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Improving Tax Administration's Services as a Factor of Tax Compilance: The Case of Tax Audit

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ABSTRACT In this paper the experiences of taxpayers with the tax audits services as an important tool of tax authorities' struggle against tax evasion are discussed. In the theoretical part of the paper the factors of tax compliance and the tax authorities' measures in combating tax evasion are examined, the levels of tax rates and the compliance burden of European Union member states' tax systems are compared. In the empirical part of the paper the experiences of Slovenian companies with tax audit services are analyzed. Better understanding of the drivers of taxpayer compliance behavior allows tax administration to identify and implement policy measures more effectively.

KEYWORDS: • tax audit • tax administration's services • tax compliance • policy measures • risk-based verification programmes

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1 Introduction

The global financial and economic crisis presents major challenges for tax administrations. With the economic downturn, tax agencies are encountering growing compliance risks[1] and greater demands for taxpayer support in the face of budget cuts. In responding to the crisis the tax agencies should develop a tax compliance strategy that is structured around two objectives: containing the growth in noncompliance and helping taxpayers to cope with the crisis. To achieve these objectives, four sets of measures are identified: (1) expanding assistance to taxpayers, (2) refocusing enforcement on the highest revenue risks, (3) introducing legislative reforms that facilitate administration, and (4) improving communication and outreach programs (Brondolo, 2009).

The size of the shadow economy gives an initial idea of the extent of tax evasion[2]. In addition to the shadow economy, which is not necessarily driven only by tax reasons but has a large impact on tax revenues, a sizeable part of tax evasion consists of underreporting in the formal sector[3]. The ability to misreport and the will to exploit opportunities to do so – tax morale – seem to be decisive explanatory variables for the size of the shadow economy and the total amount of tax evasion (see Robinson and Slemrod, 2012 and Kleven et al., 2011). A compliance gap, i.e. a gap between the taxes collected and the theoretical tax due, can result from unwillingness to declare income, unwillingness to pay taxes or pay taxes on time, the ability to cheat/underreport, the lack of knowledge of tax obligations, difficulty to understand the tax code and high costs of declaring income (Jensen and Wöhlbier, 2012).

The objectives of most tax administrations are to ensure compliance with tax laws and to improve taxpayers' customer service experiences. Better understanding of the motives of taxpayers and their attitudes towards taxation can improve both voluntary compliance and the efficiency of the tax administration. Tax compliance is determined in the literature[4] by five broad factors: deterrence; norms (both personal and social); complexity of the tax system; the broader economic environment; and fairness and trust (in the tax administration) whereby the OECD (2010a) distinguishes between three types of fairness in taxation: distributive fairness (the perception that government acts as a wise spender of tax revenues); procedural fairness (the perception that the tax administration adheres to procedures that are fair in dealing with taxpayers); and retributive fairness (the perception that the tax administration is fair in applying punishments when the rules are broken). While procedural and retributive fairness can be influenced by tax administrations, dependents distributive fairness on policymakers.

Tax verification activities are defined as comprising all of the activities typically undertaken by revenue bodies to check whether taxpayers have properly reported their tax liabilities in the returns filed by them. The primary verification activity undertaken by revenue bodies is usually described by the term tax audit (including field, desk, or corresponding audits) or »tax control«. Around 40 % of surveyed revenue bodies in OECD countries (see OECD 2013, 214) indicated that over 30 % of staff resources are devoted to tax audit, tax investigation, and other verification-related activities[5]. Therefore, the resources used for verification activities and the contribution they make to revenue collections and rates of compliance are of considerable interest to revenue bodies. Tax audit as a tax administration's service, can be classified in the group of »fairness and trust« tax compliance factors. It is carried out for and against the taxpayer and must be related primarily to the facts and circumstances which may influence the increase or decrease of the tax liability or which affects the transfer of tax liabilities during the fiscal year.

The literature on taxpayer's behavior and tax compliance (Allingham and Sandmo, 1972; Pentland and Carlile, 1996; Alm, 1999; Feld and Frey, 2002; Torgler, 2003; Wenzel, 2004; Cummings et al., 2005; OECD, 2006, 2010b; Kirchler, 2007; Appelgren, 2008; Palil, 2010; Alabede et al., 2011; Khadijah and Pope, 2011) confirms that the attitude of tax auditors during the conduct of an audit may affect taxpayers' compliance behavior.

This paper discusses audit perception of taxpayers and satisfaction with the tax audit procedure of the tax administration's services in Slovenia as an important factor of tax compliance. It begins with the theoretical part that comprises the overview of tax compliance factors and possible tax administration's measures against tax evasion to improve tax administration services. Then, satisfaction of paying taxes, as an important indicator of tax compliance, is compared among the European Union member states. In the empirical analysis the experiences of Slovenian companies with tax audit are analyzed. The last section of the paper comprises some possible measures for the tax administration's services improvements.

