

Cooperative Compliance Practice: Lessons from the Organisation for Economic Co-operation and Development (OECD) Countries

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ABSTRACT

The existence of the cooperative tax compliance concept is a sign of evolvement in tax compliance, where the compliance towards the tax law is settled based on cooperation between the tax authorities and taxpayers to ensure payment of the right amount of tax at the right time. Cooperative tax compliance, built on trust and transparency, predictability, and certainty, requires tax authority and taxpayers to collaborate to achieve optimal compliance. This open relationship approach allows taxpayers to receive advance certainty and have reduced compliant costs, while the tax authority benefits from the more efficient use of limited resources. Following the recommendation of the Organisation for Economic Co-operation and Development, 24 countries (Australia, Austria, Canada, Denmark, Finland, France, Germany, Hong Kong, Hungary, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Russia, Singapore, Slovenia, South Africa, Spain, Sweden, the UK, and the USA), have implemented this enhanced relationship. A review on eight countries was performed for an in-depth perspective of the practice. The review revealed five distinct features among the countries. The first feature is the initiator of the relationship. In most countries, the tax authorities promote exclusivity of the scheme, where the invitation is made for selected taxpayers to enter the cooperative compliance relationship, while in the other counterpart, the taxpayers have the rights to apply to join the cooperative compliance scheme. The second feature is the explicitness of the program. While most countries explicitly mentioned implementing a cooperative tax compliance program, others had embedded cooperative tax compliance as part of a bigger compliance program. The third feature is the formality of the arrangement, where most of the countries had an agreement signed between tax administrators and taxpayers who

joined the cooperative tax compliance; while some others had no formal agreement in place. The fourth feature is the category of taxpayers that can join the scheme. While most countries provide criteria to be fulfilled by the participating taxpayers, one opted for fully volitional participating taxpayers. The final feature that differs is the inclusiveness of the program, where only one country includes the participation of all large businesses. Irrespective of the differences, their experiences become lessons for Malaysia in developing our cooperative tax compliance framework. This is important as implementing cooperative compliance will strengthen the current compliance strategies by offering a quality compliance approach.

Keywords: *cooperative tax compliance, Organisation for Economic Co-operation and Development, trust, transparency, tax authority*

Introduction

Tax compliance issue has existed since the existence of taxation itself. It has evolved significantly in line with the tax system changes or tax reform and the global economic environment. [1] suggest that tax compliance can be associated with a society's climate, i.e., depending on a continuum between an antagonistic and synergistic climate. They explained that in an antagonistic climate, taxpayers and tax authorities work against each other. In contrast, both parties work together in a synergistic climate. Under antagonistic climate, tax authorities are seen as the enforcer of tax laws and play the role of the assessor to the taxpayers' income in determining the amount of tax liability due to the Government. On the other hand, taxpayers are perceived as "robbers" who will, by all means, evade paying tax to the Government; therefore, need to be held in check. Under the synergistic climate, tax authorities and taxpayers are seen as having 'service and client' relationship. Both parties are treated as if they belong to a similar community, with one party offering services to assist the other party to fulfil the responsibility to the nation. Taking the basis of these two notions, taxpayer compliance behaviour can be described as enforced compliance in the earlier climate, and the latter, as voluntary compliance behaviour

In 2008, the Forum on Tax Administration issued a "Study into the Role of Tax Intermediaries" or known as the "2008 Study" that encouraged tax authorities to establish a relationship with large business taxpayers based on trust and cooperation or termed as "enhanced relationship" [2]. This term was later rebranded "cooperative (tax) compliance". It is a sign of evolvement in tax compliance, where the compliance towards tax law is settled based on cooperation between the tax authorities and taxpayers to ensure payment of the right amount of tax at the right time. Cooperative tax compliance (CTC) is believed to be entirely consistent with modern compliance risk management strategy because the established relationship between tax authorities and taxpayers form a joint approach to improving tax risk management and overall tax compliance, which benefit both parties. Under this strategy, tax authorities need to distinguish high- and low-risk areas to respond and influence them based on their needs. Similarly, high-risk taxpayers can expect to attract greater scrutiny and enforcement attention, while taxpayers who behaved transparently and categorised as low-risk can reasonably expect support and lower compliance costs. The obligations of taxpayers entering a cooperative relationship with a tax administration are significant but can be stated more succinctly; in return for greater and earlier certainty, the taxpayer undertakes to provide disclosure and transparency. Disclosure requires the taxpayer to provide the tax authority with all information needed to make fully informed risk assessment of the tax issues arising from a tax return, including any specific transactions or positions that raise questions that are

