

# Tax authorities' detection and deterring of tax evasion of high net worth individuals: A comparative study

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## **PREFACE**

This comparison study was done on the systems, methods, procedures and programmes used by the tax authorities of the USA, Australia, England and South Africa to detect and deter tax evasion by high net worth individuals. High net worth individuals were selected as this group of taxpayers are identified as a group who pose a high risk on the integrity of the tax systems of tax authorities due to their international mobility and available resources. Firstly an analytical review was done from available literature in academic journals and prior studies of the behavioural drivers of tax compliance and tax evasion. Secondly the information of the systems, methods, procedures and programmes used by the tax authorities of the four mentioned countries, was obtained from information publicly available on the websites and media declarations of the relevant tax authorities and compared to the procedures proposed by the Organization for Economic Co-operation and Development with their study in 2009 on how the tax risks posed by high net worth individuals should be addressed. Articles in newspapers and media reports were integrated into the study to indicate the relevancy and perceptions of the broader public in the systems, methods, procedures and programmes used by the identified tax authorities. A list of possible best practices for the detection and deterring of tax evasion by high net worth individuals, identified in this study, is only based on published information as no internal information was obtainable obtained from any of the four tax authorities used for this comparative study.

*Milk the cow, but do not pull off the udder.*

*Greek Proverb*

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## **ABSTRACT**

Annually hundreds of million in tax revenue is lost by tax authorities due to aggressive tax planning and tax evasion. Tax evasion poses serious threats to voluntary tax compliance as it may create a perception that the tax system is unfair and this perception will demoralize the majority and make them reluctant to pay their fair share of tax. The challenge for tax authorities around the world is to use the limited resources available to them in the most effective manner in order to protect the integrity of the tax systems. Several research studies have been done on the behavioural drivers of tax compliance and tax evasion, also on the psychological cost of tax evasion and it is important that tax authorities understand the drivers of tax evasion to ensure effective detection and deterring. It was found that tax compliance is, among other factors, driven by how taxpayers regard the tax compliance behaviour of the group to which they belong. This study focuses on high net worth individuals as it is the one group, which was identified by all four tax authorities, identified for the study, as a high risk for tax authorities due to, among others, the complexity of their affairs, their contribution to tax revenue as well as the influence their tax compliance has on the integrity of the tax system. It was also found that tax evasion is more prominent for income with a lack of third party data which is mainly the case for income received by high net worth individuals. Offshore tax evasion is specifically a high risk for high net worth individuals due to their international mobility and available funds.

This study compares how the tax authorities of the USA, Australia, England and South Africa define high net worth individuals, the general methods as well as systems used, the success of their audit sections, the whistle-blower programmes, offshore tax amnesty and exchange of information agreements used, in order to ensure evasion is detected and deterred. A review was also done of the proposals by the Organization for Economic Co-operation and Development in 2009 on how the tax risks posed by high net worth individuals should be addressed. It was found that, although the four tax authorities may have different names to refer to a high net worth individual, all four tax authorities look holistically at an individual and that the methods used by the four countries are in line with the proposals of the Organization for Economic Co-operation and Development, with just differences in the way it is executed. It was also found that risk systems are used to identify risk cases, but that it is important to also measure the validity of the identified risks on a regular basis. The whistle-blower programme, where informants are awarded for information, seems to be more successful than other programmes while off-shore amnesty programmes are also used successfully, especially where the media is used to inform taxpayers of the importance to make use of these programmes and the consequences if they don't. The automatic exchange of information agreements, where information will be shared automatically and not just on request, appears to be a successful tool which will be used in future to counter tax evasion. It is also important that tax authorities

recognise the influence electronic trading may have on the integrity of the tax systems and that systems are put in place to obtain third party data of electronic trading.

**KEY WORDS**

Detection, Deter, High Net Worth Individuals, Evasion, Taxable Base, Tax Compliance.

## OPSOMMING

Honderde miljoene rande se belastinginkomste gaan jaarliks verlore as gevolg van aggressiewe belastingbeplanning en belastingontduiking. Belastingontduiking het 'n ernstige invloed op die integriteit van die belastingstelsels aangesien dit 'n persepsie kan skep dat die belastingstelsel onregverdig is wat die meerderheid van belastingpligtiges kan ontmoedig om hulle regverdige deel van belasting te betaal. Belastingowerhede regoor die wêreld het die uitdaging om, met die min hulpbronne tot hul beskikking, die integriteit van die belastingstelsels te beskerm. Verskeie navorsingstudies is al gedoen oor die faktore wat belastingpligtiges se gedrag beïnvloed, om belastinggehoorsaam te wees of om belasting te ontduik, insluitend 'n studie oor die psigiese koste van belastingontduiking. Hierdie studies het bevind dat belastingpligtiges se houding teenoor belasting onder andere beïnvloed word deur hulle persepsie van die belastinggehoorsaamheid van die groep waaraan hulle behoort. Hierdie studie fokus op hoë-waarde individue aangesien dit 'n groep is wat deur al vier belastingowerhede, wat in hierdie studie gebruik is, geïdentifiseer is as 'n risikogroep vanweë, onder andere, die kompleksiteit van hulle belastingsake, die hoeveelheid belasting wat deur hul betaal word asook die invloed wat hulle op die integriteit van die belastingstelsel kan hê. Dit was ook gevind dat belastingontduiking meer voorkom by inkomste waarvoor daar nie derdeparty inligting beskikbaar is nie, Hoë-waarde individue verdien veral inkomste waarvoor daar nie altyd derdeparty inligting beskikbaar is nie. Belastingontduiking deur buitelandse beleggings is veral 'n hoë risiko by hoë-waarde individue as gevolg van hulle internasionale mobiliteit en beskikbare fondse.

Hierdie studie vergelyk hoe die belastingowerhede van die Verenigde State van Amerika, Australië, Engeland en Suid-Afrika hoë-waarde individue definieer asook die algemene metodes en stelsels wat gebruik word, sukses van oudits op hoë-waarde individue, programme vir fluitjieblasers, amnestie programme vir buitelandse beleggings en ooreenkomste vir die uitruil van inligting gebruik word om belastingontduiking te ontdek en te voorkom. Daar is ook gekyk na die voorstelle wat die Organisasie vir Ekonomiese Samewerking en Ontwikkeling in 2009 gemaak het oor hoe die belastingrisiko's wat hoë-waarde individue inhou aangespreek moet word. Daar is gevind dat, alhoewel die belastingowerhede verskillende benamings vir hoë-waarde individue het, hulle almal die individue in hul geheel beoordeel en dat die metodes wat die vier lande gebruik in ooreenstemming is met die voorstelle wat die Organisasie vir Ekonomiese Samewerking en Ontwikkeling in hulle studie in 2009 gemaak het, alhoewel daar wel verskille in die uitvoering is.

Dit is verder gevind dat al vier owerhede stelsels gebruik om risiko sake te identifiseer, maar dat dit belangrik is om die geldigheid van die risiko's, wat geïdentifiseer word, te evalueer.

Fluitjieblaserprogramme, wat die fluitjieblasers vergoed, is gevind om meer suksesvol te wees as die programme wat dit nie doen nie, terwyl dit wil voorkom of die amnestieprogramme vir buitelandse beleggings suksesvol is, veral waar die media gebruik word om dit onder die publiek se aandag te bring en veral ook die gevolge as dit nie gebruik word nie. Die ooreenkomste vir die uitruil van inligting tussen lande, waar inligting outomaties uitgeruil sal word en nie net op versoek nie, blyk 'n goeie teenvoeter vir belastingontduiking in die toekoms te wees. Dit is ook belangrik dat belastingowerhede die belangrikheid van elektroniese handel sal erken en dat hulle stelsels in plek sal stel om derdeparty inligting van hierdie handel te bekom.

### **SLEUTELWOORDE**

Ontdekking, Vermyding, Hoë-waarde Individue, Ontduiking, Belastingbasis, Belastinggehoorsaamheid.

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## LIST OF ABBREVIATIONS

<b>Abbreviation</b>	<b>Meaning</b>
AEOI	Automatic Exchange of Financial Account Information in Tax Matters
ANAO	The Australian National Audit Office
ATO	Australian Tax Office
ATP	Aggressive Tax Planning
BCG	Boston Consulting Group
CDW	Compliance Data Warehouse
CEM	Compliance Effectiveness Methodology
CPB	Citi Private Bank
CRM	Customer Relationship Manager
CRS	Common Reporting Standard
EC	European Commission
ECEP	Enterprise Case Exam Plan
EU	European Union
FATCA	Foreign Account Tax Compliance Act
FATCAIGA	Foreign Account Tax Compliance Act Intergovernmental Agreement
FATF	Financial Action Task Force
FinCEN	Financial Crimes Enforcement Network
FPI	Foreign Portfolio Investment
FTA	Forum of Tax Administration
FY	Fiscal Year
GHW	Global High Wealth
HMRC	Her Majesty Revenue and Customs
HNWI	High Net Worth Individual
HWI	High Wealth Individual
IDES	International Data Exchange Service
IFA	Independent Financial Advisers
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
JSE	Johannesburg Stock Exchange
LBC	Large Business Centre
LDF	Liechtenstein Disclosure Facility
MAA	Mutual Administrative Assistance

Machs	Machiavellianism
MIT	Massachusetts Institute of Technology
MTBPS	Medium Term Budget Policy Statement
NPA	National Prosecution Authority
OECD	Organisation for Economic Co-operation and Development
OVDP	Offshore Voluntary Disclosure Program
PAIR	Planning, Analysis, Inventory and Research
RDF	Risk Differentiation Framework
RPC	Reynolds Porter Chamberlain
SARS	South African Revenue Service
STEP	The Society of Trust and Estate Practitioners (
TAA	Tax Administration Act NO 28 of 2011
TIEA	Tax Information Exchange Agreement
TRAC	Transactional Records Access Clearinghouse
UK	United Kingdom
USA	United States of America
USSEC	United States Securities and Exchange Commission
VAT	Value Added Tax
VDP	Voluntary Disclosure Programme
WLS	Workload Services

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# CHAPTER 1: INTRODUCTION AND PROBLEM STATEMENT

## 1.1 BACKGROUND TO THE RESEARCH AREA

The Organisation for Economic Co-operation and Development (OECD) issued a report in 2009 named “Engaging with High Net Worth Individuals on Tax Compliance”. This report was commissioned by the Forum on Tax Administration (FTA) at its fourth meeting in Cape Town in 2008. The report concluded that high net worth individuals (HNWIs) pose a high risk to tax authorities due to the following reasons:

- The complexity of their affairs.
- Their revenue contribution.
- Their potential for aggressive tax planning.
- The influence of their tax compliance on the integrity of the tax system (OECD, 2009:5).

The OECD (2009:71) found that a single framework for HNWIs cannot be applied in all countries due to:

- Different constitutional law requirements.
- Their contribution to tax revenue.
- Differences in tax and legal systems.
- Cultural differences.

The report focuses on aggressive tax planning (ATP) by HNWIs, but recognises the risk of tax evasion, in particular offshore tax evasion. It acknowledges that tax evasion may occur amongst all taxpayer segments, but acknowledges that, due to the sophisticated and expensive structures, relating to tax evasion, it is more likely that this may be found more among the wealthy taxpayers (OECD, 2009:16).

High net worth individuals is a term used in the OECD report to refer to the individuals at the top of the wealth or income scale. According to the OECD report (2009) there is between eight to ten million individuals worldwide who meet these criteria. HNWIs show higher international mobility than taxpayers in the other segments. According to the OECD (2009) the following individuals may fall within the definition of an HNWI:

- Highly-paid employees and professionals.
- Entrepreneurs.

- Financial entrepreneurs.
- Sportspersons and entertainers.
- Wealthy investors (OECD, 2009:17–26).

A review was done of the behavioural studies in order to understand why taxpayers comply with or evade their tax obligations. The European Commission (EC) commissioned a behavioural study in 2014, named “Behavioural Economics and Taxation”, and found that psychological costs, connected to tax evasion, can be an influential factor to prevent people from cheating. Psychological costs may arise because people have a fear of being detected or publically shamed. This behavioural study highlighted the effect of fairness on tax compliance. Two concepts of fairness were identified: fairness towards the government and fairness towards other taxpayers. Poor government services might cause tax payments to be perceived as unfair and where the payment of tax varies a lot from one taxpayer to another, it can also be perceived as unfair (Weber, Fookien & Herrman, 2014:15)

## **1.2 LITERATURE REVIEW**

Alm, Deskins and Mckee (2006) issued a research report named “Third Party Income Reporting and Income Tax Compliance” and found that income tax compliance decreases where an individual earns income which is not detectable due to the lack of third party information. Their research further found that tax compliance decreases with higher income, lower audit rates and higher tax rates (Alm *et al.*, 2006:1). The study also found that compliance does increase where there is a higher rate of detection despite the fact that there may be an absence of third party data. It also appears as if there is higher evasion by individuals who complete their own tax returns as well as by wealthier individuals (Alm *et al.*, 2006:21).

The OECD (2014) published the “Standard for the Automatic Exchange of Financial Account Information in Tax Matters” (AEOI) between countries. In order to achieve maximum impact on tax evasion, the OECD suggests that the new AEOI standard needs to be implemented on a global basis to ensure that there are no remaining safe havens for tax evaders to take advantage of for tax purposes. The purpose of the AEOI is to level the playing field between the different tax authorities. The standard specifies the financial account information that needs to be provided of individuals and entities (including trusts and foundations). The type of information that needs to be provided includes account balances, interest, dividends and the sale and redemption from financial assets (OECD, 2014:7).

The Internal Revenue Service (IRS) of the United States of America (USA) requires that businesses complete a Form 8300 for all cash payments above \$10 000 received from one

buyer in a single or in two or more related transactions. This form provides valuable information to the IRS and the Financial Crimes Enforcement Network (commonly referred to as FinCEN) in their efforts to combat money laundering. This is an important effort to address money laundering which is used by many individuals participating in various criminal activities, ranging from tax evasion to terrorist financing to drug dealing, to hiding income received from their illegal activities (IRS, 2015a:1).

Her Majesty's Treasury issued a report to the United Kingdom Parliament in March 2015 on "Tackling tax evasion and avoidance" which stated that the United Kingdom (UK) government has played a leading role in the transformation of international tax transparency by establishing agreements to exchange information on financial accounts automatically with over 90 countries. Under these agreements Her Majesty's Revenue and Customs (HMRC) will annually receive information on the accounts, interest, and balances of UK tax residents' offshore accounts. New measures were implemented for those individuals who continue to evade, including new criminal offences and greater financial penalties. Offshore evaders will be addressed with the introduction of a new strict liability criminal offence. It will no longer be possible to avoid criminal prosecution where large sums of tax were evaded. Financial penalties will be increased, including a new penalty linked to the underlying asset. Methods will also be implemented to address those who enable or facilitate evasion. This will complement the HMRC's existing criminal offences for individuals. New civil penalties will be imposed in order to expose those, who enable evasion, to the same level of financial penalty as the tax evaded by the evaders themselves and for both evaders and enablers of evasion the HMRC will publish their names to expose them to public scrutiny (GOVUK, 2015a:3-4).

According to the annual report of the South African Revenue Service SARS (2014:36), SARS has created a reliable and complete database of HNWI's and associated trusts using comparative data as well as third-party information regarding property, trusts, motor vehicles and financial transactions. This process enabled SARS to identify 3 000 wealthy individuals. SARS is working with a number of the members of the OECD to determine the viability of an automated information exchange which would assist revenue authorities to track international transactions conducted by wealthy individuals (SARS, 2014:36).

The annual report of SARS (2014:39) states that SARS supports the global combatting of base erosion by working closely with other tax and revenue authorities. According to the report negotiations were done to establish an electronic interface with the IRS to exchange data in compliance with the Foreign Account Tax Compliance Act (FATCA) of the USA. These negotiations were concluded with an intergovernmental agreement by South Africa and the USA early in 2014 (SARS, 2014:39).

According to the SARS' Annual Report (2014:39) SARS also investigates the sharing of information with other tax authorities under the terms of the Convention on Mutual Administrative Assistance (MAA) and continued to take part in the international Financial Action Task Force (FATF) (SARS, 2014:39).

### **1.3 IMPORTANCE AND BENEFIT OF THE STUDY**

Rose and Ryle (2015) reported in the *Times* newspaper on the discovery by a network of journalists in 45 countries and operating under the banner of the International Consortium of Investigative Journalists, of hundreds of South Africans who have stashed away more than \$2-billion (approximately R23 billion) in accounts at the Swiss Banking Group HSBC. There were 585 South Africans on this list who held \$2,09 billion in 2 221 accounts. A number of prominent South Africans, including directors of large Johannesburg Stock Exchange (JSE) listed companies, are also among the account holders. If this information is compared to the number of tax audits conducted by SARS in the 2013-14 year of a total of 100 (80 on HNWI's and 20 on related trusts) with a monetary outcome of R 382,4 million, it is clear that the time has arrived for alternative approaches to be taken with regard to the way in which tax authorities identify and engage with HNWI's (Rose *et al.*,2015).

Rose and Ryle (2015) emphasise the importance of continuously improving methods to detect and deter evasion by taxpayers with specific focus on HNWI's due to the complexity of their affairs as well as their revenue contribution. SARS needs to stay abreast of all the developments in other tax authorities to ensure that current methods and systems are continuously adapted and improved in order to stay relevant with global developments.

The views of the four countries, namely the United States of America (USA), Australia, England and South Africa, were solicited to perform the comparative study (refer to par.1.7 for a motivation for this selection).

The OECD's view on general methods to apply to HNWI's was also considered in order to determine if the countries' methods are in line with what the OECD (2009) found with their study.

### **1.4 RESEARCH QUESTION**

What systems, methods, procedures and programmes are used by various tax authorities to detect and deter tax evasion of HNWI's?

The detection and deterring methods of four different tax authorities, namely that of the USA, Australia, England and South Africa are compared with each other and possible best practices

identified for consideration by SARS. A comparison is also done with the proposals made by the OECD (2009) with their study on how the tax risks posed by high net worth individuals should be addressed.

## **1.5 RESEARCH OBJECTIVES**

The main objective of this study is to determine how tax authorities detect and deter tax evasion of HNWI's by performing a comparative analysis. The main objective is addressed by the following secondary objectives:

- (i) To determine how the four countries, identified for this study, define an HNWI and to determine, from previous behavioural studies done, what drives taxpayers' compliance, the reasons why tax evasion occurs as well as an overview of new developments in the detection and deterring of tax evaders. The purpose of this chapter is to gain a proper understanding of the global approach regarding HNWI's. This objective is addressed in chapter 2.
- (ii) To determine what systems, methods, procedures and programmes the four countries are currently using to detect and deter tax evasion among HNWI's. The four countries' methods are compared as well as the proposals of the OECD on how tax authorities should address the tax risks posed by HNWI's. This objective is addressed in chapter 3.
- (iii) To conclude the findings of the research and to compile a list of possible best practices identified from a critically evaluation of the methods used. This research objective is addressed in chapter 4.

## **1.6 RESEARCH METHOD AND DESIGN**

### **1.6.1 Ontology**

The ontology of the research is a historical view of available data in order to answer the research question.

### **1.6.2 Research paradigm**

The research was done by using the interpretivist paradigm, which is a way to gain insight by improving the understanding of the whole (Strauss & Corbin, 1990).

The research is aimed at getting a better understanding of the factors that drive tax compliance, what methods tax authorities use to detect and deter tax evasion by HNWI's and which of these methods can be included in a list of possible best practices.

### **1.6.3 Research methodology**

Empirical research was done by using hybrid data. An extensive literature review from academic journals as well as from prior studies was used as method for data collection and analysis. Articles in newspapers, media reports and information on the internet relating to the topic of the study were collected and integrated in the other data obtained from research reports and reports by the relevant Governments and Tax Administrations. Hybrid data, consisting of both numerical and textual data were used as the success of the four identified tax authorities is also compared with each other.

