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Improving Tax Collection

What are the global benchmarks and best practices for improving tax collection?

CONTENTS

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HIGHLIGHTS

CHILE. Chile's unofficial economy (18% of GDP) is the smallest and the tax revenue/GDP ratio (18.7%) is the highest of any country in Latin America. Its tax- and tax-regulatory burden scores (3.40 and 4.25, respectively) also are the best in the region.

ONLINE TAX SYSTEM. Chile's new online tax system substantially reduced the cost and increased the accuracy of tax collection. The system also significantly reduced tax evasion.

TAXPAYER SATISFACTION. The "Taxpayer Life Cycle" and "Maximum Waiting Time" projects, introduced in Chile, have improved taxpayer satisfaction, thereby increasing tax compliance rates.

SLOVAK REPUBLIC. Slovakia has the smallest informal economy (5.80% of GDP) and one of the highest tax revenue/GDP ratios (33.1%) in Eastern Europe. Its tax- and tax-regulatory burden scores (3.45 and 4.00, respectively) are among the best in the region.

SIMPLIFIED TAX SYSTEM. Slovakia introduced a flat marginal rate of 19% on all personal and corporate incomes and eliminated all tax exemptions. The reform is expected to enhance the tax system's transparency and reduce tax evasion.

ESTONIA. Through its fundamental tax reforms in 1999, Estonia became a leader among former Soviet countries. It has the highest tax revenue/GDP ratio (27.2%) and the smallest unofficial economy (11.80% of GDP) in the region.

TAX ENFORCEMENT. In 2001, Estonia established the Tax Fraud Investigation Center (TFIC), which is authorized to investigate cases of tax evasion and undertake appropriate enforcement measures.

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II. INTRODUCTION

Overview

Taxation is a necessary means by governments for collecting financial resources to provide adequate goods and services and to assure proper governmental operation.[1] Taxes are one of the most vital governmental instruments, the design and implementation of which may have significant effects on important public policy objectives, such as "economic growth, distribution, and stability."[2]

In developing countries, tax and customs administrations often are not effectively organized. Several important factors, such as poorly trained and inadequately compensated tax officers, inadequately equipped tax offices, low morale,[3] and high-level corruption, lead to tax evasion and erosion of tax compliance.[4] Empirical analysis also indicates a positive correlation between the level of corruption and the level of tax evasion.[5] (See Table 1, Annex.)

Additionally, corrupt tax practices that reduce tax revenues[6] and the tax base "lead to the imposition of a higher tax rate on the rest of the taxpayers."[7] Discretionary use of tax rules and regulations also may motivate businesses to go "underground," thus undermining tax revenues.[8]

Simplifying the tax system can improve tax collection and facilitate tax compliance significantly. By eliminating income tax deductions, exemptions, and brackets (all of which usually create complexity[9]) tax declaration procedures may be simplified.[10]

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[1] Richard M. Bird, Tax Policy and Economic Development (Baltimore: John Hopkins UP, 1992) 3.

[2] Bird Tax Policy 8.

[3] "Progress with Fiscal Reform in Countries in Transition," From Stabilization to Sustainability, May 1998, International Monetary Fund, 19 Jan. 2005 <http://www.imf.org/external/pubs/ft/weo/weo0598/pdf/0598ch5.pdf>.

[4] Mukul G. Ashur, "The Design of Tax Systems and Corruption," Government of India, May 2001, Central Vigilance Commission, 28 Dec. 2004 <http://cvc.nic.in/vscvc/taxcorrup.pdf> 9-12.

[5] Edgardo Buscaglia and Jan van Dijk, "Controlling Organized Crime and Corruption in the Public Sector," Forum on Crime and Society 3:1-2 (2003), Eds. Jan van Dijk and Vincenzo Ruggiero, UN Office on Drugs & Crime, 28 Oct. 2004 <http://www.unodc.org/pdf/crime/forum/forum3.pdf> 8 -14.

[6] Simon Johnson, Daniel Kaufmann, and Pablo Zoido-Labatón, "Corruption, Public Finances and the Unofficial Economy," The World Bank, 1998, 12 Jan. 2005 <http://www.worldbank.org/wbi/governance/pdf/wps2169.pdf>.

[7] Ashur 3.

[8] Eric Friedman, Simon H. Johnson, Daniel Kaufmann, and Pablo Zoido, "Dodging the Grabbing Hand: The Determinants of Unofficial Activity in 69 Countries," (Aug. 1999) The Nobel Symposium in Economics – The Economics of Transition, Stockholm, Social Science Research Network, Sept. 1999, 12 Jan. 2005 <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=194628>.