2 Literature review and theoretical background

2.1 Tax compliance factors

The standard model of tax compliance[6], derived from Becker (1968) and Allingham and Sandmo (1972), assumes that a rational taxpayer assesses the costs and benefits of evading taxes. If the expected benefits (less income »lost« to tax) outweigh the costs (the chances of a non-compliant taxpayer being caught and the sanctions incurred) then the taxpayer will evade tax. According to this model increasing the risk of detection and the punishments incurred (deterrence) raises the cost of evasion. Deterrence should positively influence taxpayer compliance (Slemrod, 2007), however, the empirical evidences are mixed (see OECD 2010a; Braithwaite 2009; Reeson and Dunstall 2009; Phillips 2011). According to

Wenzel (2001a, 2001b, 2005) taxpayers seek to comply because they believe it is the right thing to do, not because of fear of punishment if they do not comply. Several other studies (see Kirchler 2007; OECD 2010a) show that the desire of a taxpayer to comply is strongly linked to behavioral norms (and/or beliefs), both the personal norms of the individual taxpayer and the social norms that prevail in society at large (see Belak and Hauptman, 2011; Belak et al, 2010).

According to Murphy (2004) non-compliance will increase, if taxpayers do not trust the tax administration to collect tax fairly and, in a broader sense, if there is a lack of trust in a government to spend tax revenues wisely (or if there is a lack of legitimacy in the government) (see Barone and Mocetti, 2009). The key to establishing trust is to frame the collection of taxes to the population in a transparent manner and emphasize the fairness of the approach taken (Walsh, 2012). Fairness is expressed in both – how person is treated by the administration individually and perceptions of fairness of the taxation system in general (whether other people are also paying their fair share) (Alm et al., 2010; Reeson and Dunstall, 2009). A »service a client« approach by the tax administration is more likely to encourage trust than a »cops and robbers« approach based on sanctions (Kirchler, 2007; Torgler, 2011).

Important way to encourage tax compliance is to keep the rules as clear and simple as possible. Overly complicated tax systems are associated with high evasion. If the tax administration reduces complexity, this should lead to improvements in taxpayer behavior (Reeson and Dunstall, 2009; Alm et al., 2010). Ways to make it easier to comply include the use of plain language in communications and simplifying forms and tax laws where possible.

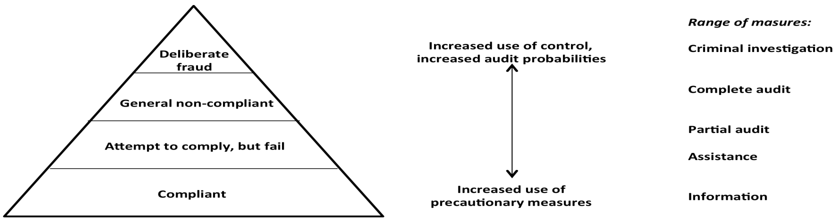
Apart from stated factors that influence the level of tax compliance there are several others, which are mostly beyond the control of tax administrations. Some involve tax policy or public spending (distributive fairness), while others relate to the broader economy. As regards economic conditions, factors that promote growth also encourage tax compliance (OECD, 2010a), higher tax rates are linked with tax evasion, economic downturns are often associated with increased evasion etc. The literature also looks at the characteristics (economic, demographic and social) of compliant and non-compliant taxpayers[7].

There are complementarities between the factors of tax compliance but there are also some potential conflicts (Walsh, 2012). It is the interaction of the factors and their varying importance that contribute to compliance behavior at the individual and country's levels.

2.2 Combating tax evasion by tax authorities

Smarter compliance outcomes require revenue bodies to invest a fair amount of resources and effort before benefits can be harvested (OECD, 2012). This would suggest that working smarter in compliance requires a strategic focus over the medium and long term. Developing an overall compliance strategy and programmes, respectively, is critical for the tax authorities' ability to improve taxpayer compliance and to enhance revenue collection (Russel, 2010). The purpose of a taxpayer compliance programme is to identify and respond to the most significant risks in the tax collection system through a range of measures aimed at the underlying causes of the noncompliant behavior[8]. Its ultimate objective is to achieve the widest possible impact on voluntary compliance across the taxpayer population. As part of a compliance programme tax administrations should improve revenue analysis capabilities and develop (further) indicators for tax compliance in the different tax categories. A taxpayer compliance programme should be authorized at a high level, describe and prioritize resources for the most significant compliance risks and set out the detailed response by tax administration to those risks. Compliance programmes are structured around major taxpayer segments (e.g., large businesses, medium-size enterprises, small and micro enterprises, and high income individuals) or types of taxes with a high risk of fraud (e.g. corporate income tax, vehicle taxation, value added tax (VAT), deductions for commuting expenses in personal income taxation) and address compliance risks relevant to these segments (Jensen and Wöhlbier, 2012). The programme addresses the risks in each of the taxes administered in each taxpayer segment and describes how the revenue agency intends to respond to these issues and risks in an action plan[9]. Risk-based verification programmess segmenting taxpayers into co-players and opponents have proved efficient (ibid., 2012). Segmenting taxpayers improves compliance behavior by detecting and deterring non-compliance through the use of risk management approaches. Taxpayers are more likely to comply if they perceive the likelihood of detection as high and see blatant non-compliers being brought to account. The tax compliance level can be shown in the shape of the compliance pyramid (see Figure 1).