A qualitative approach was used. The broad definition of qualitative research is “any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification” (Strauss & Corbin, 1990:17).

The motivation for using a qualitative approach is that the purpose of the research is not to resolve numerical measurements or to quantify relationships, but to provide factual and descriptive information and analysis of the way in which the tax authorities of the USA, Australia, England and South Africa detect and deter tax evasion by HNWIs. The views of the OECD (2009), on how tax authorities need to deal with HNWIs, are considered, due to the influence that studies, conducted by the OECD, have on the policy setting of tax authorities.

## **1.7 APPROACH FOLLOWED TO ANSWER THE RESEARCH QUESTION**

The factors influencing taxpayers' behaviour with regard to tax compliance are identified from research done by the OECD (2009):

- The importance of voluntary tax compliance.
- The identification of the factors which drive taxpayers to comply voluntarily.

A qualitative approach was used. The reason for this is that the purpose of the research is not to resolve numerical measurements or to quantify relationships, but to provide factual and descriptive information and analysis of the way in which the tax authorities of the USA, Australia, England and South Africa detect and deter tax evasion by HNWIs.

A comparison was further done of the systems, methods, procedures and programmes used by the American, Australian, English and South African tax authorities to detect and deter tax evasion of HNWIs and to identify a list of best practices. This information was obtained from the annual reports and compliance reports of the mentioned tax authorities as well as published research reports, academic journal articles and other reports and articles which may have published about the specific topic. The list of best practices, identified from the four countries,

was compared with what the OECD found with their study on the engaging with HNWI's on tax compliance as the OECD is influential in their studies on various tax issues.

The reason for choosing Australia is that the Australia Tax Office (ATO) already had a HNWI unit since 1996 and HMRC has had huge success with their unit dealing with wealthy individuals (same as HNWI's) as was reported by the UK in a report issued by HMRC on how they deal with HNWI's. The USA, Australia and England are all members of the OECD and contribute much to the research and development of products of the OECD which are used by other countries.

South Africa was chosen as, being a developing country, it has made huge improvements to its tax administration over the last few years. The aim of the study is also to determine a list of possible best practices to detect and deter tax evaders among HNWI's for possible implementation by the South African Revenue Service (SARS).

## **1.8 RESEARCH METHOD**

The research was done in the form of a dialectic approach (e.g. compare and contrast different points of view).

### **1.8.1 Limitations**

In doing the cross-national study between the USA, Australia, England and South Africa there were constraints with regard to differences in the countries' constitutions which the study had to account for with the findings.

### **1.8.2 Delimitations**

The study was limited to taxpayers' behaviour with regard to tax compliance and not to other legislative compliance.

The study only concentrated on the detection and deterring of tax evasion by HNWI's of the four selected tax authorities and does not include any other engagement or compliance programmes that these four tax authorities may have with regard to HNWI's. The study was also just limited to information in the public domain. No discussions were held with any of the four selected tax authorities.

## **1.9 ASSUMPTIONS**

It is assumed that taxpayers are driven by a combination of factors that influence tax compliance behaviour.

Tax compliance by a certain group of taxpayers may have a positive effect on the tax compliance of other taxpayers.

It is assumed that there will never be 100 per cent voluntary tax compliance and that tax authorities will continuously have to adapt their engagement programmes with taxpayers in order to ensure a continuous improvement in voluntary tax compliance.

## 1.10 DEFINITIONS OF KEY WORDS

**Terms as defined by the online *Oxford Dictionary*:**

**DETECTION** - “The action or process of identifying the presence of something “concealed”.

**DETER** – “Discourage (someone) from doing something by instilling doubt or fear of the consequence”.

**HIGH NET WORTH INDIVIDUALS**, as defined in the OECD’s document named “Engaging with High Net Worth Individuals” – “Individuals on the top of the wealth or income scale”.

**The following key terms are defined by the OECD in their glossary of tax terms:**

**EVASION** – “A term that is difficult to define but which is generally used to mean illegal arrangements where liability to tax is hidden or ignored, i.e. the taxpayer pays less tax than he is legally obligated to pay by hiding income or information from the tax authorities”.

Sandmo (2005: 645) defines evasion as follows: “Tax evasion is a violation of the law: When the taxpayer refrains from reporting income from labour or capital which is in principle taxable, he engages in an illegal activity that makes him liable to administrative or legal action from the authorities”.

**TAXABLE BASE** – “The thing or amount on which the tax rate is applied, e.g. corporate income, personal income, real property”. “Taxable base” is just another term used for tax base.

**TAX COMPLIANCE** – “Degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner. Tax evasion is defined as “illegal arrangements where liability to tax is hidden or ignored”.

## **1.11 OVERVIEW OF THE CHAPTERS**

### **Chapter 1: Introduction and research question**

The objective of this chapter is to determine the problem statement and research objectives as well as limitations and delimitations of the study. The research methodology for the rest of the study is determined.

### **Chapter 2: A general overview of the tax risks relating to high net worth individuals**

The purpose of this chapter is to provide a general overview of the view of the tax authorities of the USA, Australia, England and South Africa on an HNWI. The chapter also provides an overview of the available literature on the behavioural drivers of tax compliance and tax evasion that knowledge and evaluation of taxation, norms, fairness and motivational postures have. An overview is also given of the environment and risks relating to HNWIs by specific focus on:

- Income and wealth.
- Onshore and offshore investments and income
- The international mobility of HNWIs.
- The tax environment of HNWIs.

The tax risks applicable to the different segments of HNWIs, which consist of highly-paid employees and professionals, entrepreneurs, financial entrepreneurs, sportspersons and entertainers, are reviewed. Further consideration was given to a study done on the psychological cost of tax evasion, the incidence of round tripping in the USA, the use of shaming as a tool to deter tax offenders as well as developments in the exchange of information between countries and the effect thereof on tax compliance and evasion. The first secondary research objective, as identified in par. 1.5(i), is addressed in this chapter.

### **Chapter 3: Comparative study of the detection and deterring of tax evasion of HNWIs in the USA, Australia, England, South Africa and the OECD**

The objective of this chapter has been to determine the different systems, methods, procedures and programmes used by the four identified tax authorities with regard to the detection and deterring of tax evasion. This was established with a review of the annual reports and compliance programmes of the respective authorities. The methods used by the four countries are summarized and compared. The comparison was also done with the methods, identified by the OECD (2009), with their study on the engaging with HNWIs on tax compliance. The second secondary research objective, as identified in par. 1.5(ii) is addressed in this chapter and serves

as a basis for chapter 4 in which the methods of the four countries are critically evaluated to determine a list of possible best practices.

#### **Chapter 4: Conclusion**

Concludes the research by highlighting the findings, critically evaluating the methods of the four countries as well as the OECD, summarising a list of possible best practices identified with the study, the concluding remarks, what contribution the research makes and any future research identified. The third secondary research objective as identified in par. 1.5(iii) is therefore addressed with this chapter which then also concludes the study.

#### **1.12 CONCLUSION**

This chapter provides the introduction and research question which includes the purpose of the study, the research objectives and what the benefits of the study are. It is clear from this chapter that tax evasion does occur among HNWI's and that these taxpayers do pose a risk to the different tax authorities. Globally tax evasion is a problem among all types of taxpayers and it is important that tax authorities cooperate in combatting tax evasion.

The next chapter covers how the OECD, as well as the four countries identified for this study, namely the USA, Australia, England and South Africa, define HNWI's and also reviews current behavioural studies with regard to voluntary tax compliance and the OECD's study on HNWI's. A study done on the psychological costs of tax evasion as well as the latest developments in the countering of tax evasion is also covered in this chapter.

The research study is contextualised by the reviews that will be done in the next chapter

## **CHAPTER 2: A GENERAL OVERVIEW OF THE TAX RISKS RELATING TO HIGH NET WORTH INDIVIDUALS**

### **2.1 INTRODUCTION**

The objective of this chapter is to consider how the tax authorities of the USA, Australia, England and South Africa define HNWI's as well as to obtain a comprehensive understanding of all the factors influencing tax compliance of HNWI's. It is therefore important to obtain a comprehensive understanding of all the factors that may influence HNWI's to either be tax compliant or to evade tax. This chapter therefore provides the different definitions by the four countries for HNWI's and also considers the relevant factors impacting on the taxation of HNWI's. This chapter addresses the first secondary objective of this study as identified in par 1.5(i).

A general overview has been obtained by considering a number of matters as follows:

- Firstly it was established how the different tax authorities identified for this study, define an HNWI.
- Secondly the available literature on the behavioural drivers of tax compliance has been considered, by specifically focussing on the influence that knowledge and evaluation of taxation, norms, fairness and motivational postures could have on tax compliance and tax evasion.
- The environment and risks relating to HNWI's are also considered by specifically focusing on income and wealth, onshore and offshore investments and income, the international mobility of HNWI's as well as the tax environment of HNWI's.
- The tax risks applicable to the different segments of HNWI's, which consist of highly paid employees and professionals, entrepreneurs, financial entrepreneurs, sportspersons and entertainers, are reviewed.
- Further consideration was given to a study done on the psychological cost of tax evasion.
- Finally, new developments with regard to the latest development in the countering of tax evasion are reviewed. Specific focus was given to a study done on the occurrence of round tripping in the USA, the use of shaming as a tool to deter tax offenders as well as developments in the automatic exchange of information agreements.

## **2.2 DEFINING HNWI'S**

Each country has its own definition of HNWI's and in some countries these individuals are called wealthy individuals. It is therefore important to establish how each of the tax authorities, selected for this study, defines HNWI's or wealthy individuals.

### **2.2.1 The IRS of the USA**

According to the Internal Revenue Manual (IRM) of the IRS, a Global High Wealth (GHW) unit was formed to take a holistic approach to address the high wealth taxpayer population, to ensure a complete view is taken of the financial pictures of high wealth individuals and the enterprises they control. The GHW unit concentrates on individuals with tens of millions of dollars of assets or income (IRM 4.52.1.2).

### **2.2.2 The ATO of Australia**

According to the document, *ATO: Tax Compliance for Small to Medium Enterprises and Wealthy Individuals*, high wealth individual (HWI) taxpayers are defined as Australian resident individuals who, together with their associates, effectively control an estimated net wealth of \$30 million or more (ANAO, 2014:14).

### **2.2.3 The HMRC of the UK**

According to the HMRC's Corporate Report on how they deal with wealthy individuals, issued on 22 October 2014, the HMRC defines wealthy individuals as those with a net worth of £20 million or more who make up the 6 200 wealthiest individuals in the UK (GOVUK 2014b:1-4).

### **2.2.4 SARS of South Africa**

The SARS Compliance Programme for 2012-2017 was launched by the Minister of Finance on 1 April 2012. A year later, SARS issued a briefing note to give initial feedback on the progress made on the five priority areas of the tax base that were identified as key focal points for the five years until 2017 (SARS, 2013a:3).

SARS defines HNWI's as individuals whose gross income exceeds or is equal to R7 million and or gross wealth exceeds or is equal to R75 million. There are currently 2 300 such individuals on SARS' register (SARS, 2013a:3).

It can be concluded that tax authorities may have different names when reference is made to wealthy individuals, but their definition of a HNWI is in principle the same. The IRS and SARS consider both income and wealth to determine wealthy individuals while the ATO and HMRC

only focus on wealth. All four tax authorities do, however, consider an individual holistically, taking into account all the entities in which the individual has an interest or which are under the control of the individual, which is important if the tax authorities want to address the tax compliance of HNWI's effectively.

### **2.3 LITERATURE REVIEW ON BEHAVIOURAL DRIVERS OF TAX COMPLIANCE**

The question why so many people pay their taxes, despite the fact that there might be a low probability for audits and fines, is the central question in tax compliance literature. Frey and Torgler (2006) used survey data from 30 West and East Europe countries in order to obtain empirical evidence for the relevance of conditional cooperation. Their study found a high correlation between tax morale and perceived tax evasion (Frey & Torgler, 2006:136). This view is supported by Kirchler (2007:99-102).

Frey and Torgler (2006:156) found that various experimental studies indicate tax morale as the crucial underlying element for tax compliance behaviour. Most studies do, however, regard tax morale as an external factor. They introduced the determinants of tax morale, in particular, the concept of conditional cooperation and institutions, in their study, and thereby they gain a better understanding of people's considerations for tax compliance or tax evasion. In summary, their paper underline the relevance of social interactions and the importance of political institutions as both are important to understand taxpayer's willingness to pay taxes (Frey & Torgler, 2006:156).

Frey and Torgler's (2006:156) study also found that the behaviour of an individual taxpayer is strongly influenced by the behaviour of other taxpayers. Tax morale decreases where taxpayers believe that tax evasion is common and vice versa. They found strong evidence for this statement from the data used for both Western and Eastern Europe counties. This view was confirmed by Kirchler (2007:102).

The study of Frey and Torgler (2006) is important for this paper as it supports the perception that, if HNWI's regard each other as members of the same group, it is important to ensure that there is a perception of high tax morale for HNWI's as that should have a positive influence on tax compliance under the HNWI group. The findings of Frey and Torgler (2006) were substantiated by the study of Sandmo (2005). In this study Sandmo (2005:660) found that tax evasion may depend on how the taxpayer may perceive the behaviour of others, which is the same result as was found by Frey and Torgler (2006) as well as Kirchler (2007:102).

According to Braithwaite (2003:1), the ATO underwent a series of reforms in the late 1990s to begin a new proactive role in order to build a voluntary taxpaying culture. The reform process is built on the fact that legislation, although being one of the basic blocks of compliance, alone is not sufficient to ensure tax compliance. The building of a relationship with the Australian

community, in which the ATO was to be professional, fair, open and accountable to help Australians to be tax compliant and to effectively address those who intentionally avoid their tax obligations, were at the heart of the tax reform (Braithwaite, 2003:1).

According to Hoffman, Hoelzl and Kirchler (2008g:1) the variables, influencing a taxpayer's willingness to pay taxes, can be divided into external and internal variables. External variables comprise variables such as the tax rate, income, and probability of audits and severity of fines. Internal variables comprise of citizen's knowledge of tax law, their attitudes towards the government and taxation, personal norms, perceived social norms and fairness as well as motivational factors to comply (Hofmann, *et al.*, 2008g:1). It is important for tax authorities to understand the variables that drive taxpayer's behaviours, as acknowledged by the ATO when they started with their tax reforms towards a more proactive role in the late 1990's (Braithwaite, 2003:1).

This literature review therefore concentrates on an overview of the behavioural studies done on preconditions for voluntary tax compliance as well as factors that might encourage tax evasion.

### **2.3.1 Behavioural studies on voluntary tax compliance**

According to Hofmann, *et al.* (2008g:4-5), people evaluate tax avoidance, tax evasion and tax flight differently although they do have similar negative consequences. Tax avoidance is defined as the legal reduction of income and/or the legal increase of expenses while tax evasion is a deliberate act to illegally reduce the tax burden (Webley, 2004, as cited in Hofmann, *et al.*, 2008j) and tax flight is taxpayers' legal relocation of their residence and business in order to save taxes. In general tax avoidance is perceived as legal and moral and tax evasion is connected to illegal behaviour and immorality and tax flight as legal but immoral (Hofmann *et al.* (2008g: 4-5).

A brief review will subsequently be done of psychological research of the influence of the following as a basis for voluntary tax compliance:

- Knowledge and evaluation of taxation as Kirchler, Hoelzl and Wahl (2008:217) found that a higher knowledge of taxes leads to higher compliance and tax authorities can influence tax knowledge by education and training (Kirchler *et al.*, 2008:217; Hofmann *et al.*, 2008g:3).
- Norms, as norms are important factors to determine tax compliance and it is important to understand that there are different levels of norms (Kirchler *et al.*, 2008:217-218; Hofmann *et al.*, 2008g:6).

- Fairness, as citizens most often raise concerns about fairness when asked what they think about the tax system (Kirchler *et al.*, 2008:218; Hofmann *et al.*, 2008g:9, Braithwaite, 2003:2).
- Motivational postures in order to determine if it has relevance to portraying the quality of the relationship between a tax authority and the community (Braithwaite, 2003:2; Hofmann *et al.*, 2008g: 29).

The psychological research done on the influence of each of above four factors on voluntary tax compliance will now be discussed individually.

### **2.3.2 Knowledge and evaluation of taxation**

Taxes are mostly regarded as a burden which is perceived differently by different groups of citizens. Social representation studies held by different professional groups in Austria by Kirchler (1998, as cited in Hofmann *et al.*, 2008d:3) and in Italy by Bertil and Kirchler (2001, as cited in Hofmann *et al.*, 2008b:3), indicated that taxes are regarded as a necessary evil that guarantees social welfare while blue-collar workers mainly accuse the government of using tax money to enrich themselves. Self-employed and entrepreneurs feel taxes limit their freedom to invest their hard earned money in their own business (Hofmann *et al.*, 2008g:3).

Tax evasion is regarded as an intelligent performance and not as a serious crime. Schmolders (as cited in Hofmann *et al.*, 2008e:6) found in earlier studies that almost half of the respondents described tax evaders as cunning business men. According to Song & Yarbrough (1978, cited in Hofmann *et al.*, 2008f:6), and Vogel (1974, as cited in Hofmann *et al.*, 2008i:6), tax evasion, if compared to other offences, is regarded as less severe than drunk driving or stealing a car and is regarded as just a bit more serious than stealing a bike (Hofmann *et al.*, 2008g:6). According to Porcano (1987:47) successful tax evasion poses wide consequences to governments as it does not only fosters disappointment over taxes, but it also poses serious threats to voluntary tax compliance, as well as creating a perception that the tax system is unfair which demoralizes the majority, who pays their fair share of tax (Porcano, 1987:47).

The OECD (2009) found that tax planning often occurs more under the HNWI group due to their wider range of income sources, structures controlled by them and international features. These individuals are also more likely to receive advice from a financial expert. It was reported that in the UK 70 per cent of the total HNWI population are served by Independent Financial Advisers (IFA's) which is a contributing factor to tax planning by HNWIs (OECD, 2009:13).

According to the OECD (2009:14) offshore tax evasion is not only found among HNWIs but among all segments of taxpayers. Wealthy taxpayers do, however, have the prerogative of

having the ability to engage in more sophisticated and expensive structures. Trillions of dollars are globally held offshore, resulting in governments losing billions of dollars in tax money each year due to taxpayers failing to report income on these offshore investments (OECD, 2009:14). According to Zucman (2014:121-122), available evidence from Switzerland and Luxembourg, together with the anomalies in the international investment data of countries, indicates a fast growth in offshore personal wealth of which the bulk seems to relate to the evading of taxes (Zucman, 2014:121-122).

### **2.3.3 Norms**

People develop ethical standards of acceptable conduct in a society and are aware of the social norms that regulate their behaviour in a society. Ethical standards are addressed as personal, social and societal norms (Wenzel, 2004:214; Kirchler, 2007:59; Kirchler *et al.*, 2008:217).

According to studies done by Adams and Webley (2001, cited in Hofmann *et al.* 2008a:7,) and Kirchler and Berger (1998, cited in Hofmann *et al.*, 2008c:7), personal norms consist of personality factors, moral reasoning, values, religious belief, etc. and found that the personality factor, Machiavellianism (Machs) furthers tax evasion. According to Arnoff and Wilson (1985:63), Machiavellianism is a complex trait where a sense of self-wealth is achieved through interpersonal transactions in an amoral, manipulative, chancer and advantageous user way (Arnoff & Wilson, 1985:63; Kirchler, 2007:61).

According to Kirchler *et al.* (2007:218) social norms refer to shared beliefs about how members of a group should behave. Porcano (1987:51) is of the view that taxpayers will comply with tax law, or will have a more lenient tax behaviour and perceive tax evasion as a less serious crime, if that is how their reference group, like professional groups, friends and acquaintances, perceive tax evasion (Porcano, 1987:51; Kirchler *et al.*, 2007:218; Hofmann *et al.*, 2008g:7).