[9] William G. Gale and Janet Holtzblatt, "The Role of Administrative Issues in Tax Reform: Simplicity, Compliance, and Administration," United States Tax Reform in the Twenty-First Century, Eds. George Zodrow and Peter Mieszkowski (Cambridge: UP, n.d.) The Brookings Institution, Dec. 2000, 25 Jan. 2005 <http://www.brook.edu/views/papers/gale/20001201.pdf>.

[10] "Chapter 5: World Development Report," World Development Report (Washington, DC: International Bank for Reconstruction and Development, 2004) The World Bank, 13 Jan. 2005 <http://siteresources.worldbank.org/INTWDR2005/Resources/07_WDR_Ch05.pdf> 110; Zmarak Shalizi, Lessons of Tax Reform (Washington, DC: International Bank for Reconstruction and Development, 1991) The World Bank, 12 Jan. 2005

Tax collection and compliance may improve if governments provide better services to taxpayers and respond quickly to their needs, like providing clear and timely instructions of rules, understandable tax forms, and equitable treatment.[11] "Taxpayer satisfaction with the way they are treated in their dealings with tax administration may also be a significant influence on future levels of tax evasion."[12]

Introduction of lower marginal tax rates and flat rate taxes also may increase tax collection. A flat rate can have lower compliance costs,[13] allowing tax systems to function more efficiently and effectively. Moreover, higher tax rates may cause people to work less, force businesses out of the official market, and eventually reduce the tax base, thereby decreasing tax revenues.[14]

In contrast, tax cuts may increase tax revenues. For example, tax cuts in the United States during the 1920s increased tax revenues by 61%, tax cuts amid the 1960s increased tax revenues by 33%, and tax cuts in the 1980s increased revenues in some cases up to 90%. Thus, tax cuts also may enhance tax collection.[15]

Method

This Research Review utilizes data from social sector sources and organizations, such as the World Bank, IMF, OECD, UNDP, USAID, Inter-American Development Bank, Asian Development Bank (ADB), and World Economic Forum; and non-governmental and governmental sources, including The Heritage Foundation, American Tax Association, Transparency International, and the Ministries of Finance of Estonia and Slovakia. Commercial and intersectoral research includes *The Financial Times*, *Business Week*, *Economist.com*, *The Wall Street Journal*, and *The Washington Post*.

Additional References

The reader also may find helpful the concepts in Section Five, "Wisdom for the Passionate," in *New Philanthropy Benchmarking* (NPB) by Kristina Kazarian, 2002, United University Press.

<http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/1999/09/11/000178830_98101910594254/Rendered/PDF/multi_page.pdf> 35, 39.

[11] Richard M. Bird, "Administrative Dimensions of Tax Reforms," Asia Pacific Tax Bulletin (2004), UNPAN, UN Online Network in Public Administration and Finance, and International Bureau of Fiscal Documentation, 19 Jan. 2005 <http://unpan1.un.org/intradoc/groups/public/documents/other/unpan015761.pdf>; Pablo Serra, "Measuring the Performance of Chile's Tax Administration," Centro de Economia Aplicada, Universidad de Chile, 20 Jan. 2005 <http://www.webmanager.cl/prontus_cea/cea_2000/site/asocfile/ASOCFILE120030328124832.pdf>.

[12] I. G. Wallschutzky, "Possibly Causes of Tax Evasion," J. Economic Psychology 371-89. Quoted in Serra (above) <http://www.webmanager.cl/prontus_cea/cea_2000/site/asocfile/ASOCFILE120030328124832.pdf>.

[13] Compliance costs include time taxpayers spend on preparing and filing forms, learning about the law, and maintaining record-keeping for tax purposes.

[14] Gerald W. Scully, "Tax Rates, Tax Revenues and Economic Growth," National Center for Policy Analysis, Report No. 98, Mar. 1991, 5 Jan. 2005 <http://www.ncpa.org/studies/s159/s159.html>.

[15] Daniel J. Mitchell, "Time for Lower Income Tax Rates: The Historical Case for Supply-Side Economics," The Heritage Foundation, 19 Feb. 1999, 17 Jan. 2005 <http://www.heritage.org/Research/Taxes/BG1253.cfm>.

