



# 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



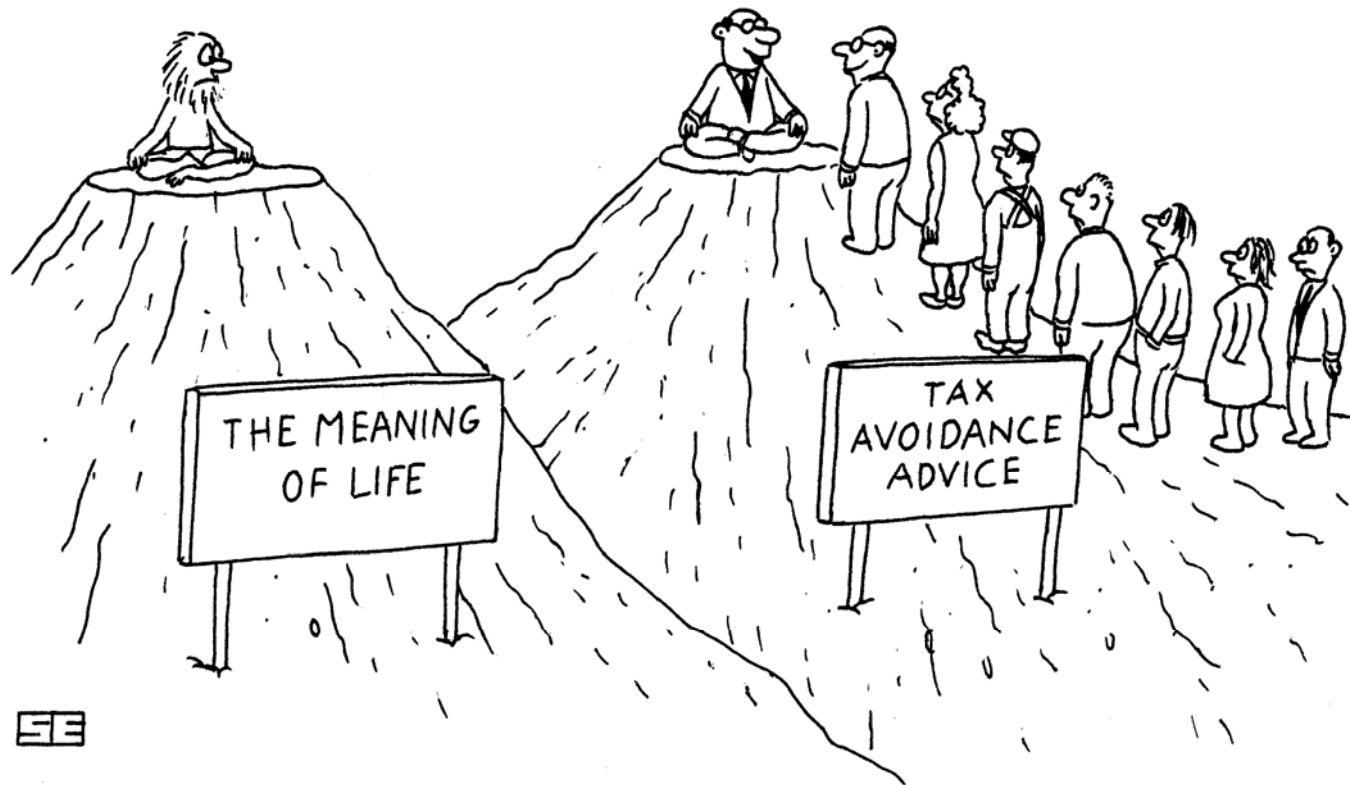
# Background

- **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)
<ul style="list-style-type: none"> <li>• Male</li> </ul>	80%	50%
<ul style="list-style-type: none"> <li>• 45+ years of age</li> </ul>	90%	43%
<ul style="list-style-type: none"> <li>• Auckland location</li> </ul>	60%	35%
<ul style="list-style-type: none"> <li>• Self-employed</li> </ul>	64%	8%
<ul style="list-style-type: none"> <li>• Professional/technical</li> </ul>	20%	7%
<ul style="list-style-type: none"> <li>• Financial/insurance services</li> </ul>	20%	3%
<ul style="list-style-type: none"> <li>• Rental/hiring/real estate</li> </ul>	19%	1%
<ul style="list-style-type: none"> <li>• On-time filing of tax</li> </ul>	50%	60%
<ul style="list-style-type: none"> <li>• On-time payment of tax</li> </ul>	60%	85%
<ul style="list-style-type: none"> <li>• Income \$60,000+</li> </ul>	63%	10%
<ul style="list-style-type: none"> <li>• Expense claims \$10,000+</li> </ul>	24%	1%

