

CONCLUSION. POLICY IMPLICATIONS

Tax corruption remains a major obstacle to free competition based on a level playing field and clear, predictable rules of the game. This is why fighting tax corruption is among the main priorities of economic policy aimed at improving the business environment and the economy's competitiveness, and at encouraging investment and growth.

This study has attempted to provide albeit partial answers to the following three questions: Why do tax officers take bribes? How exactly do they go about taking bribes? What can the administration and civil society do to ensure that tax officers take less bribes?

The answer to the first question seems obvious. The educated answer derived from the welfare economics is identical to the one suggested by intuition:—To live a better life and consume more. Of course, this is only that part of the story which focuses on individual motives. Equally important are a number of supplementary answers:—Because they can; because they can get away with it; because everybody takes bribes (other public servants, doctors, judges, teachers, co-workers); etc. Each of these adds something to complete the picture, but they also raise further questions the answers to which imply different policy recommendations.

There are several practical implications of the above analytical approach. First, it focuses anticorruption measures on personal motives and institutional drivers. So far, the fight against corruption has tended to rely, almost exclusively, on deterrents: criminal liability, internal control, and moral inhibitions (enshrined in codes of ethic). However, necessary as they are, deterrents are not sufficient. Besides, so far as moral inhibitions are concerned, they set a rather long timeframe for policy: the evolution of values and mindsets is a lengthy process; it can hardly be achieved within a single administration and without a parallel impact on economic drivers and incentives. Of course, the codification of legal liability and moral responsibility is the first necessary step which defines the limits of corruption, of what is acceptable, and sets the mechanisms of public scrutiny in motion. But this first step can only go that far if it is not accompanied with measures addressing personal financial motives and the institutional drivers of corruption.

Stronger internal control also has an important preventive role. Increasing the risk of retribution, it reduces the subjective well-being derived from bribery and acts as a deterrent. Here again, however, limitations arise from the lack of direct impact on the economic motives. If corruption has spread throughout the administration, for reasons other than mere internal control weaknesses, what is the guarantee that the administration's own internal policing elements have been, and will remain, unaffected by it?

Against this background, the study has identified several main action lines which may yield visible results in the medium run.

First and foremost, there is a significant potential for curbing **taxpayer service-related corruption**. A relatively high proportion of bribery seeks to overcome bureaucratic hurdles and obtain faster service. The main solution in this area is to limit personal contacts between tax officers and taxpayers by greater reliance on e-services and one-stop-shop delivery. Most importantly, service level standards should be adopted prescribing quality of service and delivery times. While the administration would commit publicly to such standards, individual tax officers' failure to comply with them would not result in administrative liability but would nonetheless send the right signals throughout the organisation to identify weak links in the delivery chain and the necessary structural measures.

Of course, the Bulgarian tax administration's main challenge is **corruption related to fraud and other tax offences** which, like elsewhere in the world, exceeds service-related corruption in spread and level. Here, the chances of success stem from the fact that tax corruption is relatively concentrated within two functional areas: Tax Audit and Operational Control. This allows to concentrate accordingly the available resources in terms of internal control and supplementary financial incentives.

The precise targeting of the anticorruption impact also allows to identify the most effective countermeasures. As shown by this study, these should address personal motives and deterrents but also, the elements of the legal framework and the operational setup which make corruption possible in the first place. The following policy guidelines have been identified:

First. The reverse correlation between pay levels and the level of corruption has been confirmed by a number of empirical studies. The tax officers themselves identify low salaries as their number-one problem and strongest corruption driver. However, this study has concluded that practically very little can be done to remedy the situation. Theory, and international practice for that matter, has not established any particular pay level at which officers would have sufficient financial comfort and no use for any bribe money. Raising base salaries may lead to a reduction in the number of bribes but more likely, to an increase in their average size. The survey of Bulgarian tax officers about the pay level which would minimise their vulnerability to corruption has revealed a wide gap between that level and their actual current incomes, and accordingly, between required and available resources.

Therefore, rather than raising base salaries across the board, a more workable solution would be to focus on the performance-based component of gross pay, reflecting and rewarding each tax officer's contribution to the success of anticorruption policies and higher collection rates. To this end, the existing pay bonus scheme should be revised and streamlined to make it more transparent, reduce its top-down discretionary component and shift its emphasis from rewarding zealous administrative coercion to rewarding excellence in tax compliance management based on a more straightforward linkage with individual performance appraisal.

The issue of salaries is not just about their absolute levels. It is equally important, in terms of corruption drivers, to focus on the perceived fairness of the compensation package, i.e. its size relative to that of colleagues and superiors. The fairness and impartiality of recruitment and selection, performance appraisal, career development and compensation is what gives employees the assurance that their performance will be judged on merit; that their position and salary will not be jeopardised by changes of leadership; that no one will be unduly favoured to the detriment of others.

Second. The business community, the administration, and the analysts are unanimous that corruption is largely driven by gaps in the tax and financial-reporting legislation, plus its rising complexity, which allow broad freedom of interpretation and compromise the uniformity of application. A simpler legal framework, together with reduced tax rates and a broader tax base (fewer exemptions and exceptions), would go a long way to narrowing the opportunities for tax corruption. At-source taxation would have a similar effect. Although such measures are among the priorities of the National Anticorruption Strategy and its implementing programmes, practical progress has been modest at best. The tax and financial-reporting legislation is in bad need of an anticorruption overhaul in the light of judicial and administrative practices and in particular, the experience of GTD's Methodology and Appeal, and Inspectorate. Once the problematic legal provisions have been identified and discussed with the associations of business, a plan for their improvement must be developed, responsibilities clearly assigned and progress reported publicly.

