

DEMAND FOR AGGRESSIVE TAX PLANNING

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Peter Bickers, Bhaskaran Nair, Dr Michael Slyuzberg, Tracey Lloyd;

National Research and Evaluation Unit, Inland Revenue, New Zealand



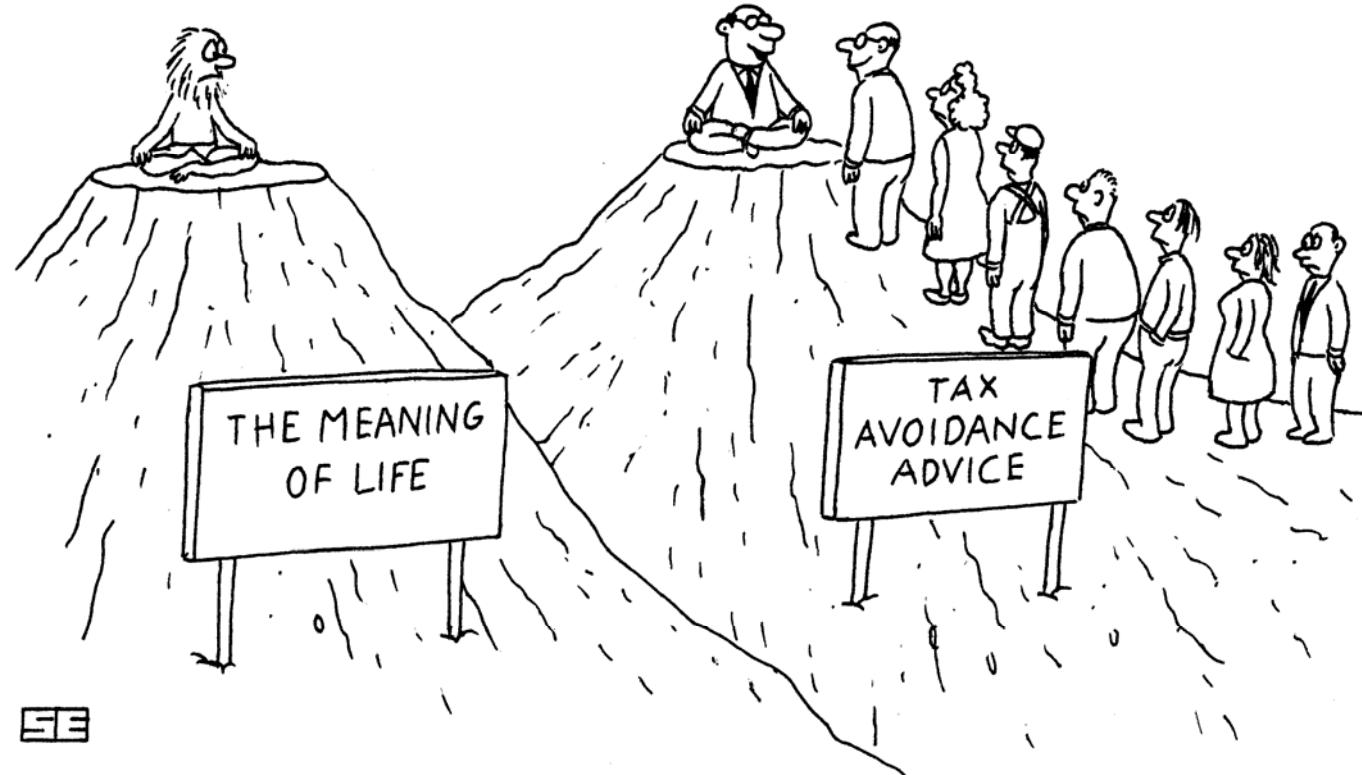
Background

- **Aggressive Tax Planning (ATP)**
 - is about following the letter of the law but not its spirit
 - generally reducing income or inflating expenses
 - often involves contrived arrangements for little economic sense
- **Tax administrations all over the world are working to respond to ATP**
 - undermines the public trust in the tax system
 - creates inequalities and reduces tax revenues



