

TAX ADMINISTRATIONS NEED TO BE BOTH EFFICIENT AND EFFECTIVE

An **efficient** tax administration minimizes the cost per unit of tax revenue. An **effective** administration attains a high level of compliance. In some ways this is a **trade off**—using more resources can increase compliance, but will also increase the costs.

What are the main functions of tax administrations?



- Registration of taxpayers
- Assessment of returns and payment processing
- Verification: audit, data matching, investigation
- Collection: from non-filers and delinquent payers
- Disputes: dealing with tax disputes, resolution internally or via the court system

How do tax administrations perform these functions?



- They facilitate compliance: They make it easier for taxpayers to pay by increasing voluntary compliance and ensuring that taxpayers who should pay do pay. Voluntary compliance can be increased with self assessment of tax obligations and a well-designed compliance strategy based on risk assessment. Making assessment easier includes simpler procedures for collection, simpler forms and e-filing. Good tax payer services make it easier for taxpayers to comply, including availability of forms and information.
- They use modern risk assessment tools like data analytics and multiple sources of data (from other types of taxes, for example household surveys or banking information) to concentrate resources on those most likely to be non-compliant, while lightening the obligations of compliant taxpayers.
- Penalties need to be high enough to act as a disincentive; so that it is not cheaper to break the law and pay the penalty than to comply.
- Finally, they should strive to improve internal governance and keep officials honest. This reinforces the legitimacy of tax administrations and governments.

Good tax administration policy is also good tobacco tax administration policy:



There are now two international treaties that deal with tobacco taxation:

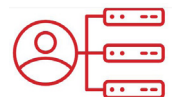
- The Framework Convention on Tobacco Control (FCTC) came into force in 2005. There are currently 181 countries that have ratified the Treaty. Article 6 of the FCTC deals with price and tax measures to reduce demand for tobacco products. The Guidelines to Article 6 were adopted in 2014.
- The FCTC Protocol to Eliminate Illicit Trade in Tobacco Products (Protocol) came into force in September 2018.

Why a protocol?



- Cigarettes are expensive, light, and easy to transport. Illicit trade—both that done by the major tobacco companies and criminal groups—is lucrative and relatively easy.

The main pillars of the Protocol are directly related to tax administration:



- Securing the supply chain—by using licensing of all those involved with tobacco growing and product manufacture or sales; and track and trace systems to be able to know where a tobacco product is at any time from production or import to retail sale and to be able to retrace every step in the process.
- Law enforcement—establishing unlawful conduct with sanctions that will be effective as disincentives.
- International cooperation—on technical, administrative, law enforcement and legal matters.

Sources:

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- * OECD Tax Administration 2017-Comparative Information on OECD and other advanced and emerging Economies.
- * Patrick Petit and Janos Nagy, How to Notes 3, Fiscal Policy: How to Design and Enforce Tobacco Excises?, International Monetary Fund, Fiscal Affairs Department, November 2016. Available at: https://www.imf.org/~media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/howtonotes/2016/_howtonote1603.ashx.