

RESPONSIVE TAX ADMINISTRATION MODEL AND TAX COMPLIANCE**

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Article info

Received –
2021 September 04
Accepted –
2022 April 11
Available online –
2022 June 20

Keywords

Tax, tax authority, taxpayer,
responsive regulation, tax
administration, tax compliance

The subject. The author studies models of tax administration.

The purpose of the article is to confirm or refute hypothesis that successful tax administration strategy consists a balanced combination of tax enforcement measures and positive incentives.

The methodology of the study includes content analysis of the scientific papers prepared by European and American lawyers and economists.

The main results, scope of application. Tax compliance is an essential component of a well-functioning tax system. The forms and methods by which states ensure tax compliance, and taxpayers try to avoid paying taxes, change significantly over time, due to the modernization of tax policy, changes in the alignment and transformation of economic forces, institutions, norms and technologies. Historically, tax relations have always been strictly vertical and hierarchical, relying on administrative-command methods of tax administration, and also characterized by retrospective tax audits and the threat of imposing harsh sanctions to ensure tax compliance. The one-sided nature and lack of flexibility of such a model, limited by the triad of regulatory instruments “obligation – control – responsibility”, was initially subjected to comprehensive criticism in the scientific community.

Revolutionary transformations in public administration practice have an impact on all aspects of tax interactions, including tax compliance and tax administration. The global trend lies in the understanding that tax administration, in essence, should be expressed not in the confrontation between taxpayers and tax authorities, but in their dialogue, interaction and cooperation.

The flexible tax administration model is based on new approaches to public administration based on a shift in emphasis from coercion to persuasion, from rigidity to flexibility, from “reactivity” to “proactivity”, from “influence” to “interaction” between managers and those controlled. Today, fiscal authorities are encouraged to adhere to a «cooperative approach» in dealing with taxpayers, based on principles such as dialogue, mutual understanding, impartiality, reciprocity, transparency, compromise and flexible response. At the same time, law-abiding behavior should be encouraged in every possible way, and unlawful behavior should be subject to increased discouragement.

The doctrine of flexible tax administration advocates the development of trust in the relationship between taxpayers and tax authorities, offering the latter a wide range of tools to ensure tax compliance, and not limited to control and sanctions. The main mission of the state is to encourage taxpayers to partner with fiscal authorities and to voluntary compliance.

For any state, the most desirable situation is the voluntary fulfillment of tax obligations by all participants in tax interactions, which makes it possible to minimize the size of the tax gap. Both persuasion and coercion as methods of tax administration have their pros and cons. Therefore, the key to a successful tax administration strategy is not abandoning one method in favor of another, but combining them in a balanced manner so that both methods cumulatively complement each other.

Conclusions. In order to effectively increase the level of tax compliance, it is necessary to use a comprehensive tax-legal, organizational and informational toolkit, including both tax enforcement measures demonstrating the tax administration's determination to ensure tax compliance on the part of tax violators, and measures of positive incentives and rewards oriented for service support of law-abiding and conscientious taxpayers.

** The reported study was funded by Russian Foundation for Basic Research (RFBR), project No. 20-011-00080 «Tax Compliance and Legal Ways for Its Maintaining».

1. Introduction

Tax compliance is the most important component of an effectively functioning tax system. Over time, due to the modernization of tax policy, changes in the alignment and transformation of economic forces, institutions, norms and technologies, the forms and methods by which states ensure tax compliance, and taxpayers try to avoid paying taxes, change significantly [1, p. 310].

Historically, tax relations have always been strictly vertical and hierarchical, relying on administrative-and-command methods of tax management, as well as characterized by retrospective tax audits and the threat of imposing harsh sanctions to ensure tax compliance. Bradley Karkkainen defines the administrative-and-command model of public administration as «hierarchical, state-centric, bureaucratic, top-down and expert-driven» [2, p. 474]. The lopsided nature and lack of flexibility of such a model, limited by the triad of regulatory instruments «obligation – control – responsibility», were initially subjected to comprehensive criticism in the scientific community.

Since about the end of the 20th century, tax administration systems of developed countries have faced increasing demands from society to become more *service-oriented*, market-oriented, transparent, effectiveness and efficiency [3, p. 111]. In this context, Jenny Job and David Honaker note: «In the closing decades of the 20th century, public administrators in many Western nations faced growing demands to restructure their traditional approaches to service provision and law enforcement. In some areas of public administration this was coupled with challenges to fundamental legitimacy. The new demands and attacks on the legitimacy of public administration emerged in a context of considerable intellectual debate over the efficacy of alternative approaches to state regulation. The net result of controversy and debate were fundamental changes in how public agencies do business. Nowhere was this more apparent than in the area of taxation administration» [3, p. 111–112].

