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TAX CORRUPTION DRIVERS AND DETERRENTS: LESSONS FROM BULGARIA¹

This paper studies recent findings of business and tax administration surveys on the scope and causes of corruption in tax administration in Bulgaria in the context of the theoretical models and empirical tests of corruption and evasion. It is an attempt to shift the current policy focus on sanctions and deterrents in the direction of positive incentives. It studies the specific demand-side and supply-side drivers of corruption for the two broad categories of corruption services supplied by the tax administration: those related to tax evasion and those related to preferential treatment of taxpayers. It is on this basis that policy implications are drawn with a focus on the opportunities and limitations of the use of incentives including pay bonuses in the fight against corruption.

JEL: H26, H83

Anticorruption policies in Bulgaria have been focused so far on strengthening the so-called restraints. These include legislative measures of criminalizing the acts of corruption, strengthening internal controls, codifying the professional integrity standards, etc. In the context of the Bulgarian tax administration these aims have been pursued through the amendments to the Penalty code since 2002, the strengthening of the functions of internal control, the attempts to establish tax police, the enacting of the ethical norms of professional conduct, etc. All these measures are a necessary, but far from sufficient condition for restraining corruption in the tax administration. In practice a tiny portion of the corruption acts are detected and penalized, while ethical brakes place policies in the distant time horizons of changing ethical values and mindsets. The latter are hard to attain in one specific administration, especially without addressing the economic incentives. It goes without saying however, that codifying criminal liabilities and ethical standards of professional conduct is the critical prerequisites to set the borderline between professional ethics on the one hand, and the abuse of ethical standards and crime, on the other. Turning those ethical and legal norms into effective rules of conduct requires as well other anti-corruption measures, which address directly the drivers on the demand and supply side of corruption services.

This study attempts to draw the attention of researchers and policymakers to policy instruments that may improve the balance between the positive and negative incentives in the fight against corruption. It is based on the interpretation of the bribery act as a deal between two parties, each of them giving itself a clear account of the expected benefits and costs, which determines their position, incentives and brakes in the process of negotiation. The study draws evidence primarily from a survey carried out in April 2004 by Vitosha Research among 699 tax administration employees from the 29 Territorial Tax Directorates (TTD) and the local Tax

¹ This paper is a part of the author's study at Andrew Young School of Policy Studies, Georgia State University; Atlanta Georgia under Fulbright research grant.

Offices.² It draws evidence as well from other surveys' findings on tax compliance, compliance costs and corruption experience.³ In this context this study is an attempt to address the challenge of these new empirical findings to the theory of corruption and taxation.

Tax corruption is defined here as misuse of administrative power related to the enforcement of tax regulations – i.e. taxpayer services, tax collection, inspections and audits – for private gains. This definition does not cover all corruption practices in the tax administration. Corruption practices related to public expenditure management – such as direct embezzlement, nepotism in human resources management or corruption in public procurement, to name but a few – remain outside its scope. Second, it does not cover what is sometimes called “grand corruption”, or state corruption, i.e. bribes for influencing the setting of the rules of the game rather than of their enforcement. Even though these corruption practices are not directly related to the enforcement of tax regulations, their scale and consequences should not be underestimated. They may exceed conventional tax corruption regarding the size of bribes, fiscal and economic costs and institutional and market damages. More importantly they generate tax corruption at all levels of the revenue administration.⁴

Tax corruption is analyzed here on the assumption that, as any other deal, bribery is a result of demand and supply of certain services, which some tax officials provide to taxpayers against a bribe or other benefit. This implies mutual benefit for the tax administrator and the taxpayer at the expense of the national budget (i.e. other taxpayers and consumers of public services). It is the expected net benefits measured against the expected costs that guide the decision to offer or force out/accept a bribe. Part first studies the demand-side drivers of corruption and possible policy countermeasures. It identifies two main groups of corruption services: those related to tax fraud and evasion and those aiming at saving the cost of voluntary tax compliance. Part second analyses the supply-side drivers of corruption and places the emphasis on positive incentives against bribery. The main policy implications are summarized in the conclusion.