Figure 1: The compliance pyramid



Source: Jensen and Wöhlbier 2012, 16.

Tax authorities could perform detailed analysis of random audit data to segment individual taxpayers into co-players and opponents according to the four groups in the compliance pyramid. The segmentation can then be revised according to the track record of the particular taxpayer. Once the taxpayers are segmented, the approach towards the taxpayer can be separated between service and control. Building up databases with information on taxpayers' income and assets can make the investigations of tax authorities better targeted, e.g. by means of a flag system, where a flag significantly increases the audit probability.

The segmenting of taxpayers into the four compliance categories will depend, among other factors, on the coverage of third-party information. Taxpayers with income and deductions extensively covered by third-party information will typically be categorized as "compliant". The better the coverage of third-party information, the more resources are freed up that can be targeted, e.g., to areas reliant on self-reporting and to combating the shadow economy. The coverage of third-party information available to tax authorities is crucial for limiting a normal taxpayer's possibilities of under declaring income. For third-party reporting to work, tax agencies need to be operating a certain level of information technology (IT)-systems to handle the data and to feed it into the taxpayer's final tax return and a comprehensive system of taxpayer registration is an important prerequisite. Pre-filling (according to third-party information) appears a successful formula to improve the efficiency of tax collection for the personal income tax (Jensen and Wöhlbier, 2012; OECD, 2013). However, third-party information cannot cover all taxpayers and all income types. In particular, companies and self-employed will to a large extend have to assess their own income and deductible expenses. For these taxpayers, it should be as easy as possible to fill in and file the tax return.

The communication strategy of tax authorities could improve voluntary compliance. Strategic communication about results of control actions and detection of evaders can contribute to increasing the perceived detection probability and underpin tax morale at a low cost. When a taxpayer is identified as a deliberate defaulter, notifying the taxpayer by letter that he/she will be under close scrutiny may by itself increase compliance and could be a cost-efficient strategy. However, the thread of closer scrutiny needs to be credible. Special attention should be paid to the segment of taxpayers who attempt to comply, but fail to comply fully with their obligations to register, file correct information and pay the correct amount of tax on time. This segment with information and education, when possible via standard electronic communication, can increase the number of taxpayers in the fully compliant segment at relatively low costs and thereby increase the share of revenues that 'enters through the front door' (Jensen and Wöhlbier, 2012).

Another important element in combating tax evasion are simple and stable tax laws and procedures that make it easier and less expensive for taxpayers to comply with their obligations and access their entitlements. Taxpayers are less likely to voluntarily comply if the tax system itself makes it too difficult or very expensive for them to meet their obligations. Furthermore, rate differentiations, exemptions and deductions complicate the system and create scope for avoidance. As a general rule, tax bases should, therefore, be broad and allow only limited possibility for deductions and exemptions and tax systems should tax substitutable types of income in a similar way (ibid., 2012).

A function-based organization for tax administration is acknowledged as the most effective organization to collect revenues, minimize the tax gap and service taxpayers[10]. A function-based tax administration is organized in logical groupings of core functions that encompass all taxes, rather than separate units to deal with each different type of taxes (ibid, 2012). A function based approach gives tax authorities a better picture of overall taxpayer compliance. It is also able to better leverage a number of synergies from the standardization of common work in the same unit. However, setting up a large taxpayer office within the revenue headquarters or as a 'special branch' could improve tax governance, because large corporate taxpayers pose the biggest risk as they account for a large share of revenues and the tax assessment of large taxpayer's require specific skills. Tax authorities should also investigate whether to set-up special entities for High Wealth Individuals and High Income Self-Employed. It is also important that the responsibilities for the tax assessment, dispute resolution and for recovery tax arrears are separated between two different parts of the tax agency to ensure independency and objectivity.

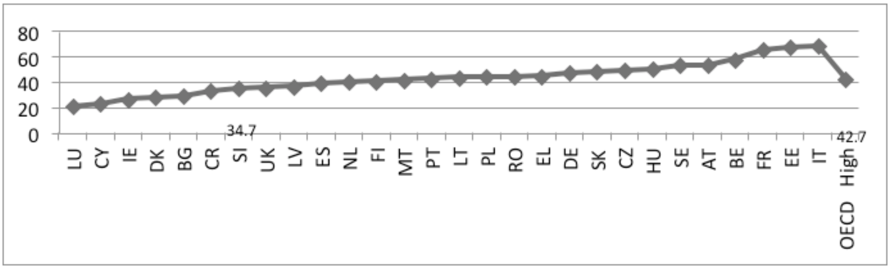
For an effectively functioning tax administration it is also essential to have a credible procedural justice system in place. The main objective of such a functioning legal system – as the last step of the compliance management process system – is to build trust in the tax system and encourage voluntary compliance. Tax legislation should provide procedural justice to the individual taxpayer. Receiving a fair and dignified treatment during interaction with authorities is generally more important than the actual outcome in determining acceptance and future compliance (Kirchler, 2007). Tax authorities should always inform taxpayers about their right to file a complaint about a decision, and they should reply and settle any case within an acceptable time span and always provide taxpayers with an explanation for their decision. Finally, it is important to ensure that court decisions are effectively enforced. As far as possible, automated systems should be used to collect tax debts once a final court decision has been taken against which no further appeal is possible.