Gradually, innovative views on public

administration are emerging among scientists and politicians, based on a shift in emphasis from coercion to persuasion, from *rigidity* to *flexibility*, from «reactivity» to «proactivity», from «impact» to «interaction» of managers and managed. By the beginning of the XXI century, the scientific community is developing doctrines focused on providing public services to the population, such as «New public management» and «New governance». These doctrines reject both top-down hierarchical regulation and comprehensive deregulation, trying to find a middle ground through mechanisms of joint control, such as negotiation rulemaking, disclosure regimes and self-control. [4, p. 343]. Many government policies and practices are borrowed from the private sector, with a focus on service, customers, quality and improvement of procedures [5, p. 2].

Revolutionary transformations in the practice of public administration have had (and continue to have) a direct impact on *all aspects* of tax interactions, including tax compliance and tax administration. In modern realities, it has become clear that tax administration in its essence should be expressed not in the confrontation of taxpayers and tax authorities, but in their dialogue, interaction and cooperation.

2. Responsive Regulation as a «Third Alternative» to Market Self-Regulation and Administrative-and-Command Mode

Tax administration is a multifaceted phenomenon that can be considered in regulatory, institutional and fiscal contexts, taking into account their inextricable interrelation and interpenetration. In the first context, tax administration is part of the *national legal order*, in the second – the *system of executive power*, in the third – the *tax system* of the country.

Traditional models of public administration have historically relied on the concepts of «enforced compliance» and «command-and-control regulation», emphasizing detailed rules, comprehensive control and the inevitability of punishment [6]. As part of the state apparatus, the fiscal authorities also resorted to a command-and-control style of tax administration for centuries.

However, by the beginning of the 21st century, the emphasis in tax administration began to shift towards *risk-management*, in which regulatory and, above all, enforcement measures are applied only as a response to the manifestation of a real risk that needs to be eliminated. The OECD describes the new approach with the formula: «*Co-operation if possible and enforcement if necessary*».¹

In the process of rethinking the essence and content of public administration in general, and tax management in particular, the concept of responsive regulation, which became famous after the publication in 1992 of the innovative monograph by Ian Ayres and John Braithwaite «Responsive Regulation: Transcending the Deregulation Debate» [7], is of particular interest.

According to Vibeke Lehmann Nielsen and Christine Parker, in parallel with the concept of responsive regulation, other similar theories based on the introduction of service-and-partner elements into the concept of public administration have been proposed (and are being proposed) in foreign science. These are, for example, «flexible enforcement» (Reese, Kagan), «*tit for tat* regulatory enforcement» (Scholz, Paterson, Harrison), «creative enforcement strategy» (May, Barbie), «reflexive law» (Teubner), etc. However, the version of responsive regulation proposed by Ayres and Braithwaite is recognized as the most influential exposition of how and why coercive and cooperative enforcement strategies should be combined [8, p. 377].

The concept of «responsive regulation» means the organization of public administration of a certain management segment in such a way that regulatory impacts on recipients correspond to the positions of the latter in terms of their attitude to compliance and non-compliance. Representing a «third alternative» to of the free market self-regulation and the administrative-and-command

style of public administration, the concept of responsive regulation proceeds from the need to adapt the regulator's reactions to *industry specifics*, as well as to the *various motivations* of regulated entities. In this context, an important contribution of Ayres and Braithwaite is the recognition of the fact that different people have different motivations for legal compliance or non-compliance, and that the same person – natural or legal – may have several potentially conflicting determinants of compliance, which the authors call nothing else than «multiple selves» [7, p. 30–35]. Therefore, in the process of developing and implementing state regulation, it is necessary to focus on the maximum number of motivations, while simultaneously realizing the impossibility of complete success in this mission.

As Christy Ford claims, the concept of responsive regulation develops a theoretical model that is applied in a wide range of contexts [9, p. 15]. The main purpose of responsive regulation is to ensure the predominance of *voluntary compliance* on the part of the addressees of legal norms. This style of public administration is based on knowledge and takes into account the problems, motivations and conditions underlying non-compliance. Particular emphasis is placed here on legal advocacy, familiarizing individuals with legal rules and providing them with assistance and assistance in their efforts to comply with laws and regulations [7, p. 4].

To achieve compliance, proponents of responsive regulation rely primarily on various forms of *persuasion*. According to Ayres and Braithwaite, «to adopt punishment as a strategy of first choice is unaffordable, unworkable, and counterproductive in undermining the good will of those with a commitment to compliance» [7, p. 26]. In particular, responsive regulation emphasizes the importance of *procedural fairness*, including trust, mutual respect and neutrality, as a central means of encouraging voluntary compliance.

