

## OPPORTUNITIES FOR CORRUPTION PREVENTION IN TAX ADMINISTRATION

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### Abstract

Activities of the tax administration is essential to accurate and impartial enforcement of the tax laws. Despite advances in computer technology from its qualifications, motivation and competence depends on the degree of fulfillment of public expectations for high quality and professional service without implicitly or explicitly extortion in connection with the timely and adequate execution of routine work.

This article reflects the results of a survey of the preconditions for the emergence and realization of corruption attitudes and opinions of employees from a specific tax office on how to reduce the risk of corruption. Theoretical formulations related to a clear identification of the phenomenon and the possibilities of applying some practical ways for its limitation are discussed.

**Key words:** corruption, tax administration, motivation

**JEL:** H3.

### Introduction

Corruption is a negative phenomenon whose origin dates back to the distant past. It is related to the state organization of public life and evolves in relation to omissions in the regulatory framework, loopholes in the methods for control and the correlation between expected benefits and possible negative effects for those who practise and support it. This phenomenon has been preserved until the present day and continues to bother that part of the population who want to live in justice, distinct order and the rule of law. Numerous sociological researches indicate that public morality has not evolved much despite the improved standard of living and higher educational level of the population. Consumer behavior model, which is imposed by traders of goods and services as well as the abundance of goods and goes ahead of the purchasing power of the largest part of the population, constitutes a favorable environment for yielding to the temptation of making a quick fortune regardless of the means and methods. The alienation and anonymity of big city life as well as the insufficient control create favorable conditions for the development of corruption attitudes, tolerance for corruption and the tendency to use it for the achievement of socially significant objectives. The term corruption is interpreted as depravity, bribery of civil servants and public figures [3]. According to Civil Convention on Corruption<sup>1</sup>, corruption is requesting, offering, giving and accepting directly or indirectly a bribe or any other undue benefit or the promise of such, which is connected either to the duly performance of a duty or to the conduct required of the person accepting the bribe, the benefit they are not entitled to or the promise of such.

There are numerous definitions of corruption but in fact it usually comes down to accepting of

wrongful personal or group benefit by using work information, power or influence in public administration or state and local public authorities. Negative consequences are obvious. The most significant of them include: replacement of the competitive market environment with a criminal model of market distribution, demotivating business entities and population to pay taxes, driving back potential foreign investors, providing with resources the criminal structures, who do not work to make a living.

Tax administration is the most vulnerable state structure often falling under the pressure of corruption. The reasons are in its key role in collecting means for ensuring the activity of the public sector and the contact they have with the sources of these means – taxpayers, who do not always behave properly. In anonymous surveys conducted by NGOs, a large part of the population share that they have been under corruption pressure exerted by tax administration officials. The intransient topicality of the issue is the reason to conduct a research on the attitudes and factors that create prerequisites for corruption practices in tax administration.

The present article addresses the results of a survey conducted among Tax Administration officials (Customer Service department, NRA, Office Centre, Sofia). The survey aims to prove the thesis that tax officials need training, assistance and support in the fight against corruption. The main idea is to find opportunities for them to feel more satisfied with their work and to collaborate actively in the prevention of corruption. Administrative control, the threat of sanctions and the electronic systems cannot achieve the desired results if the officials are not motivated to collaborate for prevention of corruption practices. Usually, citizens and companies are viewed as subjects to corruption pressure exerted by tax administration officials.

<sup>1</sup> Ratified by law of the 38<sup>th</sup> National Assembly on 10<sup>th</sup> May, 2000, Official Gazette № 42/23.05.2000 issued by the Ministry of Justice, Official Gazette № 102/ 21.11.2003, in force for the Republic of Bulgaria as of 1<sup>st</sup> November, 2003.

### Problem Statement

In order to fight corruption in recent years, the Bulgarian state has taken a few organizational measures in the sphere of competence of the three powers – executive, judicial and legislative:

- With a decision of the Council of Ministers in 2006 a Commission on Prevention and Countering Corruption was established with wide discretion to develop policies, make analysis, and propose amendments in the regulatory framework for fighting corruption whereas the inspectors from the respective ministries have to control the implementation of the measures taken and to report their effectiveness.
- Supreme Judiciary Council has established Professional Ethics and Prevention of Corruption Committee
- The 43<sup>rd</sup> National Assembly has established Anti-Corruption, Conflict of Interests and Parliamentary Ethics Committee.