Theoretical part of the paper has shown that the tax rates, as a component of tax fairness, and complexity of tax systems are important factors of tax compliance. Therefore, in the next section we are comparing tax rates and compliance burdens of tax systems in European Union member states according to the data of Doing Business Report (The World Bank, 2013) and Paying Taxes Study (PwC, 2013).

2.3 Tax burden and obstacles in the tax administrations' procedures in the EU member states

The data for 185 economies are based on a case study scenario to measure the taxes and contributions paid by a standardized business and the complexity of an economy's tax compliance system. Both the tax cost and the tax compliance burden are measured using three sub-indicators: total tax rate (the cost of all taxes borne by the business as a share profit), time needed to comply with the major taxes (the time taken to prepare, file and pay three major types of taxes and contributions - the corporate income tax, value added or sales tax, and labor taxes, including payroll taxes and social contributions in hours per year - and the number of tax payments per year (the number of taxes and contributions paid, the method of payment, the frequency of payment, the frequency of filing and the number of agencies involved for the case study company). The ease of paying taxes ranking measures the performance of economies on the payments, time and total tax rate indicators relative to the performance of others. Firms in economies that rank better on the ease of paying taxes tend to perceive both tax rates and tax administration as less of an obstacle to business.

Figure 2: Total tax rate (% of profit, 2011)

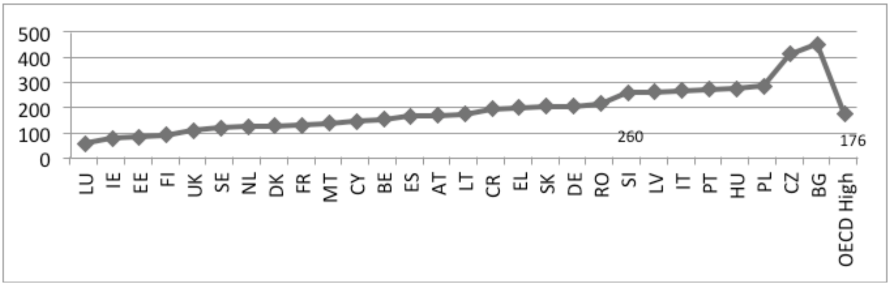


Source: The World Bank, 2013 and PricewaterhouseCoopers, 2013.

Comparing the position of Slovenia within the EU and OECD, we see that country ranks within first quarter of the EU members as regards total tax rate and that the total tax rate of an average firm is much lower than in the average firm in OECD high income countries (table 1). This ascertainment indicates that the level of corporate taxes shall not be perceived as a factor of non-compliance, nor as an obstacle to the ease of doing business.

Taking a look into the time, necessary to comply with the major taxes is the positions of Slovenia quite worse; country ranks among the second half of EU members, whereas Slovenia stays behind the average of OECD high income countries considerably (Figure 3).

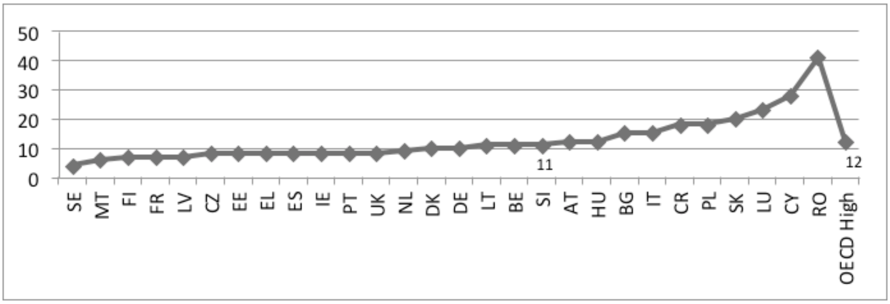
Figure 3: Time to comply with the major taxes (in hours per year, 2011)



Source: The World Bank, 2013 and PricewaterhouseCoopers, 2013

As regards the number of tax payments per year Slovenia ranks quite close to the average of the high income countries.