According to Wenzel (2004:214), the relationship between strong social norms to be tax compliant and actual compliance is mediated by a person's attachment to his reference group or society. This finding is in line with the self-categorization theory in which it is assumed that norms established by the group will more likely influence the individuals if the individuals consider the group, to which they belong, as highly relevant for their self-image and if they identify with their group (Kirchler, 2007:66; Hofmann *et al.*, 2008g:8).

According to Hofmann *et al.* (2008g:8), societal norms of tax behaviour are reflected partly in tax laws, as well as partly in tax morale and civic duty. Tax morale is, according to Schmolders (cited in Hofmann *et al.*, 2008e:8), the aggregated attitudes of a group to comply with tax law. Tax morale is linked to the motivation of civic duty: individuals are not only motivated by the

maximizing of their own wellbeing but also by their sense of social responsibility (Hofmann *et al.*, 2008g:8-9; Kirchler *et al.*, 2007:218).

#### **2.3.4 Fairness**

Porcano (187:51) found that taxpayers will be more likely to evade tax where they perceive tax procedures to be unjust and tax laws to be so complex that it can be seen as unfair. Fairness relates to the perceived balance of taxes paid and public good that are received and to the perceived justice of procedures and consequences of breaking the norm (Hofmann *et al.*, 2008:9; Porcano, 187:51).

According to Kirchler (2007:75), social psychology identifies three types of fairness in the context of tax behaviour, namely distributive, procedural and retributive justice (Kirchler, 2007:74).

According to Kirchler (2007:75) distributive justice entails a fair exchange of resources, benefits and costs and distinguishes between horizontal and vertical fairness. Horizontal fairness relates to a fair distribution of benefits and costs within one's income group and vertical fairness to the distribution of benefits across income groups. Hoffmann *et al.* (2008g), found that research done by Spicer and Becker (1980, cited in Hofmann *et al.*, 2008h:10) on horizontal fairness indicates that citizens who feel being treated disadvantageously in relation to others are more likely to evade tax. This view is supported by the findings of Wentzel (2004:224) that social norms will only have an effect on tax compliance where an individual associate with the group. Citizens who feel that there is no vertical fairness between groups, for instance between rich and poor, tend to evade tax more than those who perceive a high vertical fairness. Tax evasion also relates to dissatisfaction with the services provided by government (Hofmann *et al.*, 2008g: 9 -10).

According to Kirchler (2007:75-76) procedural justice entails the process of distribution of resources. Studies found that procedural justice is high when individuals perceive the rules for the distribution of benefits and costs as fair and the treatment by tax authorities as friendly, supportive and respectful. Trust in tax authorities improves where there is a fair treatment of taxpayers and a culture of mutual understanding between the taxpayers and the authorities. Tax compliance increases where tax authorities are perceived to be supportive and that they are treated according to their efforts and needs (Kirchler, 2008:76; Hofmann *et al.*, 2008g:4).

According to Kirchler (2007:76) retributive justice entails the perceived fairness of norm-keeping measures, for example audit and punishment. Empirical results indicated that high retributive justice does occur when taxpayers agree with governmental tax audits and penalties for tax evasion whereas inconsiderate audits and unfair penalties lead to a negative attitude towards

tax authorities. Policies and measures used for fiscal reasons by tax authorities can have a negative influence on perceived retributive justice. Amnesty is one of the highly disputed measures. Amnesties allow tax evaders to get their tax affairs in order without being punished with penalties and criminal prosecution. This can have a negative effect on the compliance of honest taxpayers as they may feel materially disadvantaged. Amnesty can result in honest people declaring less due to the possibility of a future opportunity to declare less (Kirchler, 2007:76-89; Hofmann *et al.*, 2008g:10).

Wenzel (2002:641) found that perceptions of justice and fairness will only have a positive effect on tax compliance where taxpayers identify with their social group and nation and if they have high feelings of procedural and distributive justice. Wenzel (2002:641) also found that tax authorities need to respect taxpayer's feelings of justice and fairness and treat them with dignity and respect (Wenzel, 2002:641; Hofmann *et al.*, 2008g:12).

The OECD (2009:14) is of the view that there is often a perception amongst the wider population in many countries that the individual, with the greatest wealth and or highest income, pay the least tax. HNWI's are the group that attract more media and public attention than other individuals because of their high standing in industry and business or because of their celebrity status. It is therefore important that a government, which pledges to protect its tax revenue, demonstrates that its tax system is fair and that its compliance programme equally applies to HNWI's (OECD 2009:14).

### **2.3.5 Motivational postures**

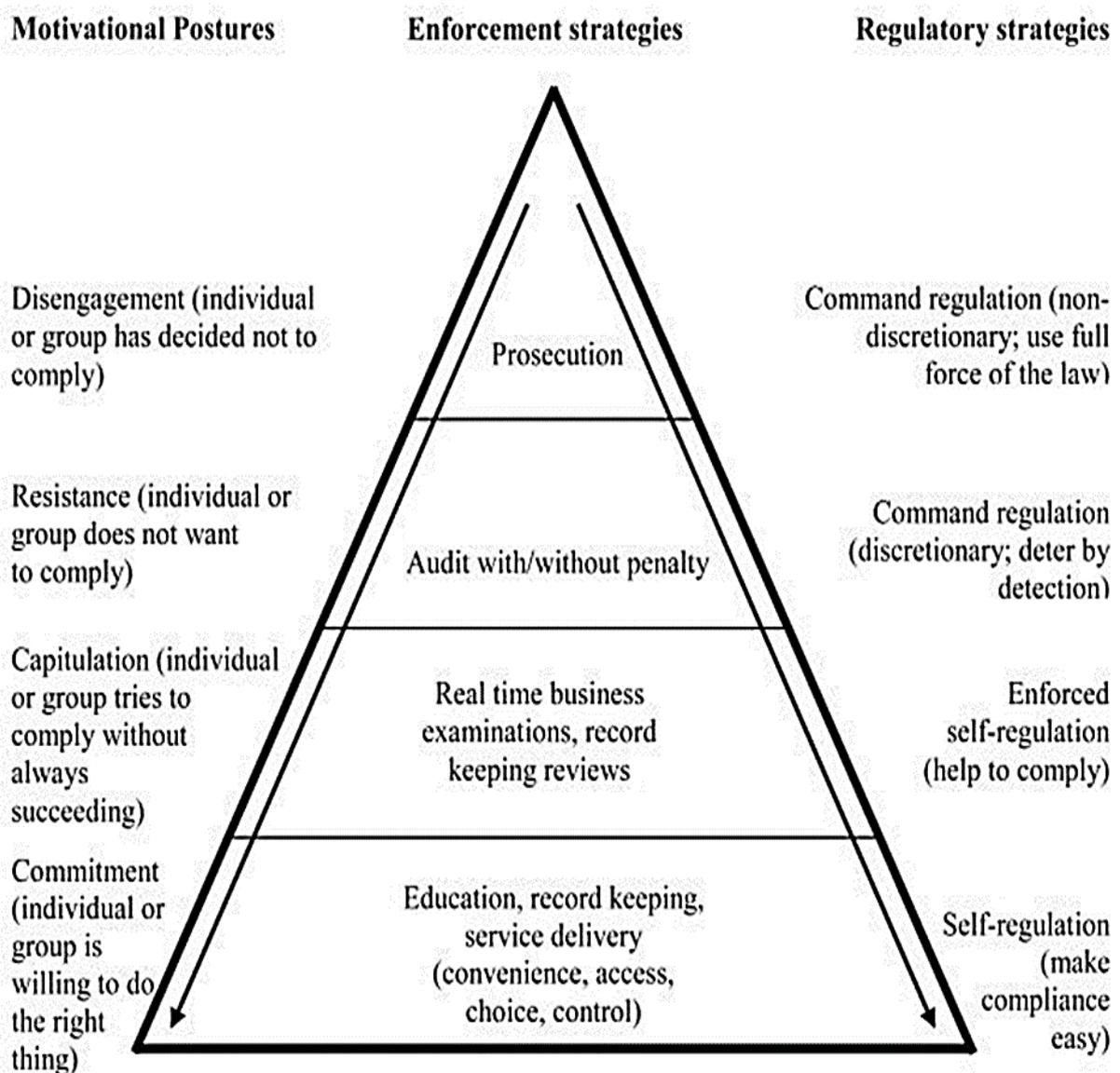
According to Braithwaite (2003) motivational postures integrate the taxpayers' beliefs, evaluations and expectations of the tax authorities and the taxpayer's activities resulting from these beliefs, evaluations and expectations.

Braithwaite (2003:18) distinguishes five motivational postures, namely:

- Commitment, which means a positive attitude towards tax authorities.
- Capitulation, which means the acceptance of tax authorities who hold legitimate power to pursue the objective of a collective.
- Resistance, which means a negative and daring attitude towards the tax authorities.
- Disengagement links with resistance and also describes a negative attitude.
- Game playing, which refers to taxpayers looking for loopholes in the tax law for their own advantage and perceive the tax authorities as the police who must catch offenders (Hofmann *et al.*, 2008g:12-13, Braithwaite, 2003:18). Tax authorities need to consider

motivational postures as it can be used to increase tax compliance (Hofmann *et al.*, 2008g:13-14).

According to Braithwaite (2003:2) the Cash Economy Task Force Report of the ATO (1998), differentiates between the detection and management of non-compliance. The purpose of the Cash Economy Compliance Model was to construct a methodology to address the human management problem and at the same time to provide better intelligence to improve detection (Braithwaite, 2003:2). The compliance model of the ATO, as shown in Figure 2-1, indicates how tax authorities should respond to each motivational posture. A different behaviour should be applied for tax evasion done in the different motivational postures, as is set out in Figure 2.1 below (Hofmann *et al.*, 2008g:14).



**Figure 2-1:** ATO Compliance Model adapted from Braithwaite (2003:3) as in Hoffman *et al.*, 2008g:14.

The consideration of the influence of knowledge of taxation, norms, fairness and motivational postures indicate that external measures, such as tax audits and fines, may be effective to reduce tax avoidance in instances where the tax authorities and taxpayers perceive each other as opposing parties. Taxpayers' willingness to comply can, however, be increased if tax authorities and taxpayers perceive each other as cooperating and pursuing similar community goals (Kirchler *et al.*, 2008:216; Braithwaite, 2003:1-11).

## **2.4 THE ENVIRONMENT AND RISKS RELATING TO HNWIS**

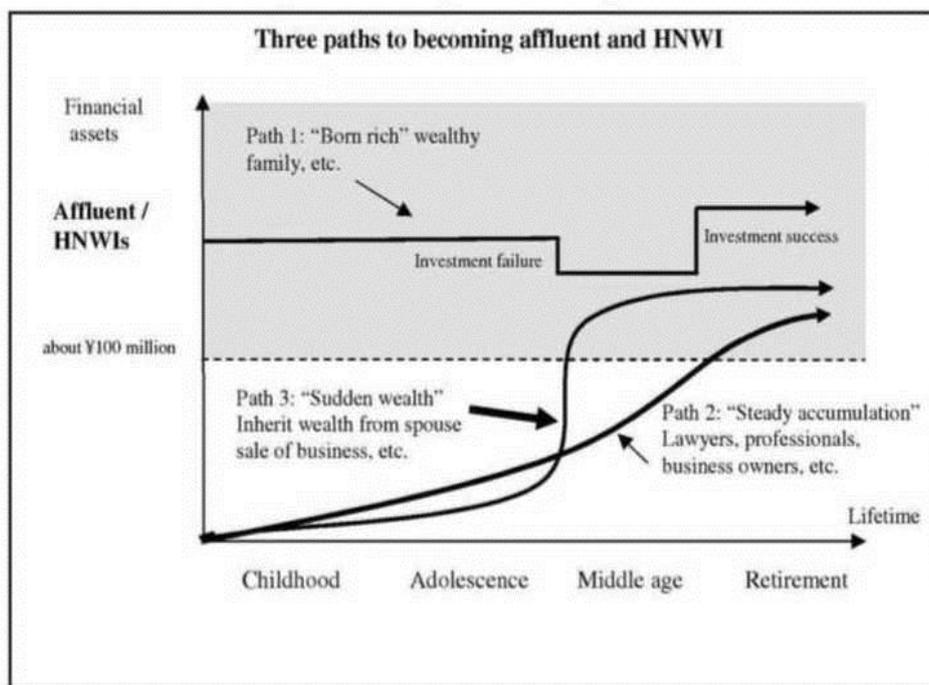
After the above consideration of the factors that influence the behaviours of taxpayers across all income groups, the environment and tax risks relating specifically to HNWIs are now considered by specifically focusing on:

- Income and wealth.
- Onshore and offshore investments and income.
- The international mobility of HNWIs as well as the tax environment of HNWIs.

### **2.4.1 Income and wealth**

According to the OECD (2009:18) high income and HWIs may have tax strategies with different focus areas. The focus of the high income individual can be on the sheltering of income while the HWI may want to preserve wealth. It is important for tax authorities to understand this as it means that they will have different tax risk profiles. The tax risks on these individuals will also be over a wider range of tax types which may also include inheritance taxes, where applicable (OECD, 2009:18).

According to the OECD (2009) wealth is inherited in a significant number of cases. There are likely to be material differences between developing and developed economies and between economies with high growth rates and those with lower growth rates. High wealth will in many cases be created by a high income over a period of years. In contrast, some high wealth individuals may have a very low income, for example those who may invest capital in their businesses without taking any financial reward. The distinction between these two categories of HNWIs may relate to different stages in the life cycle rather than a description of different taxpayers (OECD, 2009:18).



**Figure 2-2: Stages of the wealth cycles (OECD, 2009:19)**

The ATO (2008, cited in OECD, 2009:19) describes the “business life cycle” as consisting of the following stages:

- Obtaining, creating or building of wealth.
- Maintenance of the wealth.
- Passing on of wealth and the control thereof to future generations (OECD, 2009:19).

According to the OECD (2009:20) the wealth creation life cycle is regarded by several focus groups as having a significant impact on tax risks. It is expected that the highest income tax risks exist in the early stages when wealth is created and maintained while the focus may shift to inheritance, donations, and gift tax planning at the stage where the HNWI plans for succession to his/ her wealth. The OECD (2009:20) found that the “emerging wealthy” may also not seek the necessary professional advice appropriate for the complexity of their tax affairs which may further increase the tax risk.

### 2.4.2 Onshore and offshore

According to the Boston Consulting Group (BCG, 2015), global private wealth in offshore centres grew with 7 per cent and onshore investments with 12 per cent in 2014. The global offshore investments in 2014 were estimated at \$10 trillion. The Caribbean and Panama remained the preferred destinations for offshore investments of wealth created in North

America. Switzerland, however, remained to be the preferred offshore destination in 2014 as can be seen from wealth to the amount of \$ 2.4 trillion held from abroad. The BCG found that 25 per cent of all assets held abroad globally are held in Switzerland Accounts (BCG, 2015:4).

According to Zucman (2014:121), modern technology makes it much simpler for wealthy individuals to move funds to bank accounts in offshore tax havens in order to benefit from banking services not available in their home country and sometimes to evade taxes (Zucman, 2014:121).

According to Zucman (2014:141), the revenue cost of offshore evasion is material as data published by the Swiss tax authority indicate that about 80 per cent of the wealth held by Europeans seems to be for the evading of taxes. Zucman (2014:142) further states that, according to data obtained from the IRS, \$200 billion in federal income taxes are paid by the top 0.1 per cent highest income earners, which is equal to 16 per cent of all federal income tax revenues of \$ 1.3 trillion in the 2013 year. If it is assumed that all unrecorded offshore wealth belongs to the top 0.1 per cent highest income earners, it is estimated that the eradicating of offshore evasion can yield at least \$ 36 billion which can increase the contribution of the high income earners to 18 per cent of the total federal income tax bill (Zucman, 2014:142).

### **2.4.3 International mobility**

According to the OECD (2009:21) higher international mobility is identified under the HNWIs group than in other taxpayer segments. This is found for high income individuals as well as for HWIs (OECD 2009:21).

According to a survey conducted by Citi Private Bank (CPB) and Knight Frank (2008) the most important individual factor influencing the location of the primary residence of HNWIs is taxation with 29 per cent of the cases. It cannot be said that taxation is the deciding factor as the other individual factors were found to be:

- Access to work (59%).
- Personal security/ crime (53%).
- Access to airports (41%).
- Social networks (38%).
- Availability of quality services (32%).
- Educational institutions (32%).
- Physical property attributes and quality (29%).

- Business opportunities in location (29%).
- Leisure time hobbies and activities (15%).
- Physical attributes for the location (6%) (OECD 2009:21, CPB & Frank 2008:16).

The OECD (2009:21) further observed that HNWI's will not necessarily choose jurisdictions with a low or no tax rate to reside in. It seems that HNWI's will choose jurisdictions that provide an appropriate balance between business and local taxes, financial service restrictions and lifestyle choices (OECD 2009:21).

#### **2.4.4 Tax environment for the HNWI**

According to Kirchler (2007:114) the economic rationale decisions fail to clearly predict the effect of marginal tax rates on tax compliance, although most of research indicates that higher tax rates leads to less compliance (Kirchler, 2007:114).

The OECD (2009:21) observed that a good understanding of the overall tax systems and applicable tax rates of the different countries are important factors HNWI's need to consider for tax planning and also to understand the potential tax savings that may provide the incentive to HNWI's to engage in aggressive tax planning (ATP) or evasion. The OECD (2009) further observed that, although there had been a considerable decrease in the top tax rates across the OECD area over the last two decades, the 40% tax rate still provides an economic incentive for HNWI's to minimize, avoid or evade their tax liability (OECD, 2009:21).

The OECD (2009:21) found that the use of differential rates on different types of income, for instance the taxation of passive income at a lower rate, may also have an influence on the compliance behaviour of HNWI's. Almost all the countries, included in the focus group for the OECD's study on HNWI's, give preference to capital gain income as opposed to normal taxable income. This ranges from 0% to a lower tax rate on capital gains income which creates an economic incentive for the use of schemes to convert ordinary income to capital income (OECD, 2009:21).

According to the OECD, HNWI's in many instances own, either directly or indirectly, high personal use assets such as aircrafts, yachts, art and antique collections as well as luxury cars, which can often be in transit between countries, resulting in cross-border taxes. This often results in the creation of special purpose vehicles and associated structures to minimize direct and indirect tax costs. HNWI's will also frequently consider the total tax burden rather than just their own personal tax liabilities. This means that where HNWI's own a business, corporate tax plus consumption taxes such as value added tax (VAT) and payroll taxes, may be included in

the assessment of the total overall taxation liability of a particular company (OECD, 2009:22–23).

It can be concluded that the environment and risks, relating to HNWI, are the same as for other taxpayer groups, except for the fact that the HNWI have more available resources at their disposal to more likely make use of schemes involving offshore investments and to be more internationally mobile, as can be seen from the study conducted by the OECD. The HNWI group do pose a serious threat to the tax authorities as can be seen from the statistics provided by Zucman (2014:142) in par. 2.4.2 of this study and it is therefore important that tax authorities try and maximise compliance in this group by applying the findings of behavioural studies to determine the motivation of why taxpayers comply or evade tax.

## **2.5 TAX RISK WITHIN THE HNWI SEGMENT**

The OECD (2009:22) found that tax risks may differ per source of income or wealth. Some risks and tax schemes may be generic and others may occur more within certain sub-groups like HNWI. The OECD differentiates between incomes received by the following HNWI:

- Highly-paid employees and professionals.
- Entrepreneurs.
- Financial entrepreneurs.
- Sportspersons and entertainers.
- Wealthy individuals (OECD 2009:22).

The income received by these individuals will is not discussed separately as the risks are mainly the same – the main risk being that these individuals receive income for which third party data are not always readily available.

