

Cooperative Compliance

WU GTPC at the Institute for
Austrian and International Tax Law

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Institute for Austrian and
International Tax Law **Vienna**
WU Global Tax Policy Center

Who We Are

The **WU Global Tax Policy Center (WU GTPC)** is an integral part of the Institute for Austrian and International Tax Law at WU, Vienna University of Economics and Business (www.wu.ac.at/en/taxlaw/). The Institute for Austrian and International Tax Law is the largest institution of its kind worldwide. As well as being active in research and teaching activities at WU, the Institute is involved in national and international research projects and therefore has an excellent worldwide reputation. Being the hub for the international tax community, the Institute offers a unique academic platform for significant, innovative and inspiring tax-related research.

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What we have achieved

In 2018 the GTPC, together with the ICC and CATA, launched the project “Cooperative Compliance: Breaking the barriers.” This project has brought together over 300 participants from governments, businesses, and academia from around the world. Since its inception there have been Multi-stakeholder meetings held in Europe, Asia, and North and South America. The outcome from this work has influenced the international debate of how to provide greater tax certainty to both taxpayers and tax administrations.

In 2021, the Handbook „Cooperative Compliance: The Multi-stakeholder and Sustainable Approach to Taxation” was published as a result of the continuous work of the five working groups comprised of tax administration representatives, tax practitioners, and academics.

The Handbook is a comprehensive guide providing practical information on the implementation of the principles underpinning the Cooperative Compliance concept. It can serve as a tool for the countries that are planning to implement Cooperative Compliance programs in their jurisdictions and companies willing to participate in Cooperative Compliance programs. The work was presented at the conference for „Cooperative Compliance: A Multi-Stakeholder and Sustainable Approach to Taxation” on March 21-22, 2022.

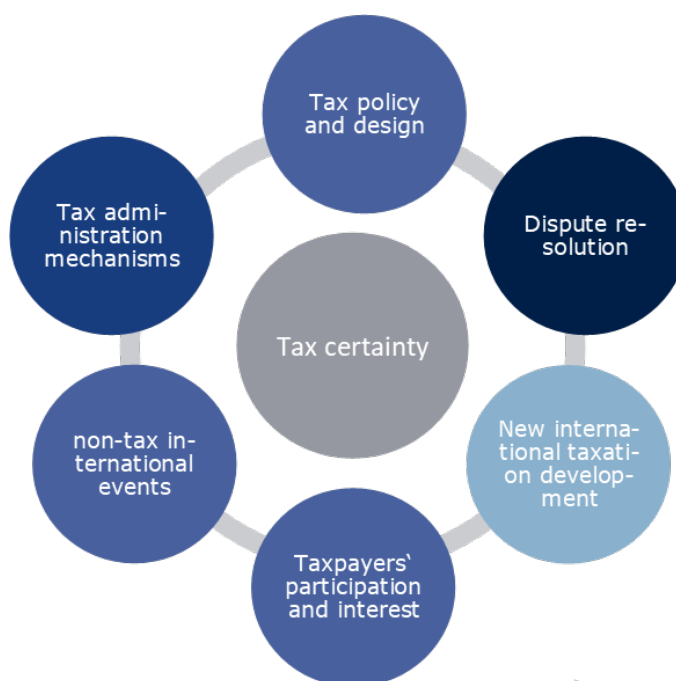
The Handbook covers the following relevant aspects of Cooperative Compliance:

- Identifying criteria for access to Cooperative Compliance
- Developing model legislation to facilitate the (further) development of Cooperative Compliance programs
- Audit assurance standard for Tax Control Frameworks (TCF)
- Developing a methodology to measure the costs and benefits of Cooperative Compliance programs
- Communicating Cooperative compliance - obtaining trust from society

Tax certainty, investment climate & the sustainable approach to taxation

Tax certainty is a key component of the tax environment favourable to cross-border trade and investment. Moreover, the administration of a tax regime is considered one of the significant factors in the attractiveness of a country as an investment location. Thus, it is in the interest of tax administrations as well as businesses to ensure greater tax certainty in a particular jurisdiction and beyond.

Nowadays, tax certainty is placed among the most relevant national and international taxation issues. It has different aspects as it represents an extensive concept of the capacity to make the correct assessment of taxes and compliance costs. For example, the Pillar One Blueprint recognizes the importance of tax certainty and identifies two aspects of it: dispute prevention and resolution for the Amount A; and dispute prevention and resolution beyond the Amount A.¹



Tax administration & tax uncertainty



Top sources of tax uncertainty in tax administration are:

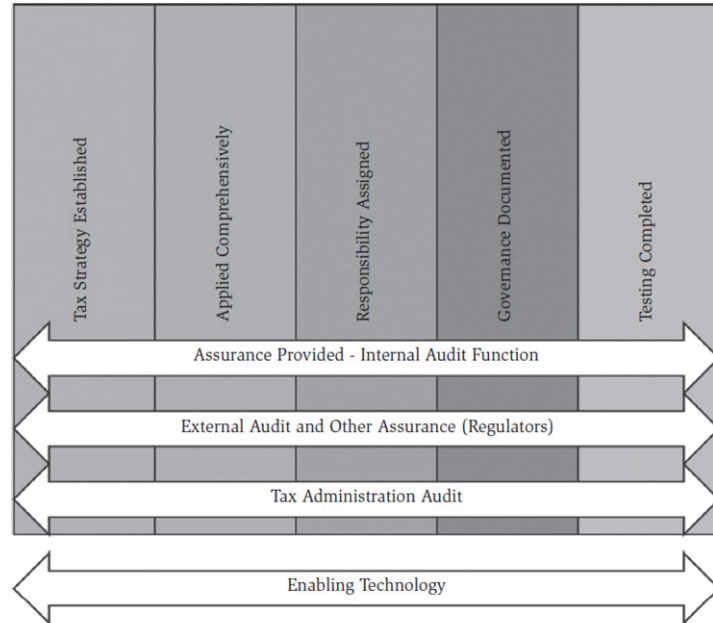
- **complexity** of tax legislation, including documentation requirements,
- **unpredictable** or inconsistent treatment by the tax authority,
- **inability to achieve early certainty proactively** through rulings or similar mechanisms.