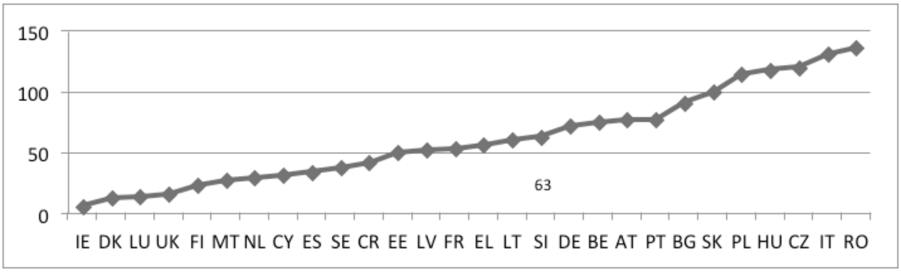
Figure 4: Tax payments (number per year, 2011)



Source: The World Bank, 2013 and PricewaterhouseCoopers, 2013.

Concerning overall paying taxes rankings we can see that Slovenia ranks among the second third of EU member countries in 2011. As the analysis of the previous three indicators has shown, Slovenia considerably lags behind the average of OECD high income countries in time to comply with the major taxes.

Figure 5: Ease of paying taxes rankings (among 185 economies, 2011)



Source: The World Bank, 2013 and PricewaterhouseCoopers, 2013.

Slovenian tax administration will have to analyze the reasons for relatively bad position in the field of necessary time to comply with major taxes, since this is one of important factors of taxpayers' experiences with tax authorities' services and tax compliance, respectively. With the intention to present the dilemmas of taxpayers during the process of tax audit and to find out the possible spheres for tax authorities' services improvement, the experiences of Slovenian companies with tax audit services were analyzed.

3 Methodology and empirical data

According to Palil (2010, 181) the experiences and satisfaction of taxpayers with a tax audit can be measured by researching the factors that influence the tax compliance of taxpayers, classified as: (a) economic factors, (b) institutional factors, (c) social factors, (d) individual factors, and (e) other factors. In the empirical part of our research the choice of factors was limited to the: organizational/business characteristics of corporate taxpayers, tax audit experience, and perceived quality of tax audit services.

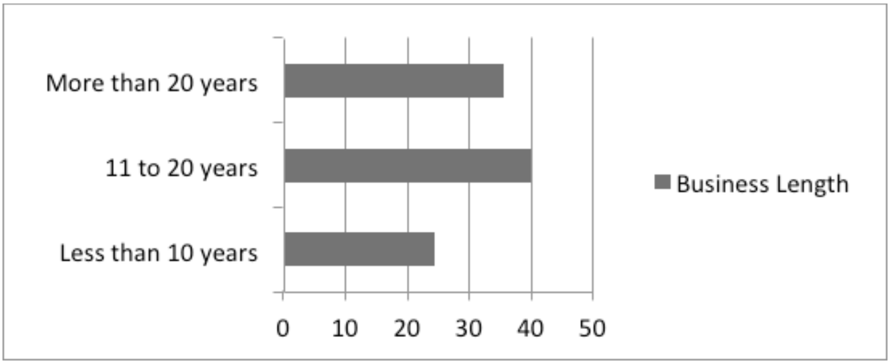
A survey was conducted in the period from June to September 2011 and was sent to 2000 e-mail addresses of the Slovene corporate taxpayers, which we have obtained by random selection using the Google search engine. The measuring instrument (questionnaire) was adapted from the study of Khadijah & Pope (2011), who examined the extent of Malaysian corporate taxpayers' field audit experience, and was partly adapted to Slovene conditions[11] (Likert scale and number of employees, as a criterion of the size of an organization were modified). The collected data was analyzed with SPSS software, a descriptive analysis of the variables and one-way analysis of variance (One-way ANOVA) was used to test the hypotheses.

4 Results and discussion

In the empirical analysis the respondents who indicated "strongly disagree," "almost entirely disagree," "partially disagree" were joined together into one single category of "do not agree". Similar treatment was used for respondents who responded with "strongly agree," "almost entirely agree" and "partially agree" – they were grouped into a single category of "I agree." Those who stated "neither agree, nor disagree "were defined as neutral.

The questionnaire was answered by 209 respondents, out of which 15 questionnaires were incomplete, 84 respondents had no experience with a tax inspection and 110 respondents had experience with a tax audit. The results of the empirical research are related to the last one. Thus, the final sample included 110 companies.

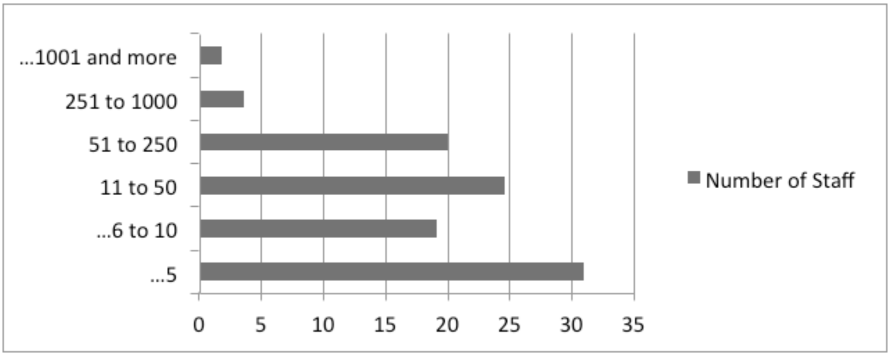
Figure 6: Business length



Source: Authors' calculations

35.5 percent of all companies have been in business more than 20 years and 24.5 percent less than 10 years (Figure 6). Small companies with less than 5 employees represent 30.9 percent of respondents, 5.4 percent of all companies were large companies (Figure 7).

