

eJournal of Tax Research

Volume 13, Number 1

March 2015

CONTENTS

- 5 Role of reputational risk in tax decision making by large companies
- 51 Assessing the quality of services provided by UK tax practitioners
- 76 Relational impact of tax practitioners' behavioural interaction and service satisfaction: Evidence from New Zealand
- 108 Tax compliance and the public disclosure of tax information: An Australia/Norway comparison
Ken Devos and Marcus Zackrisson
- 130 Let's talk about tax compliance: Building understanding and relationships through discourse
Robert Whait
- 158 The internal costs of VAT compliance: Evidence from Australia and the United Kingdom and suggestions for mitigation
- 183 Information sharing by government agencies: The effect on the integrity of the tax system
- 202 Does the Australian Higher Education Loan Program (HELP) undermine personal income tax integrity?
Richard Highfield and Neil Warren
- 262 A chilling account: North American and Australasian approaches to fears of over-defensive responses to taxpayer claims against tax officials

CONTENTS

- 280 Tax simplification: A review of initiatives in Australia, New Zealand and the United Kingdom
- 303 Building trust through leadership: A longitudinal study on Inland Revenue's response to, and learnings from, the Canterbury earthquakes: Years 1 and 2
- 338 Tax professionals' perception of tax system complexity: Some preliminary empirical evidence from Portugal
- 361 Modernising the Australian Taxation Office: Vision, people, systems and values
- 378 Effective engagement: Building a relationship of cooperation and trust within the community

H-RXUQDO RI 7D[5HVHDUFKS YRO QR

1. INTRODUCTION

Tax administrations worldwide have arrangements for sharing taxpayers' information with other government departments and agencies. Most of these arrangements are aimed at preventing fraudulent activities and ensuring taxpayers receive their correct social assistance entitlements, but there are also some arrangements for law enforcement, countering terrorism, and policy development purposes. By sharing information, tax administrations not only improve their own outcomes, they also contribute to other agencies' goals, thus improving the public service overall.

Government agencies are expected to continuously improve their services, opportunities for information sharing are increasing as information technology advances. It follows that New Zealand government departments and agencies, including Inland Revenue (IR), are developing new information sharing initiatives.

However, information sharing carries considerable concerns about privacy of information:

[Information sharing] runs counter to two of the most fundamental principles of data protection — that personal information should be collected directly from the individual to whom it pertains, and should only be used for the purpose for which it was collected [with limited exceptions]. Data sharing respects neither of these principles. Data sharing involves information that has been collected indirectly, and used for a purpose which may not have been intended at the time of the original collection.

Countries have developed legislation to respond to the contradiction between information sharing and privacy protection. In New Zealand, the rules controlling IR's sharing of taxpayer information are stated in the Tax Administration Act (1994) which allows IR to share taxpayer information only for very specific purposes. IR also observes the information privacy principles of New Zealand's Privacy Act (1993). In addition, IR considers whether the taxpayer would consider the information to be highly sensitive, and whether the information sharing will benefit the taxpayer, the recipient government agency, or the wider public. IR is aware that taxpayers are reluctant to relinquish any information privacy unless there are clear public benefits. IR needs to maintain taxpayers' confidence in its management and use of their information so taxpayers will continue to

information,¹¹ and tends to overestimate how much information sharing currently happens.²

The studies showed consistently that people want government agencies to:

- x share only the information that is strictly necessary¹³
- x be transparent about their storage, management and sharing of customer information¹⁴
- x use their information for the purposes intended¹⁵
- x where possible, ask customers for their consent prior to their information being shared with other government agencies.¹⁶

In the context of increased e-services from government agencies, and changing information technology, IR wanted to understand how the public viewed IR's involvement in cross-government information sharing. This included key questions regarding the impact of information sharing on people's views of the integrity of the tax system.

2. METHOD

The core research questions underpinning all five studies included in this paper are:

1. What benefits and risks do people see in information sharing between government agencies?
2. What impact would an increase in information-sharing have on perceptions of the integrity of New Zealand's tax system?

Specific aims for each study are included in the methodology descriptions below.

6 W X G \ 3 X E O L F D W W L W X G H V W R W K H V K D U L Q J R I S H U V R Q
V H U Y L F H S U R Y L V L R Q

Aim: To gather views of information sharing in the context of accessing public services online.

