

Revenue performance and legal uncertainty (and tax complexity)

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Legitimacy...and rule of law

‘Legitimacy has different components: the **legal framework**; the **interpretation of the law**; the **enforcement of the law in practice** and **what citizens actually see as legitimate actions**,’ Lotta Björklund Larsen.

- How much does lack of legal certainty cost in revenues forgone?
- Economists have long attempted to understand the role of the **rule of law** (generic term to describe legal systems) in economic outcomes
- Do some countries grow faster because their legal system protects property rights better and enforces contracts more efficiently and fairly?

Complexity...does it matter?

- If growth correlates with revenues, we should expect to see that countries which provide legal certainty (and less complexity) better they are performing better in revenues
- Common belief amongst tax practitioners/tax administrators that tax laws are
 - Overly complicated, and
 - Ambiguous interpretation

Complexity...does it really matter?

- Complexity is not necessarily bad, but
 - Unnecessary complexity is distortionary, and cause
 - Misinterpretations and so mistakes (by the very well intentioned taxpayers)
 - But quantification is not common practice
 - Maybe it should, as then policy can be targeted
 - HMRC estimates (maybe others do this too?):
 - Legal interpretation, 6bn (1.1% of tax gap in 2015-16))
 - Error, 3.3bn (0.6% of tax gap in 2015-16)
 - Recent research looks at how these mistakes occur when taxpayers fill their SAs and how to correct this

