Chapter 2
Transparency, Technology and Taxation

Richard Bird
University of Toronto, Canada

ABSTRACT

Taxes and tax administration are important. Taxation is one of the main interfaces between state and society: how a tax system is administered may affect not only its yield, its incidence, and its efficiency but also the state itself. Taxation that is widely perceived to be unfair and administered capriciously and corruptly may not only bring the tax system into disrepute but weaken trust in government and even the legitimacy of the state. This paper discusses two important aspects of taxation – its ‘transparency’ and the increasingly important role of information technology (IT) in tax administration, as well as how these two topics relate to the broader issues just mentioned.

INTRODUCTION

Taxes and tax administration are important. Taxation is one of the main interfaces between state and society: how a tax system is administered may affect not only its yield, its incidence, and its efficiency but also the state itself. Taxation that is widely perceived to be unfair and administered capriciously and corruptly may not only bring the tax system into disrepute but weaken trust in government and even the legitimacy of the state. One common complaint about taxation is that it is insufficiently ‘transparent.’ One obvious way taxation may become more transparent is by exploiting the increasingly important role that information technology (IT) is playing in tax systems around the world. Like increased transparency, however, increased use of technology in taxation may be a two-edged sword with respect to the broader role of taxation of society. This chapter first discusses some possible interpretations of ‘transparency’ in taxation and then briefly reviews the increasing role of IT in tax administration before concluding with some reflections about the interplay of transparency and technology in developing a ‘smart’ tax system.
WHAT IS A TRANSPARENT TAX SYSTEM?

Transparency with respect to taxation may have many different meanings, ranging from the level of complexity of the language in the tax law to how the level, structure, administration and understanding of taxation may affect the building of a modern state. Five very different possible interpretations of this concept are noted in this section.

A Transparent System Is One That Is Simple

One common idea is that a system that is more transparent in the sense of being set out in simple, readily understandable language so anyone can understand it is inherently preferable to one expressed in the complex language more characteristic of tax laws and regulations. Many proposals for major tax reform have ‘simplicity’ as an objective. The idea is often that making taxation simpler and more transparent – for example, by reducing the number of taxes, the number of rates, the number of people who have to deal directly with the tax administration, or the length and complexity of the law – will improve public acceptance and understanding. In reality, however, few countries have achieved much in terms of simplifying either the language of tax law or the reality of the tax system. Taxation is complicated largely because the world is complicated. Unless people are willing to leave decisions about the taxes they pay entirely up to the discretion of officials – a condition seldom found in practice even in authoritarian regimes – complex and differentiated language is often necessary to cope adequately with the reality of the heterogeneity of the world and the taxpaying public.

People do not like to pay taxes. They may try to dodge fiscal bullets in many ways. Some may have sufficient political influence to block or alter tax legislation before it is passed. Others – also usually at the upper end of the economic spectrum – may manage (with the aid of skilled advisers) to devise legal ways around the apparent intent of the law, for example, by carrying out many activities through off-shore entities beyond the reach of domestic tax authorities. Still others may simply cheat – for example, by claiming improper deductions or under-reporting income or sales. Some may operate in the hidden or informal economy: such people are usually hard to catch and are sometimes little more than ghosts so far as the tax system is concerned. Others may be more like icebergs, with a small formal tax presence but most of their real economic activity hidden from fiscal sight. And finally, some may simply refuse to pay their taxes and try to dodge the consequences in a variety of ways through bribery and political influence up to and including fleeing the country.\(^4\)

A delicate balance needs to be struck between restricting the ability of taxpayers to cheat and giving officials undue discretionary authority which can all too easily be abused to extort bribes or in other ways. Doing so is not easy anywhere, and the restraints established against abuse in either direction must constantly be monitored and adapted as necessary to deal with changing circumstances. The result is likely to be a complex (and changing) body of law and regulation that is all too likely not to be all that ‘transparent’ even to experts.\(^5\)

A Transparent System Is One That Taxes Businesses, Not People

As mentioned earlier, one way to make taxation ‘simpler’ is to reduce direct interactions between people and the tax system. An obvious and often popular way to do so is to tax businesses more and people less. Many think that business and especially large companies (particularly large multinational companies)
Related Content

**Qualitative Characteristics of Financial Reporting and Non-Financial Business Performance**

**Investor Sentiment and Stock Returns: Out of Sample Evidence**
[www.igi-global.com/chapter/investor-sentiment-and-stock-returns/128638?camid=4v1a](www.igi-global.com/chapter/investor-sentiment-and-stock-returns/128638?camid=4v1a)

**EDA CapitalConnect: An Online Platform for Social Enterprise Financing**
[www.igi-global.com/chapter/eda-capitalconnect-online-platform-social/46332?camid=4v1a](www.igi-global.com/chapter/eda-capitalconnect-online-platform-social/46332?camid=4v1a)

**Analyzing the Existence of the Day of the Week Effect in Selected Emerging Country Stock Exchanges**
[www.igi-global.com/article/analyzing-the-existence-of-the-day-of-the-week-effect-in-selected-emerging-country-stock-exchanges/119401?camid=4v1a](www.igi-global.com/article/analyzing-the-existence-of-the-day-of-the-week-effect-in-selected-emerging-country-stock-exchanges/119401?camid=4v1a)