



## Summary:

# Dealing with a complicated tax system – Making it simpler for companies

## Audit background

Sweden's current tax system is in many respects complicated. This may make it difficult for taxpayers to fulfil their tax obligations, which risks reducing confidence in the tax system and thus reducing willingness to pay tax. To maintain confidence it is important to work actively to make it simpler for taxpayers. Simplification may for example be a matter of better information, smoother ways of providing data and amendment of rules that are difficult to interpret.

Pre-filled data in tax returns and other measures have made it simpler for private individuals. On the corporate side, however, it is considerably more complicated to get it right. Different types of company also encounter different taxation issues and have different capacities for dealing with complicated rules.

In light of the importance of an effective tax system, for example for funding the public sector, the Swedish National Audit Office decided to audit how the Swedish Tax Agency and the Government work to deal with the complexity of the tax system that relates to companies.

## Purpose

The overall purpose is to audit the effectiveness of the parts of the Swedish Tax Agency's work that are aimed at clarifying for companies how they should act to live up to their tax obligations and if the Government has given the Swedish Tax Agency a sound basis for this work. Based on this, the following audit questions were formulated:

- Does the Swedish Tax Agency conduct its preventive work by effectively meeting companies' need for guidance?
- Does the Government conduct active and appropriate work aimed at simplifying tax legislation?

The first audit question breaks down into three parts: Development of eServices, conditions for providing correct answers to companies' questions and handling of signals concerning the need for simplification and change.

## Implementation

The part of the audit that concerns the Swedish Tax Agency is mainly based on interviews with employees at the Agency's head office and with first line managers at five of the Agency's regions. To consolidate the information from the interviews, document studies were conducted of guidelines, job descriptions etc.

The audit of the Government's regulatory simplification is based on an examination of the Government's proposed regulatory amendments in the taxation area and an examination of the advance rulings of the Council for Advance Tax Rulings. Among other things, the examinations show the extent to which there are proposed simplifications that address the unclear and complicated taxation issues that are common in advance rulings.

## The conclusions of the Swedish National Audit Office

The Swedish NAO's overall conclusion concerning the preventive work of the Swedish Tax Agency is that the Agency works effectively to meet the needs of companies for guidance, but that there is room for some improvements.

The Swedish NAO's overall conclusion concerning the Government's regulatory simplification is that it is taking place at a slow rate and that the changes proposed are often limited in scope. To achieve greater perceptible simplifications for companies the Government must intensify its regulatory simplification in the area of taxation, for the purpose of creating more and more far-reaching simplifications.

### *eServices*

The audit shows that use of the Swedish Tax Agency's eServices has not increased as fast as the Agency would like and that pressure on the Tax Information service has not decreased. At the same time it cannot be ruled out that there would have been even more calls to the Tax Information service without the ongoing development of eServices.

One explanation for the slow increase in the use of eServices may be that development of the services has not been sufficiently focused on user needs. The Swedish Tax Agency has therefore introduced a considerably stronger emphasis on the user perspective. The Swedish Tax Agency's analysis division will also investigate what characterises the companies that do not use eServices, to find ways to increase the proportion of users.

Another problem highlighted during the audit is that development of the Swedish Tax Agency's eServices is expensive and time-consuming. This means that within the organisation, getting acceptance for proposed improvements in eServices is often perceived as difficult. There may be potential for improvement here.

### Conditions for correct responses

The audit concerns several work processes that affect the probability for companies to receive correct answers when they address questions to the Swedish Tax Agency. Two of these are quality assurance and competence planning, where the Swedish Tax Agency recently introduced new models that brought improvements.

The new model for quality assurance creates a more structured process and makes it possible to aggregate quality assurance results throughout the entire Agency. The audit shows, however, that the questions not answered by the Tax Information service but by the case-handling organisation are not quality assured. This is partly because it is usually not possible to listen in on telephone calls. There is therefore a risk that the heads of section miss a relevant part in their feedback to employees concerning quality.

The new model for competence planning also brings improvements and builds on discussion between the head of section and staff concerning competence needs. The results of the discussions are aggregated at office level. One problem is, however, that in several regions it is difficult to recruit heads of section. These managers play an important role in the work of quality assurance and competence planning.

It is important that the case officers have access to sound support from the legal department when legally complicated questions arise. The audit shows that there are problems linked to the tools used in communication with the legal department. But work is in progress to improve support and dissemination of information from the legal department.

## Signals concerning the need for simplification and change

Within the Swedish Tax Agency there is a widespread perception that signals from the organisation on the need for simplification and change are important. There are also constant efforts to encourage and deal with this type of signal. The Swedish NAO regards this as very positive.

The audit shows in particular that in the work of the Swedish Tax Agency on case flow there is a vital improvement culture, which includes signals on the need for simplification and change. However, the organisation in other parts of the Agency is not quite so well adapted to handling this type of signal.

## Regulatory simplification

The Swedish NAO notes that the proposals drawn up by the Government to amend tax legislation to a minor extent concern simplification. Moreover, many of the proposals that aim to simplify seem to be limited in scope. The latter evaluation is more difficult to make, however, because the proposals' impact assessments usually lack information on the impact on companies' administrative costs. This is one of the reasons for the Better Regulation Council's high level of rejection of the quality of the impact assessments accompanying regulatory change proposals in the taxation area.

The taxation questions that figure most frequently in the advance rulings by the Council for Advance Tax Rulings have only in a few cases been subject to simplification measures on the part of the Government. However, it is positive that the Government has decided to review the VAT legislation and that work is in progress to amend the rules for limitation of deductions for interest expenses.

According to the Swedish tax policy guidelines, simplicity must always be taken into account when amending the regulatory framework in the area of taxation. Besides this, however, fairness aspects, risks of tax evasion, legal security etc. must also be taken into account. When these objectives are weighed against each other there may be conflicts.

## Recommendations

On the basis of the audit findings and conclusions the Swedish NAO recommends that the Government intensifies the work of simplifying tax rules for companies.