

RiR 2009:24 Summary

International tax enforcement
The Swedish Tax Agency's information exchange with
other countries

Summary

Society is becoming ever more internationalised. While tax authorities largely operate only within their respective national jurisdictions, taxpayers' sphere of activity is becoming increasingly global. As a result, tax authorities around the world increasingly rely on opportunities to exchange information with each other in order to prevent tax evasion and fraud. The Swedish Tax Agency estimates that the internationally linked part of the 'tax gap' (the difference between the amount of taxes that should be paid and the one that actually is paid) is about SEK 46 billion each year. This corresponds to about 35 per cent of the total tax gap. The Tax Agency's analyses of the tax gap show that areas where reporting, payment and verification systems are well developed, for instance through a duty for employers, credit institutions and others to submit income statements (including tax withheld) for their employees, customers, etc., to the tax authorities, have a lower tax gap than areas with no duty to submit such income statements. The European Union and the OECD emphasise information exchange as a key tool for tax authorities worldwide when it comes to managing and securing their tax collection. Effective use of income statements from other countries may fill information gaps at the Tax Agency, helping to reduce the internationally linked tax gap. If taxpayers know about the tools that information exchange makes available, and are aware that those tools are actually being used, this will help create a preventive effect. To manage increasing volumes of information exchange, there is a need for systematic and efficient handling, both of the income statements received by Sweden and of those sent by Sweden to other countries.

It is against this background that *Riksrevisionen* (the Swedish National Audit Office, SNAO) has performed an audit of the efficiency of the Tax Agency's information exchange with other countries in the field of direct taxation, i.e. in relation to taxes on income and assets.

The SNAO's conclusions

The SNAO's overall finding is that there are significant shortcomings in the Tax Agency's handling of the information exchange in question. This has had a negative impact on the Tax Agency's ability to handle its growing information exchange with other countries. The SNAO finds that the inefficiency of this information exchange may lead to serious consequences for the Tax Agency's ability to maintain the preventive effect of the information exchange and thus for its ability to secure tax revenues.

Automatic income statements are not entered into the tax-assessment system

The SNAO finds that there are significant delays in the entry of data from foreign automatic income statements into the Tax Agency's tax-assessment system. Many data are never entered into the system or may already be too old to be used for assessment purposes at their time of entry. The existence of major delays in the entry of automatic income statements reduces the effectiveness of the Tax Agency's verification efforts and increases the risk that foreign income statements cannot be used in the context of those efforts.

There is no automatic identification

The SNAO finds that the Tax Agency is forced to allocate large manual resources to the identification of foreign income statements. The need for efficiency improvement through automatic identification grows as the number of automatic income statements increases. Automatic identification would make foreign income statements available for examination at an earlier stage, as close as possible to the time of the main tax assessment.

Many income statements are never examined

The Tax Agency's examination of foreign income statements for natural persons has entailed large upward revisions of capital and income taxes. However, if the entry of foreign income statements into the tax-assessment system is delayed, many statements will never be used for tax-enforcement purposes. Automatic income statements for legal persons have been used successfully in individual enforcement projects, but there are no systematic efforts at present.

No inventories have been performed of the contents of foreign income statements

There are no inventories establishing the total number of automatic income statements and no analysis of the contents of those statements for either natural or legal persons. There is no knowledge either about the number of automatic income statements for businesses that are identified and examined at present or about the usefulness of the information in question. The SNAO concurs with the Tax Agency's own conclusion that there is a need for inventory and analysis of foreign income statements to assess the risk of tax gap in various parts of the material.

There is no system enabling efficient follow-up

The Tax Agency lacks a central follow-up system for its information exchange. Its tax-assessment system for automatic income statements does not lend itself to statistical processing and has limited search functionality. Many automatic income statements are never entered. The Tax Agency's registration system to record 'spontaneous' income statements and requests for assistance from foreign authorities is not reliable. The SNAO finds that it is not possible at present to create an overall picture of either the automatic

or the spontaneous information exchange. Because of the lack of a central case-management system, the Tax Agency has a limited ability to meet internal and external requirements to follow up its information exchange.

