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# Ethics codes and taxpayer charters: Increasing tax morale to increase tax compliance

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***Abstract***
This paper considers ethics codes and taxpayer charters and outlines their objectives. A case study of Australia and the UK is

In some countries (in some a lot longer than in others), there has been a continual change in mentality within revenue authorities, from primarily a discourse in deterrence to regarding the relationship with taxpayers as an ongoing co-operative partnership.[2] Of course, there is certainly still a divergence in strategies adopted by revenue authorities but ethics codes and taxpayer charters have become an increasingly popular part of this changing dynamic.[3]

countries looking to implement a charter. It also provides a criterion against which countries with a pre-existing charter can assess their document.[19]

Interestingly, a Model Taxpayer Charter of taxpayer rights and responsibilities that can be adapted for participating nations has recently been drawn up by professional bodies representing more than half a million tax advisors worldwide.[20] Copies of the preliminary report have been sent to delegates of the countries who participated in the surveys, as well as the European Union (EU), the Organization for Economic Co-operation and Development (OECD), the United Nations Fiscal Affairs Committee, the World Bank, the International Monetary Fund (IMF) and other interested stakeholders.[21] David Russell, co-author of the report said ñin the absence of an appropriate balance between revenue authorities and taxpayers, the essential trust required for efficient administration of the tax laws will continue to be erodedò, and he hopes this charter will become a mechanism to address this concern.[22] It will be interesting to monitor how the report is received by the international bodies, and whether any action is taken to establish it as international guidelines for the drafting of charter documents based on this document.

Before analysing the usefulness of ethics codes and taxpayer charters, and recommending enhancements, the next section will provide a case study of Australia and the UK who both have an ethics code and taxpayer charter. These countries have been chosen for the case study as they have had two very different experiences with a taxpayer charter. As will be demonstrated, the taxpayer charter in Australia has proved successful by objective measures, and is considered exemplary in contrast to the UK. These differences will provide context for the overall discussion as to whether or not the documents are useful, as well as when recommending enhancements.

## 2

The Australian and UK tax systems share a common cultural tradition in many ways. The development of the Australian tax system was, after all, heavily influenced by that of the ómother countryô.[23] More recently, the UK system has been strongly influenced by Australian practices, such as the establishment of the electronic lodgement of tax returns. Given the closeness of the two jurisdictions, it is interesting to see the divergence in approaches, particularly at the level of the taxpayer charter.

[19] Ibid.

[20] Raymond Doherty óInternational tax charter publishedô *Economic Voice* (online) 13 May 2013 < http://www.economicvoice.com/model-taxpayer-charter-to-promote-greater-fairness-in-taxation-across-the-world/50036937#axzz2TQVyStLz>.

[21] Ibid.

[22] óModel taxpayer charter to promote fairness in taxation across the worldô, *Step Journal*(online) 13 May 2013 <http://www.stepjournal.org/news/news/main_story/model_taxpayer_charter_to_prom.aspx?link=news_headline>.

[23] Simon James, Thamrongsak Svetalelkth and Brian Wright, óTax Charters, performance indicators and the case for a more strategic approach to tax administrationô (2007) 4 <https://eric.exeter.ac.uk/repository/handle/10036/47455>.

**3.1**

The Australian Taxation Office (ATO) is subject to both an ethics code and a taxpayer charter. The ethical framework is established in the Australian Public Service (APS) Values and APS Code of Conduct, which are set out in section 13 of the *Public Service Act 1999* (Cth). This ethics code applies to all federal public servants. The Taxpayer Charter, drafted in the late 1990s, provides a set of administrative guidelines of best practice for officers of the ATO. When it was drafted, a significant number of taxpayers argued for a Charter enshrined in legislation, but this was not supported by the ATO, which drafted the Charter in its current state.[24] In both documents, because the values are principles-based, their application in particular circumstances is ñbroadly up to the officer applying them; but there are sanctions for failing to conformò. [25]

*3.1.1 The APS Values and APS code of conduct (ethics codes)*

Australia is noted as being amongst the first of the OECD countries to develop an ethical structure to assist public servants. The Australian *Public Service Act*[26] contains a clear code of conduct for all public servants, with the capacity for agencies to supplement the code.[27] The knowledge among federal public servants of the ethics code is tested annually and, in accordance with the *Public Service Act*



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**4.1**

Empirical research strongly supports the notion that ethics can be taught.[64] Because of this, research also shows that an ethical code which persuasively addresses the range of approaches a public servant uses to analyse ethical questions becomes the foundation for an ethical public service.[65] Ethical education within the public service is far more effective if it is based on codes that can be understood by all public servants.[66] When introducing a code of conduct, particular care must be taken to account for values that are already entrenched in the e q n"ake-q be

for education of public servants as well as taxpayers and can assist in government reforms, as well as assisting developing countries in the transition to a ópublic serviceô.[75]

Most importantly, however, is the ability of a taxpayer charter to become a symbol of a partnership between taxpayers and the revenue administrator.[76] It is impossible to consider that parties in the tax relationship are on equal footing; the State undeniably has a position of power.[77] Although legislation generally provides for various appeal routes and safeguards, these are only useful if one knows them and can access them.[78] Otherwise, a charter is a necessary part of a modern tax system, a clearly identifiable statement addressing the balance between the powers given to the tax authority and the taxpayerôs rights.[79] Crucially, it helps the taxpayer, particularly those who are unrepresented, find their rights and act as a defence, if needed, against an overbearing tax authority.[80] Furthermore, a taxpayer charter plays a key role in self-assessment tax regimes, which rem ƙeᵐa! ] t" ipspM -ȳƙʿ IJn l ps ori exs.un r

national context may not work in another, and that the purpose and context of the documents is driven by jurisdictional politics, it is reasonable to conclude that the Australian experience supports this position.[85] Improving voluntary tax compliance is the ultimate objective for any revenue administration. Voluntary compliance is essential, as this is the most cost effective and efficient method of tax collection. Ergo,

purpose of the documents, as they can only be developed laboriously, through prescribed law amendment channels.[95] The lesson may also be drawn from the taxpayer charter in the UK that the document needs to be clear that taxpayers have obligations as well as rights enshrined. Another shortfall of taxpayer charter generally is that they do not address how the revenue administration can re-engage taxpayers who have become disassociated from the tax system. Addressing this would further enhance the document.

Of course, the problems within the UK revenue administration go far beyond the lack of an effective ethics code and taxpayer charter; factors such as ambitious IT programs, significant resource cuts and a detrimental management culture are recognised to have played a significant role.[96] Recently, a report released by the Independent Adjudicator (the de facto watchdog that investigates the way that HMRC staff handle disputes) was scathing in its appraisal of the performance of staff in their dealings with the public.[97] This shortcoming is attributed to the massive increase in complexity of the tax system over the past 15 years.[98] Nevertheless, it is argued that had more effective documents been in place, the situation may not have become so disturbing. For example, expectations in relation to management structure and standards, and the

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impact on not only the internal operations of the ATO, but the levels of trust within the community as well. Although the ethics code in the UK has to some extent had similar results (although there is certainly room for improvement), the same cannot be said of its taxpayer charter. Nevertheless, codes and taxpayer charters can have a lasting impact on the culture of the organisation, and taxpayers.[100] As such, they are useful documents, increasingly the cornerstone of a modern tax system which helps in

Auditor General ótaxpayersô Charter: Australian Taxation Officeô (Audit Report No 19. 2004 05)

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