particularly uncertain, difficult, or controversial from the standpoint of the tax administration.

Notwithstanding, the emergence of CTC of more than a decade ago, Malaysia is still at the crossroad. The Inland Revenue Board of Malaysia is still evaluating the advantages and drawbacks of the approach, as well as the appropriate mechanisms to implement. Hence, the experience of OECD countries would be a good starting point for the country and other developing countries to refer and benchmark. That triggers the researchers to review the cooperative tax compliance implementation in these developed countries. For that purpose, reports and existing literature were reviewed and the findings are reported in the following sections.

Implementation of Cooperative Tax Compliance in Developed Countries

Cooperative compliance model initially emerged from advanced countries. Its theoretical origin dated back to the 1990s [3], when Australia tried combining responsive regulation theory with motivational posturing theory [4]. However, the approach was not practised until the 2000s, when it was officially published in the Australian Tax Forum (ATF) of large business and compliance publication [4]. This is ahead of the effort made by OECD's Committee of Fiscal Affairs (CFA) initiated by the Forum of Tax Administration (FTA) in 2002 and paved the way towards developing the concept of cooperative tax compliance in 2008 [3]. The effort of OECD's FTA only came to fruition in 2008 through the "Enhanced Relationship Study," with the outcome entitled "Cooperative Compliance: A Framework from Enhanced Relationship to Cooperative Compliance" published in 2013. Though advanced countries adopt different names for cooperative compliance, the modalities for implementing the model are common among them.

To get a deeper insight into the advanced countries' practices, a review of cooperative tax compliance was made for eight countries, i.e., Australia, Denmark, Finland, Netherland, Norway, Sweden, the UK, and the US. Generally, six common features were identified in the implementation of CTC among the countries. Though not all features are common, there is more convergence than divergence among the features identified. The six most common features of the CTC model (CCM) were identified in the literature [5]. The first feature is the pilot program, whereby some countries launched a formal pilot program to test the model before becoming applying it to the public. In this study, the feature has been expanded to include "piloting and invitation." Invitation refers to whether or not the invitation for participation into the program is initiated by the tax revenue authorities. The second feature is explicitness, i.e., whether the model is explicitly described as CTC arrangement. The third feature is legislative change, indicating whether the introduction of CCM requires changes in law and regulations to enable implementation. The fourth feature is formality, implied to assess whether a formal legal agreement or memorandum of understanding need to be signed by the parties before the program or even an informal arrangement with undocumented elements need to be in place. The fifth feature is participation, i.e., whether the participation is voluntary or otherwise. Lastly, inclusiveness signifies whether all large businesses are part of the program or restricted to only selected large taxpayers, leaving some outside the model. All these features are further discussed below.

Invitation and Piloting

The CTC program is mostly implemented through invitation by revenue authorities and piloting of some taxpayers for a specific period. In Australia, CCM was piloted by the Australian Tax Office (ATO) on high-wealth individual large businesses and international segments, and later across all categories of taxpayers [6]. In Denmark, CCM was first

introduced in 2008 as “Enhanced Relationship” and later as “Tax Governance.” It started with an invitation to six large corporate taxpayers, which served as a pilot and ran from 2008–2011 [7]. Finland modelled its CCM as “Enhanced Customer Cooperation (ECC),” introduced in 2013 through the pilot in five consolidated corporations, which ran until 2015. By November 2018, there were 27 consolidated corporations under the ECC in Finland [8]. The Netherlands also started some CCM through a program called “Horizontal Monitoring” through a pilot of about 20 large corporations via invitation. It started with a review of the taxpayer’s profile, followed by a meeting in which a compliance scan of the taxpayer was conducted. This was followed by mutually resolving any pending issues with the taxpayer ahead of signing the compliance agreement. Next, the tax authority analyses the taxpayers’ Tax Control Framework (TCF) and provides recommendation for improvement.