Third. The improvement of operational processes holds a considerable anticorruption potential. In addition to the clear separation of functions and responsibilities between structural levels and functional areas, there is a need for an effective information system to manage document flows and pinpoint the weak spots in the operational setup. Most importantly in this regard, new tax audit and examination targeting, performance, and reporting methods should be introduced based on state-of-the-art risk assessment and monitoring of individual tax officers' control and audit effectiveness.

Fourth. Despite the achievements in recent years, there is still a lot to be done on deterrents. The structure of penalties for tax offences and corruption could benefit from further streamlining. The existing arrangement concerning tax evasion allows broad administrative discretion and effectively encourages large-scale non-compliance, as the penalties are regressive above the upper fine limits. A lot could be gained in deterrence if the severity of punishment were more closely correlated with the gravity of offence.

Deterrence is also seriously compromised by inadequate anticorruption enforcement. An important measure in this regard would be the development of a corruption-risk assessment system based on tax officers' personal wealth registers and their control and audit effectiveness. The thrust of these efforts should be in countering VAT fraud.

On the other hand, the tax officers should be properly trained, with an emphasis on their rights and responsibilities in taxpayer service delivery, the safeguards ensuring their own security, the limits of acceptable conduct, and the disciplinary and penal consequences of their involvement in corrupt practices. Crucial in this regard is the administration's internal communication and consultation effort: every member of the administration at each structural level should be involved in the discussion on anticorruption strategies and should have access to information about their effectiveness based on a set of indicators.

In the short run, enforcement effectiveness could gain a lot from improved cooperation among administrative entities and between the administration and the associations of business. At present, the investigation and prosecution of tax offences, and of corruption predicated on them, suffers from the involvement of too many government agencies with little separation of responsibilities and coordination among them. Rather than adding to their number (e.g., a Tax Police), the existing agencies' objectives, efficiency and effectiveness should be assessed and measures should be taken on that basis to

integrate or consolidate them. This would result in information-support and risk-management synergies; and any budget savings could be allocated to supplementary financial incentives for law-enforcement and revenue-administration staff.

Industry and other business associations should be more actively involved in fighting unfair competitive practices based on tax fraud and corruption. Although compliant taxpayers stand to lose the most from such practices and are best placed to know about the shady dealings in their respective lines of business, they still appear to be on the wrong side of the front-line in the fight against corruption.

Fifth. The fight against corruption needs an effective progress monitoring and evaluation system. The indicator matrix presented in Chapter Six includes both 'soft' sociological data and 'hard' data from official statistics and the administration's management information system. Thereby, the matrix provides not just an estimate of corruption levels but also, a measurement of the strength of corruption drivers from the perspective of business and of the administration.

The above policy priorities make no claims to originality or even, exhaustiveness. The efforts to curb tax corruption have not started today, nor have they started from scratch. Considerable progress has been made along most of the action lines discussed here. Criminal and administrative liability for corrupt practices has been provided, and control and enforcement functions have been set up. The foundation has been laid of a system of supplementary financial incentives, and recruitment and selection, performance appraisal, promotion and compensation have been based on modern standards. A state-of-the-art information-support system will be introduced shortly, without which an effective anticorruption stance is impossible. The new National Revenue Agency will bring together the collection of taxes and social security contributions, and will consolidate the existing data in the interest of more effective control and audit, and better public service. This adds up to a solid basis for a more precise targeting of impacts and further progress.

This study has not intended to offer any magical solution that would virtually eradicate corruption from the tax administration. Rather, it has highlighted certain areas which have so far attracted relatively little attention and in which a little extra effort could yield a considerable anticorruption effect in the medium run. Above all, of course, the administration must have a clear vision of what it aims to achieve, and how, in the time remaining until Bulgaria's EU accession.

Finally, two words of caution concerning expectations: The first one is against unfounded pessimism, which stems from the view that fighting corruption takes time because success in it depends on the evolution of values. However, in Bulgaria, like in other transition countries, widespread tax corruption has not struck such deep roots in society's system of values, much as, for that matter, the principles of market economy have not yet struck such roots either. The current situation is rather the result of a 'corruption shock', and the current level of corruption is not the 'equilibrium' level reached already in a number of advanced market economies. This corruption shock of transition has largely been caused by the collapse of the old institutions and values, and the absence of new ones to replace them, and by the ambitions of emerging economic elites to capture the State. So, there is a good chance that tax corruption will be brought relatively quickly under control, before it has struck any deeper cultural roots or a high-level equilibrium.

Similarly, the second word of caution should be against unfounded optimism, given that both parties to an act of corruption stand to gain from it. In this regard, the emphasis should continue to shift from legal deterrents and moral inhibitions to anticorruption incentives and the removal of adverse institutional drivers. In addition, the effectiveness of these measures must be monitored, analysed and made public, so that adjustments could be made in the course of implementation.

As there are no 'comprehensive' or 'radical' solutions to the corruption problem in the tax administration, the risk of choosing a certain course of action, which may prove badly wrong, is no bigger than the chance of overnight success. What could be worse than long-term failure is doing nothing today, and what is decidedly better than any 'magical' Strategy or Action Plan (to say nothing of adding more institutions on top of existing ones) is even the smallest practical step that effectively curbs corruption.