According to the OECD (2009:23), schemes created, specifically for certain sub-groups of HNWI, pose further tax risks. These schemes specifically relate to highly paid individuals who often receive significant performance-related compensation which make them more vulnerable as the rewards may be high in the short term, but job security may be low, which could have the effect that these individuals may want to preserve their pre-tax levels of income. A technique that is used, and that has the potential to result in tax evasion, is a scheme to divert remuneration offshore by the use of an intermediate company which will invoice the resident company for services provided by the HNWI. The funds that are accumulated in this way will then be available to the HNWI by way of an offshore bank account. Alternatively, the individual can also leave the funds in a low-tax jurisdiction and sell the shares in the offshore company at

a later stage, claiming to realise a capital gain which is taxed at a much lower tax rate than income from employment (OECD, 2009:23-24).

According to Porcano (1987:51), the kind of evasion appears to be closely linked to the occupation of the evader, due to the fact that certain occupations provide more opportunities for evasion than others (Porcano, 1987:51). This is in line with the finding by the OECD (2009:24-25) that HNWI include entrepreneurs who may consist of self-made and serial entrepreneurs. Serial entrepreneurs refer to individuals who are entrepreneurs who will continue to come up with new ideas and will continuously start new businesses. The OECD (2009:24) found that entrepreneurs are risk takers and may therefore also be prepared to take tax risks. However, it was found that shareholders or partners of long-standing private enterprises are often more conservative with the taking of risks and focus on long term success and wealth preservation. Reputation is also more important for them, especially where the family name is a well-known consumer brand (OECD 2009:24-25).

According to Kirchler (2007:72), self-employed people have a perceived greater opportunity to evade tax as they have higher opportunities to conceal income and to claim illegitimate deductions. Research has shown that opportunities not to be tax compliant are among the most influential drivers of tax evasion or avoidance (Kirchler, 2007:72; Porcano, 1987:51; Slemrod, 2007:30).

According to the OECD (2009:25), financial entrepreneurs, who include private equity executives and hedge fund managers, are sometimes regarded as a separate sub-segment of entrepreneurs. People and intangible assets are the main value drivers of these people which are both internationally mobile. This means that where there are significant changes to the overall taxation framework in one country it may result in the relocation of the business to reduce the tax liability (OECD, 2009:25).

According to the OECD (2009:26) sportspersons and entertainers are often internationally mobile by way of their occupation and therefore there may be cross-border issues to consider. There are a number of published cases which involve tennis players, motor racing drivers, pop and opera singers who use the change of tax residency as a tax minimizing strategy. These individuals may also transfer certain intangible rights to shell companies that are situated in jurisdictions with no or low tax. These structures may vary from a simple shell company to several layers of entities existing of trusts and other structures as well as the use of tax treaties (OECD, 2009:26).

According to the OECD (2009:26), wealthy individuals, because they are often highly mobile, may be attracted to countries which they perceive as having a more favourable tax system than

other countries. The individuals may hold investments through offshore entities countries with no or low tax implications in order to minimize tax on foreign source income or gains instead of to change their country of residence (OECD, 2009:26).

It can be concluded that, although the OECD (2009) identifies different types of income and persons as HNWIs, the risks relating to all these individuals can be summarized according to the type of income received as well as opportunities available for tax evasion. The experimental results of Alm *et al.* (2006:21) support the finding of the OECD that individuals who earn a larger income, which is difficult to detect, exhibit significantly lower rates of tax compliance due to, among others, the lack of income-withholding in this group and lack of third party information. It is therefore important for tax authorities to be aware of this fact in order to be able to implement the necessary procedures, systems and programmes in order to obtain maximum tax compliance.

The psychological cost of tax evasion, as an additional method to deter taxpayers from tax evasion, is considered next to establish whether it could have an effect on tax evasion.

## **2.6 THE PSYCHOLOGICAL COST OF TAX EVASION**

Kathleen De Laney Thomas, a professor at the University of North Carolina, School of Law, wrote an article in September 2014 with regard to the psychological cost of tax evasion. She refers to psychological cost as the psychological discomfort that taxpayers may experience when they are being dishonest. This discomfort imposes an additional utility cost which is not accounted for by the standard deterrence model. Thomas' main argument in this article is that governments should raise the psychological cost of tax evasion by the application of subtle behavioural encouragements to influence taxpayers to be more honest. Improved measures to increase the psychological cost of tax evasion should only require a relatively small administrative cost to tax authorities if it is compared to the cost relating to the acquiring of additional resources to audit more taxpayers. In this article the psychological cost of tax evasion is identified as an additional policy tool that can be used by tax authorities to enhance tax compliance (Thomas, 2014:617-619).

According to Thomas (2014:617) the current tax compliance policies in the USA are largely based on the standard deterrence theory. The standard deterrence theory, with regard to tax compliance, is based on the assumption that taxpayers will weigh the expected cost of tax evasion against the cost of tax compliance and will then choose the cheapest option. The cost of complying is the tax payable, but the cost of tax evasion is more difficult to determine. The expected cost of tax evasion will be the fine payable for the evasion discounted by the probability of detection. Tax authorities could therefore deter a rational taxpayer from evading

tax by raising the cost of evasion to ensure that it is more expensive than the cost of compliance. The cost of evasion could be increased by increasing the penalty of evasion and/or the probability of detection. Harsh penalties may, however, result in lower tax compliance if it is resented by the taxpayers and it can also result in not being collectable due to the extent that it exceeds the taxpayer's financial resources (Thomas, 2014:617). Tax authorities may also find it difficult to increase the probability of detection, by increasing the number of audits, as it could require large amounts of time and resources (Thomas, 2014:619).

Thomas (2014:648) argues that although it is not easy to translate the results of empirical studies into practical policy applications, it does not mean that tax authorities should disregard the psychological cost of tax evasion when determining their policy (Thomas, 2014:648).

Thomas (2014) proposes the following measures to enhance taxpayers' honesty when completing their tax returns.

### **2.6.1 Attention to moral standard on electronic forms**

It is important to find an electronic method to appeal to a taxpayer's morale when he/she has to complete electronic forms. This could be done by prompting a taxpayer to tick a box to confirm something like "Reporting false or incorrect information on a federal tax return, including failing to report income that you have earned, is illegal" (Thomas, 2014:648-649).

### **2.6.2 Taxpayer surveys**

The survey could be designed to draw taxpayers' attention to the fact that tax evasion is not a crime without victims and should be required to be completed just before they file their tax returns. The survey could also ask the taxpayers to state whether they agree or disagree with statements such as "it is morally wrong to underreport one's tax liability, no matter how small the amount," or "it is a crime to underreport one's tax liability, no matter how small the amount," or "tax evasion results in honest taxpayers having to pay higher taxes" (Thomas, 2014:650-651).

### **2.6.3 Targeting self-employed taxpayers**

Thomas (2014:651-653) is of the opinion that it is important for tax authorities to focus on self-employed taxpayers as these individuals have the highest rate of non-compliance due to the fact that they normally earn an income which is not subject to third party withholding or reporting. Income that is earned from cash-based businesses is easy to conceal from the tax authority. In order to avoid this problem, tax authorities should focus on the honesty of the taxpayers when making their estimated payments rather than at the time of filing of the year-end return. Many of above-mentioned procedures could be incorporated for the estimations.

Taxpayers could also be required to perhaps sign a statement on the estimated assessment to verify that the amount completed on the estimated return is an honest and good faith estimate of the taxpayer's income (Thomas, 2014:651-653).

#### **2.6.4 Focus on tax return preparers**

According to Thomas (2014) tax professionals prepare a large number of tax returns and efforts should be made to enhance honesty among these return preparers, by perhaps asking these professionals to sign an honour code for each return submitted by them (Thomas, 2014:654-655).

#### **2.6.5 Creating a salient "victim" of tax evasion**

Thomas (2014:656-658) observed that empirical studies indicated that the psychological costs of tax dishonesty increase when individuals are aware of the fact that someone will be economically harmed because of their dishonesty. It can be said that any person who benefits from the government revenue fund is harmed by tax evaders and so are the taxpayers who pay a higher nominal tax rate to compensate for the tax gap. Tax authorities can run an advertisement via television or the internet to focus on how tax money is spent (Thomas, 2014:656-658).

It is important for tax authorities to take note of the study done by Thomas (2014) as the resources available to them should be used in such a manner to ensure optimal voluntary compliance. The idea that guilt might be used to deter people from evading tax has long been recognized by tax literature. Moreover, the measures proposed by Thomas (2014:617), would impose very little administrative expenses to the government, if compared to the costs of the traditional deterrence methods like audits and penalties.

### **2.7 STRATEGIES TO CONTROL TAX EVASION**

James Alm (2012:24-25), from the Department of Economics, Tulane University, made similar conclusions to those of Thomas, as seen above. Alm (2012:24-25) found that the designing of strategies, to control tax evasion, falls into three main categories which are consistent with the three models namely:

- The likelihood and threat of punishment ("enforcement model").
- Improved tax services ("service model").
- The tax culture needs to be changed ("trust model") (Alm, 2012:24-25).

According to Alm (2012:24-25), the “enforcement” model includes policies such as an increased number of audits, increased quality with regard to both the audits and the auditors, using more systematic audit selection methods, improving the sharing of information across governments, increasing penalties for cases where there was tax cheating, ensuring that tax evasion convictions are published in the media, applying penalties more often and consistently, utilising source-withholding and thereby allocating additional collection power with regard to the collection of accounts of evaders and use third-party information in order to increase the identification and registration of taxpayers (Alm, 2012:24-25).

The “service model” entails an improvement of the services of tax authorities by becoming more “consumer-friendly”. The basis of this model is to treat the taxpayer more as a client than a potential offender (Alm, 2012:24-25).

The “trust model” entails the government inducing a change in the culture of paying taxes. This could be done by reinforcing tax compliance as the ethical form by using the media and publicizing the names of tax cheaters; emphasize the fact that government services and the payment of taxes are linked; target a specific group of taxpayers, for instance new employees, to ensure that they start with the notion that paying taxes are the right thing to do; avoid actions that may give the impression that cheating is not wrong (for instance tax amnesty) and ensuring that perceptions where people perceived that they are treated unfairly, are addressed. According to Alm, the “trust model” is an essential, but also largely neglected strategy for the improving of tax compliance (Alm, 2012:25).

## **2.8 LATEST DEVELOPMENTS IN THE COUNTERING OF TAX EVASION**

As can be seen from studies done by the OECD (2009) and Alm *et al.* (2006:21), individuals tend to evade tax where there is a low risk of detection. HNWI are internationally mobile and also have offshore investments and that is why the exchange of information between tax authorities is important to counter tax evasion adequately.

A quick overview will be done of the growth in the number of HNWI as well as of a study done on the round tripping of money in the USA and the use of shaming as a tool to deter tax offenders. The latest developments with regard to the automatic exchange of information agreements will also be considered.

### **2.8.1 An overview of growth in number of HNWI**

It is important to be aware of the growth in the HNWI population globally as tax authorities need to be sure that this specific group still poses a tax risk to them. According to the World Wealth Report for 2015, which is issued by Capgemini & RCB Management, HNWI are regarded as

those individuals who have investable assets of US\$1 million or more, excluding primary residence, collectables, consumables and consumable durables (Capgemini & RCB Management, 2015). Capgemini & RCB Management has a global network of offices in major financial centres around the world and is the industry's benchmark in the tracking of HNWI's.

Capgemini & RCB Management separates the HNWI's into three wealth bands for the purposes of their analysis. The three wealth bands consist of those individuals with investable wealth between US\$1 million to US\$ 5 million; the second group are the individuals with wealth of between US\$5 million to US\$30 million (mid-tier millionaires) and lastly those with wealth of US\$30 million or more (ultra-millionaires) (Capgemini & RCB Management, 2015).

Capgemini & RCB Management (Capgemini & RCB Management, 2015) reports that HNWI's grew globally to 14,6 million in number and US\$56,4 trillion in wealth due to strong economic and equity market performances. This means that millionaires increased during 2014 globally by 920 000. It was found that ultra-HNWI's, who make up one per cent of all HNWI's and roughly 35% of the HNWI wealth, again had a significant influence on the HNWI population and wealth growth. It was found that the growth in the global HNWI population only occurred in a small number of the markets. More than two-thirds of the growth in the HNWI's population occurred in the USA, Japan, Germany and China. These statistics indicate that HNWI's are still relative to tax authorities and that tax authorities should still focus on this group with their compliance programmes.

## **2.8.2 Study on round tripping of money in the USA**

Hanlon, Maydew and Thornock (2015) investigated, in particular, round tripping tax evasion in the US. Round tripping refers to where US investors move funds to offshore tax havens and invest in USA equity and debt markets with these "foreign funds". The USA Senate Permanent Sub-committee on Investigations emphasized the importance of obtaining empirical evidence of offshore tax evasion as, according to them, offshore tax havens hold trillions of dollars in assets by residents of other countries which includes the USA. However, other than the evidence obtained from cases where tax evaders were caught, there is no real systematic evidence on the effects of tax evasion on foreign portfolio investment (FPI) and this is due to the fact the tax evasion is normally done in secrecy (Hanlon *et al.*, 2015:257-258).

Hanlon *et al.* (2015) found that the detection of offshore tax evasion is difficult due to the fact that the USA relies mainly on self-reporting and also does not have withholding taxes on most of the interest income and capital gains. The problems identified with offshore investments are that the process to obtain information about the entities is difficult and time-consuming. Audits

on offshore entities are also more challenging and require IRS agents who are highly trained. These audits normally take longer to conduct (Hanlon *et al.*, 2015:262-263).

### **2.8.3 The shaming of tax offenders**

Coricelli, Rusconi and Villieval (2013:1) conducted experimental tests on the effect of shaming, with a repeated tax-payment game, in which the shaming consisted of the displaying of the offender's picture, together with the charging of monetary penalties. According to Coricelli *et al.* (2013:1) the total amount of cheating is much more where cheating is made public and the offender is not successfully reintegrated in the tax system than where the cheating is made publicly and immediately followed with reintegration. Coricelli *et al.* (2013:1) found that *social* shaming may be an effective tool for policy-makers, but it is also a very sensitive tool that should be used very wisely (Coricelli *et al.*, 2013:1).

### **2.8.4 Exchange of information agreements**

Hanlon *et al.* (2015) found that there is a substantial increase in the number of Tax Information Exchange Agreements (TIEAs) between the USA and countries identified as tax havens. Current limitations identified with TIEAs are that the information exchange is usually only done on request which is difficult as at a certain stage, information about who is evading tax may not be available. A second limitation is that bank secrecy laws in the foreign countries are not affected by the TIEA's. A third limitation is that useful information may not be available from the tax haven country (Hanlon *et al.*, 2015:263).

Hanlon *et al.* (2015) used the economic theory of crime relating to tax evasion (Slemrod, 2007:35-36) under which investors are torn between the incentives to evade tax and the likelihood of being caught. The study found that the opportunity for tax evasion may increase over time as access to tax havens have been made much easier with the globalization of the financial system and improvements in communication and technology (Hanlon *et al.*, 2015:10).

McKinsey and Company (2011) found with their research in August 2011 that the USA has the world's most foreign assets with \$ 15.3 trillion followed by the UK with \$ 10.9 trillion and Germany with \$ 7.3 trillion (McKinsey & Company, 2011:34).

The OECD (2014) states that it is important that there is co-operation between tax authorities, in the form of exchange of information agreements, as it is critical to counter tax evasion and to protect the integrity of the tax systems (OECD, 2014:2). According to the release by the OECD (2014) of the full version of the global standard for automatic exchange of information, the process to focus on the opportunities for the automatic exchange of information already started in 2012. The automatic exchange of information entails the systematic and periodic delivery of

“bulk” taxpayer information from the source country to the residence country with regard to various income categories, for example interest, dividends, and other income, in order to ensure non-compliance is communicated timeously (OECD, 2014).

According to the background information briefing of the OECD (2015b) all G8 leaders welcomed the change in tax transparency. This information briefing sets out the steps needed to be undertaken to put a global model of automatic exchange in practice. All 34 member countries of the OECD endorsed the “OECD Declaration of Automatic Exchange of Information in Tax Matters” on 6 May 2014 along with a number of non-member countries. In total more than 65 jurisdictions publicly committed to the implementation of the declaration of which more than 40 committed to a specific and optimistic timetable for the first automatic information exchanges in 2017 (OECD, 2015b:2).

The full version of the “Standard for Automatic Exchange of Financial Account Information in Tax Matters”, which was approved by the OECD council on 15 July 2014, was released by the OECD on 21 July 2014. The standard requests governments to automatically exchange detailed financial information, obtained from their financial institutions, on an annual basis (OECD, 2015b:2).

According to the OECD (2015a) the first edition of the Common Reporting Standard (CRS) Implementation Handbook was published in August 2015 and provides practical guidance to governments for the implementation of the standard. The handbook is regarded as a living document and will be updated on a regular basis (OECD, 2015a).

## **2.9 CONCLUSION**

This chapter addressed the first secondary objective, as identified per paragraph 1.5(i), by obtaining an understanding of the general background and factors underlying the taxation of HNWIs, and can be summarized as follows:

- Firstly the differences in how the four countries, identified for this study, view HNWIs are highlighted.
- The literature review in this chapter provides an overview of a number of factors that may influence taxpayers to be tax compliant or to evade tax. The research conducted over the past few years clearly indicates how complex human behaviour is and how taxpayers’ tax knowledge, norms, perceptions of fairness and motivational postures influence the taxpayer’s behaviour – to either comply or to evade tax. It is important for tax authorities to take note of these factors as it is useful information to ensure that taxpayers’ morale is influenced positively.

- The environment and risks, relating to HNWI, were considered as well as an overview of the tax risks within the HNWI segment. The psychological cost of tax evasion was considered as a strategy that can also be used to control tax evasion. It was established that HNWI do impose a higher tax risk for tax authorities due to their international mobility and the high amount of offshore assets.
- Lastly the latest studies and developments in the countering of tax evasion was considered. It was found that the focus is specifically on the development in the exchange of information agreements between countries. The importance of proper exchange of information agreements between countries were highlighted with the study of Hanlon *et al.* (2015) where it was found that the detection of offshore tax evasion is difficult in the USA as the USA relies mainly on self-reporting and does not have withholding taxes on most of the interest income and capital gains. The problems identified with offshore investments are that the process to obtain information about the entities is difficult and time consuming.

The purpose of the next chapter is to compare the systems, methods, procedures and programmes used by the four tax authorities, identified for the study, to detect and deter tax evaders among HNWI. The methods identified by the OECD (2009) with their study on the engaging with HNWI on tax compliance are also reviewed.

# **CHAPTER 3: COMPARATIVE STUDY OF THE DETECTION AND DETERRING OF TAX EVASION BY HNWIS IN THE USA, AUSTRALIA, ENGLAND, SOUTH AFRICA AND THE OECD**

## **3.1 INTRODUCTION**

The previous chapter provided details of how the four countries, identified for this study, define HNWIs. It also provided a literature review of research conducted on taxpayers' behaviour in order to establish the factors that influence tax compliance and tax evasion as well as an overview of some of the new developments in the countering of tax evasion. The reasons why the four mentioned countries were chosen for this study are set out in paragraph 1.7.

This chapter addresses the secondary research objective as identified in par. 1.5(ii) and considers the systems, methods, procedures and programmes the tax authorities have set in place in order to identify HNWIs and to detect and deter tax evasion and focus on:

- The consideration of how the tax authority deals with wealthy individuals. The reason for a review of the general actions with regard to HNWIs is to determine if tax authorities do apply the findings of the research done on the behavioural drivers of tax compliance and tax evasion when dealing with HNWIs.
- Consideration of how the wealthy individuals are identified by the tax authority.
- The consideration of the influence on the detection and deterring of tax evasion of the audits of wealthy individuals, whistle blower programmes, offshore amnesty programmes as well as exchange of information agreements.