Norway also followed a similar approach as practised in other developed countries. The implementation of CCM was made through a pilot project in 2011, which was completed in 2013. The pilot consisted of just six large corporations participating in the project [9]. The implementation of *Fördjupad Samverkan* - FS (enhanced collaboration) in Sweden started with an invitation from the Swedish Tax Agency (SKV) to the board of directors or top management of the invited corporation [10].

Though the UK has a long history of the decentralised tax collection system, the large business taxpayer office was set up in 1994, which was subsequently renamed as the Large Business Office in 1997, and later in 2003 towards the journey of CTC. A new compliance process was introduced, with only 17 multinational groups, which can be seen as piloting CTC in the UK ([11]). In the US, both the Pre-Filing Agreement (PFA) and Compliance Assurance Program (CAP) introduced in 2000 and 2005, respectively, were piloted for large corporate taxpayers. CAP was started as a pilot with just 17 large corporations, which reached 100 by 2010 [12]. The participation into the pilot for PFA and CAP is by invitation of the Internal Revenue Service (IRS), and such invitation was often made to those corporations that historically depict the important level of compliance behaviour [12]

Explicitness

In Australia, the model explicitly named Annual Compliance Arrangement (ACA) was introduced in 2008 meant for high-wealth individual large businesses and international segments who have an annual turnover above \$250 million [3]. Similarly, CCM in Denmark was also explicit, called the “Enhanced Relationship” and “Tax Governance” programs, and was meant for large taxpayer groups, mainly consolidated corporations [7]. Like Australia and Denmark, the program was explicitly called ‘Enhanced Customer Cooperation (ECC)’ in Finland aimed for large corporate taxpayers [8]. In the Netherlands, the program is called “Horizontal Monitoring,” where cooperation exists as the relationship but not treated as command and control as in vertical relationship [3][11].

The implementation of CCM in Norway is not explicitly stated as a CTC. Instead, the “Reinforced Dialogue (*Forsterket dialog*) Project” indicated a cooperative relationship between tax authorities and the large business corporations. Like in other countries, the program was implemented among the large corporate taxpayers. These are mainly companies that operate as a group, with a turnover of more than 1 billion Euro. There are about 500 group companies in Norway, and each is considered an individual taxpayer responsible for their tax obligations [9]. The Swedish cooperative compliance project is explicit; it started as an FS project in 2011, and later modified to *Fördjupad dialog* – FD (enhanced dialogue) in 2014 [10]. CTC in the UK was not explicitly called CTC, but one of the UK’s many initiatives was the ‘Approach to Compliance Risk Management for Large

Business'. This initiative implied some CTC features and the program is mainly for large corporate taxpayers through a dedicated section called Large Business Service created in 2006 [11]. Large businesses generally have more sophisticated risk management systems than smaller businesses [13]. The program in the US is tagged as PFA, and thereafter CAP. Though not explicitly called CTC, the name indicates some enhanced relationship. Moreover, the program in the US was explicitly for large corporate taxpayers. As at 2010, approximately 100 large corporate taxpayers in the program were required to meet a certain quantitative benchmark, such as minimum gross assets of \$500 million and gross income of \$1 billion or foreign asset of \$250 million [12].

Legislative Change

The introduction of CCM in Australia had not led to legislative changes. The compliance agreements concluded by ATO do not change the tax obligations of the taxpayers and do not interpret tax legislation [3]. Like Australia, no legislative change was reported in Denmark, Finland, the Netherlands, Norway, Sweden, and the UK [5, 7, 8, 14]. Evidence also did not reveal any legislative changes in the US. However, in the case of Sweden, even though the project was put on hold to wait for legal changes, such changes have not taken place yet. The conclusion was that how SKV proposed to work with FS did not follow the Swedish public governance tradition. In other words, it did not follow the basic legality requirements within the Swedish administrative law. Thus, SKV should wait to integrate FS into the Swedish public law before continuing with the program's development and implementation [10].