Methodology:

- x Qualitative (focus groups), n=63 participants from the general public.
- x Included a literature review conducted to provide points of comparison for the findings.

¹¹ Thomas, R. & Walport, M. (2008) and Whiddett, R., Hunter, I., Engelhart, J., & Handy, J. (2005).

¹² Ministry of Health (2010).

¹³ Lips et al. (2009) and Whiddett et al. (2005)

¹⁴ Ministry of Health (2010), Whiddett et al. (2005), and Thomas, R. & Walport, M. (2008).

¹⁵ Whiddett et al. (2005), and UMR (2010) (UMR is a market research company).

¹⁶ Thomas, R. & Walport, M. (2008), Department of Internal Affairs (2009), and Whiddett et al. (2005).

Methodology:

- x Qualitative (face-to-face interviews and focus groups).
- x N=38 participants, included community cultural representatives, IR staff, and members of relevant government organisations.
- x Included a literature review to inform the research design.
- x Conducted in February and April 2013 (the authors).

6 W X G \ 7 K H L P S D F W R Q V W K M H L P Q R I H J S U M W D U R L Q W K L H Q W R D U P D W L
S X E O L F V H F W R U R U J D Q L V D W L R Q V 1 = E X V L Q H V V H V ¶ S H U V S

Aim: To gather business owners' views on how sharing businesses' information across government affects perceptions of the integrity of the tax system.

Methodology:

- x Qualitative
 - o Face-to-face and telephone interviews, n=21 participants, included business owners, business 'leaders', professional business groups, and business 'service providers'
 - o Conducted in February and March 2013 (Research New Zealand).
- x Telephone and online survey
 - o N=573 respondents (business owners)
 - o Response rate 21% (telephone survey only)
 - o Margin of error of $\pm 4.7\%$ (at 95% confidence level)
 - o Conducted in April and May 2013 (Research New Zealand).

2.2 Limitations of this research

The overall rationale for the five studies was to investigate attitudes regarding cross-government information sharing and the integrity of the tax system. These studies included discussion of the likely effects on behaviour, such as customers providing full and frank information to IR, but did not extend to investigating actual behavioural change.

All five studies involved qualitative research which is not generalizable, although the results are indicative for similar population groups and situations. Further, three studies incorporated focus groups, which tend to create 'group think' where participants' comments and possibly their opinions

Both of the multi-method studies included online surveys which generally have low response rates due to a range of factors such as incorrect email addresses in the research sample, people opting out if they believe they are the wrong person to answer the survey, and people being averse to using the online survey technology.

We also note that participants' attitudes at the time of the studies may have been influenced by media articles highlighting information security breaches involving government agencies. Privacy and information sharing are highly emotive topics for the general public.

3. RESULTS

domestic violence and child protection cases; and improved crime reduction and countering terrorism threats.

& R Q F H U Q V ± S U L Y D F \ D Q G W U X V W L Q J R Y H U Q P H Q W D J H Q F L H

Both studies pointed to the importance of citizens' trust in government agencies to act in their best interests. The majority of participants, and especially the salary and wage earners and retirees, were satisfied that New Zealand's government agencies were acting in their best interests. Interestingly, they tended to assume there was considerable cross-government information sharing currently taking place, but acknowledged that they knew very little about what information is held by

were focused on financial crime (property obtained from crime, money laundering and fraud), and one was focused on safety (sex offending). The four hypothetical scenarios tested were as follows:

6 F H Q D URLiR discovers information during an audit about property obtained from crime and shares this with New Zealand Police.

6 F H Q D URLiR involved in a taskforce combating money laundering with agencies such as New Zealand Police and the Serious Fraud Office and shares information about individuals and businesses under investigation. There are also links to Australia so the taskforce also passes information to the Australian Police.

6 F H Q D URLiR has a system of scoring the likelihood of an individual being involved in tax evasion, and shares that with New Zealand Police for profiling regarding serious crime.

6 F H Q D URLiR able to find links between individuals and uses this to assist the Department of Internal Affairs to find with people are connected to a ring of sex offenders.

agency in ways which could be quite different to the intention of the original information request.

With the sharing of information based on the strong linkages between people in Scenario 4, some participants felt this type of information may be useful, but did not believe IR was the authoritative source to provide it. This Scenario was described as a “fishing expedition”, having “Orwellian” or “police state” overtones, with participants concerned about the risk of implicating innocent people.