The most important aspect of the new model is that compliance behavior should be rewarded, and non-compliance behavior should entail inevitable punishment. In general, the concept of responsive regulation offers ad hoc regulators the flexibility to choose between coercion and persuasion, recognizing that none of these

¹ OECD (2013). Co-operative Compliance: A Framework, From Enhanced Relationship to Co-operative Compliance, OECD Publishing, Paris. – P. 42. URL: https://www.oecd-ilibrary.org/taxation/cooperative-compliance-a-framework_9789264200852-en (Last Accessed: 02.09.2021).

methods is the only universal one. According to Lehman-Nelson, «responsive regulation therefore proposes that regulatory enforcement agencies should take neither a solely deterrent nor a solely cooperative approach. Rather, a policy of responsive regulation is a “socially intelligent” way for the regulator to react to the behavior of the regulatee» [10, p. 379].

3. The Concept of Responsive Tax Regulation and the «Enforcement Pyramid»

In the context of the revolution in the science and practice of public administration, the sphere of taxation, which, for objective reasons, has always been (and is) the scene of violent conflicts between the authorities and owners, could not stand aside.

The theory of *responsive tax administration* has appeared and gained many supporters in foreign jurisprudence (see more about this in detail: [11]). Thus, Valerie Braithwaite calls responsive tax administration «a viable alternative for organizing the administration of the tax system» [12, p. 4]). According to Freedman, the theory of responsive regulation «has had a major impact on methods of tax administration. The Braithwaite model, with its enforcement strategy and regulatory sanctions pyramid, has much to offer in a tax context» [13, p. 627-628]. In turn, Leslie Book considers the American version of the cooperative compliance program «*Compliance Assurance Process*» as a positive example of how the government creates «compliance dynamics» within the framework of responsive tax administration [14, p. 113].

The main factors determining the transformation of tax administration towards more flexible and partner models include, in particular, the following:

- the impossibility to cover the *entire mass* of taxable persons and all objects of taxation by means of tax control requires justifying effective criteria for selecting objects for verification;
- the need to minimize the costs of tax compliance (on the part of taxpayers) and the costs of tax administration (on the part of tax authorities), with a general *limited resources* of

both sides of tax relations;

- the increase in *uncertainty* in tax law and its permanent complication produces multidirectional interpretations and legal conflicts: all participants in tax interactions are interested in reducing such «zones of uncertainty»;

- the need to reduce *judicial tax disputes*, including by achieving an agreed understanding of tax rules not *ex post*, but *ex ante*, i.e. already at the stage of tax planning

The doctrine of responsive tax administration advocates the development of trust in relations between taxpayers and tax authorities, offering the latter a wide range of tools to ensure tax compliance. It is not limited only to control and sanctions. The main mission of the state is to encourage taxable persons to partner with fiscal authorities and to voluntary compliance [9, p. 14].

Within the framework of responsive tax administration, there is no installation to completely abandon the *standard model of deterrence*, which considers taxable persons as rational entities seeking to maximize their expected utility based on taking into account the ratio of potential costs and benefits from planned non-compliance. However, this concept, in addition to purely economic determinants, also suggests taking into account *non-monetary factors* affecting the final choice of the taxpayer.

At the same time, responsive tax administration proceeds from the premise that different taxpayers have different motivations, and the regulator must take into account these motivations in order to influence the behavior of taxpayers. In this context, the concept under consideration describes how tax administrations should respond to *heterogeneous* taxpayers. In particular, the intensity of managerial influence (including control and sanctions) should directly depend on the behavior of its "addressees". As Vibeke Lehmann-Nielsen and Cristin Parker argue, «a person who experiences responsive regulation will as a result have a more positive assessment of his or her experience of the investigation and enforcement process, more positive attitudes toward the regulator and compliance, and, crucially, better compliance behavior than a person who does not experience responsive regulation. ... Rather, a

policy of responsive regulation is a “socially intelligent” way for the regulator to react to the behavior of the regulatee» [10, p. 377, 379].

The fundamental thesis of responsive tax administration is that a significant part of taxpayers will comply with tax regulations even in conditions of minimal external monitoring, provided that they are treated fairly by regulatory authorities, as well as assistance to overcome problems with the calculation and payment of taxes. «Tax authorities gain more compliance when they treat people fairly and respectfully» [15, p. 866]. At the same time, high-quality provision of services by tax authorities is considered as a promising form of stimulating taxpayers to increase tax compliance.