Spontaneous income statements are becoming fewer

The OECD, the European Commission and the Tax Agency all wish to increase the spontaneous exchange of information. However, there are indications that the extent of the spontaneous exchange of income statements is decreasing in 2009. Unlike the automatic exchange of information, the spontaneous one is highly dependent on initiatives taken by individual case officers and auditors. In general, incentives for case officers to send spontaneous income statements and request assistance from other countries are weak. The SNAO finds several explanations for this. One is that there is a conflict between the objective of increasing the information exchange and national requirements in terms of case turnaround times. Others are that case officers are not particularly skilled at handling spontaneous income statements and that the new EU forms are difficult to fill in. The Tax Agency has recently reallocated resources away from enforcement to increase the number of informational visits. It is not permitted to obtain income statements during an informational visit, which may also explain part of the fall in the volume of spontaneous income statements. Of the Tax Agency's operational activities, about 40 per cent are major operations and national projects which are explicitly controlled by headquarters. Its other ongoing operations are not subjected to such explicit control. The SNAO considers that this may have worked to the detriment of international work, which sometimes requires a great deal of time, favouring instead national activities and objectives.

Delays in IT development

The SNAO considers that the shortcomings in the Tax Agency's handling of the information exchange are largely due to the low priority assigned in recent years to developmental efforts in that area. One reason why the Tax Agency has not progressed further in its developmental efforts is that the practical handling of the information exchange is spread across several locations, both organisationally and geographically. The Tax Agency's scattered organisation for the handling of foreign income statements has contributed to a failure to take an overall view and entailed insufficient visibility for the problems involved. This lack of an overall view is part of the reason why necessary developmental efforts and investments have been delayed, including the development of a system for automatic identification and better system support as regards analysis and follow-up.

The Tax Agency's developmental projects

During the course of the SNAO's audit, the Tax Agency has initiated several developmental projects in relation to the handling of foreign income statements and opportunities to analyse and follow up the information exchange. The SNAO takes a positive view of this. Provided that those

projects are carried through, they will put the Tax Agency in a better position to engage in effective and efficient information exchange with other countries.

The SNAO's recommendations

Against the background of the observations and conclusions presented above, the SNAO addresses the following recommendations to the Tax Agency:

Make information exchange a priority development area

The SNAO's overall conclusion is that developmental work in relation to information exchange has been given low priority in recent years. This has contributed to inefficiencies in the handling and examination of foreign income statements. Given the risks involved in terms of an increased tax gap and a reduced preventive effect, the Tax Agency should make information exchange a priority development area.

Improve case management in relation to foreign income statements

The Tax Agency should develop a case-management system for automatic income statements capable of automatically identifying some of the information as well as of entering automatic income-statement data in various formats. Better data entry and identification will make the information from such income statements available for examination sooner. The new case-management system must also be able to meet the need for statistics and analysis in this field.

Improve follow-up of the information exchange

The SNAO notes that the Tax Agency lacks a central system to follow up its information exchange. The Tax Agency has recently carried out an inventory of its need for follow-up information in relation to this information exchange. The Tax Agency should now urgently develop a technical solution capable of meeting the needs for follow-up identified by that inventory.

Perform an inventory of the contents of foreign income statements

The SNAO considers it very important for the Tax Agency to establish the total number of automatic income statements received by it and to perform an analysis of the information contained in those statements. Such an analysis is necessary to assess the risk of tax error in various parts of the material as well as to make decisions on the handling of the information.

Increase the focus on total operational time

Of the Tax Agency's operational activities, about 40 per cent are major operations and national projects which are explicitly controlled by headquarters. Its other ongoing operations are not subjected to such explicit control, which may have favoured national activities and objectives at the expense of international work. The SNAO considers that an increased focus

on total operational time may favour the international field and strengthen incentives for increased spontaneous information exchange.