33 normative documents /laws, methodical instructions for work with the inspectorates, integrated strategy for prevention and countering corruption, annual action plans related to the prevention of corruption, methodology for assessment of the corruption risk, annual reports on the activities for the prevention of corruption, sample surveys, etc./ are available in a special section [4] on the Commission on Prevention and Countering Corruption's website and create the impression that the necessary regulations for the prevention of corruption are established, the way for their implementation is defined and the bodies responsible to implement them in the operation of public administration are appointed.

Nevertheless, The Annual report of the Center for Study of Democracy for 2014 emphasizes that corruption remains a widespread phenomenon, which includes many types of conduct on various levels – administrative and political.

On the basis of sociological research, it has been concluded that in recent years, Bulgarians have been involved in about 158 000 corruption deals per month as most of them have been initiated by the administration by exerting corruption pressure on the people looking for public services.

The Center for Study of Democracy's **Corruption Assessment Report: Anti-Corruption Policies against State Capture** states that for the period 1999-2014 the highest percentage of the people who stated that they have been subject to corruption pressure was registered in the last year (2014) (39.6 % were asked to give a bribe) as well as those who have participated in corruption practices (29.3 % have given a bribe).

### Possibilities for contributing to solving the problem

Public Administration education in universities includes topics related to professional ethics, identifying and countering corruption when providing public services to the population and companies but obviously this is not enough because not all working in the public administration have obtained a degree in this sphere. It is believed that corruption [2] in public administration cannot be combatted only by administrative measures. Corruption is a complex social phenomenon caused by economic, political, organizational and professional conditions. It can only be addressed by a complex approach. These facts and statements lead to the conclusion that public administration officials should not be viewed only or most often as an object of anticorruption policies but it is necessary to study their opinion on the factors, favoring the shaping of corruption attitudes and they should be attracted as allies to the respective authorities in the fight against corruption.

### Results from the conducted survey

The main statistical, sociological and marketing requirements have been taken into account in the process of developing the survey:

The survey consists of two characteristic groups of questions. The first group concerns personal characteristics and self-assessment of the respondents. These include: education, experience in the system, level of computer skills, etc. The second one includes questions about the working environment and allows the examination of the correlation between the personal characteristics and the factors which influence the corruption risk. The questions asked are within the scope of the occupied positions and are connected to the type of the performed duties.

Questions regarding gender and age are not included as the number of the respondents is not high and there is a probability to violate the requirement for anonymity when conducting the survey. The survey is unique so that it is appropriate for the subject of examination. In general, it includes the subjective indicators, as set out in the methodology for assessment of the corruption risk, established by an Order [1] of the Prime Minister of the Republic of Bulgaria.

The whole team (30 officials) of the Customer Service Department of NRA, Office Centre, Sofia, has participated in the survey. Table 1 and Table 2 show the structure of responses in %:

**Table 1. Structure of the responses of the respondents in %**

Characteristics, assessment and opinions of the respondents	Possible responses		
	Up to 5	from 5 to 10	More than 10
Period of working for the NRA in years	77	17	6
Completed education	Secondary	Bachelor degree	Master degree
	7	46	47
Does the completed education correspond to the position occupied?	Yes	No	Can't decide
	40	20	40
Self-assessment of the level of computer technology skills	Performing duties with no difficulty	Need for periodical training on novelties	Having difficulties
	40	30	30
Satisfaction with the opportunities for career development	Yes	No	Career is not important to me
	80	17	3
Correspondence between professional experience and remuneration	Yes	No	Can't decide
	57	30	13
Aware of the essence of the definition of "corruption"	Yes	I have some information but it is not thorough.	Not aware
	63	30	7
Have you been subject to corruption pressure?	Very often	Very rarely	No
	3	34	63
Do you have any information that another colleague has been subject to corruption pressure?	Yes	No	I presume but cannot confirm with certainty
	13	17	70
Does the Code of Ethics contribute to decreasing the corruption risk?	Yes	No	I am not familiar in detail with the Code of Ethics
	21	69	10
Would you offer professional consultancy in return for payment to your customer?	Yes but not during working hours and in compliance with the law	No	I will refer them to the relevant normative documents
	7	53	40
Do you have access to work information which could be of interest for exerting corruption pressure?	Yes	No	Can't decide
	73	20	7
Do you think that the Conflict of Interest Prevention and Ascertainment Act is a law working well?	Yes	No	Can't decide
	20	30	50
Does the declaration of real property of officials have effective anticorruption influence?	Yes	No	Can't decide
	30	30	40

