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International experiences of tax simplifim4 (T)11.

the world. This was duly published (James, Sawyer & Budak, 2016) and this paper analyses the findings. The first stage of this study was to identify experts on the tax systems of particular countries who also had knowledge of issues involving complexity and simplification they would be willing to share. This was not always an easy process but eventually an authoritative group of experts was established who were willing to report on the tax simplification experiences in particular countries. They are listed in Table 1.

Table 1: Country Simplification Contributors

County	Contributor(s)
Australia	Binh Tran-Nam, University of New South Wales

However, even within this fairly specific framework, the expert contributions often varied considerably in the attention they gave to different issues and the actual experiences they examined. This is not surprising of course, not least because the political and socioeconomic environment within which tax systems operate often vary considerably between different countries. For instance, Sharkey (2016, p. 45) pointed out that the simplification of income tax in China is significantly different from most of the other countries represented in this study, essentially because the 'tax institution environment' is different. Nevertheless, the contributions also demonstrated that each country has significant challenges with tax complexity, tried different way to simplify taxation and achieved different degrees of success. The diversity of the experiences of these countries means a case study approach is the most appropriate method of analysis and perhaps the best way is to examine the experiences of the different countries is by the aspects listed above, starting with the simplification of tax systems.

2.1 The simplification of tax systems

Calls for tax simplification often focus on the tax system itself – the number of taxes, the tax bases, the exemptions and the structure of tax rates. However, the contributions from the 11 countries suggest that major simplification of tax systems is relatively rare.

2.4 Simplifying tax administration

There have been some major achievements in simplifying tax administration both in terms of limiting the numbers of tax returns issued in some countries and also in 'pre populating' (pre-filling) tax returns that are sent out. In the UK most taxpayers have not been required to complete an annual tax return since the introduction of the cumulative Pay-As-You-Earn system in 1944 which, at least in principle, withholds tax accurately from employment and some other income. New Zealand has also moved in this direction removing the requirement of individual taxpayers to submit annual returns. This is possible where their income is taxed at source, the relevant information is received from third parties and employee deductions are eliminated. Malaysia has also made a change in this respect so that employees with specified straightforward circumstances are no longer required to file tax returns (Singh, 2016).

aspects of the tax system and relatively few make a major impact on the tax system as a whole. It may therefore be helpful to consider a strategic approach to simplification and how it might assist in identifying unnecessary complexity.

3. A STRATEGIC APPROACH TO IDENTIFYING UNNECESSARY COMPLEXITY

3.1 Overview

It has been suggested before that a strategic rather than a piecemeal approach is necessary if a policy of simplifying taxation is to succeed (James and Wallschutzky, 1997). The benefits of a more strategic approach to taxation have also been examined with respect to tax compliance (James, 2005), tax administration (James, Svetalekth & Wright, 2006), particular taxes such as income tax (James and Edwards, 2007) and to tax reform generally (James and Edwards, 2008).

The advantages of such an approach include taking account of the full range of relevant factors so the appropriate level of complexity might be seen in the light of all the other considerations and trade-offs. This approach may therefore be used to identify unnecessary complexity. Ulph (2013; 2015) distinguished between design complexity and operational complexity. Design como 0.000lph ()ph (12.ptesill065- Dir1tT-ou410. (om)17.-

3.2 Identify the aims of taxation

Taxation is used to support a range of government policies in addition to raising revenue to support public expenditure. It is used to redistribute income as well as encourage some activities while discourage others. Identifying the aims of taxation is not, of course, sufficient to distinguish necessary from unnecessary tax complexity but it should be the starting point to examine whether the level of complexity is proportionate given the aims of taxation.

3.3 Consider different methods of achieving the aims

Taxation may not necessarily be the best way of achieving all the aims identified above. For example, tax expenditure describes the use of tax concessions to give a fiscal advantage to a particular activity or group of individuals rather than the more direct use of public expenditure (Surrey, 1973). If tax expenditures are being used as part of a policy of redistributing income their effectiveness will be seriously limited because, of cour

As Vickrey (1969, p. 736) suggested, complexity in the relevant legislation and administration comes largely from the requirement to answer four types of questions:

1. Is it income?
2. Whose income is it?
3. What kind of income is it?
4. When is it income?

This gives a more precise indication of key areas where the extent of necessary and unnecessary complexity might be identified. With indirect taxes such as GST/VAT similar considerations arise when the taxes do not cover all goods and services and complexity is generated to determine which are subject to tax and which are zero-rated or exempt.