Formality

Formalities are required in the implementation of CCM. In Australia, those formalities changed overtime to enhance the relationship with taxpayers; from the Taxpayer Charter of 1997 [4], ACA of 2008, and later to the "Building Confidence Strategy" in 2015. Specifically, the ACA consists of two main documents; the Tax Governance Letter, a written confirmation by the Chief Finance Officer (CFO) or CEO of their participation and the Terms of Arrangement signed between the parties. The Tax Governance Program in Denmark also required formal agreement with the participating corporations [10]. Similarly, the ECC in Finland is also entered into an informal agreement between the Large Taxpayers' Office and the corporation. A letter of understanding needs to be signed by the two parties stating that they commit themselves to the bond of trust, transparency, and mutual understanding [8]. Horizontal Monitoring in the Netherlands is entered into a mutual agreement with Dutch revenue authority called "compliance agreement". Specifically, participating corporations entered into a mutual covenant which is a standard text that outlined the future relationship between the corporation and tax authorities. In the consolidated corporation, the covenant applies to all the companies within the group [11]. This covenant is considered any other private contractual agreement, giving both parties an obligation [11].

Although Norway did not record many formalities in the implementation of CCM as experienced in other countries such as the UK, there are still establishments of "Tax Control Framework Initiative" and the Enhanced Relationship pilot project called the "Reinforced Dialogue" [9, 14]. However, no formal agreement is signed between the taxpayers and central office, unlike Sweden, where a formal agreement is signed under the FS. The FS implementation in Sweden started with an invitation from the SKV to the chosen board or top management of the chosen corporation, followed by a meeting on the expectations, preconditions, and other discussions. Upon agreement, the participating

corporation and SKV will write and sign a declaration of intent. Though this declaration is not legally bound, it serves as an indication of will and commitment by the parties; hence, any party can opt-out at will due to its unbinding nature [10]. CCM in the UK underwent a series of formalities, starting with the “Review of Links with Large Businesses” and “Resourcing to Risk” introduced in 2006, where Her Majesty’s Revenue and Customs (HMRC) allocated its resources according to the risk displayed by business taxpayers [11]. In 2006, the High-Risk Corporates Program introduced only dealt with large businesses with high risks. Later in 2007, a document entitled “Approach to Compliance Risk Management for Large Business” was introduced [11]. However, all these formalities were not amounted to signing a formal agreement with the Large Business Directorate of HMRC. Meanwhile, the implementation of CCM in the US requires formalities and certain agreements were put in place. This ranged from the Advance Pricing Agreement (APA) program, the PFA program, and the CAP [12, 15].

Voluntary Participation

The participation in the CCM arrangement is voluntary in most jurisdictions. In Australia, not only that the participation is voluntary, but ATO also placed some additional requirements. For instance, in 2008, ACA requested that the participating taxpayers have an annual turnover above \$250 million. The transparency, honesty, and openness of the taxpayer are also assessed before considered into the arrangement. In Denmark, the participation into the Enhanced Relationship program and later Tax Governance is voluntary – it started with six consolidated corporations for the pilot in 2008, to about 30 in 2018, and these consolidated corporations have approximately 800 subsidiaries. The participation into ECC in Finland is also voluntary based on the willingness for openness by the taxpayers and trust in tax authority [8]. Similarly, in the Netherlands, Horizontal Monitoring participation is voluntary for large, medium, and small enterprises [11].

In Norway, the participation in the project is completely voluntary. While the aim is to improve compliance, the program’s participation is not a reward for being compliant, nor does it reserve punishment for those who do not join the program. Some taxpayers decline invitation based due to reasons like time-consuming and a lot of work needed [9]. FS participation is voluntary in Sweden, whereby even after signing a declaration, a corporation can opt-out [10]. It was noted that any of the parties could terminate such declaration of intent [10]. Unlike other developed countries, participation in the CTC program is not voluntary in the UK, but it covers all large businesses. The program covered about 800 large business corporations under Large Business Service and over 2,000 large businesses under the existing Large Business Directorate of HMRC [11]. However, the US situation is similar to other developed countries, where participation in the CTC programs is voluntary. For instance, [12] noted that participation in the PFA is at the taxpayers’ request, implying the program’s voluntary nature.