III. RESEARCH QUESTION DEFINITION

Tax collection and tax compliance were evaluated using tax revenue/GDP ratio[16] and the level of unofficial economy as a percentage of GDP. Additionally, tax-[17] and regulatory-[18] burden scores were used to analyze the effectiveness and efficiency of tax administration. In choosing best practices, tax composition, tax rates, and tax systems' simplicity (number of tax-rate brackets, exemptions, etc.) were considered.

IV. BENCHMARKS AND BEST PRACTICES

A. CHILE

Chile's tax system is administered by three governmental agencies: the Internal Revenue Service (SII), the Treasury, and Customs. The SII mainly is responsible for organizing tax collection, facilitating tax compliance, and for audit and enforcement.[19]

Since 1974, Chile has implemented several successful tax reforms, which have resulted in the smallest unofficial economy (18% of GDP) [20] and one of the highest tax revenue/GDP ratios (18.7%)[21] in Latin America. Its tax and regulatory-burden scores (3.40 and 4.25, respectively) also are the highest in the region. (See Graph 1.)

[16] This indicator shows the relative effectiveness and efficiency of tax administration, see Jit B. S. Gill, "The Nuts and Bolts of Revenue Administration Reform," The World Bank, Jan. 2003, Public Sector Management: Europe and Central Asia, 28 Dec. 2004 <http://www1.worldbank.org/publicsector/tax/NutsBolts.pdf> 3.

[17] Tax burden is measured from 1 to 7, where a higher value means a better score for private businesses. Johnson et al. 12.

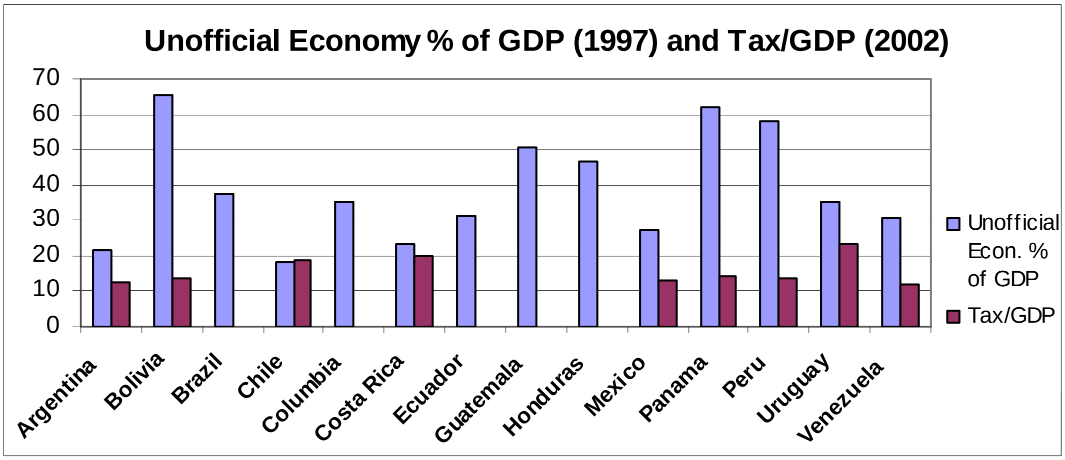
[18] Regulatory burden is measured from 1 to 7, where a higher score means less regulatory burden. Johnson et al. 13.

[19] "General Aspects of the Chilean Tax System: Concepts and Guidelines," Internal Revenue Service of Chile (SII), Nov. 2004, 20 Jan. 2005 <http://www.sii.cl/portales/investors/inf_general/conceptos_tributarios.pdf>.

[20] Johnson et al. 51; and World Bank, World Development Indicators 2004 (Washington, DC: The International Bank for Reconstruction and Development, 2004) eBrary, 5 Jan. 2005 <http://shop.ebrary.com>. Path: Search.

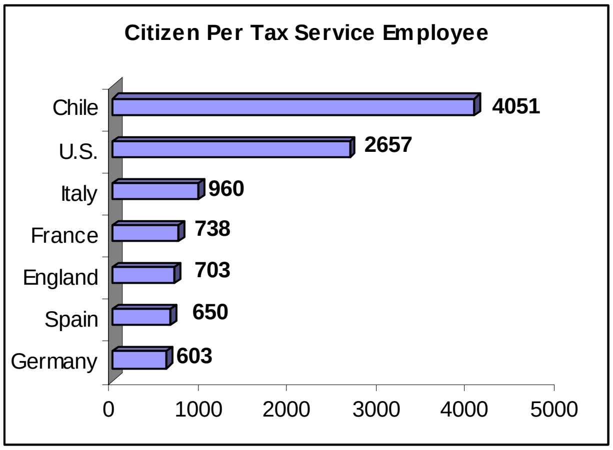
[21] World Bank, World Development Indicators 2004.

