Improving tax compliance – the role of OECD’s Committee on Fiscal Affairs (CFA)

OECD’s Committee on Fiscal Affairs (CFA) through its Working Parties and its Forum on Tax Administration (FTA) now plays an increasingly important role in supporting the tax policy and tax administration agenda in its member countries and in non-OECD economies. In doing so it is responding to a demand in many countries for improved compliance as a contribution to recovery from the economic crisis.

The CFA has, particularly in the last eight years, moved from focusing largely on the tax policy area to also becoming an influential voice in the field of tax administration. Its contributions in the tax administration area include researching and publishing good practice in tax administration, tracking the emergence of aggressive tax planning schemes and increasingly considering the administration dimension of tax policy development.

Why is compliance important?

The extent to which taxpayers comply with tax law and avoid aggressive tax planning and tax evasion, is an important factor in determining government revenue flows and the fairness of the tax system. Tax policy and how it is administered both influence the degree of compliance.

The OECD Committee on Fiscal Affairs (CFA) brings together the tax policy and tax administration expertise of its participating countries (both OECD and non-OECD) allowing its Working parties and Forums to focus on both the evolution of tax policy and on good practice in all the key areas of tax administration. This has proved to be valuable as it is increasingly seen as important to consider the practical administrative implications of new tax laws and policies as these are being developed.

The CFA has moved from being largely a tax policy body to now being an important influence on trends in tax administration with a range of programmes and products which support OECD and non-OECD countries involved in initiatives to improve tax compliance.

Why is there a particular focus on tax compliance at present?

Developments in recent years have underlined the critical contribution of tax compliance in ensuring the delivery of targeted government revenues and in underpinning public confidence in the fairness of the tax system both nationally and between countries. The financial crisis and the earlier financial scandals in the US and elsewhere, while not having their origins in tax issues, have nevertheless all highlighted behaviours which raise questions about the degree of compliance by large business, very wealthy people and their tax advisors.

In addition there is a growing demand from individual countries, international organisations, non-governmental organisations and intergovernmental bodies such as the G20 and the G8 for new approaches to the delivery of high compliance standards at both national and international levels.

Would tax policy/ tax administration linkages improve compliance?

Increasingly it is important to ensure effective communication between tax policy makers and...
tax administrators. This relationship is important to ensure that tax policy evolution can benefit from the experience of administrators of the practical issues which surface as tax laws are administered. It is also important that administrators understand the rationale which underpins particular tax policies.

What role does the CFA play in the tax area?

The CFA plays a major role in supporting the tax policy and tax administration agenda in its member countries and in non-OECD economies.

Traditionally the CFA focused its energies largely on the tax policy area through a range of Working parties and through the Forum on Harmful Tax Practices. In particular it has facilitated the reaching of consensus between its member countries on internationally recognised standards in a number of important areas of taxation e.g. the OECD’s Model Tax Convention and its 1995 Transfer Pricing Guidelines. Since 2002 it has, through its Forum on Tax Administration (FTA), become increasingly influential in the field of tax administration.

What role does the CFA play in tax administration?

The FTA provides the CFA with a dedicated high-level group focusing on tax administration issues. With 41 countries represented at Commissioner level, now participating, it brings together subject experts in these tax administrations to examine and report on a wide range of international and domestic tax issues encompassing tax compliance and taxpayer services and the technologies which support these programmes. It also provides tax administrations with comparative information to allow them to benchmark their programmes against similar programmes in other administrations.

Has the CFA’s role in compliance improved its contribution to the tax agenda?

The emergence of the FTA, with its tax administration remit, has brought to the CFA a dual tax policy/tax administration role and this perspective has significantly broadened the scope of the support services which the CFA can provide to OECD and non-OECD governments. The overall work of the CFA has highlighted the fact that the ultimate test of effectiveness for tax policy initiatives is the extent to which tax administrators can implement them in a way which can deliver the policy objective.

How, in practice, do CFA programmes contribute to supporting tax compliance?

The CFA has a substantial track record in responding to the demand for improved compliance. It has defined compliance standards and prompted and supported initiatives to tackle aggressive tax planning and tax evasion.

There are six broad strands to the CFA’s work on tax compliance:

- Providing guidance on policies and strategies aimed at promoting voluntary compliance. This involves issues in the design of tax systems and more generally measures to reduce incentives for non-compliant behaviour.
- Defining internationally recognised rules of the game for policies which have a limited relevance unless there is a high degree of compliance e.g. the guidelines on tax treaties, on transfer pricing and on other aspects of the taxation of multinational enterprises and on cooperation to tackle aggressive tax planning.
- Compiling a Directory of Aggressive Tax Planning schemes and related analytical work which informs the compliance risk
analysis programmes of many OECD and non-OECD countries.

- Researching good practice in a range of areas of tax administration in the FTA’s work programme and publishing this in Information and Guidance Notes and in reports from special studies. This work includes analysis and reports on important segments of taxpayers (e.g. banks and high net wealth individuals) and on taxpayer services which are increasingly seen as enablers of compliance.

- Supporting compliance management work in many countries through the work of the Global Forum on Transparency and Exchange of Information which is helping to facilitate effective exchange of information between all participating countries, including former tax havens.

• Making much of the learning experience of the CFA and its subsidiary bodies in relation to compliance practice available to non-OECD economies through the Global Relations programme.

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