Inclusiveness

In Australia, the CCM is not all-inclusive. The ACA was offered to the 50 largest entities, based on the value of their annual turnover. Like Australia, not all large corporations in Denmark are included in the Tax Governance program. In 2018, only about 30 consolidated corporations were included, representing about 800 subsidiaries out of 8,800 large corporate taxpayers. Correspondingly, not all Large Consolidated Corporations in Finland were involved. It started with five in 2013 to 2015 as a pilot, and in 2016 ten different Large Consolidated Corporations were targeted. However, only six were successfully scanned into the ECC. Although an additional ten participants were targeted each year, as of 2018, there were only 27 Consolidated Corporations under the

ECC [8]. While Horizontal Monitoring welcomes participation from large, medium, and small corporate taxpayers, it does not cover all, whereby it started from only 20 largest corporate taxpayers and expands over the years [11].

In Norway, the participation is not all-inclusive. It started with just a pilot of six corporations within three years (2011–2013) and later expanded [9]. The participation into FS is not all-inclusive in Sweden even among the largest corporations. Due to the high resistance, SKV had to devise a strategy to classify these large taxpayers into three groups based on the commitment to join or not join FS. Group A participated in FS and was willing to collaborate, while group B was those unwilling to collaborate and pursue aggressive tax planning. This group was subjective to individual judgment and risk analysis, while the remaining group, classified as C, was subjected to collective auditing [10]. Participation in the CTC program in the UK is all-inclusive. It covers all large business groups under the Large Business Directorate of HMRC [11]. However, in the US, similar to other developed countries, the CTC program is not all-inclusive. It is open to a handful of taxpayers mostly within the large corporate taxpayer bracket. One of the significant limitations noted with respect of CAP was that it is only open to companies that historically exhibited a “high level of compliance behaviour”. Thus, much criticisms and suggestions were made to expand the program, and objective criteria for selecting taxpayers into the program were recommended [12].

Operations of Cooperative Tax Compliance in Developed Countries

In terms of CTC arrangement operation, two features were widely discussed in the literature, i.e., the single point of contact and provision for advance ruling [10, 14]. However, in this study, these operational features are expanded into four sections. First is publicity and stakeholder engagement. It depicts whether the high publicity and stakeholders’ engagement has been embedded in the operation of CCM. Stakeholders include the taxpaying public, large companies, trade associations and tax professionals. Second is a single point of contact, which implied whether a single point of contact is dedicated to each taxpayer in the model. The third is a committee of experts. In the CCM of some countries, apart from a single point of contact, there is also a dedicated committee of experts, specialising in taxation and whom the single point of contact will be referring to complex tax matters. Lastly is the provision of the advance ruling, i.e., certainty and real-time working. This implied whether the model provides real-time working and advance ruling, whether the outcome of the pre-compliance agreement/arrangement/dialogues with the large business may or may not be binding tax authority such that the taxpayers can predict tax liability with certainty.

Publicity and Stakeholder Engagements

Ahead of CCM implementation in Australia, the Taxpayer Charter was initially issued in 1997 to communicate to the taxpaying public its rights and obligations that enable proper publicity. The implementation of CCM for Large Business and International (LBI) and the cash economy was seen as a replacement of this Charter [7]. Specifically, the models serve as an explicit communication strategy for community engagement on their rights and responsibilities through CCM for LBI and the cash economy, each with varying structure. In addition, information regarding ACA is disseminated by the Commissioner and senior ATO officials through speeches at major conferences [7], attended by large business representatives.