Graph 1[22]



In addition, because of recent tax reforms implemented between 1990 and 2000, tax evasion in Chile decreased from 33% to 24% (lowest level in Latin America), and the number of income tax payers nearly doubled. SII accomplished all of this with just 2,953 employees, which "amounts to roughly one employee per 4,051 Chilean citizens. This ratio indicates that SII is one of the leanest and most productive tax services in the world."[23] (See Graph 2.)

Graph 2[24]



[22] World Bank, World Development Indicators 2004 274; and Friedman et al. 36. Information on Tax/GDP was unavailable for Brazil, Columbia, Ecuador, Guatemala, and Honduras.

[23] Paul Constance, "Simplify, Simplify, Simplify and then Buy the Computers," IDB America, Mar. 2002, Magazine of the Inter-American Development Bank, 26 Jan. 2005 <http://www.iadb.org/idbamerica/english/SRGOVE/srgove5.html> 1.

[24] Constance 1.

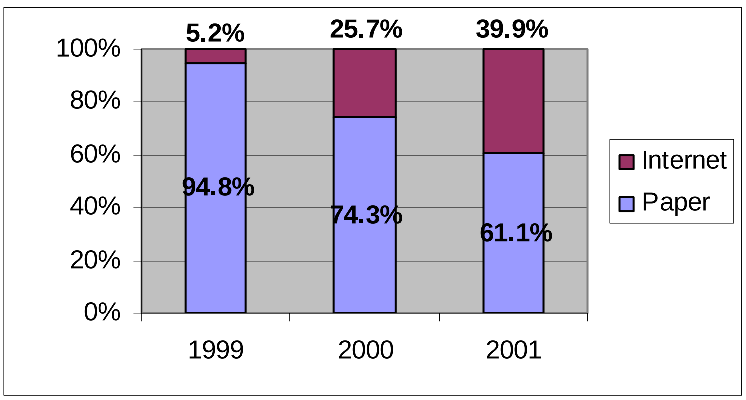
B. ONLINE TAX SYSTEM

During the 1990s, to facilitate tax compliance, SII improved its tax services. As a result, in 1998 SII established an online tax system, which aimed to reduce cost, increase the accuracy of tax collection, and reduce tax evasion.[25]

The new online system proved to be very successful. In its first year of operation, the system accepted close to 39,000 returns, and in its third year, the number increased to almost 90,000. Moreover, 400,000 taxpayers have checked their assessments online, and US$1.943 billion in tax returns were received through the system since inception.[26] (See Graph 3.) The system expects to serve 1.8 million potential tax returns yearly and 950,000 Value Added Tax (VAT) returns monthly.[27] Because of the online system's efficiency and success, in June 2003 the SII received a United Nations Public Service Award, "Innovations in Public Service."[28]

The online tax system significantly reduced tax-collection costs (e.g., "SII saved money on printing, distribution and processing time"[29]) and increased tax-collection accuracy. As a result, tax officers have more time to carry out investigative tasks to reduce tax evasion. Taxpayers have found the online system easy, fast, and accurate. Tax-return processing time has been reduced from 25 days to just 12 hours.[30]

Graph 3: Income Statements[31]



In addition, tax officials believe that digital invoices and documents will help prevent tax evasions from falsified invoices, as the new system identifies this type of fraud through cross-checking. "Tight control over electronic invoices will also prevent under reporting of sales, over-reporting of costs, and various addition 'errors' that frequently turn up in tax returns." Chile projects the new system will reduce tax

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[25] "Chilean Tax System Online," EGovernment, World Bank, 20 Jan. 2005 <http://www1.worldbank.org/publicsector/egov/chile_taxcs.htm>.

[26] "Chilean Tax System Online" 1.

[27] "Chilean Tax System Online" 1.

[28] "General Aspects of the Chilean Tax System" 3.

[29] "Chilean Tax System Online" 2.

[30] "Chilean Tax System Online" 2.