Demand-side drivers and deterrents

Taxpayers pay bribes for two groups of corruption services: those related to non-compliance, and those related to preferential services (speeding up procedures, tax refunds, etc). According to a survey among 699 tax officials of the territorial tax directorates, taxpayers pay bribes above all to conceal non-compliance and evade

² If not otherwise indicated all data presented in this paper are from this survey of Vitosha Research. Part of its findings are presented at http://www.vitosha-research.com/focus_bg.htm, as well as in Пашев, 2004b.

³ The Corruption Monitoring System of Coalition 2000 reports results of anticorruption surveys of taxpayers and tax officers (see Vitosha research, 2004a, 2004b). A more detailed account on these and other international indexes is presented in Pashev, 2005b.

⁴ The reason for leaving them out of the scope of this paper is that they require other policy interventions that may fall outside the domain of the tax administration (as in the case of political corruption) or tax regulations and enforcement (as in the case of expenditure-related corruption), and require a different dataset and methodology, which are not agency-specific.

penalties⁵: 65.5 percent of the respondents identify this as the major cause of bribes. Better services remain a leading cause for bribes according to 23 percent of the respondents (figure 1).

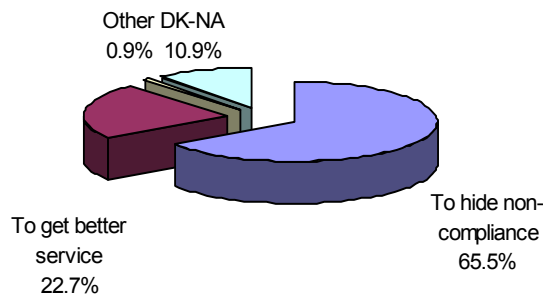


Fig. 1. Purpose of bribes (% of responses)

Figure 2 shows the most common services provided against bribery according to the evidence from the tax officers' survey. Next two paragraphs study the factors, which determine the demand for the two types of corruption services: those related to tax evasion and those related to preferential services.

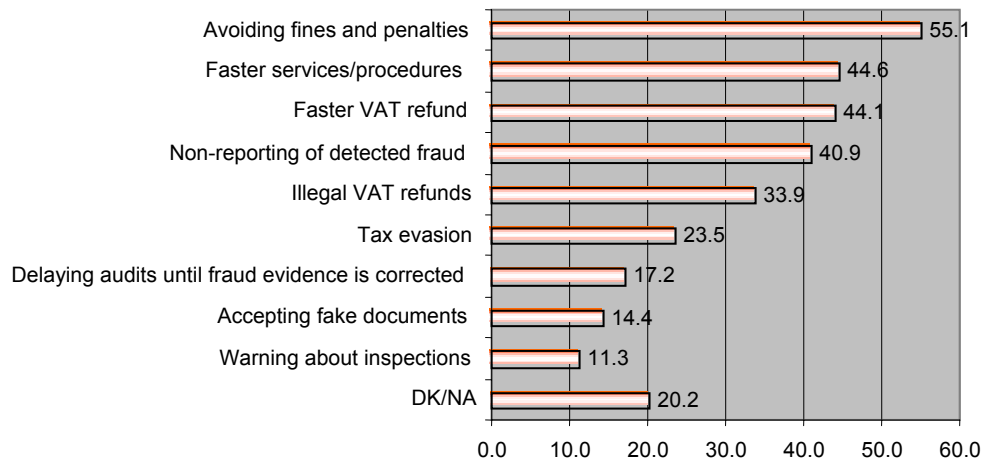


Fig. 2. Which are the most common five "services" provided, to taxpayers against bribes (% of responses)

⁵ It is important, however to distinguish between non-compliance driven by income-maximizing choice of the taxpayer (tax evasion), and non-compliance driven by unclear and excessive regulations, or discretionary enforcement of the law.

Bribery related to non-compliance

The point of departure in the analysis of this type of corruption is the correlation between tax evasion and bribery⁶. The decision to evade taxes is much dependent on the spread of corruption and the related chances to escape punishment by bribery. On the other hand, tax evasion generates demand for corruption services and drives the spread of corruption practices.