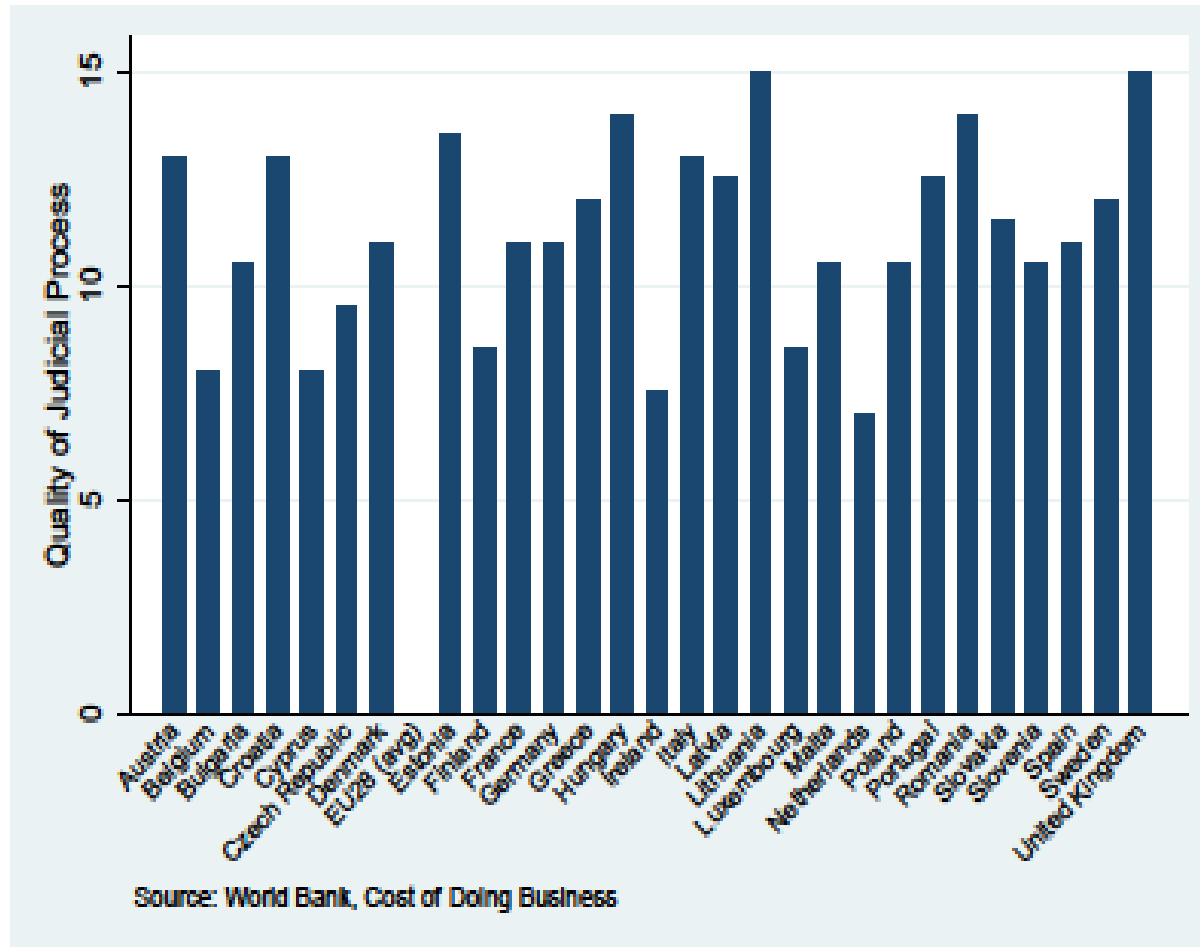
Measures of complexity

- Measures of ‘complexity’ do not exist
 - Difficult to capture the concept
 - Number of pages of tax law
 - Number of tax cases in dispute
 - Frequency of changes of primary/secondary legislation
 - Number of interpretive (circulars) documents being published
 - Linguistic expression in tax law (AI might have something useful to say)