ATP <u>Business</u> Customers - Profile	%	Wider population (Business)
• 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)*

# 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

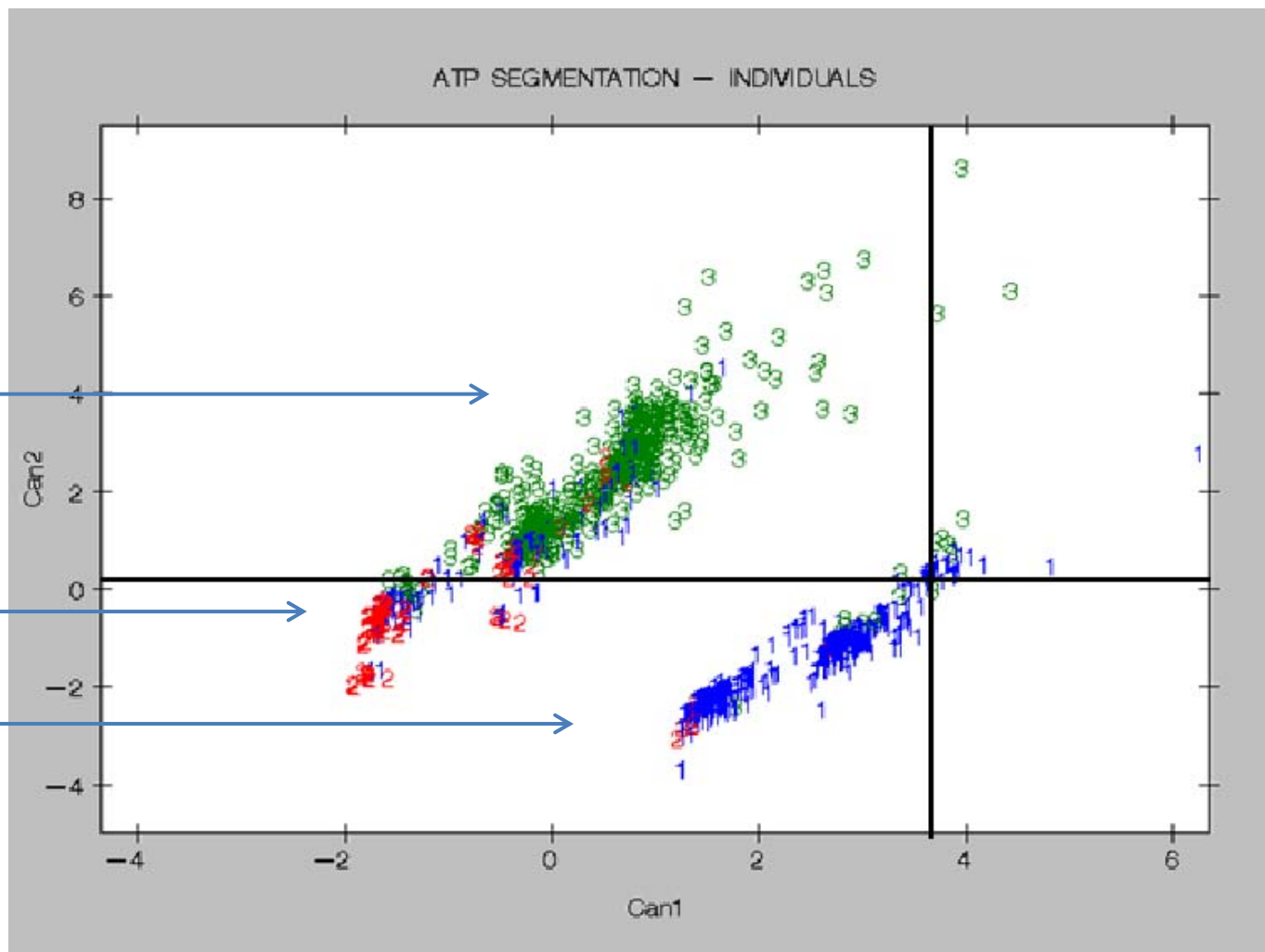
*“Agents consider avoidance and come up with two or three commercial reasons and say ‘we should get over the line’.”  
(IR staff)*