So, according to the theses of responsive tax administration, the *positive behavior* of the tax authorities creates the prerequisites for *positive reactions* of taxpayers in the form of an increase in tax compliance. At the same time, positive behavior is manifested in «offering cooperation, positive and helpful service, and open dialogue as a first response to conflicts» [16, p. 416–417]. In relation to persons who, despite appeals (and demands) from the regulator, do not comply with the requirements of tax legislation, it is necessary to increase retaliatory measures and sanctions proportionately. As the severity of tax offenses increases, enforcement responses need to be tightened.

Note that the doctrine of responsive regulation does not absolutize the achievement of compliance only through persuasion and procedural fairness. Moreover, Ayres and Braithwaite explicitly point out that «to reject punitive regulation is naive» [7, p. 25]. Coercion and persuasion are *equally important* for achieving a regulatory outcome. In this context, the model of responsive regulation is complemented by the metaphor of the so-called «enforcement pyramid»².

In the context of tax relations, Judith Freedman argues, all taxpayers form a kind of «pyramid» from the point of view of tax compliance [13, p. 630–631]. Most of them are not

looking for loopholes in tax laws, but voluntarily and conscientiously fulfill their tax obligations – it is these taxpayers who make up the «broad», i.e. the lower base of the pyramid. These are *compliant taxpayers*. In relation to them, it is appropriate to use administration based on co-operation and trust (for example, giving advice and explanations, forgiving unintentional mistakes, as well as timely «correcting», but not instantly punishing for the slightest violations) [Ibid]. At the top of the pyramid are *hard-core tax evaders*; it is advisable to apply intensive tax control and sanctions against them [Ibid]. The middle space is filled by so-called «*hesitant*» taxpayers who generally want to comply with tax laws, but who may need to be «pushed» into compliance behavior by additional motivation or persuasion. In an environment where tax law remains insanely complex and replete with numerous «gray areas», hesitant taxpayers may resort to aggressive tax planning, mistakenly believing that they are acting within the law [Ibid]. Since such optimization does not always correspond to the approaches and interpretations developed by the tax authorities, the intervention of the courts is required, which in some cases can support the position of the taxpayer, and in others – the position of the tax authorities [Ibid].

Thus, at the base of the «enforcement pyramid» lies the expectation of cooperation between the regulator and the regulated. It is with him that it is expedient for the regulator to begin managerial influence, relying on the *presumption of cooperation*. Coercive methods should only be used when collaborative strategies fail. The escalation of regulatory impact is justified only when there is a violation and non-cooperation.

In relation to complex taxpayers, the concept of responsive regulation offers assistance and assistance in understanding and implementing tax rules. Mark Burton observes in this context: «Promoting voluntary compliance generates public sector efficiency gains because the governed become voluntarily complying self-governors, thereby enabling the regulatory agency to devote its limited enforcement resources to those exhibiting resistant postures» [17, p. 74–75]. On the contrary, for non-compliant taxpayers, fiscal authorities should consider increasing enforcement in order to

² Sometimes – as interchangeable – doctrinal sources use the terms «compliance pyramid» and «regulatory pyramid».

ensure tax compliance. The more antisocial the taxpayer's position, the tougher the regulator's reaction should be.

Of course, within the framework of responsive tax administration, the fiscal expectations of the state should not go beyond the requirements of tax legislation. If the regulator's opinion prevails that in terms of proper fulfillment of tax obligations, the taxpayer *should do more* than what is required of him by law, then this approach obviously does not agree with the maxim of the *Rule of Law* and becomes counterproductive.

4. The «Slippery Slope» Metaphor

The «enforcement pyramid» metaphor is closely related to the «slippery slope» metaphor, formulated by Eric Kirchler, Eric Holzl and Ingrid Wahl in the publication «Enforced versus Voluntary Tax Compliance: The “Slippery Slope” Framework», published in 2008 in the *Journal of Economic Psychology* [18].

Kirchler and his co-authors proceed from the thesis that the tax climate in society can vary within a continuum from antagonistic to synergistic. In an antagonistic climate, taxpayers and tax authorities work against each other; in a synergistic climate, they work together [18, p. 211]. The *antagonistic climate* is characterized by the «cops and robbers» formula: the tax authorities here perceive taxpayers as potential criminals («robbers») who try to evade paying taxes whenever they can and should be kept under control; taxpayers feel persecuted by the authorities («cops») and consider it right not to pay taxes. In such a climate, voluntary compliance is likely to be negligible, and individuals are likely to resort to a «rational» weighing of the costs and benefits of non-compliance [Ibid]. A *synergistic climate* is characterized by the fact that tax authorities provide public services and are part of the same community as taxpayers. The approach of the authorities here can be characterized through the formula of the «service and client» relationship, as it is promoted by the scientific school New Public Management [Ibid]. The authorities here strive for transparent procedures

and respectful treatment of taxpayers. In such a climate, social distancing is likely to be low, *voluntary compliance* may prevail, people are less likely to weigh the odds of non-compliance, and more likely to contribute tax to the budget system out of a sense of duty [Ibid].