An initial evaluation report of the Denmark pilot project revealed external resistance by stakeholders, mostly interest groups and the Big Four tax consultants. Thus, a dedicated website was created for a Tax Governance program, where every information relating its guidelines can be accessed [7]. Though the participating corporations' list is not made public, as it is considered an internal administration system, the participating corporations can publicly announce their participation in the program [7]. The Finnish Tax Authority also ensure adequate publicity and stakeholders' engagement ahead of pilot launch. In particular, discussions were held with Confederation of Finnish Industries (*Elinkeinoelämän Keskusliitto*) ahead of the pilot ECC launch [8].

In the Netherlands, the Director-General of Taxation in the Ministry of Finance and other high-level civil servants in the Ministry of Finance tax section exhibit strong commitment for the successful launch [11]. Visitations by high-level civil servants to the corporate boards were made to get to know "the tone at the top" and to mitigate concerns by such companies [11]. Moreover, the Netherlands Tax and Customs Administration (NTCA) responds to criticisms that emanate from highly politicised debates, especially those relating to the allegation that the program is nothing other than "sweetheart deals" [11].

[9] noted that tax advisers have continued to play important roles. Even with Reinforced Dialogue project implementation, some taxpayers prefer to discuss their tax issues with Central Office through their tax advisers. While this has been evident, not much publicity and stakeholder engagement have been reported in Norway. Sweden is the best example of stakeholder engagement of the CCM projects operation. The publicity and stakeholder engagement started with the setting up a committee of employees assigned to come up with a plan to launch FS. The report of the committee outlined how FS will work. These include a media launch, information meeting with a selected number of Sweden's largest corporations and making project communication through SKV's intranet. During the implementation of FS, SKV invited Sweden's largest corporations and the larger tax advisor firms. Such invitation led to four information meetings regarding the FS in Sweden and was held in the three largest cities, with about 100 corporations participated in the meetings. In the meetings, SKV outlined FS arguments and how it was meant to work [10]. Moreover, in an attempt to improve public awareness and enhance stakeholder engagement, SKV published an article in a newspaper called *Dagens industry*, this publication led to a quite hectic and high-pitched media debate in the same newspaper from the Confederation of Swedish Enterprises and several law professors who argued against it, leading to the initiative to be put on hold awaiting legal decisions [10].

As part of stakeholder engagement and publicity of the cooperative tax compliance program in the UK, Dave Harnett promoted the use of the "Tax in the Boardroom Agenda," which was outlined publicly by the HMRC and publicised in a webpage [11]. There is also the introduction of "tax governance," which sets out a series of good practise indicators [11]. Publicity and stakeholder engagements were also noticed in the US. In 2007, two years after the launch of CAP, IRS launched a program that solicited public comments ahead of issuing guideline [15]. Chief Counsel Korb noted that in late 2007, such process had "worked beautifully" because the initiative enables the government to meet the demands of taxpaying public on technical issues through routine comments by stakeholders including taxpayers, bar associations, and trade groups on published notices for proposed rulemaking [15]. It was further added that business knowledge and experience, particularly in the tax field, are critical for government officials, the IRS added transparency to a process otherwise hidden from public view. Soliciting comments earlier creates a collaborative, participatory, and informed system. In addition to facilitating

communication, the program helps regulators overcome distrust and suspicion by working alongside taxpayers, incorporating their concerns into legal rules, and investing them professionally and personally in compliance [15]

Single Point Contact

Senior Executive Relationship Managers are assigned as a contact point for each large taxpayer under ACA[3,16]. This enables the facilitation, coordination and prioritisation of high-level engagements and resolves blockages and issues. Denmark also deploys a single point of contact through “Tax Governance Manager” who are tax officials with many years of experience and specialised in corporate taxation [13]. The Finnish Tax Administration also recognises using a single-point contact for each participating corporation, called the “Client Account Manager,” who ask as a direct contact person with the consolidated corporation [8]. In the Netherlands, the NTCA uses an “individual customised treatment” to all taxpayers under the Large Businesses Division, which meant that every large business has a dedicated tax administrator as its first point of contact [11].