[31] "Modernizing Chile's Internal Tax Service 1990 – 2001," Free Trade Area of the Americas, 5 Jun. 2002, 20 Jan. 2005 <http://www.ftaa-alca.org/spcomm/derdoc/eci146e.ppt>.

evasion by 50% by 2008, which will increase governmental revenues by an additional US$2 billion (nearly 3% of GDP) yearly.[32]

C. TAXPAYER SATISFACTION

Since 1990, Chile's Tax Administration implemented several successful projects to better taxpayer services and increase taxpayer satisfaction. SII paid special attention to tax-related procedures, which, according to taxpayer opinion, were very time consuming and unfair. SII reformed the procedures, made them transparent and simple, and eliminated unnecessary requirements.[33]

In 1993, SII instituted the Taxpayer Life Cycle project, which reduced the number of visits to SII offices "required of people starting up an activity, obtaining a tax identification number, and stamping VAT invoices." Thus, the total waiting time was reduced from three days to less than one hour, and the number of forms to complete was cut from four to one."[34]

Moreover, the Maximum Waiting Time project, implemented in 1997, established a maximum 30- minute wait time in tax offices. If taxpayers are not served during the provisioned time limit, the SII is obligated to complete the relevant tax documents and send them to the taxpayer's address. The time limit also applies to all "life-cycle" procedures.[35]

According to the results of 1996 and 1997 taxpayer surveys, both the quality of information provided by SII and taxpayer satisfaction with SII procedures significantly increased.[36]

D. SLOVAK REPUBLIC

Slovakia has the smallest informal economy (5.80% of GDP) and one of the highest tax revenue/GDP ratios (33.1%)[37] in Eastern Europe. Its tax- and regulatory-burden scores (3.45 and 4.00, respectively) are among the best in the region.[38] (See Graph 4.)

[32] "Chile: Benefits of Electronic Invoicing," Business Latin America, 10 Oct. 2002, ebusinessforum.com, Economist Intelligence Unit, 20 Jan. 2005 <http://www.ebusinessforum.com/index.asp?doc_id=6114&layout=rich_story> 1.

[33] Serra.

[34] Serra 21.

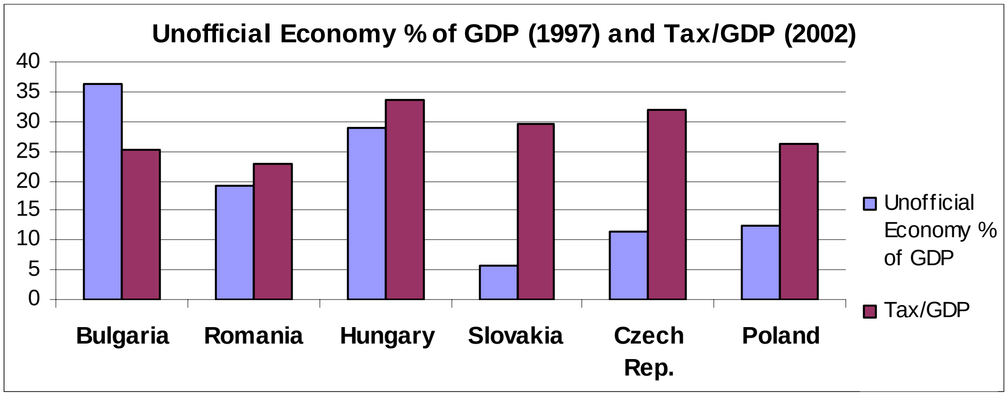
[35] "Maximum Time of Delay: 30 Minutes," Internal Revenue Service of Chile (SII), 25 Jan. 2005 <http://www.sii.cl/sobre_el_sii/acerca/estudios/espera.htm>. (Only in Spanish.)

[36] Serra 22.

[37] World Bank, World Development Indicators 2004 274.

[38] Johnson et al. 51; World Bank, World Development Indicators 2004 51.

Graph 4[39]



Slovak tax administration consists of the Tax Directorate of the Slovak Republic, Tax Offices, Tax Offices for selected taxpayers,[40] and the Office of Tax Investigation. The Tax Directorate is subordinate to the Ministry of Finance and supervises local tax offices, which are responsible for administration of taxes, tax audits, tax enforcement, and provision of services to taxpayers.[41]

In the Slovak Republic, income taxes, social security contributions, value added tax, and excise duties are the most important types of taxes.[42] Direct taxes (personal and corporate income taxes) total 17.2%, and indirect taxes (VAT and excise duties) equal 60.3% of total governmental revenues.[43]

E. SIMPLIFIED TAX SYSTEM

In 2003, Slovakia instituted fundamental tax reform, which extensively simplified the system. The Government introduced a flat 19% rate for income and corporate taxes, which replaced progressive rates varying from 10% to 38% for personal taxes and 25% corporate taxes.[44] The unified income tax rate is expected to stimulate the economy and increase labor productivity by encouraging "higher work effort and more investment in human capital."[45] In addition, taxes on gifts and inheritance were dismissed. The

[39] World Bank, World Development Indicators 2004 276; and Friedman et al. 36.

