Tax Collection & Taxpayer Rights in the Post-COVID World: Digitalization, Advance Payment, and Outsourcing

Jay K. Rosengard
Harvard Kennedy School
Taxpayer Rights Vulnerabilities in Tax Collection

• Will focus on three key domains:
  • Digitalization of tax payment systems
  • Advance payments by taxpayers
  • Outsourcing of tax payments administration

• All three domains have sound rationales for their enactment with the potential for significant beneficial features

• All three domains also pose threats to taxpayer rights

• Challenge is optimizing tax authority benefits while minimizing taxpayer harm
Tax System Digitalization

• Global trend in tax system digitalization to improve efficiency and effectiveness
• Try to balance better service to promote greater voluntary compliance (make it easier and cheaper to do the right thing) with a more credible threat for non-compliance (certain and fair sanctions for tax evasion)
• Entails the entire taxation process (taxpayer identification and registration, tax reporting/filing, tax valuation/assessment, tax billing/payment/enforcement)
• The very elements essential for effective digitalization (rules-based, speed, third party support) also decrease flexibility and facilitate fraud
• Examples:
  • Computer system crashes during peak season but automatic penalties still imposed
  • Taxpayer identities stolen but efforts to increase safeguards delay legitimate refunds
  • Feasible to collect much more taxpayer information but leaks/thefts are more substantial violations of taxpayer privacy and more harmful breaches of taxpayer trust
Advance Payment

• Advance payment is comprised of taxpayer estimated payments, presumptive payments, conditional payments, unadjusted payments

• Can help taxpayer cash flow/liquidity management and smooth flow of government revenue

• Also can be difficult or impossible for taxpayer to receive refunds/rebates for overpayments

• Examples:
  • In some countries requests for refunds trigger audits either by law automatically or at the discretion of the tax authority
  • Tax rebate/refund systems are notorious targets of massive fraud so efforts to safeguard the integrity of public funds often penalize honest taxpayers with high transaction costs and long delays to receive legitimate tax rebates/refunds
  • Sometimes governments pressure large taxpayers/enterprises to pay future taxes in advance to meet revenue targets/budget needs
Outsourcing of Tax Collection and Enforcement

• In tax payment systems it is important to differentiate between tax collection (cashier function) and tax enforcement (imposition of sanctions)

• Outsourcing of tax collection can improve taxpayer convenience (easier and cheaper) and reduce tax authority corruption (tax officials do not handle cash)

• Example: Payment Point System for Indonesia property tax, which requires taxpayers to remit their taxes via the banking system (banks not responsible for enforcement)

• In contrast, outsourcing of tax enforcement grants police power of the state to the private sector with perverse profit incentives (financial gain based on collections regardless of specific context), undermines credibility of the government, open to abuse and lack of accountability

• Example: “Home equity theft” (legal larceny) in MA and about a dozen other U.S. states
  • City/town sells its tax liens to a private company
  • This company permitted to charge 16% on outstanding back taxes (in MA pre-inflation surge)
  • If homeowner doesn’t pay, the company may foreclose on the property and evict the homeowner
  • After paying the taxes, the company is allowed to keep the remaining equity in the property