providers because a) they will be more exposed to claims of promoting aggressive tax schemes, increasing the risk of reputational damage, and b) their profits and rate of return on the promotion of these schemes is likely to be reduced because schemes are closed down more quickly (this is all the more true if contingency fees are part of contracts).

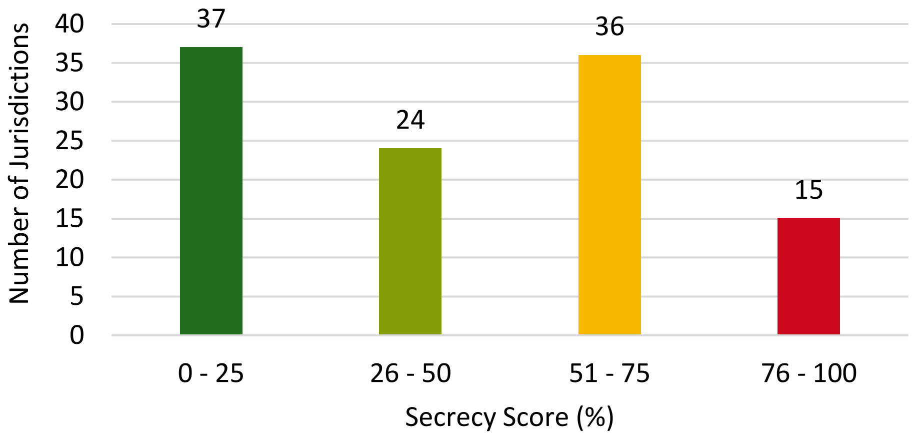
The big risk in setting up a mandatory reporting regime for tax avoidance schemes consists in the potential for ambiguity of what constitutes a tax avoidance scheme. In order to mitigate against this risk, the reporting obligation should not only fall on either the client using an avoidance scheme or the promoter (tax advisers) of the scheme, but on both. If both are obliged to report independently on marketed/used tax avoidance schemes, the detection risk of hidden dubious schemes rises. Precisely because there are numerous and regular conflicts between the tax administration and taxpayers/advisers on the interpretation of tax laws, it should be expected that many schemes will be designed in grey areas which certain promoters might chose to interpret as not being subject to the remit of the reporting obligation. Third party reporting obligations increase the detection risk of these dubious schemes and thereby incentivises the reporting of a broader set of schemes.

Component 5: Reporting of uncertain tax positions

A reporting obligation of uncertain tax positions as reported in the annual financial accounts further mitigates against the risk of failure to define and report properly on all relevant tax avoidance schemes. The International Financial Reporting Standards, which most multinational companies are adhering to in their annual financial reporting, require the reporting of uncertain tax positions. Whenever a tax payment related to a tax risk is "probable", these positions need to be included in their financial accounts.[9] Because under international financial reporting standards, prudence[10] is an important principle for the preparation of accounts, and because shareholders may hold management to account for prudential reporting, it is likely that even more tax avoidance schemes end up being reported to the tax administrations if there was a consistent requirement to report details on uncertain tax positions to the tax administration. Similarly, if both tax advisers and taxpayers are under an obligation to annually report on any uncertain tax positions of accounts they prepared or submitted, the detection risks of errors in or failures to report increases.

Results Overview

Graph 1: Tax Administration Capacity
Secrecy Scores Overview



Suitable data was not available for some jurisdictions. In these instances the jurisdiction has been classified as if no reporting takes place because the relevant Ministries of Finance were given ample time and opportunity to respond to our questionnaires. [11]

All underlying data can be accessed freely in the FSI database (IDs 317 and 400 to 406).