[40] "Selected taxpayers are companies situated in the Bratislava region with annual turnover [more than US$33.15 million (converted from 1 billion Slovak crowns)], and all banks, insurance companies and branches of foreign banks and insurance companies regardless of annual turnover." From Leoš Vítek, Karel Půbal, and Pavel Pudil, "Tax Policy and Tax Administration in the Czech and Slovak Republic: Development during Transition," Faculty of Economics, Technical University of Ostrava, 18 Jan. 2005 <http://ws.vsb.cz/pers/~jsi/soubory/w-vitek.pdf> 8.

[41] Vítek et al. 6.

[42] Vítek et al. 4.

[43] "Slovakia: The Fundamental Tax Reform," Ministry of Finance of the Slovak Republic, Sept. 2004, 17 Jan. 2005 <http://www.finance.gov.sk/mfsr/mfsr.nsf/0/3B119C0688AAB2E7C1256F6B0044EC34?OpenDocument>.

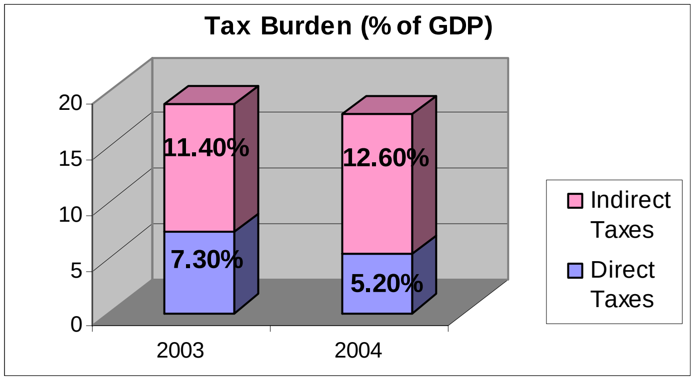
[44] "Chapter 5: Tax Reforms in the EU Acceding Countries," Economic Survey of Europe, 2004, No. 1, UN Economic Commission for Europe, 20 Jan. 2005 <http://www.unece.org/ead/pub/041/041c5.pdf> 124; "Slovakia: The Fundamental Tax Reform;" "Tax Environment: Country Report – Slovakia (Country Analysis and Forecast)," World Market Research Center, 23 Mar. 2004, 26 Jan. 2005 <http://www.worldmarketsanalysis.com/wma_sample_pages/site_pages/WMCAFSampCtrT.htm>.

[45] "Slovakia: The Fundamental Tax Reform" 1.

previous income tax system consisted of more than two hundred exemptions and varying tax rates, most of which have been eliminated.[46]

Shifting the tax burden from direct to indirect taxes, which usually are easier and cost less to collect helped increase Slovakia's tax efficiency.[47] (See Graph 5.)

Graph 5[48]



Moreover, the reform introduced a unified VAT rate of 19% for all goods and services and eliminated the special reduced 14% VAT rate that existed for some products.[49] The unified VAT rate will abolish "important economic distortions and inefficiencies associated with taxing the consumption of various goods differently."[50]

Slovakia expects that low tax rates, increased transparency, and a simplified tax system will reduce tax evasion and tax avoidance, and will improve tax collection.[51] The Government also hopes a simple tax system will attract entrepreneurs and investors from around the world to stimulate the country's economic development.[52]

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[46] Martin Chren, "Slovakia's Right to Compete in the Global Economy," Tax Competition Seminar, Berlin, Friedrich-Naumann-Foundation, 6 Feb. 2004, 14 Jan. 2005 <http://admin.fnst.universum.de/uploads/1044/MCH_-_Berlin_-_Tax_competition_Seminar.pdf>.

[47] Ivona Ďurinovà, "New Concept of Income Taxation in the Context of Tax Reform of the SR," BIATEC XII (2004), Nàrodnà Banka Slovenska, 26 Jan. 2005 <http://www.nbs.sk/BIATEC/BIA09_04/11_15.PDF> 1.

[48] "Slovakia: The Fundamental Tax Reform."

[49] Chren 3.

[50] "Slovakia: The Fundamental Tax Reform."