Source: Tax Certainty. IMF/OECD Report for the G20 Finance Ministers, March 2017

¹ Source: OECD, Tax Challenges Arising from Digitalisation – Report on Pillar One Blueprint: Inclusive Framework on BEPS para. 704 (OECD/G20 Base Erosion and Profit Shifting Project, OECD 14 Oct. 2020), available at [10.1787/beba0634-en](https://doi.org/10.1787/beba0634-en) (accessed 17 May 2022) [hereinafter Tax Challenges Arising from Digitalisation – Report on Pillar One Blueprint].

Layer Model

The Layer Model represents the pillars of Co-operative Compliance established in the Reports of the OECD: Study into the Role of Tax Intermediaries (OECD 2008); Co-Operative Compliance: A Framework ; from Enhanced Relationship to Co-Operative Compliance (OECD 2013); Co-Operative Tax Compliance: Building Better Tax Control Frameworks (OECD 2016).



Source: Cooperative Compliance. A Multi-stakeholder and Sustainable Approach to Taxation, 2021.



What is in it for tax administrations?

IMPROVED TAX COMPLIANCE

Cooperative Compliance provides a country with a competitive edge. It facilitates compliance by providing timely advice on tax issues. It affects the behavior of a broad group of taxpayers for whom tax certainty is a tangible benefit of the program.

IMPROVED CAPABILITIES

In Cooperative Compliance the tax administration may improve its commercial awareness, develop better understanding of how MNEs manage their business and the control systems they rely on to ensure that their accounts and returns are accurate.

SECURED REVENUE BASE

As a result of improved tax compliance, in the longer-term the revenues paid voluntarily will increase. In the near term, settlement of legacy disputes, which is a first step in establishing the new relationship, will deliver significant yield.

IMPROVED CERTAINTY

Open discussion on tax positions means less risk of incorrect tax assessments and less need to use legal remedies; the number of open years of assessment is kept to a minimum which in turn make revenue forecasting more reliable.

BETTER COMPLIANCE RISK MANAGEMENT

As part of a risk based compliance strategy, Cooperative Compliance helps the tax administration to focus its limited resources on high risk cases and taxpayers.

SAVINGS IN RESOURCES BY REDUCING THE SCOPE OF AUDITS

Thanks to transparency and full disclosure, the tax administration may get a better understanding of current issues that the taxpayer faces. As a result, the tax administration can reduce the scope of audits and keep the cost down.

What is in it for business?

IMPROVED TAX COMPLIANCE AND GREATER CERTAINTY

Cooperative Compliance provides a platform for discussing any tax issues with the tax administration on a regular basis. It can substantially reduce the need to make provisions for uncertain tax positions and unexpected tax liabilities.

LOWER COMPLIANCE COSTS

The taxpayer is less exposed to administrative penalties, can file and settle tax returns quicker, and may require less help from tax intermediaries. Also the number of disputes that involve extra costs should be lower.

BETTER AND EASIER TAX RISK MANAGEMENT

Tax issues are better integrated in the taxpayer's process and underpinned by a tax control framework.

BETTER DIALOGUE

Tax audits are more focused and carried out in real time or even prospectively. The dialogue with the tax administration is also substantially improved.

CORPORATE SOCIAL RESPONSIBILITY

Taxpayers may benefit from reputational gains. Company's stakeholders will perceive the taxpayer as a more reliable partner and a good corporate citizen. Shareholders and institutional investors will have greater confidence in the returns from investments.

BETTER INVESTMENT CLIMATE

An improved relationship between large taxpayers and the tax administration will encourage foreign direct investment as MNEs can achieve certainty about the tax treatment of their investments and the rate of after tax returns they will achieve.

Aims of the WU/ICC/CATA Project

In 2022, the new stage of the Cooperative Compliance project has been launched:

- Provide a neutral forum to discuss Cooperative Compliance
- Develop a standard for the external assurance of Tax Control Frameworks
- Further research methods to evaluate costs and benefits of Cooperative Compliance programs
- Research on the possibility of the multilateral Cooperative Compliance instrument and the analysis of the existing similar tax certainty tools
- Provide the dissemination of the Handbook and continue to support launching of Cooperative Compliance pilot projects

... all to demonstrate how the concept of Cooperative Compliance can help secure the tax base while also creating an environment that encourages economic growth and boosts business

Cooperative Compliance: The Next Step

In order to reach the research aim of the new stage of the project, new working groups comprised of the various stakeholders were established based on the following topics:

Working Group 1: Audit Assurance Standards for Tax Control Frameworks (TCF)

The aim is to develop a framework for external assurance of a company's TCF that could be sufficient and reliable for both companies and tax administrations.

Working Group 2: Multilateral Cooperative Compliance Programs

The aim is to study the possibilities of moving from bilateral to multilateral Cooperative Compliance programs (project-based) as well as to take a closer look at the existing multilateral cooperation in the area of tax certainty.

Working Group 3: Measuring Costs and Benefits of the Cooperative Compliance Programs

The aim is to deepen the analysis of the costs and benefits of Cooperative Compliance programs and how to measure them.

Information and Contact

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