Objective

- Investigate the factors and attitudes behind customers' demand for ATP



Method

- ATP risk cases identified by investigators
- Qualitative interviews with Inland Revenue staff (x8), ATP risk customers (x22) and tax agents (x20) to; identify ATP characteristics, and understand each perspective
- Statistical analysis
 1. Latent Class Analysis (LCA) – Customer Profiling
 - for finding subtypes of latent classes from multivariate categorical data.
 2. Canonical discriminant function analysis
 - Confirmation of Clusters determined through LCA
 - To find rules for classifying objects given a set of pre-classified objects.



ATP <u>Individual</u> Customers - Profile	%	Wider population (Individual)
• Male	80%	50%
• 45+ years of age	90%	43%
• Auckland location	60%	35%
• Self-employed	64%	8%
• Professional/technical	20%	7%
• Financial/insurance services	20%	3%
• Rental/hiring/real estate	19%	1%
• On-time filing of tax	50%	60%
• On-time payment of tax	60%	85%
• Income \$60,000+	63%	10%
• Expense claims \$10,000+	24%	1%

ATP <u>Business</u> Customers - Profile	% 67%	Wider population (Business) 29%
• Business age 10-20 years	67%	29%
• Auckland location	60%	34%
• Finance/insurance services	22%	3%
• Rental/hiring/real estate	18%	1%
• Professional/scientific/technical	17%	7%
• On-time filing of tax return	66%	72%
• On-time payment of tax	82%	84%
• Business turnover \$500,000+	29%	3%
• Profit (i) \$60,000+	30%	6%
• Profit (ii) \$500,000+	11%	1%
• Expense claims \$250,000+	32%	22%

Role of Tax Agents

More than 89% of ATP Individual customers had a tax agent

More than 80% of ATP Business customers had a tax agent

“The current tax law is over the heads of most clients and also for many accountants.”
(Tax agent)



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ATP customer-tax agent relationship types

1. Customer keeps agent at a distance

“They don’t want to reveal information to the agent, won’t give the facts, not transparent.”
(IR staff)

2. Customer proactive with agent

“[The customer] wanted 10% off the tax bill, they didn’t care how.”
(IR staff)