The reason why the study focuses on a comparison of the success of audits, whistle-blower programmes, offshore amnesty programmes as well as exchange of information agreements is that the study on the psychological cost of tax evasion, discussed in par. 2.6 in chapter 2, found that taxpayers will weigh the expected cost of tax evasion against the cost of compliance and will choose the cheapest option. The mentioned study also found that the expected cost of evasion can be increased by increasing, among others, the probability of detection. Audit, the whistle-blower programme, offshore amnesty program and exchange of information agreements are all tools influencing the probability of the detection of tax evasion and that is why these programmes were chosen for the comparative study. A summary of all the findings made in this chapter is provided in table 3.5 in par. 3.7 and compares the different methods applied by each of the selected countries and the methods identified by the OECD (2009) in addressing the matter of wealthy individuals.

The tax authority of the USA, the IRS, will be considered first.

## **3.2 THE INLAND REVENUE SERVICE (IRS) OF THE USA**

### **3.2.1 General**

The IRS published their Internal Revenue Manual (IRM) on 12 August 2013. In Chapter 52 of this manual details are provided of the procedures and processes followed with the Global High Wealth (GHW) Industry (Section 1). This is a new section that was introduced into this manual on the mentioned date. The purpose of the GHW unit is to look at the overall financial picture of HNWI's, including the enterprises under its control. Controlling interest relates to material ownership of and or significant influence over an entity or entities which may consist of partnerships, trusts, sub-chapter S corporations, C corporations, private foundations and gifts. GHW consists of Workload Services (WLS) as well as field examination groups (IRM, 4.52.1.1).

### **3.2.2 The identification of GHW**

According to the IRM (4.52.1.2) the Planning, Analysis, Inventory and Research (PAIR) section of the IRS has, in line with IRM 4.1.21.2.2, the primary responsibility for the overall coordination of the annual exam plan and the identification of the workload (IRM, 4.52.1.2).

The IRM (4.52.1.2) states that the GHW is provided with an initial listing of the high wealth taxpayer population by PAIR. GHW WLS then uses computations, developed from data available from the Compliance Data Warehouse (CDW), to preliminarily assess the compliance risk on filed returns. The returns identified with the highest risk indicators will then be assessed further by WLS for possible selection for a GHW examination (IRM, 4.52.1.2).

As stated in the IRM (4.52.1.3) a detailed risk assessment process is conducted by WLS which also includes the observing of trends and consultation with industry specialists. WLS will note large, unusual or questionable items during the risk assessment for attention by the field agents. Related entities, on which high risks were identified, will be included in the building of the case. WLS risk assessors will decide whether a case will be included in inventory for assignment once the risk assessment is completed. At the time the case is allocated, a virtual case team folder is created on a secure shared drive for additional case-building, the relevant returns as well as related materials for examination (IRM, 4.52.1.3).

**Table 3-1: Forms used by the IRS to identify GHW cases, as listed in the IRM Manual – Chapter 4.52.1.3**

Form 1040	Individual Tax Return
Form 1065	Return of Partnership Income
Form 1120	Corporation Income Tax Return
Form 1120S	Small Business Corporation Income Tax Return
Form 1041	Fiduciary Income Tax Return (for Estates and Trusts)
Form 990	Return of Organization Exempt from Income Tax
Form 990PF	Return of Private Foundation
Form 990T	Exempt Organization Business Income Tax Return
Form 706	Estate Tax Return
Form 709	Gift Tax Return

The IRM (4.52.1.4) indicates that additional resources are utilised in addition to PAIR to ensure coverage of the GHW population and consist of the following:

- Referrals: Referrals are done from the field and other business units by way of a referral form on the web page of GHW. If a referral is identified as appropriate, it will be subject to the same risk assessment mentioned above. Referrals not accepted are either referred back to the group that made the referral or to the relevant Planning and Special Programmes Office.
- Whistle-blower claims: Whistle-blower claims are referred to GHW who will work with these claims according to the service-wide policy.
- Issue drive WLS may identify issues that may have a significant influence on the GHW population. Further research and analysis are done when issues are identified in order to determine if the issue is significant in the GHW population. If it is found to be significant for the GHW population, consideration will be given to a Compliance Initiative Project (IRM, 4.52.1.4).

It is stated in the IRM (4.52.1.5) that GHW field agents are located in different offices across the US. It is important that WLS provides the necessary support to ensure the efficient and effective conducting of field work (IRM, 4.52.1.5). All the documents are converted to pdf by WLS, except

for excel spreadsheets and the WLS will make these pdf files text searchable (IRM, 4.52.1.5.2). The GHW shared drive enables the sharing of information between GHW team members as well as with other functions such as technical specialists, counsel and field specialists (IRM, 4.52.1.7).

According to the IRM (4.52.1.10) an Enterprise Case Exam Plan (ECEP) must be completed during the planning stage and is an internal document which will not be sent to the taxpayer. The ECEP consists of an overview of the taxpayer together with all the entities in which he may have a financial interest. The ECEP is developed to consolidate the actions to be taken on the individual taxpayer together with all his entities. The challenge with the developing of this plan is the different returns that may be submitted as well as different filing dates and proportional ownership. The plan is in the form of an excel document which gives a summary of each examined return as well as a summary of the issues, time and agents assigned to each return that will be examined. The plan should be completed during the risk analysis stage (IRM, 4.52.1.10).

### **3.2.3 The detection and deterring of tax evaders among GHW**

#### **3.2.3.1 Audit**

The only data that could be found during this study on the performance of the Global High Wealth section were the data published by the Transactional Records Access Clearinghouse (TRAC) of the IRS on 10 April 2012.

TRAC (2012) found that, despite the fact that a limited number of audits were conducted till the middle of June 2012, the audits resulted in additional taxes to the amount of \$47 729 198 (TRAC, 2012).

**Table 3-2: Global High Wealth Audits of Taxpayers Reporting \$1 Million or More as adapted from TRAC, 2012**

	<b>FY 2011</b>	<b>FY 2012 (Five months)</b>	<b>Cumulative</b>
Additional taxes recommended	\$20,140,136	\$27,589,062	\$47,729,198
total number of audits	18	18	36
with change	14	10	24
with no changes	4	8	12
per cent no change	22%	44%	33%

TRAC (2012) reports on the insufficiency of the IRS programmes relating to GHWIs. According to TRAC (2012) it was found that 44 per cent of the GHWI “audits” only involve “correspondence audits” on which an auditor only spent on average 2.6 hours from start to finish. TRAC (2012).also found that 87.5 per cent of millionaire returns were not even examined in the 2011 FY. It appears as if the GHW programme is hampered by the very limited resources that are allocated to it (TRAC, 2012).

**3.2.3.2 The whistle-blower programme**

According to the IRS annual report to congress on the Whistle-blower Programme (2014), section 7623 (b) was created by the Tax Relief and Health Care Act (2006) and set out the framework for payments to whistle-blowers and also established the whistle-blower office within the IRS in order to administer the payments. Award-ranges are, by law, based on percentages of the collected amounts. Payments to whistle-blowers, before 2006, were discretionary. The requirements for a whistle-blower, to qualify for an award in terms of section 7623(b), are:

- Information needs to be provided that contributes substantially to the collection of taxes, penalties, interest and any other amounts, where the amounts involve more than \$2 000 000.
- The information relates to a taxpayer and in the case of an individual taxpayer, a taxpayer whose gross income exceeds \$ 200 000 for at least one of the tax years reported on (IRS, 2014:3).

According to IRS's report to Congress (2014) the main purpose of the whistle-blower office is to encourage people, with knowledge of tax non-compliance, to report such information to the IRS. The IRS does receive information from whistle-blowers of whom many claim to have inside knowledge of the transactions that they are reporting on and also often have extensive documentation to support their claims. It is a future goal to expand the programme's reach and to improve communication with existing, as well as, potential whistle blowers (IRS, 2014:1).

In the annual report to Congress (2014) it is stated that the whistle-blower office has a page on the intranet of the IRS in which it makes available information to the personnel of the IRS, provides articles for internal newspapers as well as for speakers for professional education of employees who may have to deal with whistle-blower cases. The whistle-blower office has made significant efforts to reach the general public through social media sites so that awareness can be created for the purpose of the office (IRS, 2014:5).

The current IRS Commissioner since 23 December 2013, John Koskinen, issued a statement on the whistle-blower programme in August 2014 in which he stated that it was an important tool for improving tax administration and that the office had the potential to assist the IRS in detecting non-compliant cases and help to ensure the integrity and fairness of the tax system of the IRS. According to the Commissioner, average taxpayers must have trust in the IRS tax system that corporations and wealthy individuals will pay their fair share of taxes (IRS, 2014:1).

The IRS stated in the annual report to congress (2014) that payments to whistle-blowers are only made when the taxpayer has exhausted all appeal rights and when the statutory period for the filing of a claim for a refund has expired or has been waived by the taxpayer. This means that the IRS will normally not make payments to whistle-blowers within five to seven years after a claim has been submitted (IRS, 2014:1).

According to IRS' annual report to Congress (2014) there has been a steady growth in the whistle-blower office with regard to both staffing and claims that were submitted. In the beginning of the 2014 fiscal year (FY), the office was staffed with 40 employees, which included 17 senior analysts with decades of experience in a broad spectrum of the compliance programmes of the IRS. The IRS office has also appointed a senior attorney to serve as a Special Counsel to the director of the whistle-blower office (IRS, 2014:5).

According to the annual report to congress of the USA Securities and Exchange Commission (USSEC) in 2014, information was received during the 2014 FY from 378 informants who are resident outside the USA. Of the 378, 70 were from the UK, 29 from Australia and three from South Africa (USSEC, 2014:29).

**Table 3-3: Amounts collected and awards paid under Section 7623 FY 2010-2014, as adapted from the IRS' FY 2014 report to the Congress:21).**

	2010	2011	2012	2013	2014
Awards Paid	97	97	128	122	101
Collections over \$ 2 000 000	9	4	12	6	9
Total amount of awards paid	\$18 746 327	\$8 008 430	\$125 355 799	\$53 054 302	\$52 281 628
Amounts collected	\$464 695 459	\$48 047 500	\$592 498 294	\$367 042 420	\$309 990 568
Awards paid a percentage of amounts collected.	4%	16.7%	21.2%	14.6%	16.9%

It is difficult to interpret the awards paid as a percentage of the amounts collected as the year in which an award is paid is normally not the year in which the collection occurred, as the IRS must wait until the taxpayer's appeal rights have been waived or exhausted (IRS, 2014:1).

### **3.2.3.3 The off shore amnesty programme**

According to the IRS (2012) an offshore voluntary disclosure programme (OVDP) was started in January 2012, and has since been modified and is currently known as the 2014 OVDP. The 2014 OVDP is a continuation of the 2009–2012 amnesty programmes due to the success they had with these programmes. According to the frequently answered questions on the OVDP (2015c) the OVDP is open ended but the IRS states that it can be ended at any time. The new OVDP, implemented in January 2012, involved higher penalties than the previous programmes but gives taxpayers specific benefits to encourage disclosure of all undisclosed and assets, including those that may be held through separate entities under their control, foreign accounts in order to protect them from the risk of detection by the IRS and also possible criminal prosecution (IRS, 2015c). The value of these programmes is the standard penalty structure that was set for people making a declaration in terms of the OVDP (IRS, 2015c).

According to the client alert column of Latham and Watkins (2014:1), a tax controversy group, the IRS has announced major amendments to the OVDP of the IRS. Until 24 June 2014 more

than 45 000 USA taxpayers have taken up the programme to make a disclosure while the programme yielded approximately \$6.5 billion in revenue for the USA government (Latham & Watkins, 2014:1).

According to Latham and Watkins (2014:1) Commissioner Koskinen stated that there is an ongoing amnesty programme for Swiss Banks as well as the implementation of the global banking transparency through the Foreign Account Tax Compliance Act (FATCA). Recent revisions to disclosure programmes were done to pressure those taxpayers, who illegally hid assets overseas and failed to declare it. The IRS Commissioner did mention to Latham and Watkins (2014) that the days of hiding assets and accounts overseas are coming to an end (Latham & Watkins, 2014:1).

#### **3.2.3.4 Exchange of information agreements**

An International Data Exchange Service (IDES) was established by the IRS. IDES will be utilised by financial institutions and the tax authorities of host countries to securely send information under FATCA on financial accounts that USA persons may hold (IRS, 2015b:1).

According to the IRS (2015b) registrations of more than 145,000 financial institutions have already been done through the IRS FATCA Registration System. IRS Commissioner Koskinen stated in January 2015 that the secure system for the transfer of information is the start of standardized changing of information between governments which will enhance the governments' ability to detect hidden accounts and to ensure fairness in the tax systems (IRS, 2015b:1).

#### **3.2.4 Conclusion on the IRS**

In conclusion it appears as if the GHW unit of the IRS might, at this stage, not be on the same level as that of the ATO and HMRC. The following have, however, been identified as good practices:

- The use of WLS to convert documents, except for excel files, to pdf format and to make it available on a shared folder so that the information is readily available to all field audits, wherever they may be situated as well as to other functions such as technical specialists, counsel and field specialists;
- The whistle-blower programme, in terms of which informants are rewarded for useful information once a taxpayer has used all his appeal rights, seems to be a good source of information on tax evasion as can also be seen from the collections from this programme, and the number of non-resident informants;

- The 2014 OVDP, where the IRS mentioned, that although there may not be a closure date, the terms and conditions can change at any stage, as well as by setting standard penalties for disclosures made in terms of the OVDP and
- The establishing of the IDES in terms of which financial institutions and tax authorities of host countries can securely send information on accounts that USA persons may hold as is required by FATCA.

The systems, methods, procedures and programmes, used by the IRS, to detect and deter tax evasion by wealthy individuals, are compared with the other three countries of this study and the OECD in Table 3.5 in par.3.7.

The way in which ATO deals with wealthy individuals will be considered next by specifically focussing on how they deal with and identify wealthy individuals and how they detect and deter tax evasion among these individuals by audits, whistle-blower programmes, offshore amnesty programmes and the exchange of information agreements.

### **3.3 THE AUSTRALIAN TAX OFFICE (ATO)**

#### **3.3.1 General**

According to the ATO's report on wealthy Australians and voluntary compliance (2014b) the ATO already started to focus on wealthy individuals in 1996 but started with a service orientation in addressing these individuals in the 2009-2010 year to focus on ways to improve voluntary tax compliance of wealthy Australians. The ultimate goal of the ATO is to influence wealthy Australians to voluntarily comply and pay their fair share of tax. Australia classifies wealthy individuals as high wealth individuals (HWI's) (ATO, 2014b:1).

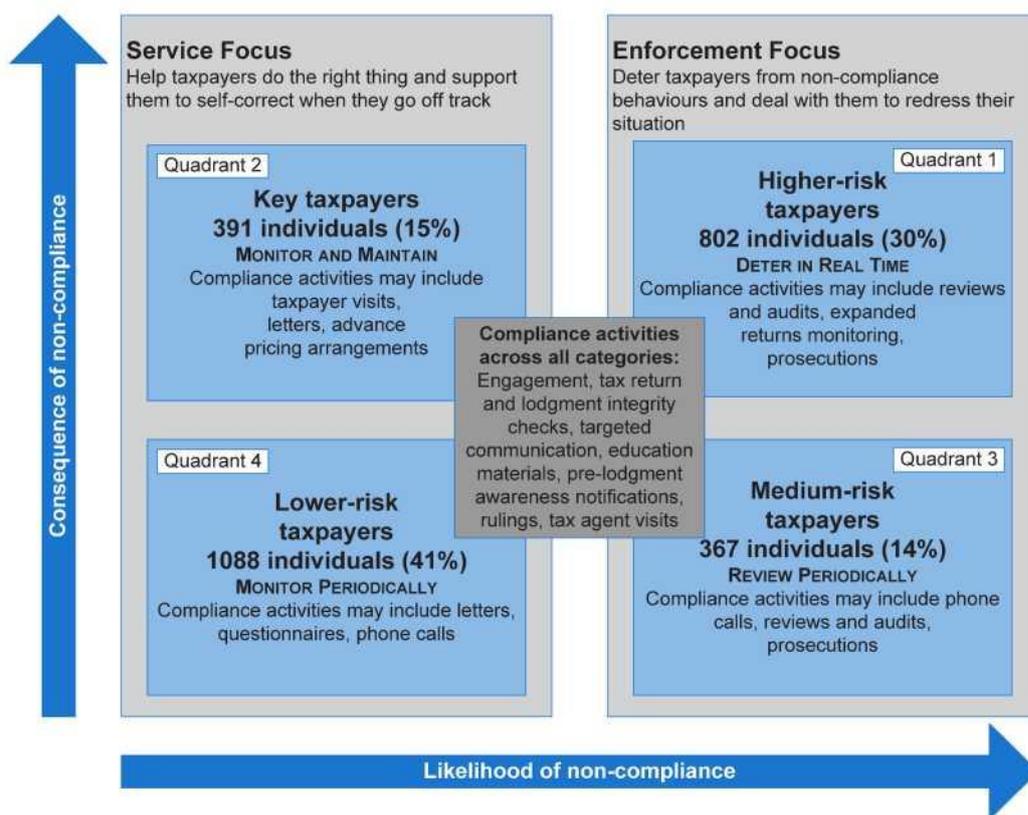
According to the ATO's report on wealthy individuals (2014b) the ATO's strategy to influence wealthy Australians includes the following:

- Ensure a better and more detailed understanding of wealthy individuals in general by focussing on areas of concern for these taxpayers and working with them on their tax affairs.
- Address systematic risk.
- Ensure higher visibility of the ATO in the community with education.
- Building expertise of staff and systems to be able to provide service-focussed interactions (ATO, 2014b:1).

According to a report issued by the Australian National Audit Office (ANAO) on the managing of compliance of high wealth individuals (2014) the ATO recognises that, although the HWIs may consist of a relatively small number of individuals, they are a key population group for the ATO in terms of revenue that are collected from them. The report states that approximately 2 600 HWIs and 3 700 potential HWIs by 2013 were identified by the ATO and that the ATO had reported the collection of over \$3 billion in additional revenue from compliance activities that were conducted since 1996 (ANAO, 2014:14-15).

### **3.3.2 The identification of HWI cases**

According to the ANAO's report (2014) the ATO's HWI compliance strategy is a risk-based management approach where compliance activities are determined according to the risks that HWI's pose to the tax system. The ATO has used several assessment tools, including risk engines, data mining and analytical models, since 2004, in order to automate the identification and risk assessment of the HWI population. The Risk Differentiation Framework (RDF) is the most recent tool and is central for the HWI compliance strategy. Despite shortcomings in the RDF, 94 per cent of all cases, that were selected for compliance intervention, between 2009 and 2013, were identified through the RDF. It was, however, found that the RDF is not always effective to identify higher risk cases. The ATO will continuously assess the reliability of the RDF to effectively differentiate risk in the HWI population. In order to be able to do this, the ATO needs to analyse the outcomes of compliance activities in order to assess the effectiveness in the identifying of risks as well as to assess the validity of the identified risks (ANAO, 2014:16-18).



**Figure 3-1: The Risk Differentiation Framework for HWIs, 2013 as adapted from ANAO, 2014:20.**

The ANAO (2014) found that the Government allocated additional funding to the amount of \$390 million in the 2012-2013 Mid-Year Economic and Fiscal outlook, to the ATO for the furthering of compliance activities. An amount of approximately \$37 million was approved for the implementation of a new strategy, *Engaging newly identified HWI's*, which will aim to ensure that the newly identified HWI's meet their tax obligations (ANAO, 2014:16).