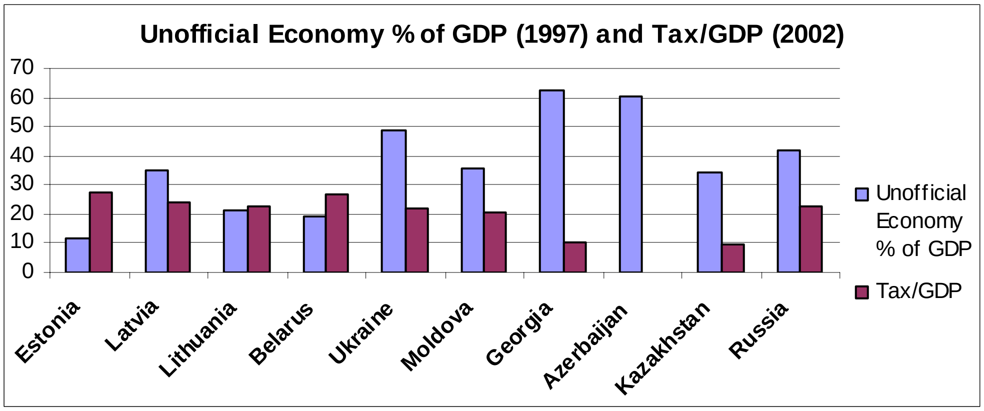
[51] "Slovakia: The Fundamental Tax Reform."

[52] Daniel J. Mitchell, "Slovakia: Hong Kong of Eastern Europe," The Washington Times, 29 Nov. 2003, 17 Jan. 2005 <http://www.washingtontimes.com/commentary/20031128-080101-2672r.htm> 1.

F. ESTONIA

With its fundamental tax reforms, Estonia is a leader among the former Soviet countries. It has the highest tax revenue/GDP ratio (27.2%)[53] and the smallest unofficial economy (11.80% of GDP) in the region.[54] (See Graph 6.)

Graph 6[55]



The Tax Administration in Estonia was founded in 1990 under the direction of the Ministry of Finance. Composed of the National Tax Board and local Tax Offices, it is responsible for tax collection, tax enforcement, and audits.[56] Estonia levies personal and corporate income taxes (16.9% of tax revenues[57]), VAT (31.1% of tax revenues[58]), and social (39.7% of tax revenues[59]) taxes.[60]

In 1999, Estonia introduced a unified flat income tax rate of 26%, which will gradually be reduced to 20% by 2007. Moreover, Estonia reformed its VAT tax system assigning a flat rate of 18%. The reforms have made the Estonian tax system one of most transparent and liberal in the world.[61]

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[53] World Bank, World Development Indicators 2004 276.

[54] Johnson et al. 51; and World Bank, World Development Indicators 2004 279.

[55] World Bank, World Development Indicators 2004 276; and Friedman et al. 36.

[56] "Assistance to the Public Service Academy (PSA) to Develop Taxation Training Curriculum," Europa, National Tax Board of Estonia, 11 Jan. 2005 <http://europa.eu.int/comm/enlargement/fiche_projet/document/2003-005-026.02.01%20Public%20Service%20Academy.pdf>.

[57] Estonia, Ministry of Finance, Tax Policy Department, "Estonian Taxes and Tax Structure," Sept. 2004, 20 Jan. 2005 <http://www.fin.ee/doc.php?10870>. Path: File Download; 14.

[58] "Estonian Taxes and Tax Structure" (2004) 14.

[59] "Estonian Taxes and Tax Structure" (2004) 14.

[60] Estonia, Ministry of Finance, Tax Policy Department, "Taxation Act of Estonia: 01072002," 20 Feb. 2002, 20 Jan. 2005 <http://www.fin.ee/doc.php?3436>.

[61] "Taxes," Estonian Chamber of Commerce and Industry, 15 Jan. 2005 <http://www.koda.ee/?id=2092>; and Estonia, Ministry of Finance, Tax Policy Department, "Estonian Taxes and Tax Structure (February 2005)," 15 Jan. 2005 <www.fin.ee/?id=621>. Path: Estonian Taxes and Tax Structure; File Download.