Figure 7: Number of Staff



Source: Authors' calculations

In the terms of distribution by type of business industry, the highest response was from Manufacturing, followed by Trade, Maintenance, Repair of motor vehicles, Transport and Storage. 46.4 percent of taxpayers revealed that after the last tax audit additional tax liability was found and paid, 11.8 percent of the taxpayers had to pay an additional tax penalty. 52.7 percent of surveyed companies had no employed tax agent to assist their tax compliance activities.

Tabel 1: Tax audits experiences and audit perception

Expression	Mean	Disagree	Neutral	Agree
EXP 1	5,45	13,6 %	9,1 %	77,3 %
EXP 2	5,46	15,5 %	9,1 %	75,4 %
EXP 3	5,65	8,2 %	10,0 %	81,5 %
EXP 4	4,52	30,9 %	19,1 %	50,0 %
EXP 5	4,07	42,7 %	13,7 %	43,6 %
EXP 6	2,50	71,8 %	10,9 %	17,3 %
EXP 7	4,94	20,9 %	17,3 %	61,8 %
EXP 8	5,09	20,0%	10,9 %	69,1 %
EXP 9	3,52	50,9 %	10,9 %	38,2 %
EXP 10	5,06	24,5 %	5,5 %	70,5 %
EXP 11	5,35	12,7 %	17,3 %	70,0 %
EXP 12	5,15	17,3 %	10,9 %	71,8 %
EXP 13	5,17	12,7 %	14,6 %	72,7 %
EXP 14	5,05	16,4 %	10,9 %	72,7 %
EXP 15	4,05	23,6 %	10,9 %	65,5 %
EXP 16	4,05	35,5 %	24,5 %	40,0 %
EXP 17	4,48	25,5 %	23,6 %	50,9 %

Source: Authors' calculations

The corporate taxpayers were asked to present their opinion on the extent of the audit experience, whether the interaction with tax auditor during the audit visit was good (EXP 1), and whether the time given to provide documents for the audit purposes was appropriate (EXP 2). 77.3 percent of the respondents believe that their interaction with the tax auditor is good and 75.4 percent of respondents saw the time to provide documents for the audit purpose as appropriate. 8 percent of respondent taxpayers did not understand the questions asked during the audit visit (EXP 3). The reasons could be the lack of knowledge and professional barriers between taxpayers and tax practitioners. Tax auditor can use phrases that are too technical for the taxpayers to understand. If a misunderstanding occurs the interaction between taxpayers and tax auditor is difficult, so the audit process causes additional costs. The presence of a tax audit creates a tense atmosphere in the company. Half of the respondents agreed that the disruption of business activities during the visit of the tax auditors is minimal (EXP 4). The likely reason for this result could be that only one department in the company has to deal with the tax auditors (tax accounting) while other departments (production and sales) can work normally. 43.6 percent of respondents claimed that they felt no pressure during the tax audit (EXP 5). The tax auditors should create and maintain the reputation and honor in their work and in their personal lives. They have to observe the rules of proper professional behavior and decent appearance. They shall act humanely and maintain human dignity. Surprising, 17.3 percent of respondents claim that tax auditors raised their voice when they requested the documents (EXP 6), which does not fall under the refined behavior. 61.8 percent of respondents claim that the findings were accurate (EXP 7) and 69.1 percent of those surveyed believe that the findings were clear (EXP 8). 38.2 percent of respondents accepted decisions made by the tax auditors even if they disagreed with them (EXP 9). When it comes to the confidence of respondents to the tax auditors, 70.5 percent of respondents agreed they did not feel betrayed / deceived by the tax auditors (EXP 10). 70 percent of the taxpayers are confident that the tax auditors will not reveal their confidential business information to others (EXP 11). In general, 71.8 percent of respondents are satisfied with the visit of the tax auditor (EXP 12) and 72.7 percent were comfortable with the questions asked (EXP 13). 72.7 percent were satisfied with the procedure of a tax audit (EXP 14). According to 65.5 percent of those surveyed the duration of a tax audit is appropriate (EXP 15). When it came to the question about whether the tax audit experience was very pleasant (EXP 16), 40 percent agreed and 35.5 percent disagreed. All statements have a mean score between 2.5 and 5.65 50.9 percent of respondents also believed that tax auditors are more interested in finding fault and penalizing the company for their wrongdoing, rather than to help the company to behave correctly (EXP 17) (Table 5).

The one-way ANOVA test[12] was used to examine whether business characteristic such as company size influence taxpayers' perception of their audit experiences.