In Norway, there is also an assigned contact person who is generally responsible for one to three companies, for which he coordinates and make all contact with them on behalf of the Central office [9]. This contact person dealt with the apex of the assigned large company(s) for all their tax affairs. The recruitment of these personnel into the position is based not only on their knowledge of tax laws and accounting but also on assessing pedagogical and dialogue skills [9]. Sweden also adopts the use of a single point of contact who is mostly appointed for four years for each of the company assigned and this common under both FS and FD [10]. The change from FS to FD had seen some contact persons’ tenure extended due to the ways their attached companies wanted to work with them based on experience. These contact persons make contact with the assigned corporation at least once in a week. The UK has continued to strengthen its use of a single point of contact through the rebranding of the single-point contact from “Customer Relations Manager” to “Customer Compliance Manager” in 2017. This has been seen as a commitment to modifying the model to fit it to the purpose. Evidence showed that taxpayers under CAP in the US are assigned to some IRS personnel with whom they work closely for real-time working to achieve certainty and predictability of tax ahead of filing their tax returns [12].

Committee of Experts

In addition to the dedicated single point of contact, which serves as a communication representative, there is also a steering committee and a working group. In Australia, the steering committee comprises ATO and a taxpayer who provides governance oversight for ACA. Moreover, a working group is also established for each active tax schedule to support the steering committee. The Denmark Tax Authority also constitutes a team of specialists drawn from various units based on their areas of expertise relevant to the taxpayer’s business. Thus, a tax specialist can work in more than one team depending on the demands for his expertise in addressing the taxpayers’ concern in Tax Governance. Similarly, the Finnish Tax Administration also considers it imperative to constitute an expert team comprising three key personnel; client account manager, a team member, and a specialist leader ([8]. Though it is not specified whether the Netherlands adopts committee of experts, [11]noted that client managers that serve as direct contact persons

also rely on other tax officials and advisers within NTCA in formulating answers to enquiries made by the large business within the Horizontal Monitoring program [11].

Though direct contact has been reported in Norway [9], no available evidence that committee of specialists or experts is constituted for which the contact person could refer in complex tax issues. In Sweden, there is a dedicated committee of specialists for each of the participating corporation. The representatives of the participating corporations and SKV meet four times in a year for about a day or two each time, with both sides have at least two representatives in the meeting. In some instances, corporations co-opt tax advisors or technical experts on their sides [10]. Evidence from the extant literature does not reveal that the Large Business Directorate of HMRC in the UK allocates a dedicated committee of experts based on speciality for each large business. However, this could not be surprising considering that the program covered all the large businesses which are more than 2,000. It could be challenging to have committees for each of these taxpayers. It was reported that this large number leads to staffing concerns, i.e., lack of resources and a mismatch of work in terms of allocation of large business customers to specific tax officials [11]. While there is evidence of assigning a taxpayer to a specific point of contact under CAP, no evidence from the US is available regarding the existence of committee of experts to whom the assigned IRS personnel can refer to in the case of industry-specific issues or such issues that may require special expertise in tax matters of the participating large corporate taxpayers.

Provision of Advance Ruling

In Australia, ACA enables a real-time risk assessment of transactions at a time when it would not otherwise see them, i.e., before the tax return is lodged. This ensures advance ruling and certainty to taxpayers. In achieving this, ATO issues a sign-off letter to the taxpayer, which confirms that ATO will refrain from further review and audit on the returns agreed so far. Tax Governance in Denmark also ensures real-time clarifications and minimises auditing risk, thereby enhancing the predictability of taxation. However, this certainty issue of taxation is more beneficial to a corporation that operates only locally in Denmark than those subjected to international and cross-border activities. The ECC in Finland was also seen to ensure predictability, thus, ensuring certainty [8] achieved through the initiative of real-time working. In the Netherlands, there is also provision for real-time working, which provides some level of certainty of taxation for the participants in the Horizontal Monitoring program who apply TCF [11]).