3. Customer leaves everything to the agent

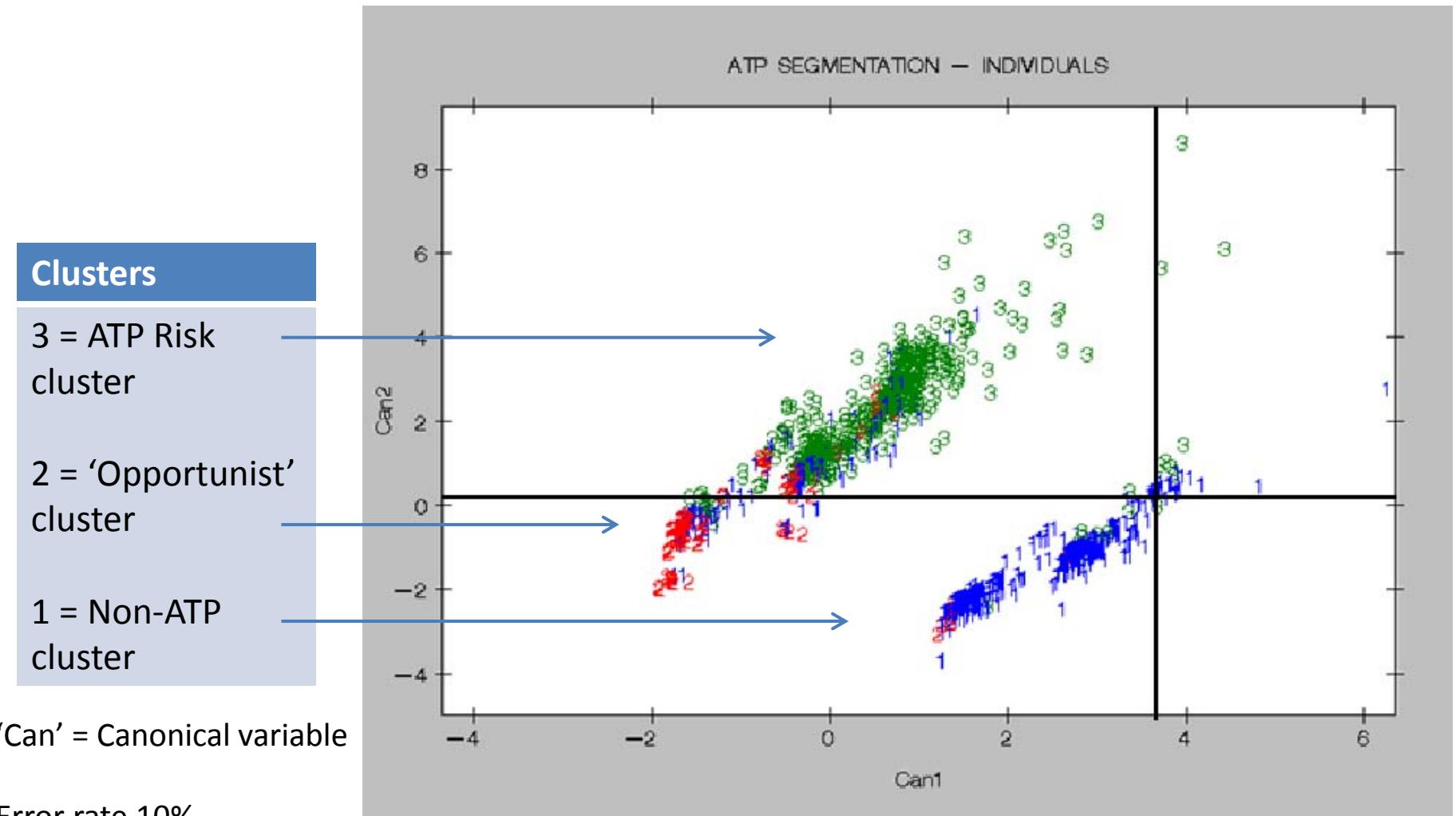
“Inland Revenue defines this as tax avoidance and thinks we should know better, but we trusted our accountant.” (Customer)