One final note on Study 3 is that, overall, participants who were tax and legal experts were consistently more concerned about the above issues than the other participants who were from the government, academic and commercial sectors.

6 W X G \ & X O W X U D O S H U V S H F W L Y H V

This exploratory study sought the views of Māori, Pasifika and Asian peoples regarding the cultural aspects of cross-government information sharing. This was a qualitative study that gathered participants’ personal reactions to information sharing as well as their opinions about what reactions and sensitivities might be expected from other people in their wider cultural groups. Study 4 built on the findings from Lips et al. (2010) that Māori and Pasifika participants had more concerns about information sharing than European participants. This study aimed at providing more understanding of the specific areas of sensitivity for customs in these cultures, along with the views of participants from a range of Asian communities. The study acknowledges the generally Euro-centric perspective of New Zealand government agencies and services.

Consistent with the other studies reported here, Study 4 found that participants supported cross-government information sharing provided strong privacy safeguards are maintained. The benefits these par

and complex trust relationships with them. These differences directly affected their views on cross-government information sharing.

For instance, some Māori participants talked about “a hundred years of mistrust” and Māori being marginalised in New Zealand. In addition, some Māori participants described their concern that, even if government agencies intend to use information sharing in a positive way, there may be detrimental and disempowering effects for Māori.

Interestingly, Study 5 found that respondents with low trust were more likely than other respondents to say they were 'not at all informed' about IR's information sharing with government departments, which suggests that there is value in government agencies being transparent about their information sharing processes.

The highest risk associated with cross-government information sharing was 'privacy being compromised' (69 per cent saw this as a risk). Underpinning this finding was a perception that government departments have a poor record of managing privacy.

Respondents were more comfortable about sharing information about the business than their personal information. For instance, respondents were more comfortable with

4.2 Information sharing's effect on views of the integrity of the tax system

As stated earlier in this paper, it is vital for IR to maintain the public's positive perceptions about the integrity of the tax system and encourage full and frank disclosure of tax information by taxpayers.³¹ The research results can be linked to the integrity of the tax system in two ways. Firstly, the information sharing needs to match IR's core business. People viewed IR's business as tax, but they also recognised IR has a role in ensuring 'customers receive their correct entitlements'. They felt there were logical links between IR and other crime and social policy agencies such as the Ministry of Social Development and the Accident Compensation Corporation.³²

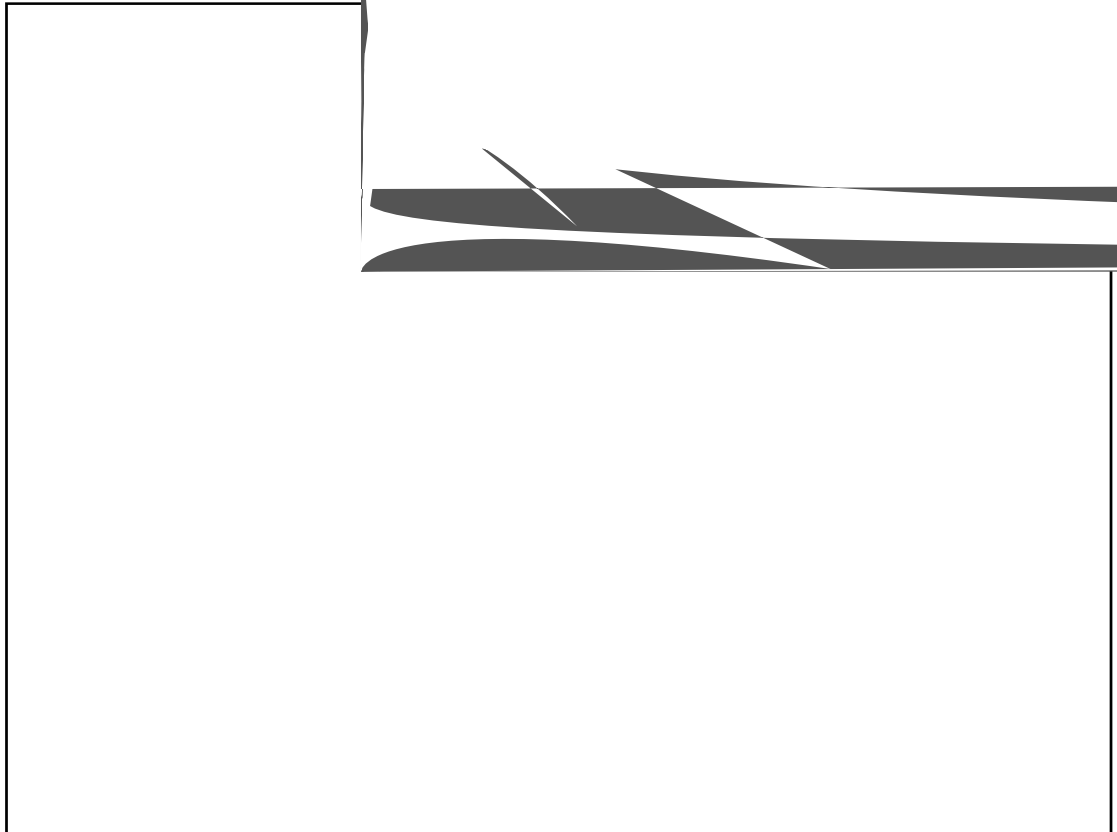
A second aspect of the public's positive perceptions about the integrity of the tax system is the importance people place on the aim of cross-government information sharing. There was widespread support for the perceived benefits, but some seemed markedly more important to participants than others. Public safety (for example, addressing serious crime and family violence) and protecting public monies (for example, from tax and benefit fraud) received particularly strong support. Ensuring customers receive their correct entitlements also had relatively strong support. In comparison, support for benefits such as making it easier to deal with the agency and improving agency efficiency was not as strong, but still wide-spread amongst the participants.