The slippery slope model combines two motivations to comply with tax laws – *voluntary*, based on tax morality, civic duty, conformism and other non-monetary factors, and *coercive*, caused by fear of exposure and punishment [18, p. 212–214, 220]. The tax administration should respond to each of the motivations differently, relying on two complementary strategies – power and trust. Power is described by the authors as the result of tax control and tough sanctions, while trust is the result of fair procedures, adequate services and a benevolent attitude towards the taxpayer [18, p. 212]. In an antagonistic climate where taxpayers are driven mainly by selfish motives and rational choice of costs and benefits, tax enforcement as a tool to strengthen compliance will prevail, although positive incentives are not indispensable here. On the contrary, in a synergistic climate, taxpayers are more likely to view taxes as a fair contribution to public welfare, which produces voluntary compliance. But even in a synergistic climate, coercive measures cannot be neglected [18, p. 220–221].

So, power and trust in the activities of tax authorities should *cumulatively combine*, complementing and supporting each other. In isolation from each other, they are unable to ensure an optimal level of compliance with tax legislation. Therefore, the «slippery slope» concept refers to a balanced combination of coercive and incentive measures to strengthen tax compliance on the part of the widest possible mass of taxpayers. Global trends in tax administration demonstrate the general commitment of tax authorities to the concept considered.

5. Three Paradigms of Tax Administration

An analysis of doctrinal sources allows us to name three main paradigms of tax administration [19, p. 635, 646–647]. In particular, it is generally accepted to distinguish:

- enforcement paradigm;
- service paradigm;
- trust paradigm.

In the first model, the emphasis is on suppressing illegal behavior through increasing the intensity of tax audit and enforcement of tough sanctions. As James Alm and his co-authors point out, throughout the history of civil societies, this paradigm has been accepted by tax administrations. In general, it corresponds to the standard tax compliance model based on the economic theory of crime [1, p. 297]. This model is based on the ideal «*homo economicus*» concept – a *rational person* who makes a decision on compliance or non-compliance based on an analysis of the ratio of potential costs and benefits. According to this model, a taxpayer will be law-abiding if the costs of tax non-compliance (for example, audit, tax sanctions, reputational losses, etc.) outweigh its benefits (tax savings), and vice versa [Ibid].

The second paradigm recognizes the role of enforcement, but also considers the tax administration as an intermediary and provider of public services for taxpayers, assisting them at all stages of declaring and paying taxes [1, p. 297]. This paradigm emphasizes the role and importance of public services provided to the taxpayer in his choice of tax compliance decisions. The main thing here is to treat the taxpayer as a client, but not as a potential criminal [20, p. 371]. The «service» paradigm recognizes the key role of individuals – taxpayers and other taxable persons (for example, banks, tax agents) – as participants in tax interactions.

Finally, the third paradigm considers each taxpayer as a *social creature* and a member of a larger group, whose behavior depends on individual and group moral values, as well as on the perception of the quality, credibility, and reliability of the tax administration [1, p. 297]. That is, we are talking about taking into account the widest possible range of factors that characterize the tax culture of a particular category of taxpayers [Ibid]. When making tax compliance decisions, people are more likely to respond to either law enforcement or public services if they trust government in general and the tax administration

in particular, and if they believe other people feel similarly motivated. Accordingly, the supporters of this paradigm emphasize that trust in the authorities and other persons can have a positive impact on tax compliance [Ibid].

In any case, the tax administration must understand its role as a *provider of services* and be prepared to consider taxpayers as consumers of these services. Thus, the tax authority must create a favorable tax atmosphere and environment that can inspire the confidence of taxpayers at all levels of tax administration [21, p. 137].

6. Innovations and Trends in Tax Administration That Can Increase Tax Compliance

Tax administration plays a decisive role in solving the fiscal problems of the state. Indeed, no matter what ideal tax legislation could be developed and put into effect, the intentions of politicians and legislators will be distorted and not implemented if tax administration is carried out by tax authorities inconsistently and inefficiently. Ultimately, the effectiveness and efficiency of any tax rule is determined not only by how competently it is formulated, but also by how skillfully and adequately it is applied in practice. It's no secret that the growth of tax revenues in the last crisis years is provided everywhere not so much by improving the state of national economies, but by improving the quality of tax administration.

