



Extract from the report to the
Public Accounts Committee on
SKAT's (Danish tax authority)
compliance strategy

December
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I. Introduction and results

1. This report is about SKAT's (Danish tax authority) objectives, strategy, and planning of the activities directed at citizens and companies that are not paying the taxes required by law.

2. SKAT has set new objectives and implemented a new compliance strategy which since 2007 has provided the basis of SKAT's efforts to maximize direct and indirect tax revenues. Up to 2007, the central government budget set objectives for the number of controls to be performed by SKAT and for the resulting tax revenues.

With SKAT's new compliance strategy, the former objectives set for activities and revenues have been replaced with objectives that measure the effectiveness of the activities. Thus it appears from the central government budget for 2008 that the overall objective is to ensure that the tax gap does not exceed 3.1 percent of the gross domestic product (GDP). Goals have also been set for the citizens' and companies' attitude to SKAT in the form of two customer indexes.

3. The objective of the new compliance strategy is to minimize the tax gap. It also reflects a significant change in SKAT's overall approach to the taxpayers. In the future, SKAT will attempt to increase revenues from the ordinary tax collection through the prevention of errors. So far, SKAT has primarily focused on enforcing compliance and corrected errors in submitted tax declarations.

3. SKAT's strategy is relatively new in a Danish and international context. The strategy reflects a new way of thinking, and SKAT is still in several areas in a development phase. Not all the elements of the strategy are in place at this point. The strategy is of major significance to SKAT's operations and the government's total tax revenues, and Rigsrevisionen has therefore conducted a major examination of the change of strategy.

4. The objective of the examination is to assess whether SKAT's performance management, objectives, compliance strategy, and planning are overall satisfactory, and whether there is scope for improvement.

The objective of the examination has been divided into three sub-objectives:

- Do the objectives set for SKAT provide an appropriate basis for the compliance strategy?
- Is the compliance strategy based on international recommendations regarding good practice?
- Is the planning of the activities satisfactory?

The examination was initiated in February 2008 at Rigsrevisionen's initiative.

Tax Gap

The tax gap is the difference between the tax revenues which would be generated if all taxpayers paid taxes in compliance with the tax laws, and the actual tax revenues generated.

The tax gap is made up of missing tax payments relating to personal income tax, company tax, VAT, and other taxes.

The tax gap can be split into:

- Moonlighting
- Tax evasion
- Unintentional errors in tax declarations, etc.

The tax gap in the central government budget includes only missing taxes relating to personal income. This tax gap amounts to 3.1 percent of the GDP, or DKK 52.6 billion in 2007. The actual tax gap therefore exceeds the current estimate.

RESULTS OF THE EXAMINATION

Based on international recommendations regarding good practice, SKAT has changed its strategy. The change of strategy has increased SKAT's focus on preventive activities designed to reduce the extent of underpayment of tax. At the same time, SKAT has initiated ongoing measurements of effectiveness which may provide knowledge of the effect of the efforts made. SKAT is also implementing a sample survey in order to obtain more detailed knowledge of the missing tax payments.

As of yet, only limited experience has been gained from the measurement of effectiveness and the change of focus from control to prevention through guidance, changing taxpayers' attitudes, and making the control measures visible. Rigsrevisionen's examination has shown that overall the effort made by SKAT is satisfactory and that SKAT can improve its effort in a number of areas. In this assessment, Rigsrevisionen has attached importance to the fact that SKAT has implemented ongoing adjustments of its strategy.

According to Rigsrevisionen's assessment, SKAT must improve management by increasing the coherence between SKAT's objectives and activities. Moreover, finding the right balance between prevention and control, including segmentation of the companies into partners and adversaries, is a constant challenge to SKAT.

This overall assessment is based on the following:

SKAT's objectives provide an appropriate basis for the compliance strategy. The objectives should be developed further to enable the establishment of a coherent performance management concept covering all taxes and taxpayers.

- The tax gap is an important objective of effectiveness. SKAT has stated that the calculation of the tax gap is, in time, intended to comprise all taxes.
- In 2008, SKAT will conduct a sample survey of taxpayers' compliance with the tax laws. The survey will contribute to a more detailed understanding of the underpayment of taxes and the composition of the tax gap.
- The two customer indexes, which are included in the central government budget and are showing the citizens' and companies' attitude to SKAT, are relevant for the performance management and relevant in the continuous efforts to improve and further develop the activities.
- SKAT should develop its management concept to ensure that the long term objectives concerning the tax gap and customer indexes are turned into concrete objectives. Further development of the performance management will facilitate a systematic evaluation of the objectives. SKAT has indicated that it is the intention to create an integrated performance management model and a coherent hierarchy of objectives in the course of a number of years.

The compliance strategy is based on international good practice recommendations regarding the preventive activities. However, it should be made clear how SKAT decides whether to use control or preventive measures.

- SKAT's preventive activities are based on international experience and good practice recommendations. Thus focus is on building trust in SKAT, making the control measures visible and influencing behavioural norms.
- Rigsrevisionen is of the opinion that it should appear more clearly from the compliance strategy how SKAT decides whether to use preventive or controlling measures, including how the approach to service and guidance is applied in connection with the segmentation of the companies into partners and adversaries. SKAT has indicated that it is currently elaborating a coherent description of the strategic elements.
- The effort made by SKAT may be further improved if taxpayer behaviour is being further analysed, and SKAT on that background targets its action at specific taxes and groups of taxpayers. SKAT has stated that it has initiated activities to uncover the taxpayers' behaviour.

SKAT's planning of the activities is overall satisfactory. The system used by SKAT to segment the companies into partners and adversaries should be developed further.

- The planning of the nationwide projects is implemented in accordance with a systematic and uniform method for identification of risk, which increases the possibilities of identifying and prioritizing the potential high risk areas –in compliance with the OECD recommendations. SKAT has stated that the model will also be used in the planning of projects for 2009.
- The projects are elaborated on the basis of a fixed template, which works as intended, as it contains a number of requirements which enable systematic planning and follow up on the projects.
- SKAT's data systems provide many possibilities of data selection which facilitate prioritization and selection of companies. The possibilities of data selection support SKAT's implementation and evaluation of the projects.
- The system used by SKAT to segment the companies into partners and adversaries should be developed continuously. Amongst other, because a number of companies that should have been categorized as adversaries are categorized as partners. SKAT has stated that the system will be changed to ensure that companies are categorized correctly.
- SKAT should compare the effectiveness and costs related to the projects in order to assess and pick out the projects that can serve as a basis for the dissemination of good practice.