4. Customer reactive to agent

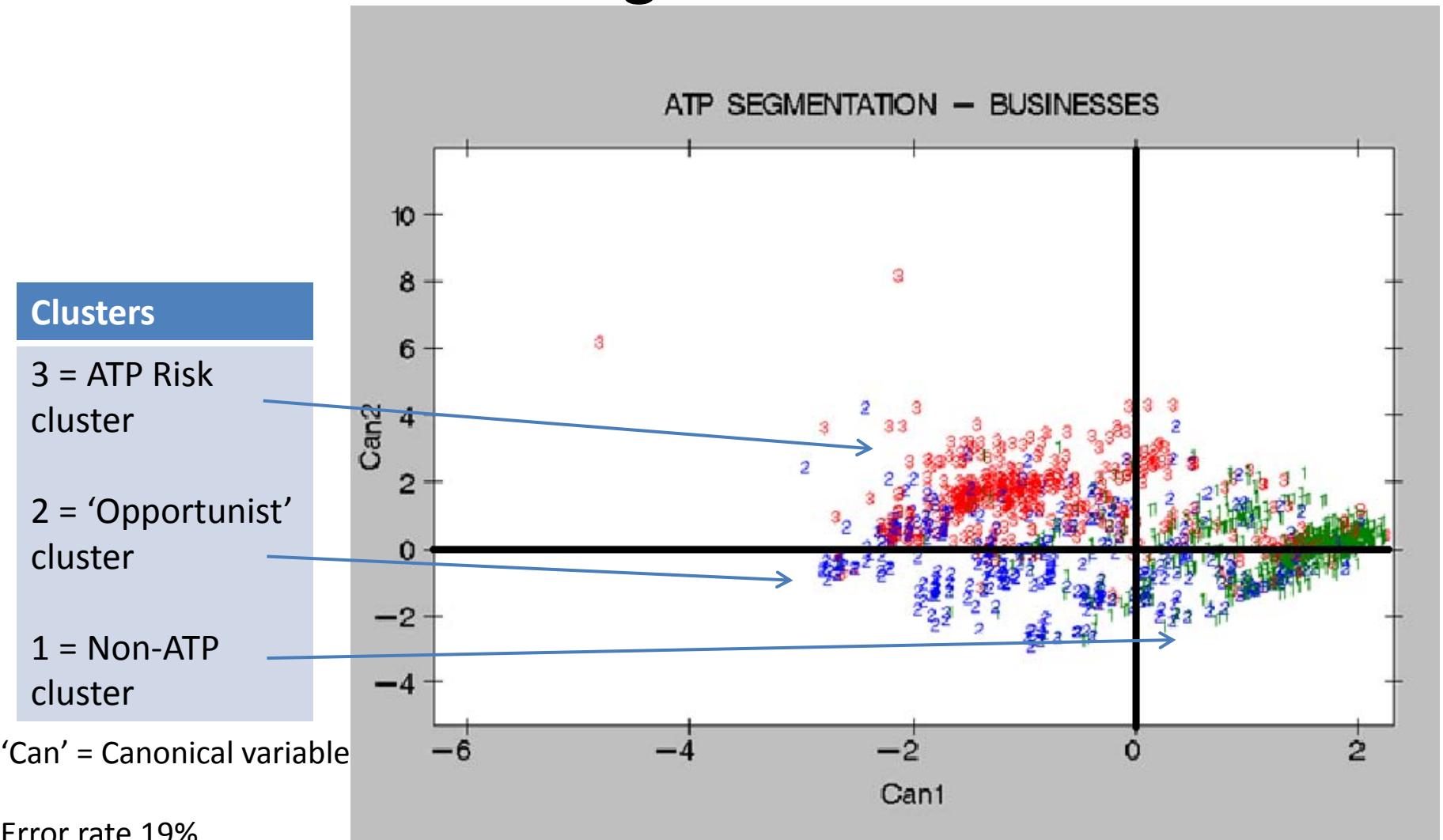
“Agents consider avoidance and come up with two or three commercial reasons and say ‘we should get over the line’.”
(IR staff)