For testing the satisfaction with the tax audit procedure in micro, small, medium and large companies' expression 14 and the number of employees were used. To determine the impact of the company size on perceptions of quality of tax audit service expression 17 and the number of employee were used.

Tabel 2: Descriptive statistics audit perception and satisfaction with the tax audit procedure

	Company size	**Frequency (N)**	**Mean**	**Std. Deviation**	**Standard Error**	**95% Confidence Interval of the Difference**	
						Lower	**Upper**
EXP 14	Micro	55	5,1455	1,62638	,21930	4,7058	5,5851
	Small	27	4,7778	1,88788	,36332	4,0310	5,5246
	Middle	22	5,1818	1,40192	,29889	4,5602	5,8034
	Large	6	4,8333	1,47196	,60093	3,2886	6,3781
	Total	110	5,0455	1,63329	,15573	4,7368	5,3541
EXP 17	Micro	55	4,2545	2,10131	,28334	3,6865	4,8226
	Small	27	4,7407	2,06793	,39797	3,9227	5,5588
	Middle	22	4,6364	1,64882	,35153	3,9053	5,3674
	Large	6	4,8333	1,32916	,54263	3,4385	6,2282
	Total	110	4,4818	1,96638	,18749	4,1102	4,8534

Source: Authors' calculations

Based on the results presented in Table 2 the conclusion is that more large companies perceived the tax audit negatively and have the opinion that tax auditors are more interested to find fault and penalize the company for the wrongdoings, rather than helping the company to do things. Micro and medium-sized companies are also the most satisfied with the procedure of tax auditing.

Tabel 3: Levene's Test for Equality of Variances

	Levene Statistics	**df1**	**df2**	**Sig.**
EXP 14	1,507	3	106	,217
EXP 17	1,569	3	106	,201

Source: Authors' calculations

In Table 3 the results of the test of the homogeneity of variance are presented. By the EXP 14 zero assumption cannot be rejected, the significance is 0.217 and the variances are the same in all groups. Zero presumption is also accepted by the EXP 17 since the significance is 0.201. Differences in arithmetic means of micro, small, medium and large companies are sufficiently small to conclude that there is no difference in the population mean.

Table 4: One-Way Analysis of Variance (ANOVA)

		Sum of Squares	df	Mean Square	F	Sig.
EXP 14	Between groups	3,164	3	1,055	,389	,761
	Within groups	287,609	106	2,713		
	Total	290,773	109			
EXP 17	Between groups	5,918	3	1,973	,503	,681
	Within groups	415,546	106	3,920		
	Total	421,464	109			

Source: Authors' calculations

In Table 4 the assumption of equality of averages in groups was tested. Significance is 0.761 (EXP 14). Zero assumption can therefore be accepted, the conclusion is that the averages are equal, the difference between the groups occurred randomly. Significance (Sig. = 0.681; EXP 17) is greater than 0.05, which means that the differences in the perception of a tax audit among micro, small, medium and large companies surveyed incurred by accident. Null hypothesis analysis of variance confirmed as among different large companies there are no statistically significant differences.

5 Conclusions

Tax evasion, which results from shadow economic activities and underreporting of income in tax returns, leads to unintended redistribution from those who do respect the rules to those who do not and creates unfair competition between formal and informal actors. It further weakens tax morale and can lead to more evasion. This is a risk at time when tax increases are necessary to meet severe consolidation challenges. Reducing tax evasion and improving tax compliance is, therefore, of particular importance at this juncture. The goal of tax authorities is to collect the full amount of taxes and duties payable in accordance with the law. Tax authorities should aim at reducing the tax compliance gap while at the same time minimizing the administrative costs of collecting taxes for the government (collection costs) and of paying taxes for taxpayers (compliance costs). This can be done by applying policies to facilitate and stimulate "voluntary" compliance, to prevent and deter evasion, to detect and combat tax fraud, to enforce compliance, as well as to effectively collect taxes which are due and in arrears. These policies are interlinked: facilitating voluntary compliance decreases the need for enforcement, while an effective enforcement policy will contribute to more voluntary compliance. In general, policies aimed at enhancing voluntary compliance will have a positive impact on administrative burdens, while the opposite might be the case for enforcement policies. However, a tax administration policy needs to include both. The challenge is to strike a proper balance between these two elements. Most revenue agencies have moved away from administrative assessment systems under which all or most tax returns are subjected to examination prior to the issue of final tax returns to taxpayers, to a system which relies on most taxpayers voluntarily complying with their obligations to register, keep proper records, file correct returns and pay tax on time without the intervention of a tax official. Important stage of development in the revenue bodies' struggle against tax evasion is the tendency to adopt co-operative compliance approaches[13] – engaging with taxpayers or other stakeholders to explore shared interests. Co-operative compliance models are intend to deliver several benefits for revenue bodies - understanding the business, better risk management, certainty in advance, reduction of administrative burdens, improved real time information about commercial developments - and for businesses - better risk management, certainty in advance, reduction of administrative burdens-, however, they also trigger several challenges (e.g. the right communication strategy about the impact of compliance programme on taxpayers).