At the same time, dynamic (and sometimes revolutionary) changes in the social environment – both at the national and global levels – dictate the need for *constant adaptation* of tax administration to current challenges and transformations of the objects of regulatory influences. «The risks associated with ineffectivities and dysfunctions of tax administration, create uncertainty for businesses and, consequently, impact trade and investment. – Gyöngyi Végh and Hans Gribnau claim reasonably. – Furthermore, taxpayers' perception about the fairness and effectivity of tax administration impacts business decisions and voluntary compliance. Therefore, a well-functioning tax administration is not just key to state revenue, but also has a role in economic prosperity» [22, p. 48]. Therefore, improving the quality of tax

administration is the most important factor for improving tax compliance.

Not so long ago, the «you're running away, I'm catching up» position prevailed in tax administrations, according to which all taxpayers were regarded as potential criminals, and taxation was recognized, in fact, as a matter of tax control, as well as the capture and punishment of those who do not properly fulfill tax obligations. But a strict regulatory approach based solely on sanctions and tax audits produces an atmosphere of distrust and hostility between taxpayers and tax authorities. Rachele Holmes summarizes: «In this tax game, the players have a deeply rooted antagonistic posture towards each other. Although greater gains for both sides may realistically be achieved through cooperation, neither side is willing to give up any ground based on their justified suspicion as to the other side's motives» [23, p. 1421].

However, no modern tax system can function solely on the fear of punishment. Problems with the payment of taxes cannot be solved by simply calling the «tax police». On the contrary, there is often much to be gained by treating taxpayers more as clients than as potential criminals. [24, p. 38].

How to influence the behavior of the taxpayer to ensure tax compliance on his part? The state has two methods of such influence – *direct* (explicit) and *indirect* (implicit). In the first case, we are talking about a direct impact on the taxpayer through regulatory requirements, acts of law enforcement and official interpretation, court decisions. The indirect way of influence is associated with a change *in the context*, i.e. with the state of the environment in which the taxpayer exists and engages in tax-relevant activities. Such an environment-context includes numerous social, economic, cultural and ethical conditions, including the interactions of taxpayers with tax authorities. «A change in context can change the behaviour as well as changed norms or experiences. So, if revenue bodies gain more knowledge on compliance behaviour and change their activities and behaviour, this in itself can lead to a change in taxpayers' behaviour. Drivers behind behaviour cannot be separated from context and to influence

drivers means changing the context»³.

Taxpayers, whether individuals or corporations, are more likely to comply with the law if they feel they are treated with respect, fairness and impartiality by the tax authorities. The results of empirical studies confirm that if the tax administration tries to be fair, consistent, informative and helpful, acting as a *service institution* and treating taxpayers as clients or even partners, and not as subordinates in a hierarchical relationship, tax morality is enhanced and taxpayers have more strong incentives to pay taxes honestly. [25].

In this context, Sagit Leviner emphasizes: «It is well understood today that the perceptions taxpayers have of the procedural justice of the tax system – how the tax administration treats them and other similarly situated taxpayers – affect the legitimacy these taxpayers attribute to the administration and the extent to which they accept its authority. This, in turn, impacts the taxpayers' levels of compliance. Taxpayers who believe that the tax administration and its officials make an effort to be fair and respectful are more likely than those with more negative perceptions to assign greater legitimacy to the tax system, align with its administration, and, consequently, comply with their tax obligations» [16, p. 415]. Such strategies focus more on preventing and mitigating *potential tax risks* instead of reacting retrospectively to deviations that have already occurred. According to Rachele Holmes, it is required to provide taxpayers with useful and accessible information, advice, explanations, to ensure a non-conflicting and respectful attitude during tax audits and to create positive incentives for all compliant taxpayers. [23, p. 1436].

The service-oriented approach implies the provision of a wide range of information, educational, explanatory and consulting services by the tax authorities. In conditions of increasing *legal uncertainty*, it is important to inform the taxpayer in a timely manner about his tax obligations and help

³ OECD (2010). Understanding and Influencing Taxpayers' Compliance Behaviour, Forum on Tax Administration, OECD Publishing, Paris. URL: <https://www.oecd.org/ctp/administration/46274793.pdf> (Last Accessed: 02.09.2021).

him understand the intricacies of tax rules, principles and legal positions, assist in assessing the tax consequences of transactions and business-projects, help ensure the integrity of prospective counterparties, teach him how to correctly interpret the tax legislation that reflects not only the letter, but also the spirit of the law.

Such *service work*, playing ahead of the curve and being proactive, allows the state to significantly reduce unintentional non-compliance. In addition, the service-oriented approach expands the atmosphere of mutual trust and voluntary cooperation between the participants in tax interactions. In particular, Végh and Gribnau argue that improving service, information, education and counseling makes it easier for taxpayers to comply; if you help them understand extremely complex tax legislation, their tax compliance will increase, and unintentional non-compliance behavior will decrease; at the same time, the services provided should be easily accessible, informative, accurate, consistent and relevant [22, p. 57].