The classic tax evasion model of Allingham and Sandmo (1972) is about concealing of income. The decision whether or not to hide income is a result of the assessment of the taxpayer about expected benefits and costs. The benefits grow with the tax rate: the higher the rate the higher the return on each concealed lev of income. The costs grow with the fine for the violation and the probability of detection. The taxpayer's attitude to risk however complicates the relationship between the level of the rate and the size of evasion. The classic model assumes that taxpayers are risk-averse. This means that propensity to take the risk of tax evasion is positively related to income: the size of the penalty as a percentage of income is lower than for the low-income evader. And vice versa: the lower the income the stronger the restraint of the penalty. Thus the tax rate generates two opposite effects on evasion decisions. The first one is the so-called substitution effect: the higher the rate the higher the benefit of evasion. The opposite one is the income effect: the higher the rate the lower the after tax disposable income, the higher the cost of the penalty for the evader. Yitzhaki (1974) explains this ambiguity on the fact that the penalty in the Allingham and Sandmo model is on the size of the hidden income. If the fine is on the evaded tax (as in the Israeli and US tax codes) this would eliminate the substitution effect. The net benefit (i.e. the tax evaded minus the cost of the penalty) does not grow with the tax rate, but remains constant as the fine grows in proportion with the evaded tax. Thus it is only the income effect that is valid. In other words in the model of Yitzhaki there is no ambiguity, but the effect does not comply with the common intuitive assumption that evasion grows with the tax rate. Of course this ambiguity is present only under an assumption of risk aversion. If taxpayers are risk-neutral, there is only the substitution effect.

These pathbreaking models of the first half of the 1970's have been significantly extended and empirically tested and improved over the past 30 years.⁷

⁶ In this context it is essential to distinguish between tax evasion and tax avoidance. The former implies activities in violation of the tax and accounting regulations, aimed at hiding the tax base through under-reporting of revenues or over-reporting of expenses in the case of direct taxes, underreporting of wage costs in the case of payroll taxes, or under-reporting of sale receipts or over-reporting of input tax credit in the case of VAT. Tax avoidance implies the use of legal ways and legislative loopholes to reduce tax liabilities (see more in Pashev, 2004)

⁷ The extensions of the classic model include work-leisure choices, opportunities for tax avoidance, rate and penalty progressivity, compliance and enforcement costs, bribery, as well as factors not only on individual level social acceptance of tax evasion, tax morale etc. For a review of the literature (see Sandmo, 2004; Cowell, 2004; Slemrod and Yitzhaki, 2002).

Nevertheless the theory and the empirical work do not provide conclusive answer to the question of whether higher taxes lead to larger-scale evasion. The practical implications of this issue however are rather in the domain of tax policy. As for the tax administration the classic models imply that the decision of a taxpayer to evade taxes is largely determined by his/her attitude to risk and the penalty structure.

In the Bulgarian context this policy issues have even less relevance. Above all, the penalties in Bulgaria's tax code are neither on the concealed income nor on the evaded tax. They are left instead to the discretion of the tax authority within a broad range of up to BGL 1,000 as stipulated by the law. Thus administrative discretion in the setting of the penalty creates further opportunities for corruption pressure. Furthermore, this penalty structure provides incentives for large-scale evasion, as above the penalty ceiling the marginal cost of each evaded lev of tax liability is zero.

It is also worth noting that according to the tax officers' survey, the most common abuses are of VAT regulations rather than of direct taxes (Figure 3). In other words, the recent cuts in the Bulgarian income tax rates may not produce the expected increase in the compliance rates and the reduction in the incidence of tax corruption. Direct taxes are already relatively low in international perspective.⁸ As for the VAT, the tax falls largely on the final consumer. Hence corruption here is driven mainly by the objective of price advantages or higher profits rather than to reduce the burden of indirect taxation.