ATP Customer segmentation - Individuals



ATP Customer segmentation – Businesses



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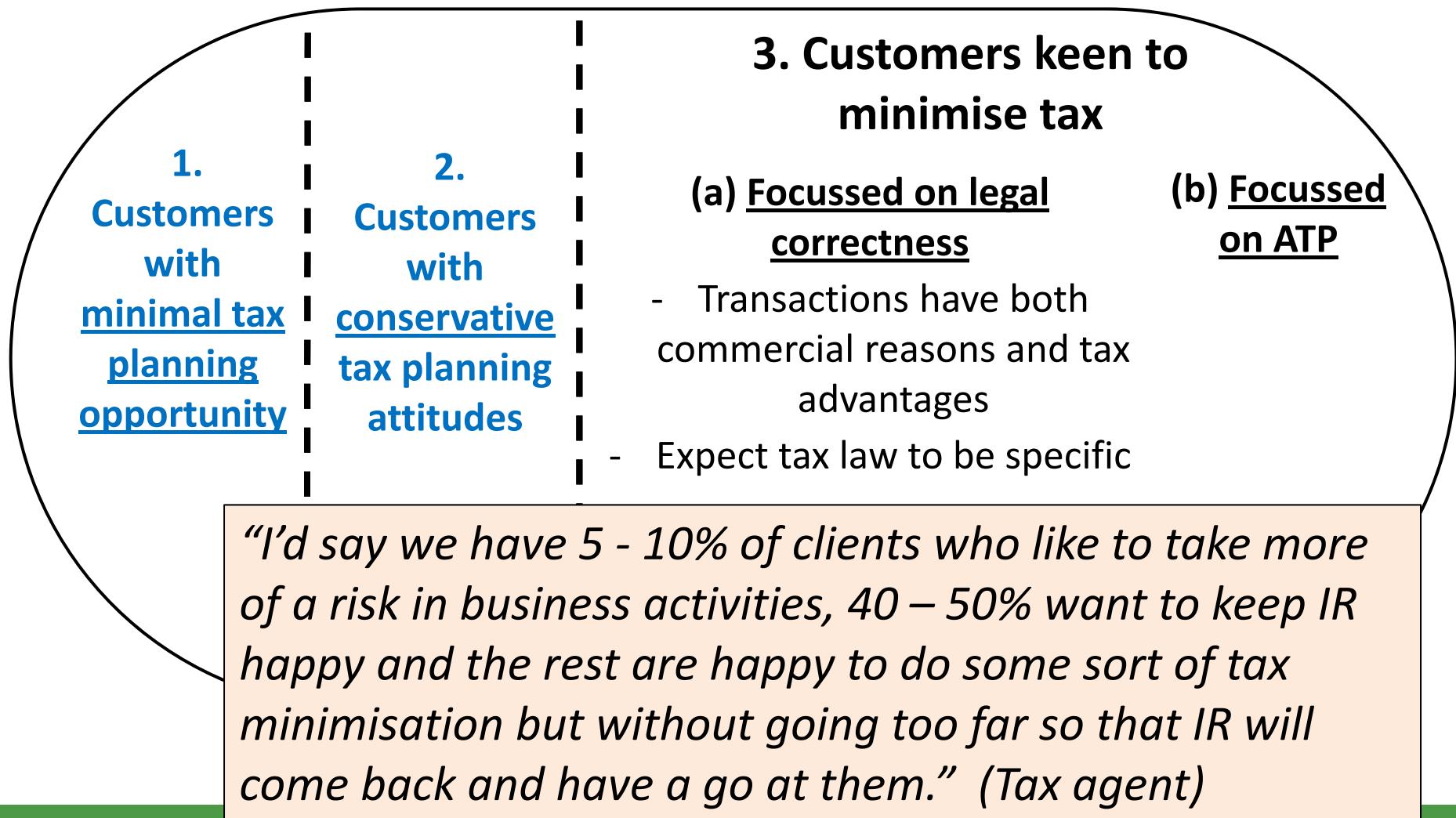