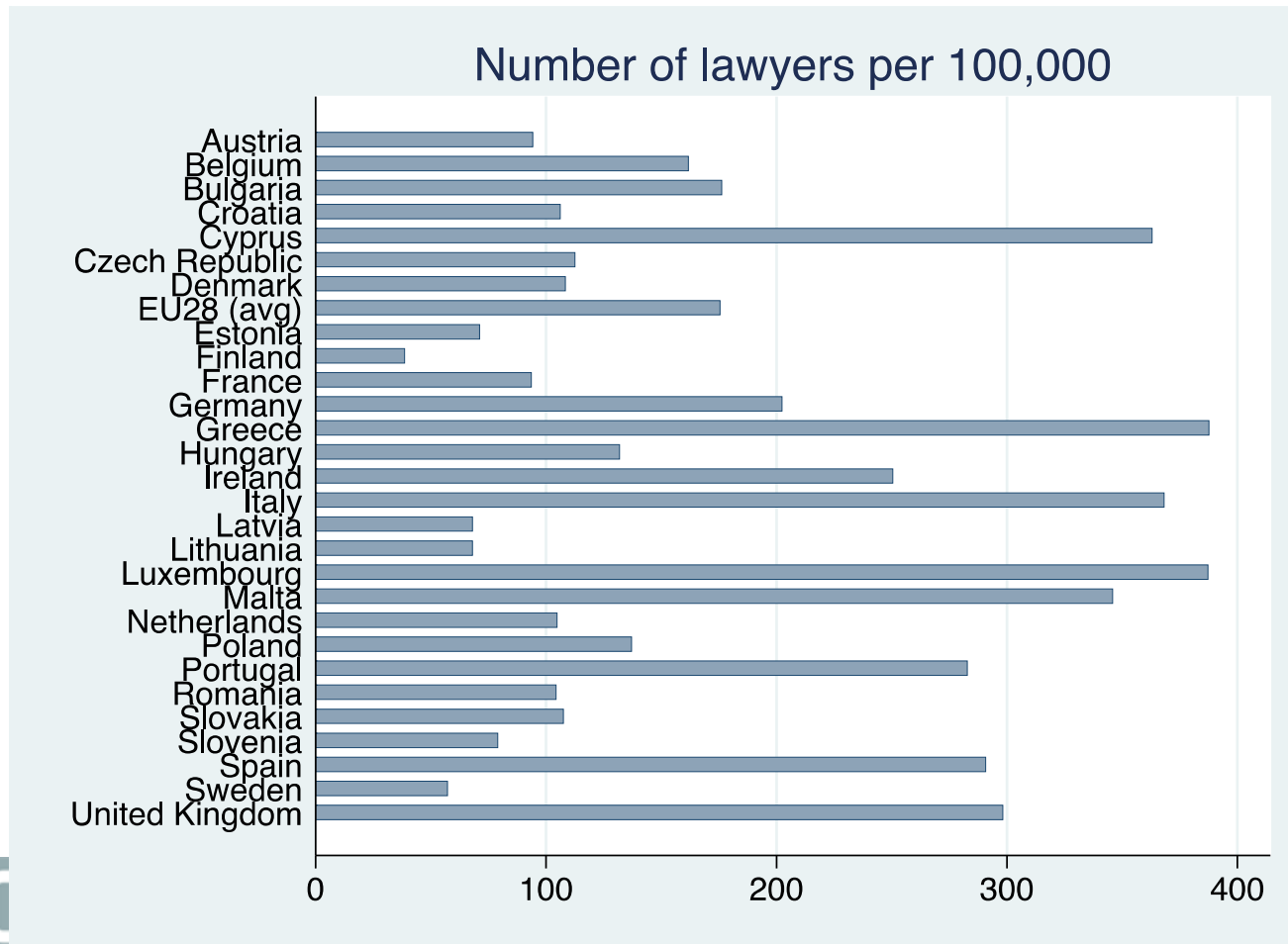
Working hypothesis

- Complexity correlates with 'legal variables'