### 3.3.3 The detection and deterring of tax evaders among HWIs

#### 3.3.3.1 Audit

According to the ANAO (2014) the ATO had an active HWI compliance focus in the form of audits and risk reviews of more than 90 per cent of the identified population between 2009-2010 and 2012-2013. \$852 million was collected as a result of these compliance activities of which \$671 million was from audits and \$ 181 million from risk reviews. It was, however, found that over the four-year period, 90 per cent of the cash collected was from only twelve per cent of the audits and five per cent of the comprehensive risk reviews that were done. It was however found that 70 per cent of the audits and 84 per cent of the risk reviews had no financial outcome

which indicates that there is scope for the ATO to improve its risk assessments. It was also found that taxpayers have objected to approximately 65 per cent of the audit cases completed during 2011/2012 and 2012/2013 and that half of the objections were adjusted in favour of the taxpayer. It was found that more than 50 per cent of the objections allowed or settled were the result of incorrect original compliance decisions or as a result of a changed interpretation to the tax law by the ATO (ANAO, 2014:17-18).

The ANAO (2014) identified that the ATO has developed a formal review process of existing risk rules in order to identify new rules and has developed five measures to review the risk assessment process. These five measures consist of the following:

- The strike rate, which refers to the number of audits conducted that yielded a result to the total number of audits;
- Escalation rate which refers to cases referred for further investigation;
- “No further action” cases, which refers to cases for which no further action is required and which had no financial result;
- Cases identified by the RDF and validated by the National Case Selection panel as valid risk cases.
- The risk rule confirmation cases which refer to the ratio of cases accepted for compliance activities to the total number of cases identified by the RDF (ANAO, 2014:23).

According to the ANAO (2014) it is important for the ATO to determine where the most effective compliance effort should be directed to as the ATO has to work with reduced resources. Currently the ATO determines its return on investment by dividing the total amount of assessments, issued through HWI compliance work, by the average salary of the involved compliance staff. A more accurate method will perhaps be to rather use the amount of cash collected through the compliance activities by the average salary of the compliance staff (ANAO, 2014: 23).

The ANAO (2014) stated that the ATO has been using a compliance effectiveness methodology (CEM) since 2008 to measure the impact of compliance strategies on specific compliance risks. A CEM evaluation was done on the ATO’s HWI compliance activities in the 2008, 2009 and 2012 years. None of these evaluations reached a firm conclusion with regard to the effectiveness of compliance activities used to address HWI’s risks. According to the report of the ANAO (2014) it is important for the ATO to do compliance effectiveness evaluations in order to identify more substantial opportunities to improve risk assessments, case selection and active compliance strategies (ANAO, 2014:25-26).

### **3.3.3.2 The whistle-blower programme**

According to the website of the ATO (2015) with regard to the tax evasion centre, the ATO has a Tax Evasion Referral Centre, which can be contacted by phone, the completion of an online form, facsimile or e-mail. Once information is received the centre distributes it to the ATO compliance areas to consider. The information is stored in internal records and collated in reports. The information received is also used to determine trends in the different industries, to identify new risk areas and to assist in the developing of strategies for compliance. The outcome of the investigations are not communicated to the informants due to the privacy law and taxation confidentiality law, but information can be shared with overseas treaty partners in terms of international tax agreements as well as other government agencies where the privacy and taxation confidentiality law allows it (ATO, 2015).

The ATO does, however, not reward whistle blowers. According to USSEC's report on the whistle-blower programme in the USA (2014) 29 people, based in Australia, contacted the USSEC with tip-offs during the 2013-14 years which is almost double the number of 15 people in the 2012-13 year. Australia is ranked in the top five foreign countries with tip-offs to the IRS in the 2013-14 year (USSEC, 2014:22).

According to Williams (2014) the results published by the USSEC (2014), led to a number of groups, experts and the Australian Securities and Investments Commissions itself, calling for reforms in the way that the Australian Securities and Investments Commissions deals with whistle-blowers, which is not in line with what is regarded as international best practice (Williams, 2014).

### **3.3.3.3 The off shore amnesty program**

The ATO issued a media declaration on 27 March 2014 stating that taxpayers, having international tax liabilities, need to make use of the amnesty programme which came to an end on 31 December 2014. The Commissioner of the ATO specifically warned taxpayers that the ATO had made significant progress in the collection of offshore tax revenue due to better international cooperation. He reported that the ATO received, during the previous year, an increased amount of information based on requests by the ATO. The information received resulted in the issuing of assessments of around \$ 480 million (ATO, 2014a).

Malone (2015) wrote about tax evasion by the super-rich which hurts every Australian. Malone (2015) provides information about the success of the ATO's amnesty programme which ended in December 2014. It is stated that more than 5 000 came forward of which 1 750 of the reports were processed by the ATO on which income of \$ 240 million and \$ 1.7 billion worth of assets were found. Included in the 1 750 of the individuals processed, 110 are on the ATO's list of the

2 800 wealthiest individuals in Australia. An estimation of the final processing of the disclosures is that more than \$ 600 million income and more than \$ 4 billion in assets will be disclosed. Malone (2015) further states that the generous amnesties offer, in terms of which only the last four years' income will be assessed with a maximum shortfall penalty of 10 per cent and no criminal prosecutions, are not the only reason why some individuals decided to come clean. It is also because the ATO revealed in March 2014 that it had an informant who provided the ATO with details of Swiss Bank accounts of Australians (Malone, 2015). The information provided by Malone in his article, is confirmed by the ATO with their media declaration on 27 March 2014, in which it was stated that the ATO names the offshore amnesty programme the "Project Do It"– disclosure offshore income today. In this declaration the commissioner of the ATO confirmed that hidden income will be found with enhancements in the exchange of information mechanisms as well as with other intelligence and compliance activities which are done on a continuous basis (ATO, 2014a).

#### **3.3.3.4 Exchange of information agreements**

According to information posted by the ATO (2014c) on tax information exchange agreements, Australia has a number of Transfer of Information and Exchange Agreements (TIEAs) with other offshore financial jurisdictions (ATO, 2014c).

According to the ATO (2014c) the benefits of TIEAs at an international level are:

- High standards are maintained for the collection of information on a taxpayer, as well as in the promoting of transparency and good governance.
- Criminal activities are combatted and increased stability in the financial sector is created.
- The jurisdiction's reputation as a legitimate offshore entity is promoted.
- Assistance is provided for the integration of the offshore financial centre jurisdiction into the international financial system and global population (ATO, 2014c).

The ATO (2014c) identified the following benefits of TIEAs for Australia:

- The improving of the integrity of the tax system and protecting the tax base of Australia by providing access to offshore information.
- Provide protection from unfair competition between tax compliant businesses and individuals and individuals who evade their tax liabilities.

- Provide an important deterrent against offshore tax evasion or tax avoidance agreements (ATO, 2014c).

### **3.3.4 Conclusion on the ATO**

Australia already started to focus on wealthy individuals in the 2009-2010 year, the same as England, while the IRS only publishes the IRM on GHWI's in 2013. South Africa does not have a separate HNWI unit, but does have a large business office which deals with the larger entities. HNWI's are, however, included in SARS' compliance programme. Australia is one of the leaders with their compliance programme for HWI's.

The following have been identified as good practices:

- The use of the RDF to identify risks in the HWI's unit. The ATO's compliance programme is well supported by Government as can be seen from the additional funds allocated for the furthering of the ATO's compliance activities. The ATO does compliance effectiveness evaluations in order to identify improved risk assessments, case selection and compliance strategies.
- The Tax Evasion Referral Centre is not as successful as the whistle-blower programme of the IRS and there were already pleas for a reform of the whistle-blower programme in Australia.
- The ATO used the media effectively in the marketing of the offshore voluntary amnesty programme and made certain taxpayers are aware of how much easier it is recently to detect hidden income due to the increased number of exchange of information between countries globally.
- The concluding of TIESs with a number of the tax haven countries did have a positive effect on the protection of the tax base in Australia as well as to ensure there is no unfair competition between tax evaders and the tax compliant.

The systems, methods, procedures and programmes used by the ATO to detect and deter tax evasion by wealthy individuals, are compared with the other three countries of this study and the OECD in Table 3.5 in par.3.7.

The way in which Her Majesty' Revenue and Customs (HMRC) deals with wealthy individuals is considered next by specifically focussing on how they deal with and identify wealthy individuals and how they detect and deter tax evasion among these individuals by audits, whistle-blower programmes, offshore amnesty programmes and the exchange of information agreements.

## 3.4 THE HMRC OF THE UK

### 3.4.1 General

According to the report of the HMRC on how they deal with wealthy individuals (2014b) the HNWI Unit was incorporated by the HMRC in 2009 and has improved the way in which the HMRC has been handling the tax affairs of the wealthiest taxpayers. The HNWI unit has more than 400 specialists (GOVUK, 2014b).

According to a briefing issued by the HMRC (2014a) on tax evasion in the UK the HMRC has identified a wide range of activities used to detect and deter non-compliant taxpayers and also to support those who need assistance to get their tax affairs in order. This includes compliance work across all the taxes and duties administered by the HMRC, including:

- The use of campaigns, via letters, adverts and social media, to try and persuade specific traders and professionals to settle their taxes voluntarily and to take immediate action against those who don't. £4 million was raised in 2013 with a campaign aimed at people trading in online market places of which £1 million was from a single doctor.
- A publicity campaign aimed to increase the perception that taxpayers will be caught if they evade their taxes. Billboards and radio advertisements are used across the UK to carry a message that the HMRC is focussing attention on the detection of under-declared income.
- The use of offshore agreements with other countries in order to ensure information is received of taxpayers hiding income in offshore accounts.
- Ensure that known tax evaders are placed under close scrutiny of the team named as the Monitoring Serious Defaulters team, for a period of five years.
- The naming of deliberate tax offenders publicly. A list of people is published where inaccurate documents were deliberately given or where there was failure to comply with rules and there is a tax risk of more than £25 000.
- The issuing of more than 5 000 financial penalties in the case of deliberate non-compliance. These penalties are between 20 and 70 per cent of the extra tax due.
- Expanding specialist teams to deal with tax evasion by wealthy taxpayers and increasing the number of specialists to tackle evasion and fraud with 2 500 by 2014-2015.
- Using hi-tech data analysis tools to help identify high-risk cases.

- Analyse credit and debit card payment information of the companies that process card payment transactions with the use of Connect, an analysis system of HMRC, to identify fraud and evasion (GOVUK, 2014a).

### **3.4.2 The identifying of HNWIs**

According to the HMRC (2014b) a customer relationship manager (CRM) has specifically been assigned to each of the wealthy individuals and has a detailed knowledge of their tax affairs and also deals closely with the tax advisers and agents. An “early certainty letter” is sent to the wealthy individuals considered to fully comply with their tax obligations. The specific CRMs assigned to the wealthy individuals work closely with the wealthy individuals, and it enables the HMRC to focus more time and effort on those identified as posing a significant risk through tax avoidance and evasion. Direct action is taken against those who fail to submit tax returns and those who submit incorrect tax returns (GOVUK, 2014b).

According to the report on wealthy individuals of the HMRC (2014b) the unit has a number of specialist teams consisting of the following:

- Finance team - focusses on individuals in the finance sector like hedge funds, private equity and banking entities.
- Rising Star Team – deals with individuals identified to be falling in the definition of wealthy individuals within the following few years.
- Business Investment Tax Relief Team – deals with claims for Business Investment Tax Relief from non-resident individuals who want to invest in UK businesses.
- Analysis and Intelligence Unit – uses data and analysis to ensure the HMRC understands the behaviour and financial structures of wealthy individuals and also what they are interested in.
- Dispute Resolution Team – ensures that disputes between the HMRC and wealthy individuals are resolved (GOVUK, 2014b).

According to appendix five, the preventing avoidance and evasion by wealthy individuals, of the 2010-2015 policy regarding the reducing of tax evasion and avoidance in the UK, published by the Government of the United Kingdom (GOVUK, 2015b), the HMRC's Wealth Unit will be expanded with 100 additional investigators. Additional risk and intelligence staff will also be appointed to identify and deal with tax avoidance and evasion by the wealthiest individuals. The number of specialist personal tax investors will also be increased in order to concentrate, in particular, on agents and tax intermediaries involved in tax evasion and avoidance schemes

with the use of offshore trusts, bank accounts and other entities. A new centre of excellence was set up in the HMRC to ensure that expertise, dealing with offshore evasion, are brought together and improved (GOVUK, 2015b).

According to appendix five, specifically the part on the use of data and new technology, indicates that the analytical computer system of HMRC was also improved so that fraudulent behaviour can be identified and investigated quickly (GOVUK, 2015b).

In a new development in the identification of tax evaders the HMRC (GOVUK, 2015c) is investigating the extension of data-gathering powers in the hidden economy. The hidden economy is described as the businesses who fail to register for tax and also include individuals who don't declare all sources of income. According to the HMRC's consultation document (2015c) the HMRC estimated a loss £5.9 billion in the 2012-2013 year due to the hidden economy. The HMRC proposes an extension of its powers in order to be able to obtain information of the value of transactions as well as the names and addresses of sellers, advertisers and app developers operating on a variety of online platforms. The information gathered in this way can then be compared against data that the HMRC already has (GOVUK, 2015c:4).

### **3.4.3 The detection and deterring of tax evaders among HNWI**

#### **3.4.3.1 Audit**

According to the report of the HMRC on how they deal with wealthy individuals (GOVUK, 2014b) £1 billion in additional revenue had been collected by the HNWI unit since 2009 against a target of £894 million, of which £85 million was already collected during the first year of operation of the HNWI unit. Additional revenue of £268 million was brought in from 2013 to 2014, which was a 20 per cent increase against the previous year. An increase was also observed in the timeous filing of returns by HNWIs. In the five years the outstanding returns of wealthy individuals reduced from 11.9 per cent to 3.4 per cent (GOVUK, 2014b).

**Table 3-4: The additional revenue collected by the HNWI unit (GOVUK, 2014b).**

Year	Additional revenue	Target
2009 – 2010	£85 million	£80 million
2010 – 2011	£162 million	£153 million
2011 – 2012	£200 million	£195 million
2012 – 2013	£222 million	£200 million
2013 – 2014	£268 million	£210 million

### **3.4.3.2 The whistle-blower programme**

A form is available on the website of the HMRC to report a tax offence by way of the HMRC's fraud hotline by any person who may be aware of any tax avoidance or evasion. The HMRC also pays whistle-blowers but does not publicise how payments to informants will be done (GOVUK, 2015e).

According to Fuller (2015) the law firm Reynolds Porter Chamberlain (RPC) reported that a record amount of £605 000 in awards was paid by the HMRC to tax whistle-blowers in the year to 31 March 2015, which is an increase of 50 per cent on the previous year's amount of £402 000. The sharp rise in payments is attributed to a greater awareness by the public of the HMRC's pursuit of tax evaders. There is no specific rate for informants in the UK. According to the article an HMRC spokesperson said cash awards in the UK are discretionary and are based on what is brought in as a direct result of the information that had been provided (Fuller, 2015).

### **3.4.3.3 The off shore amnesty programme**

The HMRC (2015d) has four main disclosure facilities, which end on 31 December 2015, and which consist of the following:

The Liechtenstein Disclosure Facility (LDF) which is available to anyone who owned an offshore asset on 1 September 2009 and hold investments in Lichtenstein on the date they register for the LDF. The requirements of this facility are a disclosure and payment of all outstanding tax liabilities from 1999 must be made and in return the HMRC:

- Will not prosecute, as long as a full disclosure was made.
- The penalty will be limited to ten per cent for all years before 2009.
- No tax has to be paid for years before 1999.

- There will be an option to pay the tax at a single tax rate on all income.
- Will ensure that matters are dealt with as quickly as possible (GOVUK, 2015d).

The three remainder disclosure facilities consist of facilities for the three British Crown dependencies, namely:

- Isle of Man.
- Guernsey.
- Jersey.

These facilities are available to anyone who owned an asset in the relevant territory for any time between April 1999 and 31 December 2013 and is applicable to tax under declared during the tax periods ending on or after 6 April 1999. A requirement is that payment of the total tax liability disclosed must be made within 30 days of the disclosure application (GOVUK, 2015d).

#### **3.4.3.4 Exchange of information agreements**

According to the HMRC's website on the automatic exchange of information agreements offshore agreements with other countries' tax authorities are used as a source to obtain information on money that is hidden overseas (GOVUK, 2014b).

The Society of Trust and Estate Practitioners (STEP) (2015), the worldwide association incorporated in England and Wales, which advises families and family businesses across the world, stated that the *International Tax Compliance Regulations 2015* implemented three separate international agreements of which one is the UK's agreement with the USA regarding the USA Foreign Account Tax Compliance Act (FATCA). The new regulations, which were enacted as Statutory Instrument 2015/878, empower the HMRC to force financial institutions in the UK to disclose information about client's accounts. This information will also be sent annually to the other parties to the agreements and consist of the USA, 27 EU member states and the non-EU signatories to the OECD Common Reporting Standard System (CRS). The financial institutions will have to ensure that they have effective procedures and systems to identify account holders who are not UK-residents. They will also have to determine each client's tax residency so that their bank account information can be forwarded to the correct country. The HMRC will also receive information from the other signatory jurisdictions which will enable them to counter tax evasion by resident taxpayers of the UK. As from 1 January 2016 the financial institutions in the UK will have to compile information about all bank accounts that existed on 31 December 2015 and will have to report all new bank accounts that are opened on or after 1 January 2016 to the HMRC from the 2017 year (STEP, 2015).

According to a fact sheet issued by the HMRC (2013) the UK has also signed an agreement on 6 October 2011 with Switzerland. This agreement came into effect on 1 January 2013. In terms of this Tax Cooperation Agreement taxpayers will be able to make a once-off payment on 31 May 2013 of all past unpaid tax liabilities and or a withholding tax on income and gains. Instead, the taxpayers can just authorise their bank or paying agent to provide the HMRC with details of their Swiss assets in which instance there will be no payment and no withholding tax. The once-off payment will only clear the tax liabilities with regard to assets which were included in amount of capital used to calculate the payment amount. The purpose of the agreement is to establish an effective mechanism for the HMRC to recover previously unpaid UK tax revenue in respect of assets situated in Switzerland (GOVUK, 2013).

Taxpayers will be able to avoid withholding tax if they authorise their bank or paying agent to disclose details of their Swiss assets to HMRC. If this authorization is not provided, future income and gains, arising on those assets, will be subject to withholding tax. If a UK resident, who is the beneficial owner of a Swiss account, dies, 40 per cent of the balance of the account will be payable as tax unless the Swiss authorities are instructed to provide the UK with details of assets that will form part of the deceased UK resident's estate (GOVUK, 2013).

#### **3.4.4 Conclusion on the HMRC**

The HMRC already started to focus on wealthy individuals in the 2009 year, just like the ATO. The Government of the UK supports this initiative as can be seen from the expansion of the HMRC's wealth unit with 100 additional investigators as well as the appointment of additional risk and intelligence staff to deal with tax avoidance and evasion by wealthy individuals. This is similar to the support the ATO receives from the Australian Government.

The following have been identified as good practices:

- The wide range of activities used to detect and deter non-compliant taxpayers, especially how they use the media to create awareness of work that the HMRC does in order to identify and address tax evasion. Also the use of CRM's to deal with the wealthy individuals and through whom tax evaders are more easily detected.
- The Tax Evasion Referral Centre is not as successful as the whistle-blower programme of the IRS although it is also yields some good results despite the fact that there are no clear information available of how awards will be paid to whistle blowers.
- The HMRC publishes their offshore amnesty programme and the due date for it is currently 31 December 2015.

- The participating with other countries with regard to the exchange of information especially the one with Switzerland where there is a 40 per cent withholding tax in instances where information on assets in Switzerland is not provided to the HMRC.

The systems, methods, procedures and programmes, used by the HMRC, to detect and deter tax evasion by wealthy individuals, are compared with the other three countries of this study and the OECD in Table 3.5 in par.3.7.

The way in which the South African Revenue Service (SARS) deals with wealthy individuals will be considered next by specifically focussing on how they deal with and identify wealthy individuals and how they detect and deter tax evasion among these individuals by audits, whistle-blower programmes, offshore amnesty programmes and the exchange of information agreements.