3.5 Examine administrative constraints and considerations

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> underlying complexity due to the role played by the impact of policy. Although underlying complexity can have an effect on the impact of complexity (i.e. by structuring a tax measure in a way that applies to more customers), how the measure is implemented can affect overall complexity (OTS, 2013, p. 1, emphasis added).

This component of the Complexity Index would have four measures:

1. Net average cost per taxpayer, incurred by taxpayers and HMRC
2. Number of taxpayers
3. Average ability of taxpayers
4. Avoidance risk.

The Complexity Index was recognised by the OTS to be a work in progress needing further methodological refinement. For instance, determination of the weightings to the various factors could be developed through use of the Delphi technique (Evans & Collier, 2012). The Delphi technique was developed by Dalkey and Helmer (1963) at the Rand Corporation in the 1950s. It is a widely used and accepted method designed to achieve a consensus of opinion of experts, within certain topic areas, on a significant issue. As a group communication process, through the debate and discussions on a specific issue, the Delphi technique seeks to enable goal setting, policy investigation, and/or predicting the occurrence of future events

These indices are referred to as the Legal Tax Complexity Index, the Index of Complexity of Preparation of Information and Record Keeping, and the Index of Complexity of Tax Forms. Using principal component analysis, the authors conclude that these three indices can be regrouped into a new index, the General Tax Complexity Index. The authors intend this index to be a check on the relative weights of the three partial indices. One key variable to emerge from the data gathered was expressed by the authors as a Tax Knowledge Index, which illustrates that as tax knowledge increased, the level of tax complexity decreased. Borrego et al. (2015) suggest that a longitudinal study is needed to again further insights, as well as determine other exogenous factors that may influence perceptions of tax complexity.

> i. Retaining the existing tax design but delivering it in a less complex way – essentially by reducing operational complexity by, for example, writing legislation/guidance in a form that is easier to understand or removing unnecessary informational complexity.
>
> ii. Retaining the given aims of the tax system but trying to achieve these in a less complex way – by reducing the unnecessary design complexity (p. 47, emphasis added).

Sherwood (2015), then head of the OTS, in a UNSW Business School Thought Leadership Lecture in 2015, defined necessary complexity as 'the minimum complexity needed to deliver the broad policy aim'. Examples offered by Sherwood include: political/social aims; economic aims; fairness; certainty; avoidance measures, and the like. On the other hand, Sherwood provided examples of unnecessary complexity as: 'poor policy design (for example, artificial boundaries); too many special cases; badly worded law; poor guidance; complicated and expensive processes, etc'. Within the UK, Sherwood pointed to examples of unnecessary complexity being the capital gains tax (CGT) taper relief, many badly targeted tax reliefs, and unclear VAT boundaries.

Further discussion that is directed at achieving consensus over what path(s) should be taken to reduce (unnecessary) tax complexity would be a positive further step to responding to Ulph's observation. In this regard we would suggest that the Delphi technique should be applied to moving the discussion forward towards a consensus, following which the data gathering and analysis process can begin in earnest.

5. CONCLUSIONS

In the early work by the current authors, we reported on the experiences of 11 countries with respect to tax simplification initiatives. It was clear from analysing these reports that a considerable degree of complexity is inevitable given the different aims of taxation and the complex socioeconomic environments in which tax systems have to operate. The country reporters were asked to provide, as appropriate, relevant information on the following aspects:

1. Simplification of tax systems
2. Simplifying tax law
3. Simplifying taxpayer communications
4. Simplifying tax administration
5. L 0 Td [l6(272 0 Td ( )p.9 (e)-1Td [(S)6.7 (im)3nnm)17.(s)8.6 (o9 (e)-1Td(s)8.6 (o9 (e)

are necessary or fundamental to the functioning of a successful tax system, and those which are unnecessary (and able to be reduced or eliminated).

In this paper we focussed on the relevant factors and issues involved in classifying unavoidable and unnecessary complexity, not only with respect to legislation, but also tax policy and administrative systems. In identifying unnecessary complexity, we have explored the

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