# ATP Customer segmentation - Individuals

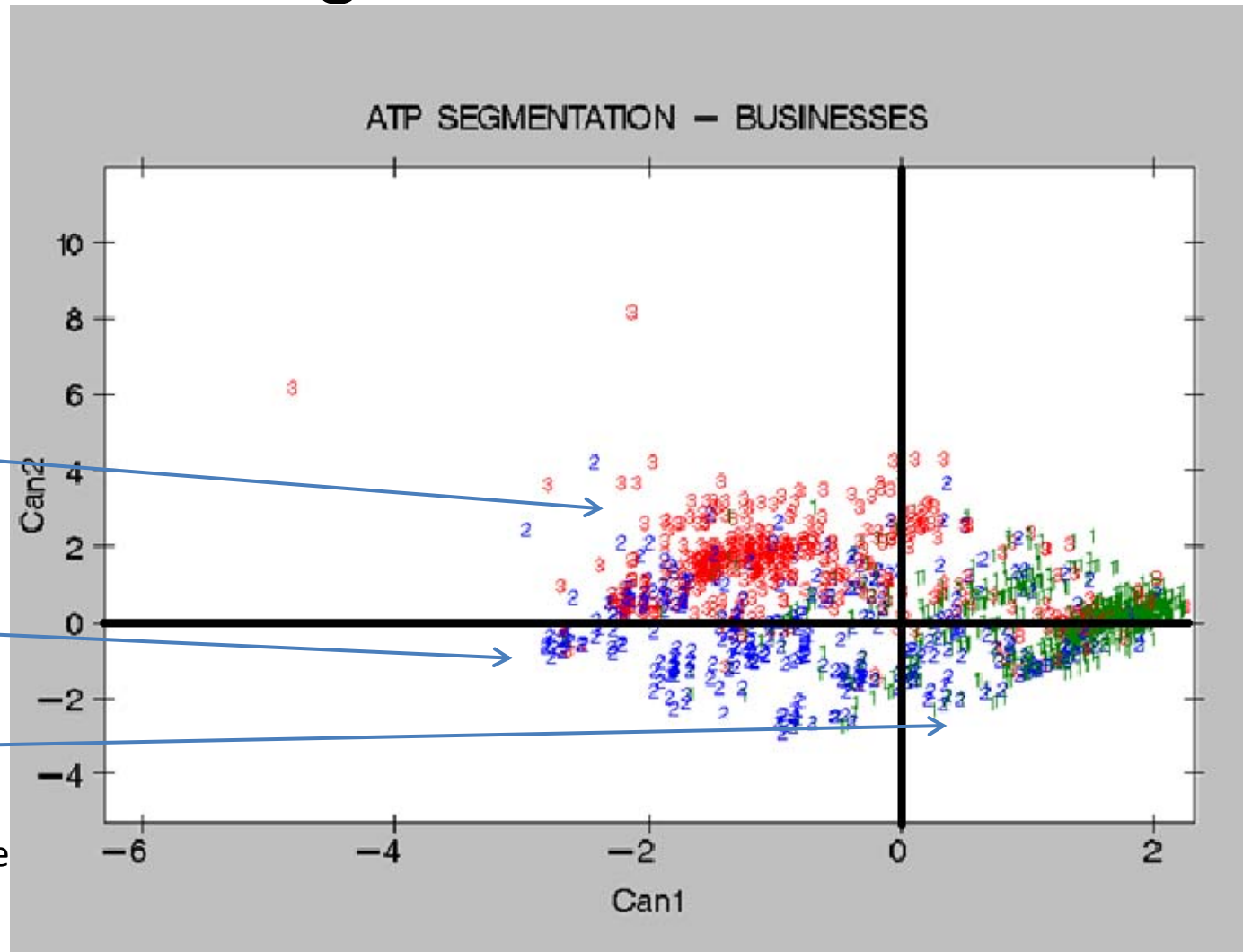
- Clusters**
- 3 = ATP Risk cluster
  - 2 = 'Opportunist' cluster
  - 1 = Non-ATP cluster