G. TAX ENFORCEMENT

Since 2000, Estonia has made great efforts to fight tax fraud and evasion. In December 2001, the Code of Criminal Procedure and Surveillance Amendment Act was passed, which grants Estonia's Tax Board surveillance rights and authorization to investigate tax evasion and tax fraud. The Tax Fraud Investigation Center (TFIC)[62] investigates fraudulent miscalculation of taxes, failure to withhold tax, and obstruction of activities of tax authority.[63]

Additionally, the TFIC cooperates with the Central Criminal police, Security Police Board, and the Prosecutor's Office[64] to investigate corruption-related tax fraud. They share operational information and cooperate effectively during surveillance proceedings.[65]

In 2002, tax revenues exceeded the projected level by 5.6 %, which, according to the Ministry of Finance of Estonia, was due to the productive work of the TFIC. From 2001 to 2002, the number of criminal cases submitted to the State Prosecutor's Office increased three-fold (from 11 to 34). Additionally, by the end of 2002, the TFIC had 78 criminal cases under its attention with total estimated damages of more than US$33 million.[66] Strong and effective tax enforcement measures reduced tax evasion and improved tax collection.

V. CONCLUSION

Chile's new online taxation system substantially reduced the cost and increased the accuracy of tax collection and reduced tax evasion. Additionally, the "taxpayer life cycle" and "maximum waiting time" projects significantly enhanced taxpayer satisfaction, thereby increasing tax compliance.

Recent tax reforms in Slovakia, such as introduction of a flat 19% marginal rate for all personal and corporate income tax bases and elimination of all tax exemptions, simplified and increased transparency of the tax system.

The New Taxation Act of Estonia empowered the Tax Fraud Investigation Center (TFIC) to investigate tax evasion and avoidance and to carry out appropriate preventive measures; these actions are expected to increase the tax compliance rate.

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[62] Tax Fraud Investigation Center (TFIC) also known TAFIC and Fiscal Investigation Division (FID).

[63] "Estonian Tax Administration," Representation of the European Commission in Estonia, 21 Jan. 2005 <http://eng.euroopaliit.ee/docs/phare/Phare%202001%20-%201.03.doc>.

[64] "Assistance to the Estonian Tax Administration in the Development of Activities Proceeding from the Fiscal Blueprints," Europa, National Tax Board of Estonia, 17 Jan. 2005 <http://europa.eu.int/comm/enlargement/fiche_projet/document/es_0101.03_-_assistance_to_the_estonian_ tax_administration.pdf>.

[65] "Estonia: Taxation – Adoption of the Community Acquis," Europa, European Commission, 25 Jan. 2005 <http://europa.eu.int/scadplus/leg/en/lvb/e10102.htm>; "Compliance Report on Estonia," Greco RC-I (2003) 6E, Group of States Against Corruption, 9 July 2003, Council of Europe, 5 Jan. 2005 <http://www.greco.coe.int/evaluations/cycle1/GrecoRC-I(2003)6E-Estonia.pdf>.

[66] "Estonia: Annual Report 2002," Tax Board of Estonia, 2002, 27 Jan. 2005 <http://portal.ma.ee/pls/portal30/docs/FOLDER/ABOUT_US/ANNUAL_REPORT/AR2002.PDF> 3, 13.

Areas for Future Research

Developing countries especially can benefit from improved tax collection and compliance. Areas for future research may include:

1. What are the global benchmarks and best practices where the introduction of flat tax rates increased the effectiveness of tax administration?

2. What are the global benchmarks and best practices where tax reforms/policies increased Foreign Direct Investment?

ANNEX

Table 1: Corruption and Tax Evasion[67]

	Corruption	Tax System	Tax Evasion
Corruption	1.000	-.386**	.764**
Tax System	-.386**	1.000	.643**
Tax Evasion	.764**	.643**	1.000

* Correlation is significant at the .05 level
** Correlation is significant at the .01 level

Table 1 indicates the correlation between corruption and tax evasion. A corrupt government is likely to have a significant problem with tax evasion (the correlation between the two approaches 1).

Similarly, corruption and effective tax systems are inversely related. A corrupt government is likely to have an ineffective tax system.

[67] Table 1 was provided by Edgardo Buscaglia and is not available on the Internet.

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“Assistance to the Estonian Tax Administration in the Development of Activities Proceeding from the Fiscal Blueprints.” Europa. National Tax Board of Estonia. 17 Jan. 2005 <http://europa.eu.int/comm/enlargement/fiche_projet/document/es_0101.03_-_assistance_to_the_estonian_tax_administration.pdf>.

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Bird, Richard M. “Administrative Dimensions of Tax Reforms.” Asia Pacific Tax Bulletin. (2004). UNPAN. UN Online Network in Public Administration and Finance, and International Bureau of Fiscal Documentation. 19 Jan. 2005 <http://unpan1.un.org/intradoc/groups/public/documents/other/unpan015761.pdf>.

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