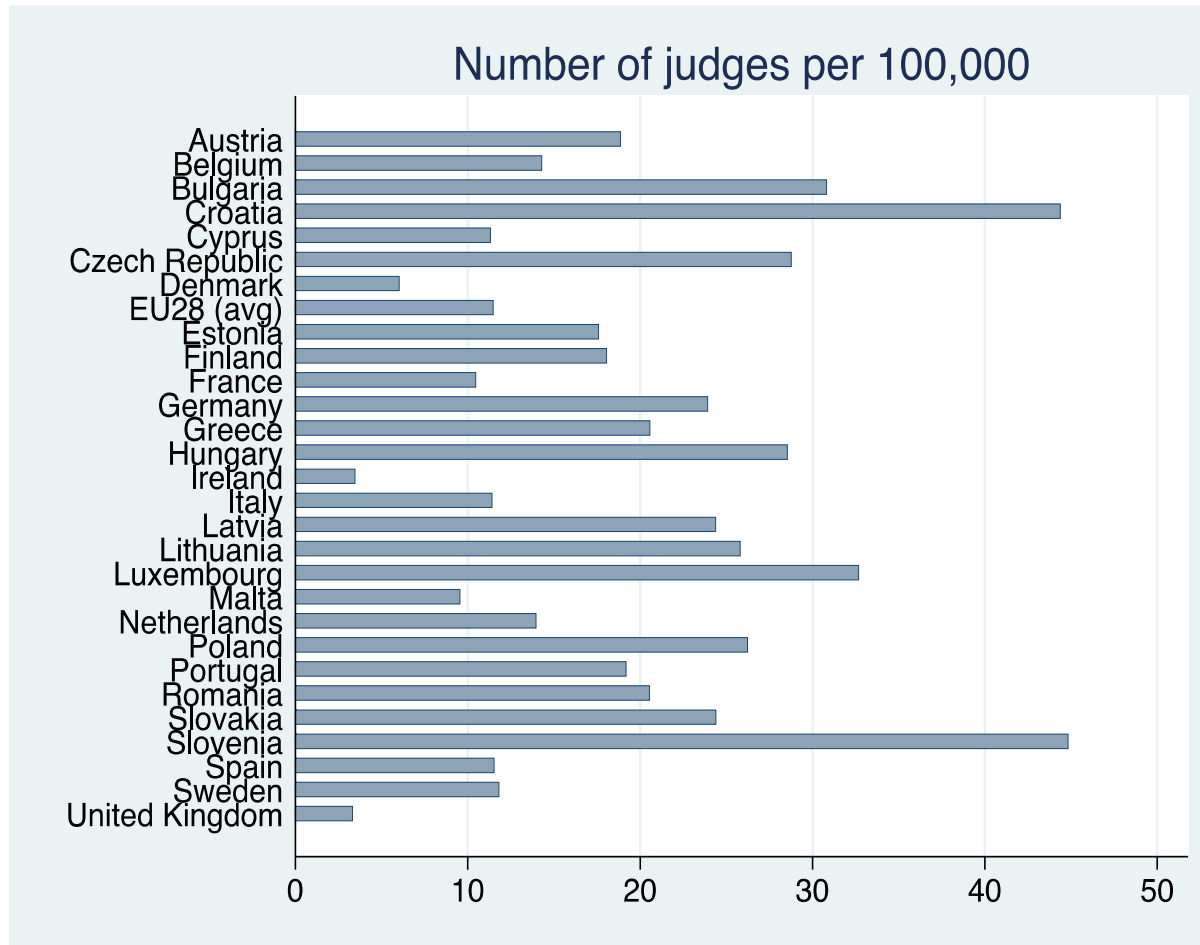
Legal uncertainty and tax complexity



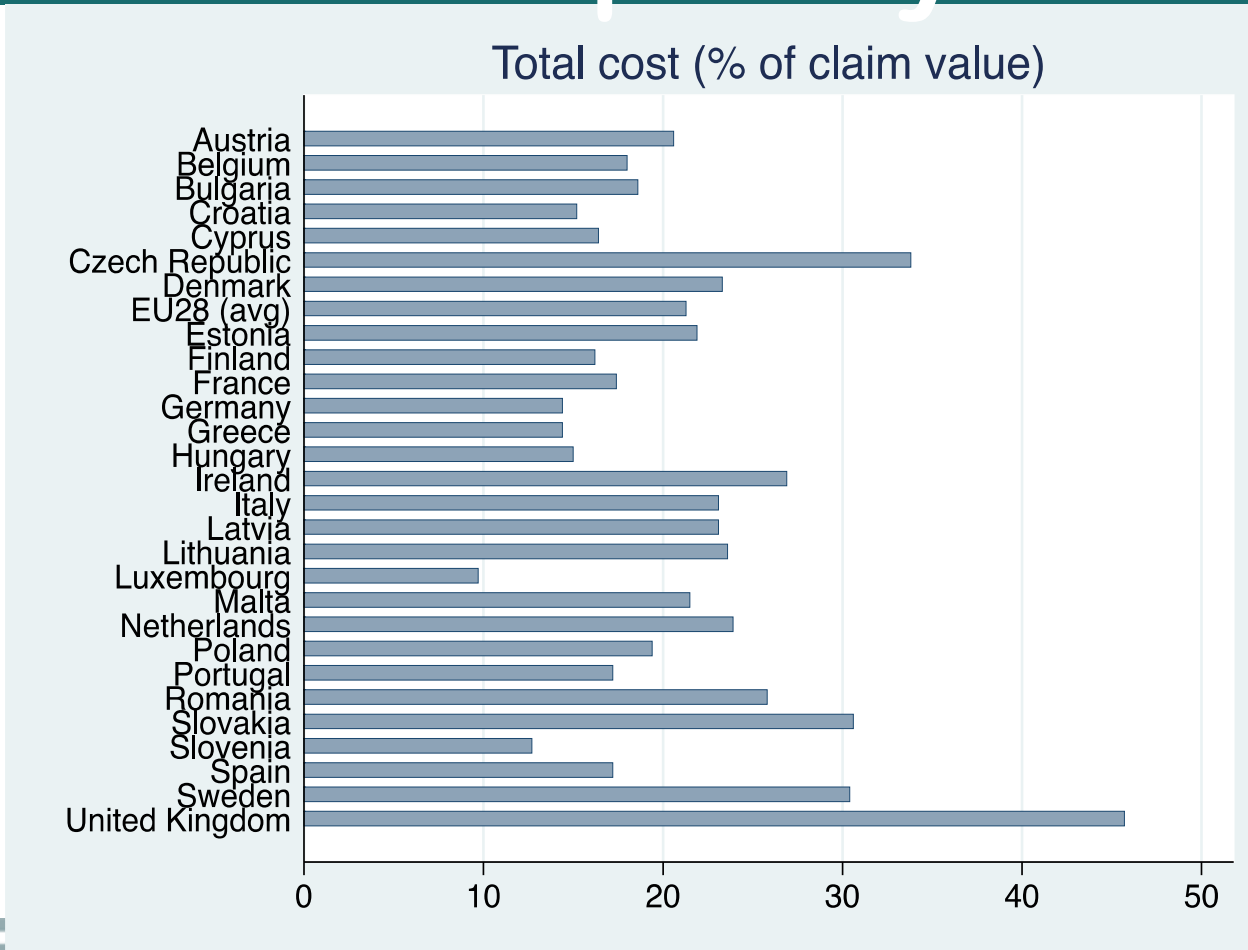
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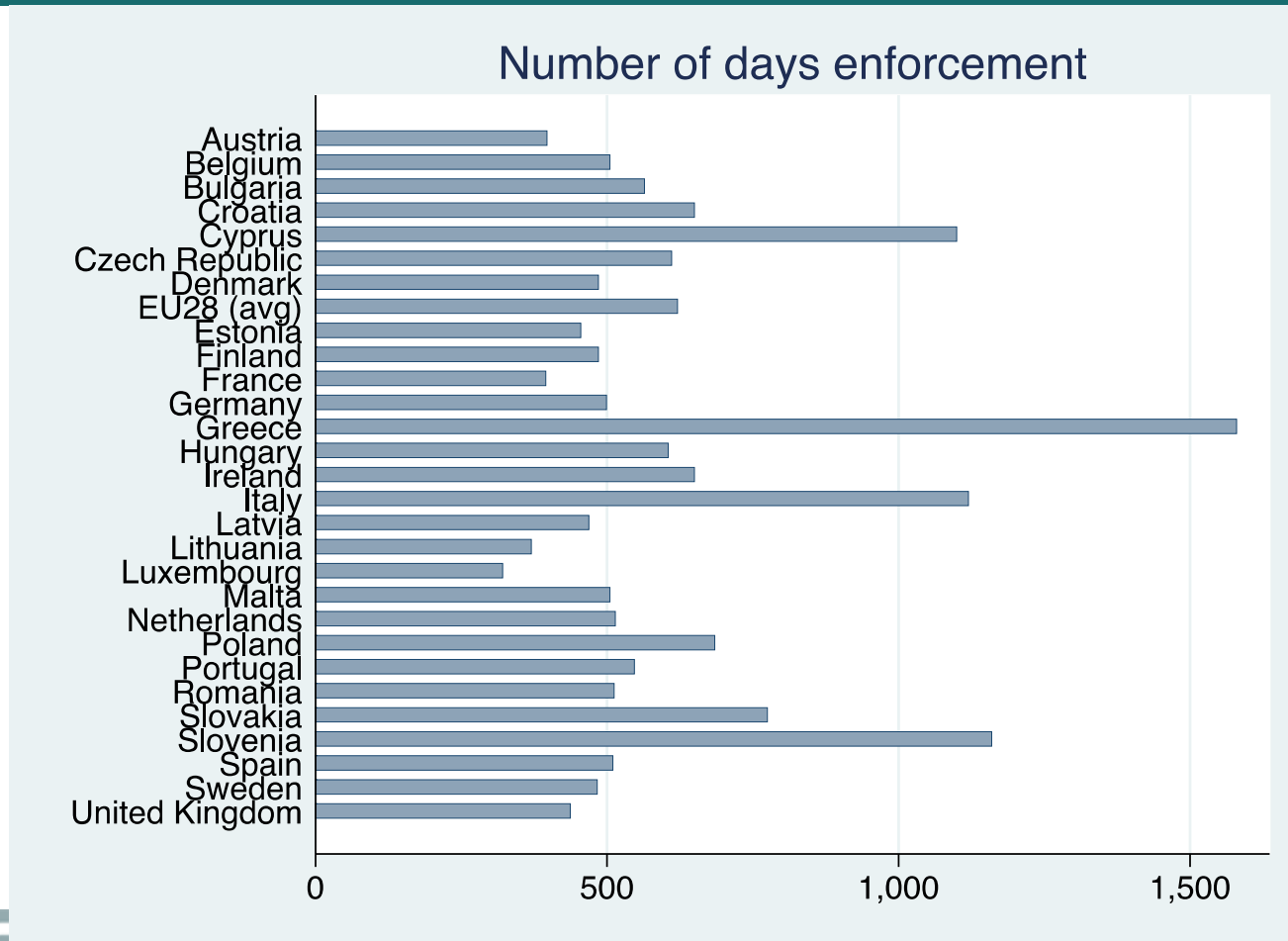