Discriminators of ATP

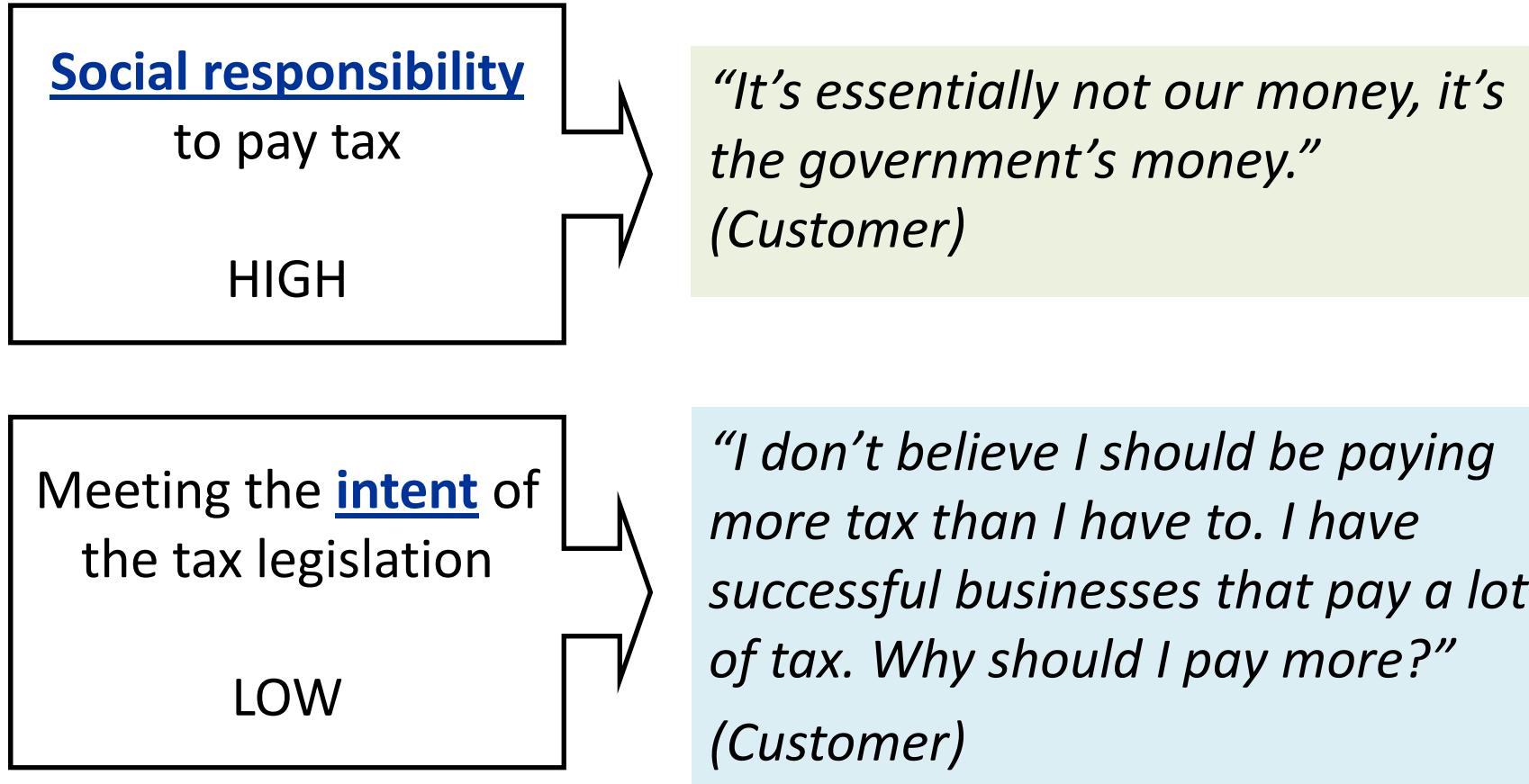
	Primary Discriminators	Secondary Discriminators	Minor Discriminators
Individual customers	Lower administrative compliance	Annual income after expenses	Travel expense claims
	Linked to tax agents	Individual age	Real estate and financial services
		Liabilities	Tax credit claims
		Professional services	Donations paid
Business customers	Lower administrative compliance	Business age	Auckland
	Business growth	Liabilities	Finance and insurance services
	Linked to tax agents		Annual turnover



ATP on a tax planning spectrum



Tax Morale has two levels



Final comments: 1 – Responsibility for ATP

- People expect their tax planning to be judged according to written legislation – not happy with the ‘spirit of the law’
- People expect their tax agent to get their taxes right, and may not feel responsible for their ATP risk



2 - Identifiable characteristics

- ATP Individual customers stand out – high use of tax agents, professional occupations, use of expense claims
- ATP business customers are harder to distinguish – slightly lower compliance rate and slightly higher use of tax agents
- Segmentation indicates a secondary group of ‘opportunists’ who need the same attention for ATP

