Fiscal Affairs Department

Public Disclosure of Taxpayer Information

Kiyoshi Nakayama

Japan Tax Association and International Fiscal Association Japan Branch
April 8, 2016

Views are author's alone and should not be attributed to the IMF,
its Executive Boards, or its management

Context

- Transparency has been one of key factors to underpin the integrity of tax system.
- Transparency initiatives in extractive and financial industries
- BEPS County-by-Country reporting
- Global Forum on Transparency and EOI
- Some countries adopted disclosure of tax return information beyond extractive and financial industries
- Is public disclosure an effective policy option?

Outline

- Background
- Overview of the current system
- Pros and Cons for Public Disclosure
- Empirical Studies

Background

- Disclosure of tax return information such as an amount of tax liability is an old and new issue.
- In the U.S., when it introduced its first income tax in 1861, the law permitted the public to examine the names of taxpayers and the amount of tax.
- Tax return information has been publicly available in Norway, Sweden, Finland and other countries.
- After the global economic crisis in 2008, the public are getting more concerned if large business are paying fair share of tax burden, and several multinational corporations (MNCs) were criticized for their tax payment behavior after their actual amount of tax paid revealed.
- Some countries tried to introduce a public disclosure system. e.g. Australia (2015)
- More countries adopted "naming and shaming".

Overview of the Current System

General Disclosure of Tax Information

- Norway & Finland: tax information of all taxpayers (companies and individuals) are publicly available.
- Finland & Denmark: tax information of all companies are publicly available
- Australia: The Australian Taxation Office published tax information regarding certain large corporations (1,539) for the 2013-2014 income tax year for the first time in December 2015.
- Philippines: The Bureau of Internal Revenue annually publishes top 500 individual taxpayers and top 500 non-individual taxpayers with their names, taxpayer identification numbers and amount of regular income tax paid on the BIR web page.
- Some States in the US

“Naming and Shaming”

- U.S.: The Department of Justice (DOF) issued a press release when a tax offender was convicted or sentenced by the Court. The number of press releases issued by DOF in 2015 was 258. The press release was also issued when the case was filed.
- States in the U.S.: As of 2014, 29 states in the U.S. publish the name of taxpayers who have delinquent tax payments. For example, the State of Connecticut, which is the first state that started publishing delinquent taxpayers in 1997, publishes the “Top 50 Delinquent Income Taxpayer Accounts List” for both business and individual taxpayers and updates the list every three months.
- Greece, U.K., Uganda, Bangalore in India

Honoring “Good” Taxpayers

- Korea: The National Tax Service (NTS) annually honors hundreds of taxpayers as the best taxpayers of the year. The best taxpayers include celebrities, individuals and corporations that ‘faithfully” paid their taxes.
- Uganda: The Uganda Revenue Authority (URA) has started URA Taxpayer Awards in 2005. The Awards honors taxpayers who have consistently made a significant revenue contribution over the past 10 years.

“Fair Tax Payer “ Label

- The European Parliament made a recommendation that EU should introduce to introduce a voluntary European “Fair Tax Payer” label.
- The Fair Tax Payer label is only awarded to those companies that have engaged in good tax practices and met the eligibility criteria, which are beyond what is required by EU and national tax law.
- It is expected that companies will be motivated by the label to make paying a fair share of taxes an essential part of corporate social responsibility, and to report on their stance on taxation in their annual report.

Pros and Cons for Public Disclosure

Pros

- Improve tax compliance
- Prevent corruption
- Facilitate tax policy discussions
- Improve the functioning of the financial markets

Cons

- Violate privacy and confidentiality
- Create confusion or mislead
- Discourage foreign direct investment
- Undermine tax compliance
- Increase frivolous disputes

Empirical Studies

Norway

- Tax information has been public available since the 19th century at local tax offices, but in 2001, tax information became available online.
- Bo, Slemrod, and Thoresen (2013) conducted a survey on how the significant change in a way of public disclosure affected reported income.
- Reported income of business owners increased by approximately by 3 percent compared the average income of 2001-2004 with that of 1997 - 2000.

U.S.

- Perez-Truglia and Trojano (2015) analyzed how public disclosure of tax delinquent affected tax delinquency.
- Sent letters to 34, 344 individuals who were publicly listed as tax delinquents in Kansas, Kentucky, and Wisconsin.
- Found that the recipient of the high visibility letters (indicating other individuals in the recipient's area were also chosen to receive information on the online list) increased the probability of leaving the list from 10 percent to 12 percent in five weeks after mail delivery.

Japan (1)

- Hasegawa, Hoopes, Ishida, and Slemrod (2013) analyzed the effects of public disclosure on tax compliance by using publicly disclosed financial statements and sample proprietary micro-level firm data set that covers both public and private firms.
- Found no evidence that corporations decreased their taxable income after the abolition of public disclosure.
- However, a non-trivial number of both individual and corporate taxpayers whose tax liability would otherwise be close to the threshold underreported so as to avoid disclosure.

Japan (2)

- Onuma, Suzuki, and Yamashita (2010) analyzed the effect of the abolition of the public disclosure on corporations' tax reducing behaviors by using *NEEDS-Financial Quest* database.
- Found that tax burden of Japan's listed corporations except financial industries declined after the abolition of public disclosure by 3. 7 percent

Thank you