In Norway, there is no provision of the advance ruling [14], while in Sweden, the provision exists for advance ruling and establishing the certainty of taxation under FS. noted that participating corporations under FS could lower taxation risks, costs and administrative burdens. Through collaboration under FS, the corporation could prevent audits or other control measures that could lead to tax reassessments or drawn-out legal processes. Though there is a single point of contact that can facilitate real-time working, no available report indicates such leads to tax predictability and advanced ruling. A commitment to real-time working was reported in the UK [11]. This provides some level of certainty through the past determination of tax liabilities. In the US, like other developed countries, large business taxpayers under the CAP enjoy “real-time” audit; thus, having certainty on all issues prior to the filing of their tax returns [12]. This is achieved through working closely between the taxpayers and assigned IRS personnel. This was also further strengthened by introducing the Fast Track Settlement (FTS) program [15].

Summary of the Practices

Table 1 provides a summary of the practices of CTC, showing more similarities than differences. For instance, all countries under review (except for the UK), implemented CTC with a small number of invited corporate/large taxpayers as part of the pilot program. In terms of explicitness, the respective tax authorities explicitly mentioned the CTC program, except for Norway and the UK. In Norway, they termed it as “Reinforced Dialogue,” while the HMRC in the UK called it as “Approach to Compliance Risk Management for Large Business.” As for legislative change, it appears that the implementation of CTC in all countries did not lead to legislative change. All countries except for Norway and the UK adopt some form of formalities in the implementation of CTC. Similarly, voluntary participation was adopted in all countries except for the UK, which covered all large businesses. In other words, the UK featured inclusiveness in its CTC implementation, which was contradicting to other counterparts.

As for the operation of CTC, publicity and stakeholders’ engagement were apparent in all countries but not Norway. In terms of single point contact, it has been adopted by all countries under review. A single point contact which refers to dedicated tax administrator enables facilitation and coordination. Another element of CTC operation is the appointment of a committee of experts practised in Australia, Denmark, Finland, and Sweden. CTC. Advance rulings were issued in all countries except for Norway and Sweden to provide certainty to taxpayers.

Table 1

Summary of Distinctive Features of Cooperative Tax Compliance Model for Advanced Countries

Implementation	Australia	Denmark	Finland	Netherland	Norway	Sweden	UK	US
Invitation and Piloting	✓	✓	✓	✓	✓	✓	X	✓
Explicitness	✓	✓	✓	✓	X	✓	X	✓
Legislative change	X	X	X	X	X	X	X	X
Formality	✓	✓	✓	✓	X	✓	X	✓
Voluntary participation	✓	✓	✓	✓	✓	✓	X	✓
Inclusiveness (all large businesses)	X	X	X	X	X	X	✓	X
Operation								
Publicity and Stakeholder Engagements	✓	✓	✓	✓	X	✓	✓	✓
Single Point Contact	✓	✓	✓	✓	✓	✓	✓	✓
Committee of Experts	✓	✓	✓	X	X	✓	✓	X
Provision of Advance Ruling – Certainty	✓	✓	✓	✓	X	X	✓	✓

Conclusion

As indicated earlier, this paper aims to explore the current practice of CTC in developed countries. For that purpose, the implementation of CTC in eight countries, i.e., Australia, Denmark, Finland, Netherland, Norway, Sweden, the UK, and the US, were reviewed. Based on the reviews, the findings indicated six common features in CTC implementation among developed countries. The features are (i) invitation and piloting, (ii) explicitness, (iii) legislative change, (iv) formality, (v) voluntary participation, and (vi) inclusiveness. In addition to the common features, the operationalisation of CTC in the countries involved publicity and engagement of stakeholder, single point contact, the appointment of a committee of experts and provision of advance rulings. Their experience is considered important as lessons to be learned for Malaysian tax authority on CTC's possible features.

Having CTC in place would provide an opportunity for the tax authority to recoup the amount of tax that may have been lost due to tax non-compliance. Hence, it is a good mechanism for the tax authority to cooperate with the taxpayers on the optimum tax liability. It is important to note the possible setback of introducing the CTC could be the cost involved to train the officers of the tax authorities to improve their consultation competency. Further, CTC may require more tax personnel to meet the number of corporate taxpayers in their country.

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