### **3.5 SOUTH AFRICAN REVENUE SERVICE (SARS) OF SOUTH AFRICA**

#### **3.5.1 General**

According to SARS' compliance programme for 2012-2013 to 2016-2017 SARS acknowledges that wealthy individuals value their reputations and wealth preservation and that time is precious for them and that they value risk management. This group of taxpayers is a significant contributor to the state's revenue in contributing an average of R1.7 million each. It was found that under-declared income is of the most serious concerns in instances where a person's asset base is not in line with the declared income (SARS, 2012:10).

According to SARS (2012) the reviews done on wealthy South Africans revealed that most of these individuals are linked to more than ten associated companies of which, on average, 87 per cent of the associated companies and 59 per cent of the trusts have outstanding tax returns (SARS, 2012:10).

#### **3.5.2 The identifying of HNWI cases**

SARS has a credible and comprehensive database of HNWIs which were identified with the use of comparative data and third-party information with regard to property, trusts, motor vehicles and financial transactions (SARS, 2012:9).

In a preliminary exercise performed on HNWIs it was found that there are in some instances inconsistencies between the declared incomes and the asset base. Until 2012, 467 potential wealthy individuals were identified where discrepancies were found in the declared income and will be scrutinized more closely by SARS (SARS, 2012:10).

According to SARS (2012) its strategy regarding wealthy individuals consists of a number of initiatives which will assist in the identifying of these individuals and consist of the following:

- The International Exchange of Information programme which will be used to increase data flows from other jurisdictions.
- Collaboration with the Master's Office, with regard to the administration of trusts, will be improved especially with regard to the obtaining of information electronically and uniformly as well as to obtain complete information on trustees and beneficiaries.
- Improve the ability to trace the flow of funds around the world through a multi-agency approach and to review how to best leverage "industry" norms and benchmarks.
- Ensuring the registration of wealthy individuals not on the tax register.
- Moving to more pre-filing meetings with taxpayers based on real-time data.
- Improving the rulings section and persuading taxpayers to make more use of advance rulings.
- Reviewing the outlay of the tax return of trusts as well as wealthy individuals.
- Expanding audits and investigations by obtaining and using more third party information which may include questionnaires regarding the lifestyle and related parties of taxpayers.
- Ensuring audits focus on individuals where discrepancies between income and asset base were identified.
- Encouraging taxpayers to make voluntary disclosures and to make sure they know the risk they take if they don't do it (SARS, 2012:11).

### **3.5.3 The detection and deterring of tax evaders among HNWI**

#### **3.5.3.1 Audit**

According to SARS (2014) almost 80 audits were conducted on wealthy individuals during the 2013/2014 financial year – coverage of 2.6 per cent. A success rate of 94 per cent was achieved with these audits and assessments of R348.8 million were raised and debt of R106 million recovered. Audit operations and the Large Business Centre (LBC) conducted a further 20 audits on trusts associated with HNWI. These audits had a success rate of 83 per cent and assessments of R33.6 million were raised and R1.1 million collected (SARS, 2014:36).

Six criminal cases involving wealthy South Africans were referred by SARS to the National Prosecuting Authority (NPA) for prosecution. The total loss of revenue for SARS with these cases is R8.8 million (SARS, 2014:36).

### **3.5.3.2 The whistle blower-programme**

SARS does not reward whistle-blowers, but does have a corruption hotline and an online suspicious activity report form available on its website for persons who want to report a tax crime. The website clearly states the information needed of the suspect namely, the identity number, tax number or car registration number. It also requires the informant to indicate if the crime relates to business tax, personal tax or customs. The person reporting the offence has the choice to remain anonymous. It is clearly stated on the website that no feedback will be given because of the confidentiality rules determined by the Tax Administration Act (TAA) no. 28 of 2011 (SARS, 2013b).

The items listed by SARS (2013b) to report on are:

- Where a person or business is eligible for tax but is not paying tax in any form.
- Where a person or business deducts PAYE from employees but does not issue IRP5 certificates to the employees.
- Where imported goods are sold at a price less than what it would cost to purchase the goods, pay VAT and import duty and to transport the goods.
- Where a person or business is not submitting tax returns to SARS although required to do so.
- Where a person displays an unusually high life style compared to a person with similar income.
- An importer who on more than one occasion is found to not declare or under-declare goods upon importation.
- The entering of a Voucher of Correction more than once by an importer or exporter.
- The importation or exportation of illicit goods by an importer or exporter.
- A person or business suspected of being in the possession of mixed fuel.
- A person found to be having unusual large amounts of cash, in any form, when travelling in or out of South Africa.
- A person or business that is suspected of trading in counterfeit goods.

- A person or business who frequently uses the common 7070 customs code on the Bill of Entry when importing or exporting goods.
- A person or business earning income from an activity of a criminal nature.
- A person or business claiming fraudulent VAT refunds.
- Any customs warehouse of which irregularities are suspected.
- Businesses or persons involved in structure financing.
- A person or business owing SARS money and not paying it.
- A person who is not submitting a truthful return to SARS (SARS, 2013b).

### **3.5.3.3 The off shore amnesty programme**

The SARS amnesty programme is administered under sections 225–233 of the Tax Administration Act. 28 of 2011(TAA) from 1 October 2012, and is continuous with no closing date. The amnesty programme is available to any individual or company who wants to get their tax affairs in order. There is no specific offshore amnesty programme with a closure date (SARS, 2015b). According to the annual report of SARS (2014:59), the VDP, established with the TAA in 2012, yielded R 1.2 billion since in corporation.

The requirements to participate in the amnesty programme, as stated by SARS on the website, are the following:

- It must be voluntary.
- It must relate to a default not previously reported by the taxpayer or his representative.
- It must be full and complete in all major aspects.
- It must relate to a default in terms of which understatement penalties could be levied.
- It must not have the result of a refund due by SARS.
- It must be made on the prescribed form and in the prescribed manner (SARS, 2015b).

The amnesty programme is also mentioned on SARS's website with information on exchange of information agreements. SARS specifically mentions that South African residents, who have not regularised their offshore holdings, should contact the Voluntary Disclosure Programme Unit (SARS, 2015b).

### **3.5.3.4 Exchange of information agreements**

According to the SARS (2015a), the Exchange of Information Conventions, Agreements and Standards can be divided into four categories, namely:

- FATCA, of the USA, Intergovernmental Agreement.

- Multilateral Mutual Administrative Assistance (MAA) Conventions or Agreements.
- Bilateral Tax Information Exchange Agreements (TIEAs).
- Standard for Automatic Exchange of Financial Account Information in Tax Matters (CRS) (SARS, 2015a).

The Common Reporting Standard (CRS) is a standardised automatic exchange of information model, developed in the context of the OECD and is building on the Foreign Account Tax Compliance Act Intergovernmental Agreement (FATCA IGA) of the USA. This model's purpose is to maximise efficiency and minimize cost and is now applicable to all foreign held accounts, not only those of USA citizens. South Africa is one of the first countries to adopt the CRS. Automatic exchange of information on a wider front will be done from 2017 together with 90 other jurisdictions. The reason for CRS is that countries recognise that the most efficient way to address offshore tax evasion, while also minimizing costs of governments and financial institutions, is with the approach of automatic exchange of information. The primary enabling legislation for the CRS is the TAA. This means that the TAA will have to be amended to ensure that financial institutions are compelled by tax law to report on all account holders and controlling persons, irrespective of the fact that South Africa has an international tax agreement with their jurisdiction of residence (SARS, 2015a).

SARS will have to do the following to implement the CRS:

- The transporting and due diligence rules will have to be translated into South African law.
- A legal basis will have to be selected for the exchange of the information.
- The necessary infrastructure will have to be created to provide for the administrative and computer infrastructure.
- Confidentiality of data will have to be protected and safeguarded (SARS, 2015a).

#### **3.5.4 Conclusion on SARS**

SARS does not provide full information of how they deal with HNWIs specifically as it appears as if they do not have a section specifically dealing with HNWIs although HNWIs form part of SARS' compliance programmes and the annual report does provide feedback of success with HNWIs compliance activities. SARS is also participating in the exchange of information agreements although they are just an observer to the OECD and not a member.

The following have been identified as good practices:

- It is difficult to evaluate the success of the SARS hotline as no data could be found of the success of the line. SARS does, however, clearly stipulate on its website what exactly can

be regarded as a reportable offence which should make it easier for informants to know what an offence entails.

- SARS has continuous amnesty programmes in terms of the TAA and it seems as if this unit has yielded reasonable success.
- SARS also participates in the exchange of information agreements with other countries.

The systems, methods, procedures and programmes, used by SARS, to detect and deter tax evasion by wealthy individuals, are compared with the other three countries of this study and the OECD in Table 3.5 in par.3.7.

### **3.6 METHODS IDENTIFIED BY OECD**

The OECD (2009) identified certain methods with their study on the engaging of HNWI on tax compliance. An overview of only some of the methods identified by the OECD (2009) will be provided as the OECD (2009) focussed mainly on ATP by HNWI with their study.

#### **3.6.1 Identifying of HNWI**

According to the OECD (2009:54) various criteria are used by tax authorities to identify HNWI, including income and wealth. The OECD (2009) found that it is important that tax authorities review the monetary criteria for an HNWI at least annually in order to account for inflation as well as for growth of the HNWI population. The reason for the annual review of the monetary limit is to ensure that the HNWI unit only focuses its resources on actual HNWI and not on those who should no longer have been classified as a HNWI (OECD (2009:54).

#### **3.6.2 Skills of staff in HNWI unit**

The OECD (2009:59) found that it is important that the HNWI unit is staffed with strong technical tax-skilled employees, especially in the taxes relating to HNWI, like wealth and residency tax. It is also important that these individuals receive continuous training to ensure they will be able to address all tax and commercial issues (OECD, 2009:59).

According to the OECD (2009:62) a dedicated HNWI unit can lead to improved taxpayer satisfaction due to the better understanding of the products used by the HNWI. It can also result in increased tax revenue (OECD, 2009:62).

#### **3.6.3 Enhancing aspects of cooperative compliance**

The OECD (2009:73-81) identified the following programmes through which cooperative compliance can be enhanced:

- The issuing of individual rulings for planned transactions (OECD, 2009:73).
- Some countries were found to invite “no-name” discussions before a ruling is requested. In this way a taxpayer can obtain insights in how the tax authorities view a proposed transaction before an actual ruling is requested (OECD, 2009:74).
- Publish rulings to serve as a platform for taxpayers with similar transactions (OECD, 2009:74).
- Civil penalty protection for full disclosure when submitting a return (OECD, 2009:76).
- Voluntary disclosure regarding past non-compliance (OECD, 2009:81).

#### **3.6.4 Proposals for addressing offshore tax risks**

The OECD (2009) made some proposals to address the offshore tax risks of which only the following are considered :

- The improving of access to information.
- Analysing the incentive programme for informants.
- Using communication, education and other initiatives to improve voluntary tax compliance.
- Considering the use of offshore voluntary disclosure programmes.
- Increasing international cooperation between tax authorities through the OECD and other appropriate forums.
- Strengthening the tax return and reporting (OECD, 2009:99-100).

#### **3.6.5 Conclusion of the study conducted by OECD**

It can be seen from the study conducted on the four countries, that the majority of the proposals made by the OECD (2009:99-100), to address the offshore tax risks, were implemented by them.

The systems, methods, procedures and programmes, proposed by the OECD (2009) to detect and deter tax evasion by wealthy individuals, are compared with the other four countries of this study in Table 3.5 in par.3.7.

### 3.7 CONCLUSION

**Table 3-5: Summary of most important methods and programmes of the OECD, IRS, ATO, HMRC and SARS to detect and deter tax evasion by HNWI's**

Revenue Service	OECD	IRS of the USA	ATO of Australia	HMRC of the UK	SARS of South Africa
<b>General – Since When</b>	A dedicated HNWI unit can lead to improved experiences by taxpayers with tax authorities and can lead to improved tax collection as set out in paragraph 3.6.2 above.	Only included procedures for GHW in IRM in 2013 as set out in paragraph 3.2.1 above.	Already start focussing on HWI's in 1996 and with service orientated HWI unit in 2009 as set out in paragraph 3.3.1 above.	Already incorporated the HNWI' section in 2009 as set out in paragraph 3.4.1 above.	Includes wealthy individuals in the compliance programme and acknowledges these individuals' contributions to the state's revenue program as set out in paragraph 3.5.1 above.
<b>Systems used to identify HNWI's</b>		Risk system and WLS, which converts documents to pdf and makes it available on shared drives which are important as field auditors are located in different offices as set out in paragraph 3.2.2 above.	RDF is a system used by the ATO to select cases for compliance actions. The ATO continuously assess the effectiveness of the RDF and the validity of the identified risks as set out in paragraph 3.3.2 above.	Hi-tech data analysis tools are used to identify high risk cases. A sophisticated analysis system, Connect, is used to analyse credit and debit card payments. The HMRC proposes an extension of its powers to obtain information on the hidden economy this consists of transactions done on online platforms and to compare it against data that the HMRC already has as set out in paragraph 3.4.2 above.	Has a credible and comprehensive database of HNWI's which was compiled with the use of comparative data and third party data with regard to property, trusts, motor vehicles and financial transactions as set out in paragraph 3.5.2 above.

Revenue Service	OECD	IRS of the USA	ATO of Australia	HMRC of the UK	SARS of South Africa
<p><b>Detection and Deterring – General methods</b></p>	<p>Annual monetary target should be reviewed to ensure limited resources are allocated to actual HNWI cases. Voluntary tax compliance should be promoted through communication, education and other initiatives. The tax return and reporting should be strengthened as set out in paragraph 3.6.4 above.</p>	<p>None identified with this study as the study was only conducted with information available to the public.</p>	<p>The ATO attempts to influence wealthy individuals to voluntarily comply with higher visibility and building the expertise of staff and systems to provide service focused interactions with wealthy individuals as set out in paragraph 3.3.1 above.</p>	<p>Make full use of the media to ensure public is aware of HMRC's work relating to detection and deterring of tax evasion by campaigns in the media, publicly naming deliberate tax offenders, increase the number of specialist staff to deal with evasion and fraud as set out in paragraph 3.4.1 above.</p>	<p>Use International Exchange Program, collaborate with the Master's Office with regard to the registration of trusts, improve its ability to trace the flow of funds through a multi-agency approach and review of best leverage industry norms and benchmarks, moving to more pre-filing meetings with taxpayers based on real-time data, to encourage taxpayers to obtain more rulings and to encourage taxpayers to make use of the voluntary disclosures which were enacted in the TAA as set out in paragraph 3.5.2 above.</p>

Revenue Service	OECD	IRS of the USA	ATO of Australia	HMRC of the UK	SARS of South Africa
<b>Audit Stats</b>	HNWI unit should be staffed with tax technical employees who continuously received training in tax and commercial issues as set out in paragraph 3.6.3 above.	From available data it seems that there is a substantial increase in additional revenue yielded through audits but it appears if the GHW unit is hampered by lack of resources as set out in paragraph 3.2.3.1 above.	The government allocated additional funding of \$390 million to the wealthy individual compliance activities which have been expanded to include newly identified HWIs. Compliance effectiveness evaluations are done to identify opportunities to improve risk assessments, case selection and active compliance strategies as set out in paragraph 3.3.3.1 above.	£1 billion additional tax already collected by the HNWI unit since 2009 against the target of £ 85 million. Also obtained increased filing of wealthy individuals with 8.5 per cent from 2009 till 2014 as set out in paragraph 3.4.3.1 above.	According to the annual report of SARS for the 2014 FY R106 million was collected from audits on HNWIs in the 2013-2014 year. It is difficult to see this amount in context as the target is not provided. as set out in paragraph 3.5.3.1 above.
<b>Whistle Blower Programme</b>	Analyse the incentive program for informants as set out in paragraph 3.6.4 above.	Awards are paid according to definite guidelines to informants. An official whistle blower office established since 2006 and seems to be a good source of information on tax evaders as set out in paragraph 3.2.3.2 above.	Has a Tax Evasion Referral Centre and does not pay awards and calls have been received in late 2014 for a reform of the whistle blower program of the ATO as set out in paragraph 3.3.3.2 above.	Has a fraud line that can be contacted and does award whistle blowers – just don't publish how and when payments will be done as is the case with the IRS as set out in paragraph 3.4.3.2 above.	Has a fraud line that can be contacted and does not award whistle blowers. No data could be found on the fraud line. SARS does however list all the offences that can be reported as set out in paragraph 3.5.3.2 above.

Revenue Service	OECD	IRS of the USA	ATO of Australia	HMRC of the UK	SARS of South Africa
<b>Amnesty</b>	Consider the use of offshore voluntary disclosure programmes as set out in paragraph 3.6.4 above.	Is open ended with a warning that the terms and conditions can change at any time and has standard penalties for all disclosures as set out in paragraph 3.2.3.3 above.	There is a closure date of 31 December 2014 and the media is used by the ATO to make maximum use of the amnesty by emphasizing the increased ability of the ATO to detect hidden income as set out in paragraph 3.3.3.3 above.	Offshore amnesty programmes have a closure date of 31 December 2015 and full particulars are available on the website of HMRC as set out in paragraph 3.4.3.3 above.	Amnesty is enacted as part of the TAA with sections 225-233 which became effective from 1 October 2012. This is an ongoing amnesty program with no closing date as set out in paragraph 3.5.3.3 above.
<b>Exchange of Information Agreements</b>	Increase International cooperation between tax authorities through the OECD and other appropriate forums as set out in paragraph 3.6.4 above.	The IRS established the computer services IDES through which financial institutions and host countries will securely send information relating to financial accounts that USA persons may hold as set out in par. 3.2.3.4 above.	The concluding of TIESs with a number of the tax haven countries do have a positive effect on the protection of the tax base in Australia as well as to ensure there is no unfair competition between tax evaders and compliant taxpayers as set out in paragraph 3.3.3.4 above.	Participates in the exchange of information agreements and have an exchange agreement with Switzerland that 40 per cent withholding tax will be levied on assets for which permission was not granted for information to be made available to the UK as set out in paragraph 3.4.3.4 above.	Participates in the exchange of information agreement. Is an early adopter of the CRS and will be implemented from the 2017 year as set out in paragraph 3.5.3.4 above.

This chapter provides information on systems used by the USA, Australia, England and South Africa to identify HNWI and the different systems, methods and programmes used by them to detect and deter tax evasion by HNWI by specifically focusing on the success of audits, whistle blower- and amnesty programmes and exchange of information agreements. The methods identified by the OECD (2009) with their study on the engaging of HNWI on tax compliance were also identified and compared with those used by the four identified tax authorities. The research objective, as identified in par 1.5(ii), is hereby addressed.

In the next chapter, the information, as obtained from the comparative study in this chapter, will be critically evaluated and compared to enable the researcher to identify the possible best practices from the methods applied by the four different countries as well as those proposed by the OECD.

## **CHAPTER 4: CONCLUSION**

### **4.1 INTRODUCTION**

The previous chapter provides a summary of the systems, methods, procedures and programmes the tax authorities of the USA, Australia, England and South Africa use to detect and deter tax evasion by HNWIs in their respective countries as well as of some of the proposals of the OECD (2009) to address the tax risks of HNWIs. In this chapter the findings from the comparative study are critically evaluated and compared. This chapter concludes the research findings of the objectives stated in par. 1.5(iii) by concluding on the findings of the research and the compiling of a list of possible best practices with regard to the systems, methods, procedures and programmes that could be used by tax authorities to detect and deter tax evasion by HNWIs, as identified by the comparative study in the previous chapter.

### **4.2 FINDINGS**

Lately, as identified in chapter 3 of this study by the comparative study, the tax authorities, as selected for this study, seem to apply a risk-based approach with the use of systems to identify risk cases to address tax compliance. The reason for this is that tax authorities need to utilise available limited resources optimally in order to maximise revenue collection which was also found by the OECD (2009:54) in their study when they stated that the threshold for the defining of a HNWI should be revisited annually to ensure the adequately matching of available resources to taxpayers. As can be seen from the comparison between the USA, Australia, England and South Africa, as well as studies done by the OECD, HNWIs have been identified as one of the areas on which resources should be concentrated. The reason for this is that HNWIs pose a serious threat to tax authorities because of various reasons stated in par. 1.1 of this study.