Figure 1 below combines the two themes (i) how well the information sharing matches the tax agency's core business, and (ii) the importance that participants placed on the aims of the information sharing. This highlights three benefits that are most likely to enhance the integrity of the tax system. Protecting public monies stands out as being highly important to the public and part of IR's core business. The next most positive items are ensuring customers receive correct entitlements and making it easy to deal with tax matters. Although improving tax agency efficiency is also part of IR's core business, it does not have as much support as the other benefits, so it may have less effect on public views of tax system integrity. On a different note, public safety is highly valued as a government goal, but is missing an obvious connection to the tax system.

³¹ Braithwaite, V. (2003), and Zell, R. & Worthy, B. (2009).

³² Lips et al. (2010)

Figure 1: Information sharing of the tax system



5. CONCLUSION

These five studies show cautious support for increased cross-government information sharing even though such an activity runs contrary to the principle of 'using information as intended when supplied'. People can tolerate some loss of privacy when there are clear personal benefits or societal benefits, if safeguards are in place to ensure only strictly necessary information is shared, and if the information has been carefully checked for accuracy.

Notably for IR, these studies also show that cross-government information sharing can enhance public perceptions of the integrity of the tax system if it matches IR's core business and aims for goals that the public sees as important. The goals that best match these criteria are:

1. Protecting public monies
2. Ensuring people receive correct financial and service entitlements, and
3. Making it easier for customers to deal with their tax matters.

To maintain people's trust when sharing information, the most helpful action for government agencies would be to ask for consent. However, this is not always

practical or in the best interests of the public as a whole, for instance where criminality is suspected, or in a fraud investigation.

As an alternative to asking consent at the time of sharing, government agencies could be transparent and notify customers when information is supplied or collected, and about how, when, why, and with whom the information may be shared. Early

6.

- Thomas, R. & Walport, M. (2008), 'Data Sharing Review Report', Northumbria University, Newcastle upon Tyne, UK, available at <http://www.statewatch.org/news/2008/jul/uk-data-sharing-review.pdf>
- UMR, (2010), 'Individual Privacy and Personal Information', UMR Omnibus Results March 2010, Wellington, New Zealand, available at <http://www.privacy.org.nz/assets/Files/Surveys/Privacy-survey-2010.pdf>
- Whiddett, R., Hunter, I., Engelbrecht, J., & Handy, J. (2005), 'Patients' Attitudes Towards Sharing their Health Information, Massey University Palmerston North, New Zealand, available at http://pingpong.ki.se/public/pp/public_courses/rse06326/published/789755445210/resourceId/3946841/content/infowebcode-1665059/artikel_1.pdf
- Wright, T. (1995), 'Model Data Sharing Agreement', Information and Privacy Commissioner, Ontario, Canada, available at <http://www.ipc.on.ca/images/Resources/model-data-ag.pdf>