Table 2: Tax Administration Capacity – Secrecy Scores

Country Name	Score	ISO	Country Name	Score	ISO
Andorra	0,75	AD	Lebanon	0,375	LB
Anguilla	0,75	AI	Liberia	0	LR
Antigua & Barbuda	1	AG	Liechtenstein	0,375	LI
Aruba	0,75	AW	Lithuania	0,375	LT
Australia	0	AU	Luxembourg	0	LU
Austria	0	AT	Macao	0,375	MO
Bahamas	1	BS	Macedonia	0	MK
Bahrain	1	BH	Malaysia (Labuan)	0,75	MY
Barbados	0,75	BB	Maldives	0,375	MV
Belgium	0,375	BE	Malta	0,75	MT
Belize	1	BZ	Marshall Islands	0,375	MH
Bermuda	0,75	BM	Mauritius	0,75	MU
Bolivia	0,375	BO	Mexico	0	MX
Botswana	0,75	BW	Monaco	1	MC
Brazil	0	BR	Montenegro	0	ME
British Virgin Islands	0,75	VG	Montserrat	1	MS
Brunei	0,75	BN	Nauru	0,375	NR
Bulgaria	0,75	BG	Netherlands	0,75	NL
Canada	0	CA	New Zealand	0	NZ
Cayman Islands	1	KY	Norway	0	NO
Chile	0	CL	Panama	0,75	PA
China	0	CN	Paraguay	0,75	PY
Cook Islands	0,375	CK	Philippines	0	PH
Costa Rica	1	CR	Poland	0	PL
Croatia	0,375	HR	Portugal (Madeira)	0,75	PT
Curacao	0,75	CW	Puerto Rico	0	PR
Cyprus	1	CY	Romania	0,75	RO
Czech Republic	0,375	CZ	Russia	0	RU
Denmark	0	DK	Samoa	1	WS
Dominica	0,75	DM	San Marino	0	SM
Dominican Republic	0,75	DO	Saudi Arabia	0,75	SA
Estonia	0	EE	Seychelles	0,75	SC
Finland	0	FI	Singapore	0,375	SG
France	0	FR	Slovakia	0,375	SK
Gambia	0	GM	Slovenia	0	SI
Germany	0	DE	South Africa	0,75	ZA
Ghana	0	GH	Spain	0	ES
Gibraltar	0,75	GI	St Kitts and Nevis	1	KN
Greece	0,75	GR	St Lucia	1	LC
Grenada	0,75	GD	St Vincent & Grenadines	0,75	VC
Guatemala	0,75	GT	Sweden	0	SE
Guernsey	0,75	GG	Switzerland	0,75	CH
Hong Kong	0,375	HK	Taiwan	0,375	TW
Hungary	0	HU	Tanzania	0	TZ
Iceland	0,375	IS	Thailand	0,75	TH
India	0	IN	Trinidad & Tobago	0,375	TT
Indonesia	0,75	ID	Turkey	0	TR
Ireland	0,75	IE	Turks & Caicos Islands	1	TC
Isle of Man	0,375	IM	Ukraine	0	UA
Israel	0,375	IL	United Arab Emirates (Dubai)	1	AE
Italy	0,75	IT	United Kingdom	0,375	GB
Japan	0,375	JP	Uruguay	0,375	UY
Jersey	0,75	JE	US Virgin Islands	0	VI
Kenya	0,375	KE	USA	0	US
Korea	0,75	KR	Vanuatu	1	VU
Latvia	0	LV	Venezuela	0	VE

Moderately Secretive 0 – 0,40	Secrecy Score 0,41 – 0,50	Secrecy Score 0,51 – 0,60	Secrecy Score 0,61 – 0,70	Secrecy Score 0,71 – 0,80	Secrecy Score 0,81 – 0,90	Extremely Secretive 0,91 – 1

