Enhanced Relationship Model and the Risk Management Approach towards an International Dialogue between Revenue Bodies

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Overview

- The Enhanced Relationship Model
  - The Theory
  - Pre-requisites?
- The Risk Management Approach
  - The Theory
  - Risk-Rating Process and Transparency
- International Dialogue
  - Need for information from revenue bodies of other jurisdictions
  - Simplified requirements for information exchange in case of high-risk-taxpayer?
- Discussion
The Enhanced Relationship Model
The Theory

- **The OECD Model**
  - More collaborative, trust-based relationship between revenue bodies and taxpayers
  - Key elements:
    - Transparency
    - Trust
  - Benefit for Revenue Bodies
    - Appropriate resource allocation
    - Estimation of the risk of the taxpayer
  - Benefit for Taxpayers
    - Earlier certainty
    - Reduced compliance costs
The Enhanced Relationship Model
Pre-requirements?

- **Environment of Trust**
  - Transparent tax administration
  - Certainty for the taxpayer’s tax affairs

→ **Binding Ruling – a pre-requirement?**
  - at least between revenue bodies and taxpayers who enter into an enhanced relationship
  - Why should the taxpayer disclose voluntarily?
  - Tax administrations without a binding ruling regime may have a hard starting point
The Risk Management Approach

The Theory

- Identification and Treatment of Risk (Compliance Risk)

- Risk-Rating Indicators:
  - Taxpayer’s commercial structure, size and activities
  - The Taxpayer’s behaviour
  - The quality of the taxpayer’s processes and accounting systems
  - The extent of agreement over interpretation of law

- Inherent risk factors and factors the taxpayer can influence
The Risk Management Approach
Enforcement Strategies and Transparency

- **Taxpayer’s Risk-Rating influences:**
  - The way revenue bodies interact with the taxpayer
  - Sanctions

- **Need for a transparent Risk Rating Process**
  - Taxpayer has to understand why he is rated as high/low-risk-taxpayer
  - Taxpayer has to understand the consequences of his risk rating
  - Taxpayer has to understand how he can influence his risk rating
International Dialogue between Revenue Bodies

- High-Risk-Taxpayer operating offshore
- Lack of information
  - Worldwide taxation impossible
  - Tax avoidance and evasion
- Enhanced Relationship between Revenue Bodies

- Exchange of information based on Tax Treaties (Art 26)
  - On-request
  - Spontaneous
  - Automatic
International Dialogue between Revenue Bodies

- Taking the Risk-Rating into account for tax information exchange purposes
International Dialogue between Revenue Bodies

- **Simplified Requirements for an international information exchange for high-risk-taxpayer**
  - Information exchange on-request
    - Providing the name of the high-risk-taxpayer
    - Providing evidence why he is a high-risk-taxpayer
    - Providing evidence that the high-risk-taxpayer is operating in the requested state
  - Information exchange may not be limited to specific transaction the state of residence is aware of
    → Source state provides all foreseeable information relating to this taxpayer (requirements - spontaneous information exchange)
International Dialogue between Revenue Bodies

- Information exchange with “Tax Havens”
  - Tax Information Exchange Agreements (TIEA)
  - Too early to judge their efficiency
- BUT
  - Tax Havens have to sign 12 TIEAs in order to lose their “tax-haven-status”
  - There are more than 200 tax administrations all over the world
  - Tax Havens sign TIEA with other Tax Havens
    - Liechtenstein - Andorra
    - Liechtenstein - St Vincent & the Grenadines

→ Too early for a simplified international information exchange for high-risk-taxpayers
Discussion

• Are there other pre-requirements for implementing an enhanced relationship model?

• Are simplified requirements for an international information exchange justified in the light of the rights of taxpayers?
Many thanks for your attention!

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