An important element of the new model of tax administration is the *risk-based management* of the tax system. The 2013 OECD Report notes: «Revenue bodies must manage the tax implications of the steady growth in international trade, changes in employment patterns and demographics, international mobility of capital and labour, innovations in business structures and financial products, rapid changes in technology and information sharing techniques, and environmental and energy concerns. With a changing environment, it has therefore become more critical for revenue bodies to allocate available resources in a targeted and effective manner. Compliance Risk Management is essential if this goal is to be achieved»⁴.

Regulators can only benefit from compliance risk management if they separate «high risk areas» from low or low risk areas and respond to and influence them accordingly.

Compliance risk management strategies should also benefit taxpayers who are willing and able to comply. For example, while taxpayers who display «high risk» characteristics may expect to receive increased scrutiny and scrutiny from law enforcement, taxpayers who are transparent and do not have higher-risk tax issues may reasonably expect to receive support. and lower compliance costs⁵.

Voluntary compliance, according to the OECD, is also provided by *procedures* that are convenient for taxpayers⁶. In order to ease the burden of compliance for the taxpayer, it is important to reduce as much as possible its financial, organizational and temporal costs for the fulfillment of tax obligations. Modern digital technologies greatly facilitate this strategy, making it possible to create large-scale and easily accessible electronic services and information repositories, facilitating communications, and unprecedentedly expanding the capabilities of tax authorities in terms of conducting control-and-analytical work.

Among the main components of a tax offense, modern authors include the *objective possibility* of committing it. In this context, Leandra Lederman writes: «... the lack of opportunity for tax evasion ... explains much tax compliance and is consistent with the deterrence model» [26, p. 651]. Therefore, another obvious strategy is to eliminate the *objective reasons* for non-compliance, i.e., it is necessary to stop the very opportunity (perceived opportunity to evade) to evade taxes. For example, the involvement of tax agents in the process of withholding and transferring tax payments [see, for example: 27, p. 37], the maximum expansion of the range of sources of tax-relevant information at the expense of third parties [see, for example: 28, p. 653], the transition to electronic invoices for indirect taxes, reduction of cash payments, legalization of the shadow sector of the economy, etc. can significantly increase the level of tax compliance. Leandra Liederman compares this strategy to placing speed bumps on the roadway [34, p. 1198].

⁴ OECD (2013). Co-operative Compliance: A Framework, From Enhanced Relationship to Co-operative Compliance, OECD Publishing, Paris. URL: <https://www.oecd.org/publications/co-operative-compliance-a-framework-9789264200852-en.htm> (Last Accessed: 02.09.2021).

⁵ Ibid.

⁶ OECD (1999), Principles of Good Tax Administration. Practice Note, OECD Publishing, Paris. URL: <https://www.oecd.org/tax/administration/1907918.pdf> (Last Accessed: 02.09.2021).

An important direction for improving tax compliance is *to increase the legitimacy* of the tax system and the expected fiscal exchange. Taking measures to increase and preserve this legitimacy will contribute to strengthening compliance and the widespread strengthening of the «ethics of paying taxes» in society. Consequently, Richard Lavoie emphasizes, the government needs to make sure that its budget choice meets the wishes of society, and the tax burden and tax administration are fair [29, p. 651]. In this context, an important component of the «social contract» mechanism, according to the author, is the taxpayers' understanding of the benefits that the state provides in exchange for their tax payments. Therefore, one of the elements of tax compliance is to explain to taxpayers how their tax payments are used [30, p. 76].

Virtually all experts agree that the tax administration, like other government bureaucracies, should strive to use its resources *effectively and efficiently*. The current trend in tax administration is universally recognized as the course towards minimizing tax audits and maximizing voluntary compliance [31, p. 245].

Leviner emphasizes that one of the key problems for tax officials in this situation is the change in the *motivations* of taxable persons [16, p. 416–417]. «Tax officials may be able to do this by offering cooperation, positive and helpful service, and open dialogue as a first response to conflicts. In cases where the offer of cooperation from the tax authority is not met with compliance, tax officials must be firm, but also fair, in bringing to account those who remain defiant. Whatever steps the tax administration takes must not, as much as possible, adversely affect compliant taxpayers or escalate existing conflicts beyond what is necessary to gain compliance. Maintaining open communication and positive and professional service even through the toughest encounters with taxpayers becomes instrumental to effective enforcement. Such strategies not only help protect the integrity of the tax system and administration, but they are also valuable in order to turn taxpayer resistance into cooperation» [16, p. 416–417]. Christina Murphy concludes that the tax administration should balance coercive measures

and enforcement actions with other, more constructive measures to eliminate the current non-compliance by developing partnerships and cooperation with the taxpayer community. [32, p. 589].