Table 3: Assessment Logic

Info_ID	Text_Info_ID	Answers (Codes applicable for all questions: -2: Unknown; -3: Not Applicable)	Valuation % Secrecy
317	**Large Taxpayer Unit**: Does the tax administration operate one central unit for large taxpayers (large taxpayer unit, LTU)?	YN	If Y: -12.5%
400	**HNWI Unit**: Does the tax administration operate one central unit dedicated to the taxation of High Net Worth Individuals (HNWI)?	YN	If Y: -12.5%
401	**Individual TIN**: Are all natural persons subject to personal income tax provided with unique and mandatory Taxpayer Identifier Numbers (TINs) which are mandatory for filing their tax returns?	YN	If Y: -12.5%
402	**Corporate TIN**: Are all legal persons subject to corporate income tax provided with unique and mandatory Taxpayer Identifier Numbers (TINs) which are mandatory for filing their tax returns?	YN	If Y: -12.5%
403	**Taxpayers reporting schemes**: Are taxpayers required to report at least annually on certain tax avoidance schemes they have used?	0: No; 1: Yes, but the schemes are only reported to the tax administration, and are not published; 2: Yes, and the schemes are made publicly available.	If answer is 1: -10% for each. If both answers are 1: bonus of -5%.
404	**Tax advisers reporting schemes**: Are tax advisers (who help companies and individuals to prepare tax returns) required to report at least annually on certain tax avoidance schemes they have sold/marketed (if applicable)?	See categories above.	

405	**Taxpayers reporting uncertain tax positions**: Are taxpayers required to report at least annually on details of uncertain tax positions for which reserves have been created in the annual accounts?	0: No; 1: Yes, but the details are only reported to the tax administration (they are not published); 2: Yes, and the details are made publicly available.	If answer is 1: -10% for each. If both answers are 1: bonus of -5%.
406	**Tax advisers reporting uncertain tax positions**: Are tax advisers required to report at least annually on details of uncertain tax positions for which reserves have been created in the annual accounts of the companies they advised?	See categories above.	

[1] http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/tax-administration-2017_tax_admin-2017-en#.WldJJK6nHIU; 11.01.2018.

[2] http://www.oecd.org/tax/automatic-exchange/crs-implementation-and-assistance/tax-identification-numbers/; 19.12.2017.

[3] http://www.oecd-ilibrary.org/docserver/download/2315371e.pdf?expires=1513933793&id=id&accname=guest&checksum=7D18A82E8F1E50F8E71E0F0AD836D08A; 19.12.2017.

[4] http://www.ibfd.org/IBFD-Tax-Portal/About-Tax-Research-Platform; 12.05.2015.

[5] https://www.bna.com/tax/; 19.12.2017.

[6] Regarding individuals, see: Zucman, Gabriel/Johannesen, Niels/Alstadsaeter, Annette 2017: Tax Evasion and Inequality, in: gabriel-zucman.eu/files/AJZ2017.pdf; 31.5.2017. With respect to companies, see: Gebhardt, Heinz/Siemers, Lars-HR 2016: Volkswirtschaftliche Diskussionsbeiträge Discussion Papers in Economics, in: https://www.researchgate.net/profile/Heinz_Gebhardt/publication/313420303_Die_relative_Steuerbelastung_mittelstandischer_Kapitalgesellschaften_Evidenz_von_handelsbilanziellen_Mikrodaten/links/5899d5a9a6fdcc32dbdeaccd/Die-relative-Steuerbelastung-mittelstaendischer-Kapitalgesellschaften-Evidenz-von-handelsbilanziellen-Mikrodaten.pdf; 14.9.2017. And: Egger, Peter/Eggert, Wolfgang/Winner, Hannes 2010: Saving taxes through foreign plant ownership, in: Journal of International Economics 81: 1, 99-108.

[7] Organisation for Economic Co-Operation and Development 2015: Tax Administration 2015. Comparative Information on OECD and Other Advanced and Emerging Economies, Paris, in: http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/tax-administration-2015_tax_admin-2015-en#page1; 11.01.2018.

[8] https://www.ato.gov.au/Business/Large-business/Compliance-and-governance/Reportable-tax-positions/Reportable-tax-position-schedule/; 22.12.2017.

[9] https://blogs.pwc.de/accounting-aktuell/ifrs/bewertung-einer-steuerrisikoposition-uncertain-tax-position/685/; 19.12.2017.

[10] http://www.accaglobal.com/content/dam/acca/global/PDF-technical/financial-reporting/tech-tp-prudence.pdf; 19.12.2017.

[11] To see the sources we are using for particular jurisdictions please check out the assessment logic table in Annex C here http://www.financialsecrecyindex.com/PDF/FSI-Methodology.pdf and the corresponding information for individual countries in our database, available at: http://www.financialsecrecyindex.com/database/.