'Can' = Canonical variable

Error rate 10%

# ATP Customer segmentation – Businesses



## Clusters

3 = ATP Risk cluster

2 = 'Opportunist' cluster

1 = Non-ATP cluster

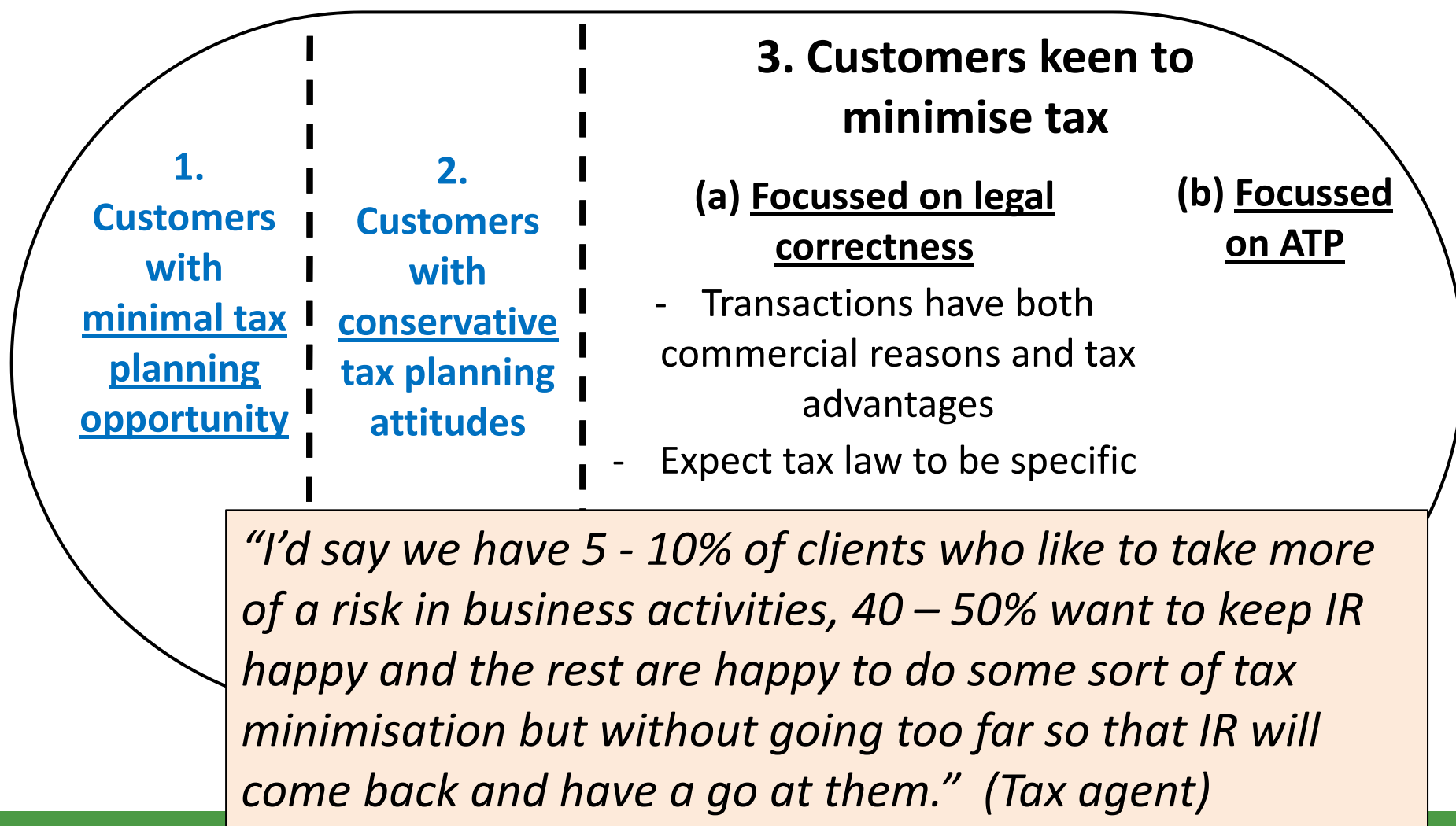
'Can' = Canonical variable

Error rate 19%

# Discriminators of ATP

	Primary Discriminators	Secondary Discriminators	Minor Discriminators
<b>Individual customers</b>	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
<b>Business customers</b>	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

## Social responsibility

to pay tax

HIGH

*“It’s essentially not our money, it’s the government’s money.”  
(Customer)*

Meeting the intent of  
the tax legislation

LOW

*“I don’t believe I should be paying more tax than I have to. I have successful businesses that pay a lot of tax. Why should I pay more?”  
(Customer)*



Inland Revenue  
Te Tari Taake

Communications & Inquiry  
Whakawhiti Kōrero me te Pakirehua

National Research and Evaluation Unit  
Te Wāhanga ā-motu mo te Rangahau me Aromātai



# 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