One of the serious factors provoking tax compliance is associated with increasing *uncertainty in the law*. Analysis, assessment and correct interpretation of tax rules, and further – proper adaptation of current activities to these rules, require significant personnel, financial and temporal costs even from conscientious taxpayers who are not inclined to take risks by engaging in aggressive tax planning. In addition, the relevant tax rule applicable to some new business-strategy, transaction, investment activity may be completely absent, giving rise to fragmentation in tax law. In this context, Rachelle Holmes concludes: «Ambiguity is not uncommon in today's ever-changing environment where legitimate transactions are becoming increasingly globalized and investment technologies are becoming more sophisticated. It is impossible for the existing tax rules to stay in complete lockstep with the evolving landscape, and there will often be lag time between the emergence of new market technologies and the tax law that will govern them» [23, p. 1440–1441].

As the best practices of tax management shows, tax administration tools aimed at coordinating the positions of fiscal authorities and taxpayers not after the fact, but in *real time*, i.e. directly as they arise, allow to mitigate legal uncertainty and, accordingly, increase tax compliance. An active dialogue is required between all participants in tax interactions. In the absence of such a dialogue, the parties will repeatedly produce divergent tax positions, being sincerely convinced of their own rightness.

And finally, another area for improving tax compliance is related to increasing the *fairness* of the fiscal system, including, mainly, a fair distribution of the tax burden and a fair redistribution of public goods and resources. On this occasion, Benno Torgler correctly states: «As inequality in the distribution of wealth and income is strongly connected with public views as to how well the fiscal system addresses social objectives with respect to fairness, social justice and redistribution,

a higher level of income inequality may lead to lower levels of trust in institutions and eventually to lower tax effort because of widespread tax avoidance and evasion» [25, p. 56]. By equalizing the disproportions of the market formation of private income, taxes should act as a means of stabilizing and reducing social tension, maintaining peace and harmony in society at all levels of its stratification (individuals, groups, the community as a whole).

7. Conclusion

The tax system of any country consists of many components that intertwine, interact, cumulatively complement and influence each other. «National revenue bodies face a varied environment within which to administer their taxation system. Jurisdictions differ in respect of their policy and legislative environment and their administrative practices and culture. As such, a standard approach to tax administration may be neither practical nor desirable in a particular instance»⁷.

In turn, tax administration is a key element of any tax system. As Michael D'Ascenzo rightly remarked, «good tax administration starts from the philosophy that underpins the thinking and actions of the tax agency» [33, p. 82].

In general, today there is a growing understanding among politicians and scientists that public services are rendered more effectively when tax administrations work in cooperation with citizens, relying on their interests, energy, experience and ambitions. Fiscal authorities should adhere to «cooperative approaches» in relations with taxpayers, based on such principles as trust, dialogue, mutual understanding, impartiality, openness, transparency, compromise and flexible response. At the same time, law-abiding behavior should be encouraged in every possible way, illegal behavior should be subjected to increased destimulation.

Summing up, we state that for any state, the most desirable situation is the *voluntary*

fulfillment of tax obligations by all participants in tax interactions. In this context, both persuasion and coercion as methods of tax administration have their pluses and minuses. Therefore, the key to a successful tax administration strategy is not to abandon one method in favor of another, but to combine them in a *balanced way* so that both methods cumulatively complement each other. The transition to partner models of tax administration contributes to its optimization in terms of budget expenditures and energy costs, leads to a reduction in conflicting interpretations of tax rules and, accordingly, to a reduction in tax disputes. In conditions when the line between lawful (and conscientious) behavior, on the one hand, and deriving unjustified tax benefits, on the other hand, is blurred, producing «gray zones» between right and wrong, such innovative models of tax administration, built on mutual understanding, trust and compromise, give the taxpayer confidence that his tax strategy is consistent with the letter and spirit of tax law.

Thus, in order to effectively increase the level of tax compliance, it is necessary to use complex legal, organizational and informational tools, including, on the one hand, *tax enforcement measures* that demonstrate the determination of the tax administration to ensure tax compliance with respect to violators of tax rules, and on the other hand, *the measures of positive incentives and incentives* focused on service support for law-abiding and conscientious taxpayers.

⁷ OECD (2013). Co-operative Compliance: A Framework, From Enhanced Relationship to Co-operative Compliance, OECD Publishing, Paris. – P. 3.

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BIBLIOGRAPHIC DESCRIPTION

Demin A.V. Responsive tax administration model and tax compliance. *Pravoprimerenie = Law Enforcement Review*, 2022, vol. 6, no. 2, pp. 80–92. DOI: 10.52468/2542-1514.2022.6(2).80-92. (In Russ.).