
Editorial

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Administrative and compliance costs

The pursuit of a transfer pricing inquiry involves a number of people. There will be the staff from the fisc, staff from the taxpayer group and, probably, staff from the professional advisers to the group. A considerable amount of time will be engaged in formulating requests for information, in debating whether that information is relevant and in seeking to supply the information if it is irrelevant. Where the information sought is to be supplied from another country a further layer of administrative work is added.

If an adjustment is proposed there is the question whether it is acceptable to the other country's fisc. This will involve the mutual agreement procedure and thus another level of staffing. If the procedure does not produce a satisfactory result for the taxpayer he may decide to litigate the issue, indeed he may do so anyway. This involves further staff and advisers, and the courts.

Similarly attempts to increase the range of channels for the exchange of information between fiscs, for a requirement for automatic exchange rather exchange on request, may involve not only an increased staffing within the fisc but already produce an additional task for the taxpayer.

Proposals such as those outlined in US Section 482 White Paper, to which this Issue of Intertax is devoted, or in the OECD and Council of Europe Convention for Mutual Administration Assistance in Tax Matters will significantly increase the administrative burden falling on the fisc and the taxpayer.

The White Paper does not itself attempt to price the cost of the proposals in terms of the staffing required (not only in the US but in other countries where information is sought or a corresponding adjustment requested). This must surely be an important issue in judging whether to proceed with the proposal.

Equally this is one of the important issues in determining whether to sign the OECD and Council of Europe Convention and it is therefore interesting to note that the UK has recently announced that it does not propose to become a party to the Convention. The UK did not cite this issue as a factor in its decision but, while recognising the value of international co-operation among fiscal authorities, stated that in view of the existing provisions for mutual assistance provided by its extensive network of double taxation treaties and European obligations, it had concluded that it did not need to become a party to the Convention.

In summary, both the White Paper and the Convention, if proceeded with, would require considerable administrative work. It is desirable that this should be recognised when such proposals are put forward and it is therefore particularly timely that one of the subjects for the International Fiscal Association Congress in Rio de Janeiro in September is Administrative and Compliance Costs of Taxation.