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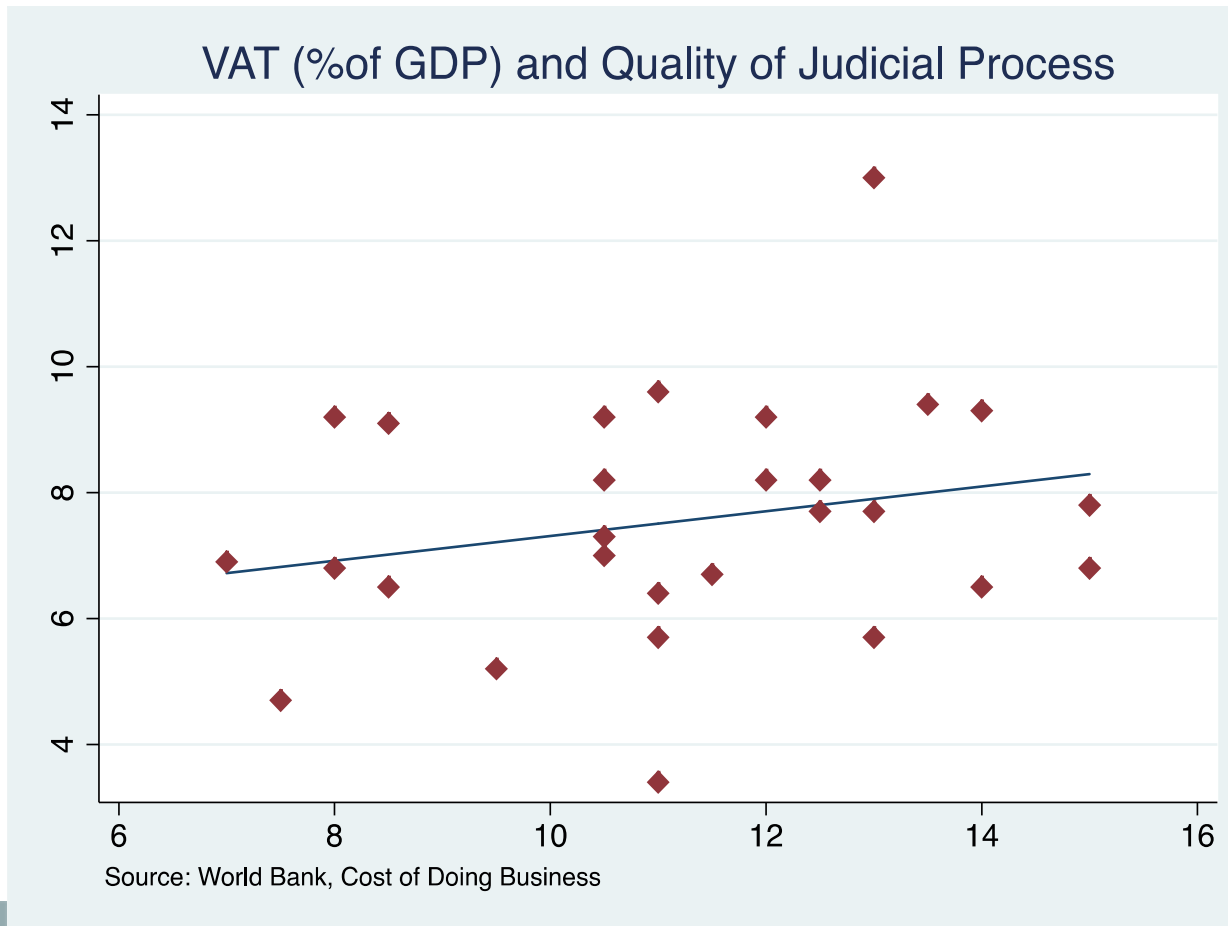
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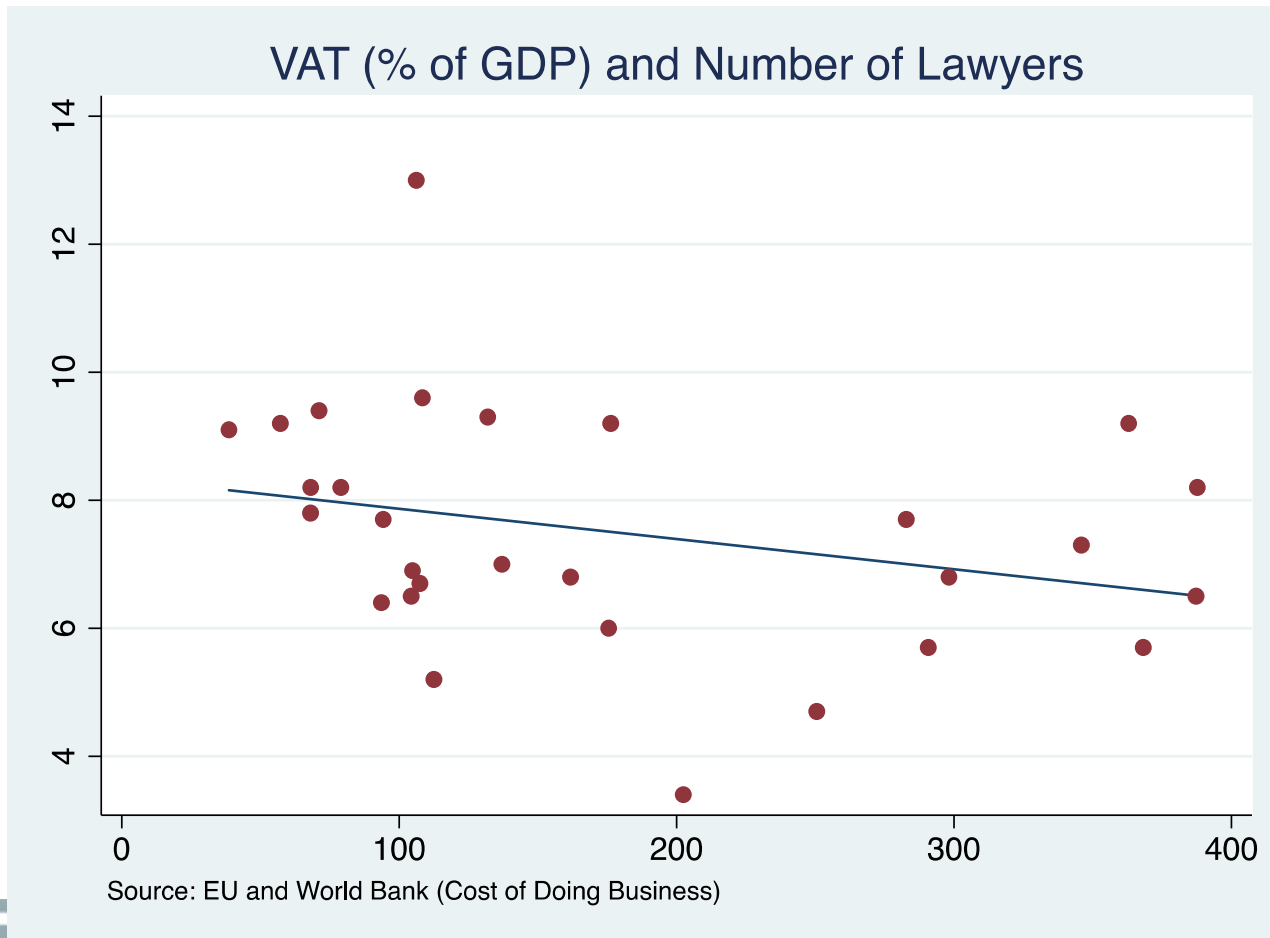
Legal uncertainty and tax complexity



Correlation (not causation)



Correlation (not causation)



Summing up

- It seems legal aspects in revenue mobilisation are mostly neglected
- But they should not
 - Legal environment affects growth (it is well documented) and so should affect revenue performance—but we do not know a lot of this
 - Great opportunity for Tax Administrations to work with academics to shed more light on these important aspects

Contact

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