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Understanding power at tax investigation - The Portuguese tax inspector's view

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The tax inspection procedure depends on a set of interactions between the tax inspector and the taxpayer. Tax inspectors are responsible for conducting this relationship and they have a large set of legal prerogatives to use - power actions. The way those power actions are used may define the taxpayers propensity to regularize their tax situation or, on the contrary, adopt a position of resistance or confrontation. From a questionnaire carried out with 85 Portuguese Tax Inspectors (PTIs), 40 power actions were analyzed. We identify five different levels of power actions according to their harshness. We have also analyzed the correlations between frequency of use and perceived efficiency. We conclude that PTIs do not use more invasive power actions very often, even though these are perceived as more efficient.

Keywords: tax inspection, tax compliance, power actions, clustering

The tax inspection procedure is a very particular stage of the tax procedure. There are many "slippery" zones where the taxpayer's decision to comply or not comply may depend on how the tax inspector manages the conduct of the inspection procedure. Following Kirchler's Slippery Slope Framework (SFF) model [2] and Braithwaite's pyramid regulatory model [1], a specific regulatory model was developed - Tax Investigation Diamond (TID). According to the SFF, the two determining factors to mediate this relationship are Power and Trust.

Tax inspectors' comprehension of legal prerogatives and the power they have at their disposal are unknown. The implementation of a regulatory tool such as TID, based on a reasoned use of power, depends on the way power is assessed, perceived and used by the tax inspectors. This work intends to understand how the use of power actions in a tax inspection is perceived. Power actions are defined as any legal procedure that a tax inspector might use within a tax investigation (e.g., "access to taxpayers facilities" and "start a criminal investigation").

A questionnaire was carried out to PTIs ($n = 85$) allowing to obtain their opinion about 40 power actions. The intention is to verify if the different power actions can be clustered

according to their harshness, and if there is a relation between the frequency of use of a certain power action and the perception about its efficiency by the PTIs.

Each one of the 40 power actions is analyzed under four perspectives: Frequency of use (V1); Perceived efficiency (V2); The degree of Invasiveness (V3); and Proportionality (V4). We apply a clustering algorithm over V3 in order to identify power actions profiles in relation to their Invasiveness, and over V4 to explore the influence of the missing tax amount for the decision to use such action. Combining both clusters of V3 and clusters of V4, we are able to distinguish five levels of power actions: Extremely aggressive measures; Very aggressive measures; Aggressive measures; Slightly-aggressive measures; Non-aggressive measures. We conclude that power actions can be used in escalation, within a regulatory approach to be performed within the tax inspection procedure.

The association between V1 and V2 is analysed in different ways, depending on whether the power actions are more or less used by the PTIs. We intend to understand if the power actions perceived as being the most efficient are also those that are most used. For the power actions that are most frequently used, we analyse their correlation with the corresponding efficiency. The analysis indicates that PTIs base their action using less aggressive measures, following a more administrative orientation of the concept of tax inspection. The most aggressive measures aimed at tackling tax crimes or abusive tax planning are much less frequent used. This suggests that an increase in the use of more aggressive measures, always within the legal limits, might lead to a higher rate of detection of tax crimes and avoidance situations.

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