All the countries do not name their wealthy individuals HNWIs. The IRS of the USA uses the term GHW to define wealthy individuals while the ATO from Australia refer to these individuals as HWIs. The term HNWIs is used by the OECD, HMRC of England and SARS of South Africa.

**Table 4-1: The definition of wealthy individuals by the IRS, ATO, HMRC and SARS can be summarized as follows**

<b>OECD or Tax Authority</b>	<b>Income</b>	<b>Net Assets under control</b>
OECD	Top of the income scale	Top of the wealth scale
The IRS of the USA	Tens of dollars of income	Tens of dollars of assets
The ATO of Australia	No requirement regarding income	≥ \$30 million.
The HMRC of England	No requirement regarding income	≥ £20 million
SARS of South Africa	≥ R7 million	≥ R75 million

The above table, compiled from information as stated in par. 1.1 in chapter 1 and paragraphs. 2.2.1-2.2.4 in chapter 2 of this study, indicates that all the countries use net assets under control of an individual as an important indicator of a wealthy individual while the OECD, IRS of the USA and SARS of South Africa also consider income.

The numerous research studies done till date, as found in chapter 2 of this study, indicate that tax compliance and tax evasion could be influenced by a number of factors. Although these studies were not specifically done on HNWI's it could be applied as HNWI taxpayers are regarded as a group of taxpayers. The factors that influence taxpayers' behaviour include external factors such as the tax rate, income, probability of audits and the severity of penalties and internal factors such as tax morale, especially of other taxpayers from the same group, tax knowledge, norms, fairness, including perceptions of fairness and motivational postures. It was found that tax authorities can use knowledge of the drivers of tax compliance to ensure a more proactive approach to increase tax compliance and to ensure that tax evasion is detected and deterred. However, it is important that tax authorities are aware of the specific environment and risks relating to HNWI's in order to ensure that the risks, relating to this specific group of taxpayers, are addressed sufficiently. The specific risks of HNWI's, as identified by the OECD, and as considered in par. 2.4, consist of the following:

- Income and wealth – It is important to understand the risks posed by the wealth creation cycle to ensure that different strategies are applied for those who are in the stage of wealth creation, the maintaining of wealth and the planning of the succession of wealth. It is also important to include the “emerging wealthy individuals” in the strategy as the OECD found that these individuals do not necessarily seek the advice of professionals to assist them with their tax affairs, although it may be complex. HNWI's also receive income for which third-party information may not always be available due to the nature of the work done by them.

- Offshore assets that might be held out of the country to evade tax. It was found that trillions of dollars of assets are held in offshore tax havens and that it is difficult to detect offshore tax evasion due to the difficulty to obtain information about it and audits normally take longer than other and have to be done by highly trained agents of the tax authorities.
- The higher international mobility of HNWIs compared to other taxpayers due to the resources available to them.
- The tax environments of the HNWIs which consist of planning and which may include the shifting of normal taxable income to capital income due to the difference in tax rates.

Tax authorities should also be aware of all the latest research in the field of the behavioural drivers of tax compliance as well as of the latest developments in the detecting and deterring of tax evasion. Some of the latest research done, identified in paragraphs 2.6-2.8 of this study are:

- The study by Kathleen De Laney Thomas in September 2014, identified in par.2.6, in which it was found how psychological cost could be used to deter tax evasion in which it was found that, by calling on a taxpayer's morale when completing an electronic form, a taxpayer's honesty can be enhanced. She also found that the psychological cost of tax evasion increases when individuals are made aware that someone else will be economically harmed if they are dishonest. Taxpayers can be made aware of this by the use of the media to ensure taxpayers know how their tax money is spent. This study supports the proposal of the OECD (2009:99-100), mentioned in par. 3.6 4 in chapter 3 of this study, that the tax returns and reporting should be strengthened. It does appear as if there is still room for improvement by the four tax authorities in this regard.
- The study by James Alm (2012), identified in par. 2.7, where it was found that the designing of strategies to control tax evasion, fall into three main categories namely the likelihood and threat of punishment, improved tax services and a change of the tax culture.
- The study by Coricelli, Rusconi and Villieval (2013:1), identified in par. 2.8.3, on the effect of shaming of tax offenders as an additional tool to deter tax offenders. Shaming is the latest development in the addressing of tax offenders, but is also very sensitive and not available to all countries due to the right of privacy in their constitutions and the oath of secrecy in their tax laws.
- The study by Hanlon *et al.* (2015), identified in par. 2.8.4, which found that there has been a substantial increase in the number of TIEAs where information will be shared automatically and no longer on request. The exchange of information between countries is a key aspect in the countering of offshore tax evasion.

It is clear that tax authorities should not ignore studies done on the drivers of tax compliance and tax evasion as it is important to base strategies on the knowledge obtained from these studies and to also incorporate new studies into current strategies. With the global economy, which is constantly changing, it is important for tax authorities to review and update the strategies, with regard to the enhancing of tax compliance and the detection and deterring of tax evasion, on a continuous basis to prevent their strategies and systems from becoming outdated and irrelevant. A good example of this is the fact that the HMRC has already engaged to obtain information, not only from other countries, but also from the hidden economy's online transactions. It is clear that third-party data is very important in the detection and deterring of tax evasion. Tax authorities should therefore ensure a constant expansion of their systems to ensure an increase in third-party data on all types of incomes, and also to ensure that tax authorities adjust to the change in the way business is conducted, which is more and more via online transactions for which a different strategy is necessary.

### **4.3 POSSIBLE BEST PRACTICES**

A comparative study was conducted in chapter 3 on the methods that the four tax authorities, selected for this study, apply to address the matter of HNWI's and this was compared to suggestions made by the OECD with their study on HNWI's in 2009.

A summary of the findings was made in Table 3.5 in par. 3.7.

The findings will now be critically compared and evaluated to enable the researcher to identify possible best practices.

The possible best practices that were identified are presented in Table 4.2 below.

**Table 4-2: Possible best practices identified from comparison between the OECD, IRS, ATO, HMRC and SARS**

STRATEGY	POSSIBLE BEST PRACTICE
Separate HNWI unit	<p>Only SARS of the four tax authorities, included in the study, does not have a separate HNWI unit.</p> <p>The HMRC had success with their unit as can be seen from the reduction in the number of outstanding returns of HNWI's of the HMRC to only 3.4% in 2014, identified in par. 3.4.3.1 of this study.</p> <p>If the results, published by the ATO of the HWI unit, identified in par. 3.3.3.1 of this study, are considered, it is clear that the ATO does have success with the separate HNWI unit, in order to build a relationship with the Australian community, as identified in par. 2.3 of this study, as was recommended by the OECD in 2009, mentioned in par. 3.6.2.</p> <p>The OECD (2009:54) recommended that the threshold for a HNWI is reviewed annually to ensure the adequate allocation of resources as can be seen in par. 3.6.1</p> <p><b>Conclusion: SARS should consider the establishment of a separate unit only dealing with HNWI's and their related entities that are sufficiently staffed with the necessary skilled investigators and risk and intelligence staff. In this way tax compliance can be promoted with a service approach as is used by the other three tax authorities in this study.</b></p> <p><b>The monetary threshold to determine an HNWI should be reviewed annually by the tax authorities to ensure the adequate application of available resources.</b></p>

STRATEGY	POSSIBLE BEST PRACTICE
<p>Systems used to identify HNWIs</p>	<p>Computer systems, used to identify risks and risk cases for compliance actions, are used by all four of the authorities.</p> <p>The IRS does ensure that additional resources to the tax returns are also included in the risk evaluation and consist of referral cases from field and other business units, the whistle blower office and cases on which issues were identified by the WLS system, as identified in par. 3.2.2 in this study.</p> <p>The WLS system of the IRS converts all documents, except excel documents, to pdf format and put it on the shared drive of the GHW unit so that it can be shared among all the functions and specialists working on GHW cases, although they are situated in offices across the USA.</p> <p>The ATO, as identified in par. 3.3.3.1 of this study continuously assesses the reliability of the risk system, the RDF, by analysing the outcomes of compliance activities, in order to determine the effectiveness of the system and the validity of the identified risks.</p> <p>The HMRC, as identified in par. 3.4.1 in this study, has invested in the risk system “Connect” in terms of which a large volume of information can be obtained quickly.</p> <p>The HMRC has also already extended the data gathering powers in the hidden economy, as identified in par. 3.4.2 of this study, as this economy poses a serious threat to the integrity of their tax system.</p> <p>Conclusion: It is important that risk assessment should not only be done on returns, but also on other sources of information obtained from referrals, whistle-blower offices and hot line centres.</p> <p>It is also important that the risk identification systems are regularly evaluated and improved to ensure valid and effective risks as was identified by the ATO.</p> <p>Tax authorities should also realise the importance of the threat the hidden economy poses for a tax authority’s integrity as identified by the HMRC.</p> <p>Tax evasion occurs more where there is lack of third party information, as identified in par. 1.2 and it is therefore important to ensure third party information is obtained on as many as possible types of income.</p>

STRATEGY	POSSIBLE BEST PRACTICE
<p>Audit Section</p>	<p>The HMRC provides audit results in comparison to the targets set, as identified in par.3.4.3.1 of this study, which is important to ensure that resources are not wasted on programmes not making targets.</p> <p>The HMRC has set up a centre of intelligence to ensure that expertise in dealing with offshore evasion is brought together and is enhanced, as identified in par.3.4.2 of this study.</p> <p>The HMRC, as identified in par.3.4.2 in this study, expanded both their number of specialist investigators and intelligence staff to deal with tax avoidance and evasion by the wealthiest and thereby ensuring that risk resources are expanded.</p> <p>According to the proposal of the OECD (2009), as set out in par.3.6.2, technical skilled staff should be appointed in the HNWI unit and should receive regular relevant training</p> <p>Conclusion: It is important to set targets for compliance focus areas, which includes HNWIs, as was identified by the ATO mentioned in par.3.3.3.1 and the HMRC identified in par. 3.4.3.1. In this way the effectiveness of the unit can be properly evaluated and the tax authority can have sufficient leverage to negotiate for additional funds for the unit, if necessary. It is important to monitor the impact of this unit on the total revenue collected by the tax authority.</p> <p>It is further important that the HNWI unit is staffed with specialist investigators and that the risk and intelligence unit is also sufficiently staffed as was identified by the HMRC realised the importance of sufficient staffed risk and intelligence unit as well of specialised investigators as identified in par. 3.4.2 of this study. It serves no purpose to expand the number of specialised investigators without having the necessary risk and intelligence staff to identify the cases.</p>

STRATEGY	POSSIBLE BEST PRACTICE
Whistle-blower programme	<p>The IRS is the only authority with clear guidelines in their tax act of how whistle-blowers will be rewarded and also seems to be the most successful of all the authorities as is identified in par. 3.2.3.2 of this study. It is, however, difficult to really determine this as no published data could be found on the success of the fraud line of the ATO and SARS, while the IRS and HMRC have data on the success of their whistle blower programmes. Recently there were calls to the ATO to change the whistle blower program to a format similar to that of the IRS as identified in par. 3.3.3.2 of this study.</p> <p>Conclusion: All tax authorities should consider rewarding whistle-blowers for information only after a taxpayer has exhausted all his appeal processes in the same manner as the IRS. This is an important tool to both detect and deter tax evasion. It should be considered to monitor and publish the success of the program as it may deter tax evasion. The OECD also proposed in their study, mentioned in par. 3.6.4, that the incentive programme for informants should be analysed.</p>
Amnesty	<p>All of the four tax authorities have amnesty programmes, but SARS has an indefinite program while there are closure dates for the amnesty programmes of the ATO and IRS. The IRS Commissioner however made sure, by way of the media, that taxpayers are aware that the IRS is continuously engaging with the identifying of undisclosed assets as well as about the ongoing amnesty program with Swiss Banks and the global banking transparency. The HMRC also has amnesty programmes with the Isle of Man, Guernsey and Jersey.</p> <p>Conclusion: Although there are researchers that found that amnesty may have a negative influence on tax compliance, identified in par. 2.7 of this study, it is important that tax authorities do have amnesty programmes to enable tax evaders to rectify their tax affairs. It is, however, just as important that the tax authorities advertise the benefits and requirements of the amnesty programme in the media and also to make sure taxpayers are aware of all the new developments with regard to the obtaining of information and the importance of making use of the amnesty programme as can be seen from the success of the ATO, identified in par. 3.3.3.3 of this study. As the amnesty is part of the TAA of South Africa, it is important for SARS to use the media to ensure taxpayers are aware of the availability of the tax amnesty and also what the benefits are and the risks, should taxpayers choose not to make use of the amnesty programme. The OECD (2009), mentioned in par.3.6.4, also proposed the use of offshore voluntary disclosure programmes.</p>

STRATEGY	POSSIBLE BEST PRACTICE
Exchange of Information Agreements	<p>All four tax authorities will participate in the new automatic exchange of information agreements in terms of which financial institutions will have to compile information from 1 January 2016 on all bank accounts that existed with them on 31 December 2015 and also on new bank accounts opened on or after 1 January 2016.</p> <p>The HMRC also has an agreement with Switzerland in terms of which there is a withholding tax of 40 per cent where the Swiss Authorities are instructed not to supply information to the UK with regard to assets forming part of the estate of the death of a relevant person, as identified in par. 3.4.3.4. of this study.</p> <p>Conclusion: The new automatic exchange of information agreements which come effective as from 1 January 2016 will assist tax authorities in the countering of offshore tax evasion and is in line with the proposal of the OECD (2009), mentioned in par. 3.6.4, that there should be increased international cooperation between tax authorities through the OECD and other appropriate forums.</p> <p>The success of the agreement between the UK with Switzerland in terms of which there is a withholding tax on assets that may not be declared to a tax authority should be monitored for possible implementation by other tax authorities as Switzerland seems to be the preferred the offshore destination for funds, identified in par.2.4 of this study.</p>

Table 4-2 sets out the possible best practices that tax authorities may use in the detection and deterrence of tax evasion, as identified by the researcher.

A number of the best practices described in table 4.2 are substantiated by the findings of the audit report issued by the auditor general of the National Audit Office of HMRC on 3 February 2015 in which the report focussed on the progress of the effectiveness of tax collection by the HMRC. This report of the National Audit Office highlights the following issues:

- The importance of the successful implementation of digital strategy. The HMRC introduced the risk system “Connect” in terms of which £80 million was spent since 2008 and with which £3 billion tax revenue was collected (GOVUK, 2014). This indicates that the cost of a system should never be reviewed in isolation, but against the possible income that can be obtained with its use.
- The importance of the effective management of tax relief programmes (NAO, 2015:14).
- The HMRC is doing more to publicise tax court victories, including the naming of the promoters involved in tax avoidance schemes. The HMRC also regularly publishes details of schemes to warn taxpayers against tax avoidance schemes that are promoted (NAO, 2015:21). This can be a problem for other tax authorities due to perhaps their constitutions and privacy regulations in their tax acts.
- The sharing of information with other tax authorities. According to the report the HMRC had secured £1.2 billion in tax until November 2014 from UK residents with Swiss bank accounts in terms of the agreement between the UK and Switzerland (NAO, 2015:25).

#### **4.4 CONTRIBUTIONS**

The research findings indicate that SARS is in line with what is done by the tax authorities in the developed countries, but also that there are a number of procedures and programmes that SARS may consider to implement in order to improve its own strategies to detect and deter tax evasion, especially by the HNWI

This research has created awareness that SARS should consider the implementation of the following practices that are used successfully by the other three countries used for this study:

- The creation of a separate HNWI unit to deal with HNWI as a group and which also focuses on service delivery to this specific group of taxpayers together with their tax agents, especially if it is considered that service delivery is a successful tool in obtaining tax compliance as was found by the compliance model of the ATO, set out in par. 2.3.5 of this study. It is also important that specific targets be set for audits to be conducted on HNWI

as it is important to determine if resources are utilised optimal. This unit should be staffed by technically skilled staff to whom training will have to be provided continuously to ensure they stay abreast of all new developments on both the tax and commercial side.

- Utilise the public media including the social media, which are currently an essential part of public communication, to try and persuade taxpayers to settle their taxes voluntarily and to report those who don't.
- SARS needs to ensure systems are timeously adapted to changes in the way trade is conducted. SARS should also start with the identification of methods to obtain third-party information of transactions done electronically, as is the case with the HMRC, stated in par. 3.4.2 of this study and should continuously try to improve the obtaining of third party information against which the correctness of tax returns can be determined.
- SARS uses a risk identified system, as is the case with the other three tax authorities in this study. It is, however, important that SARS also does regular tests on the risk system, as is the case with the ATO of Australia, identified in par. 3.3.3.1 in this study. It is important to ensure that the risk system remains relevant and that valid risks are identified to ensure that limited resources are not wasted on irrelevant risks.
- SARS should also consider the rewarding of whistle-blowers as is the case with the IRS, identified in par. 3.2.3.2 in this study. The least SARS can do is to publicly announce the results obtained from information reported on their current fraud hotline as this will also increase taxpayers' perception of having a higher risk of being caught and also to make sure that proper risk profiling is applied on all reported cases.
- To ensure that publicity campaigns are used to increase the perceptions among taxpayers that non-compliers will be caught. It is important that SARS also ensures enough publicity with regard to the availability of the amnesty program, as set out in the TAA, as well as of all the new exchange of information agreements in terms of which information will be obtained of offshore investments.
- It is important that SARS use the public media optimally in order to ensure the taxpayers have a perception of increased cost of tax evasion as was found with the study of Thomas (2014), set out in par. 2.6 in this study.
- SARS should consider the adjustment of the electronic tax returns to incorporate the information found by Thomas (2014) with her study on the psychological cost of tax evasion as set out in par. 2.6 in this study.

## 4.5 FURTHER RESEARCH

As can be seen from chapter 2 and chapter 3 tax, authorities have done extensive work to counter offshore tax evasion with, among others, the new automatic exchange of information contracts, where information will be exchanged automatically and no longer just on request. Further research should however be done to determine the success of the automatic exchange of information agreements.

Further research directions in the field of tax evasion, although not specifically limited to HNWI's are:

- Research on the influence that the implementation of wealth tax in South Africa may have on the tax compliance of HNWI's in South Africa, seeing that research found that the tax rate was in 29 % of the cases, the most influential factor to decide about primary residence, as is stated in par. 2.4.3. This has become a very important research topic after the 2015 Medium Term Budget Policy Statement (MTBPS) speech on 21 October 2015 of the minister of finance of South Africa, Minister Nhlanhla Nene, in which he asked further advice on wealth taxes as it is realised that the tax system plays a role in supporting growth, employment, equity and fiscal sustainability (NT, 2015).
- Research to determine the most effective way to counter tax evasion in the hidden economy as this is an economy that can no longer be ignored by the tax authorities due to the growth of it and the influence it might have on the integrity of the tax systems. This was already identified by the HMRC, as indicated in par. 3.4.2 of this study. Several HNWI's or potential HNWI's might be identified from the hidden economy.
- Research should also be done on how tax authorities, based on the knowledge obtained with studies done on the behavioural drivers of tax compliance and tax evasion, as indicated in chapter 2 of this study, could use social media effectively to encourage tax compliance and to report tax evasion. It does appear as if tax authorities do not really make use of social media. A comparison can be done of the impact on tax compliance with a billboard compared to that obtained with a message on social media by also comparing the cost of the different communication media forums.
- Research should continuously be done on all the changes in the way business and communication are conducted globally in order to ensure tax authorities' systems, methods, procedures and programmes remain relevant for all the new changes in the business environment in order to ensure maximum voluntary compliance in the most effective manner.

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