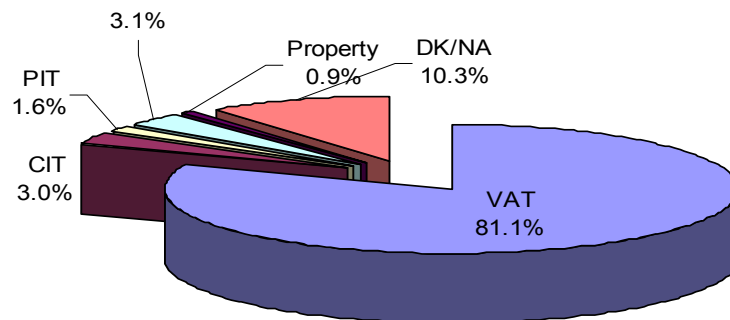


Fig. 3. Which tax is most often subject to non-compliance?
(%, single response)

The opportunity to avoid the penalty for evasion through bribery modifies substantially the motivational drivers and mechanisms that determine taxpayers' choices. The resort to a bribe implies that, first, the act of evasion is revealed; and second, that the auditor agrees to abstain from reporting it and enforcing the law in return for some benefit in cash or in kind. The process of bargaining brings into the

⁸ Global Competitiveness Report (2003, Table 2.25) ranks Bulgaria's corporate income tax 8th among 79 countries (the higher the ranking the lower the tax burden). Heritage Foundation (2004, p. 117) evaluates the corporate tax burden at 1.5 (low) on a scale of 5.

analysis the behavioral choice of the tax officer as well. Similar to the taxpayer's decision to evade the tax, the auditor's decision to accept or extort a bribe stems from his assessment of the benefits and related risks and costs of the bribery (they are discussed in the next part, which studies the drivers on the supply side of bribery services). As for the demand side effects, what matters is that the bribe reduces the expected costs of detection. It is likely that the size of the bribe would be lower than the size of the penalty; otherwise there is no incentive for the briber to pay it. The taxpayer's perceptions of the cost of evasion depend on his/her assessment of the probability to work out a deal with the tax inspector. The more institutionalized corruption is and established the "commissions" for the tax-officers' cooperation, the smaller the uncertainty around the taxpayer's choice and the probability that s/he will choose to evade taxes. And vice versa: the more efficient the policy of detection and prevention of corruption, the higher the expected cost of tax evasion.

Countermeasures to bribery for non-compliance

The classic model of tax evasion provides grounds for some direct prescriptions for the Bulgarian tax policy and administration. The policy implications concern above all the restraints to tax fraud and evasion. Evasion and related corruption may be limited and prevented either through increased probability of detection or through higher and progressive penalties. The latter is often resorted to when the administration lacks the administrative capacity to increase the probability of detection through modern risk management techniques. It is worth noting, however the capacity of heavier sanctions to compensate for low detection rates is not without limits. Penalties should be perceived enforceable; otherwise it will not have restraining effect. Furthermore, higher sanctions may also increase the average size of the bribes, which would further intensify the incentives on the supply side.

Therefore modern tax administrations try above all to increase the efficiency of the audits. This objective however is not pursued through increase in the number and frequency of inspections, as is very much the case with the Bulgarian tax administration, but rather through optimizing risk management. Modern tax information systems and databases allow the probability of audit to be highly related to the level of the concealed income. Taxpayers that report incomes under the sector averages or largely deviating from previous years are more likely to be selected for auditing.

Managing the risk of corruption

Evasion and corruption patterns in Bulgarian tax administration provide the opportunity for anti-corruption resources to be focused on few critical areas. Figure 4 shows the most common corruption services identified by the surveyed tax officers. Those boil down to "turning a blind eye" to detected non-compliance, abuse of the VAT refund mechanism, tax evasion assistance, warnings about risk management and forthcoming audits, delaying of audit procedures to give chance to non-compliant taxpayers to avoid sanctions, including through closing of

accounts and selling out of assets. These services are mainly in the power of the tax auditors and inspectors. Accordingly, tax-officers identify the functional units of “Audits” and “Inspections” as the most exposed to corruption pressure. It implies that scarce anticorruption resources should be channeled primarily to these administrative units and above all to the legislation and administration of the VAT.