The so called "balanced compliance strategy« complement strategies for facilitating compliance with elements designed to deter would-be evaders and provide the community with reassurance that deliberate non-compliance is not taken lightly. The tools most frequently applied for this purpose – tax audits and similar one-on-one verification activities – are costly and can produce mixed or even counterproductive results under the wrong circumstances. Improved capabilities or improved processes in these areas are likely to bring about considerable effectiveness gains. With modern compliance risk management strategies, more emphasis is placed on identifying and responding to aggregate risks as opposed to individual cases. The value of third-party information is also widely recognized, and it is clear that access to reliable third-party information can greatly enhance the reach of verification activities. Important elements are the ways of improvement of selection processes through the systematic feedback mechanisms and the staff empowering to work smarter[14]. Good communication between the taxpayers and the tax auditor requires necessary participation and correct behavior, as well as professional approach of both partners.

Using one single factor analysis of variance the results revealed that the differences in the perception of a tax audit among micro, small, medium and large companies are created by accident. The size of the company does not affect different perception of tax auditors' services quality and the taxpayer satisfaction with the tax audit procedure in Slovenia. Comparing the results with the findings of the study of Khadijah & Pope (2011) where the study demonstrate that taxpayers' audit experience was reasonably satisfactory, while the level of tax auditors' professional knowledge was identified as moderate, and that the taxpayers were found to have a strong negative perception towards auditing. Business characteristics such as business size are found to bring some impacts on the compliance behavior of corporate taxpayers. The audit perception analyzed by respondents' business characteristics revealed that respondents from large companies (number of staff more than 1000) scored significantly lower in comparison to the other smaller groups of companies.

Overall, based on empirical results in Slovenia, where 71.8 % of taxpayers is satisfied with the tax audit, tax administration should continue to explore opportunities for working smarter in compliance (see OECD 2012; Hauptman et al 2011; Potočan et al, 2012; Čokelc and Oplotnik, 2013), by applying modern compliance risk management principles and strategies; shifting compliance activities upstream and addressing compliance risks earlier in the sequence of events potentially leading to compliance failures; and facilitating compliance through electronic services with continuous improvement of these services. Tax administration, which is facing significant cost reduction challenges over the short/medium term, should follow robust governance processes in place for delivering the efficiency gains expected. This will improve their compliance as well service delivery performance levels. A better understanding of the drivers of taxpayer behavior will allow revenue bodies to identify and implement tax auditing more effectively. Research findings also suggest that communication between a tax auditor and a taxpayer plays a key role.

Notes

[1] Undeclared work and other forms of underreporting of income in tax returns are lack of tax compliance, i.e. tax evasion that undermines the revenue raising and redistributive objectives of the tax system.
[2] See Schneider (2012) and Jensen and Wöhlbier (2012) for the estimation of the shadow economy in the European Union (EU) member states.
[3] See OECD (2013) for data on tax debt (disputed and undisputed) in OECD countries.
[4] See Congdon et al. (2011) for summary of relevant literature.
[5] Revenue bodies also carry out various other activities (e.g. in-depth fraud investigations, income/document matching checks, phone inquiries, computer-based edit and mathematical checks, and inspections of books and records) that can result in changes to taxpayers' reported liabilities.
[6] Tax compliance can be defined as a taxpayer's willingness to comply with tax laws, declare the correct income, claim the correct deductions, relief and rebates and pay all taxes on time (Palil and Mustapha, 2011).
[7] See Walsh (2012) for a summary of the literature.
[8] See also OECD (2013, 139) for the BISEP model of tax compliance and spectrum of taxpayer attitudes to compliance.
[9] For Compliance Risk Management Guide for Tax Administrations see European Commission (2010).
[10] See Kidd (2010) for a more detailed analysis of functionally organized tax administrations.
[11] Khadijah & Pope (2011) used a "forced choice" method in their study (a six-point Likert scale ranging from (1) strongly disagree and (6) strongly agree) by eliminating the possibility of neutral option ("Neither Agree or Disagree"). Authors classified organization according to the number of employees, into three groups, namely 50 or less, from 51 to 1000 and 1,001 or more. For the purpose of this study a seven-point Likert scale was used

ranging from (1) strongly disagree to (7) strongly agree with the neutral form. The size of the organization was defined according to the number of employees in the organization based on Slovene corporate law (ZGD), therefore organizations were grouped as micro companies (10 or less), small companies, (from 11 to 50), medium-sized companies (from 51 to 250) and large corporations (more then 251).

[12] H_0 = the average of the dependent variable in the groups are same on the populations (variables are not significantly associated).

H_1 = in at least two groups of averages the dependent variable on the population are not the same (statistically significant variables are related).

[13] See OECD (2013a).

[14] See OECD (2012) for examples of good practice in the field of audit strategies.

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