**Table 2. Structure of the responses of the respondents in %**

Examined characteristics	Possible responses				
	No difficulties	Don't like the psychological climate in the team	Clients do not behave properly	Organization of paperwork processing is not perfect	Other
Difficulties that the officials encounter at work	12	37	12	31	8
Factors creating prerequisites for corruption risk	Direct communication with clients	Low remuneration	Deficiencies of the regulatory framework	Large volume of paper documents which may be corrected	Inefficient control
	23	41	8	24	4
Methods for decreasing corruption risk	Fair extra bonuses upon discovering inaccuracies in documentation		Improving the forms of control	Stricter sanctions for participants in proved corruption practices	Wider implementation of electronic documents and electronic form of control
	40		11	4	45

Conclusions<sup>2</sup> regarding the obtained results:

- The structure of the staff with regard to education allows adequate fulfillment of duties but it may be improved;
- By participating in master degree programs, the balance between the performed work duties and education may increase the officials' competencies;

- Periodical refreshment of the skills related to use of new computer technologies is imperative;
- A very high degree of satisfaction regarding the opportunities for career development and the correspondence between remuneration and professional experience has been achieved;

<sup>2</sup> This research is not representative in regard to all the personnel working for the National Revenue Agency, but it presents an overview of the state of the problem in one of the large capital city offices of the agency and the results are worth our attention.

- Only a few of the officials are aware of what is considered as “corruption”;
- Corruption pressure on the officials is a rare phenomenon. They are not willing to provide professional services in return for payment;
- The officials have access to information which is of interest for corruption. They are not confident about the efficient operation of the anticorruption legislation and the Code of Ethics;
- In the organization of processing paperwork, there are deficiencies which are probably a part of the reason for the negative psychological climate in the team.
- The main problem and prerequisite for corruption risk is the low remuneration and the work with too many documents in paper copies.

Most of the characteristics for which the information was collected by means of the survey are distributed on a weak scaling. In order to examine the strength of the relation between some of them, Cramer contingency coefficient is used. The results of the analysis are shown in Table 3.

**Table 3. Results from the analysis of the strength of the correlation between selected characteristics of the survey**

Variable Result	Variable Factor	Cramer contingency coefficient
Self-assessment of the ability to work with computers	Work experience in tax administration system	0.2609
Awareness of the essence of “corruption”	Work experience in tax administration system	0.1713
Trust in the anti-corruption effect of the Code of Ethics	Work experience in tax administration system	0.2269
Self-assessment of the ability to work with computers	Education/degree/	0.2976
Awareness of the essence of “corruption”	Education/degree/	0.3755

The theoretical boundaries in which the correlation coefficient varies are from 0 to 1. The obtained results show a very weak correlation between the examined variables. Only the correlation between the awareness on the essence of corruption and the educational degree of the officials is moderate. This indicates that a computer skills training and clarification of the essence of corruption and the role of the Code of Ethics are as much needed for employees with short work experience as for employees with long work experience in the NRA system. It turns out that the educational degree has a weak influence on the capability to work with a computer and employees with all kinds of degrees need training. These conclusions may be used in the development of a plan for the training of employees and forming the groups in the respective office.

**Summary and recommendations to the NRA authorities regarding the measures for decreasing corruption risk:**

1. Periodical trainings for NRA officials on the novelties in information technologies, the essence of corruption and its forms shall be organized. Raising the educational level of the staff shall be encouraged so that it corresponds to the positions occupied. This may be achieved by better recruitment process of new employees.
2. To observe the principles of legality, correctness, good faith, respect to customer’s opinions, integrity, unbiasedness,

- etc. set out in the institution’s Code of Ethics, there shall be clarification sessions and relevant stimuli shall be defined.
3. It is relevant that the remuneration of employees shall have main and additional components and the additional ones shall be connected with the demonstration of extra caution, revealing of mistakes and abuses, which will motivate employees’ caution and create satisfaction.
4. The introduction of electronic variant for documentation has a high potential for decreasing corruption risk in tax administration.
5. It is worth noting the difficulties that the tax officials will meet when servicing those taxpayers who do not have enough skills to work with electronic documents and will make a lot of mistakes at the beginning.
6. The human factor has a key role in the fight against corruption and in order to make progress, modern electronic systems will not be enough. The officials have to be satisfied with the character of their work, the prestige and remuneration for their work and to be motivated to demonstrate loyalty to the institution and the state.
7. Optimization of the work processes and procedures is an important necessity for decreasing corruption risk.

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