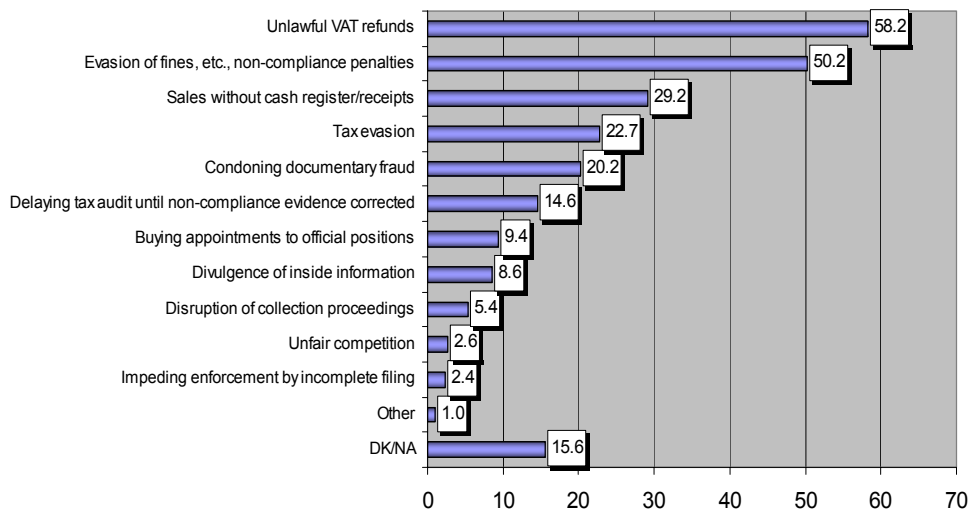


Fig. 4. Top-Three Corruption-Related Tax Offences(% of respondents)

An important practical implication of the classic tax-evasion models is that control and audit resources should be focused on large taxpayers, as the penalty has less deterring power in regard to them. In other words, the reduced efficiency of sanctions for high-income taxpayers should be offset by increased probability of detection. Moreover, due to their limited number and better accounting records audit and control is more efficient compared to the numerous small entrepreneurs with poor bookkeeping records.

As for the smaller taxpayers the leading motivational driver of evasion is the low probability of inspection and detection. This however would hardly imply that low rates of detections could be compensated by higher penalties. As it is also hard to rely on stringent control, which would be inefficient in terms of administrative cost per unit of detected liability, tax administrations around the world apply various forms of presumptive taxation, i.e. they try to tax small entrepreneurs on assumed levels of income rather than actual income derived from accounting records.⁹

⁹ On presumptive taxation see Alm, Martinez-Vazquez and Wallace (2005). On taxation of small business in Bulgaria see Pashev, 2005a.

The penalties

As already mentioned above, Bulgarian tax legislation does not tie the size of the fines either to the amount of concealed income, or to the amount of the evaded tax. It rather leaves the size of the penalty to the discretionary decision of the authority in the range of up to BGL 1,000 in the case of income taxes and BGL 10,000 in the case of VAT. The discretionary power of the administration in the setting of the fine opens the door to corruption pressures. On the other hand, the uncertainty in regard to the fine and related size of the bribe may have stronger deterring power in regard to small evaders than the explicit legislative fixing of the fine in relation to the size of the fraud. In an environment of corruption and uncertainty about the size of the penalty the fear of administrative discretion might have stronger anti-corruption effect than a progressive penalty structure would. Thus the probability of disproportional high fines compensates the lower detection rates inherent to the law enforcement in the small business sector.

This advantage in regard to small evaders however is a disadvantage as far as large taxpayers are concerned. They face regressive penalty structure: the larger the violation, the smaller the fine as a percentage of the size of the fraud. In this context a progressive penalty structure with fixed floor levels may be much more appropriate in preventing large-scale evasion.

On the other hand, whether non-fixed or progressive, the penalty structure may have deterring effect only as far as the demand side drivers of bribery are concerned. In contrast, on the supply side the wide range or the progressivity of the fine provide opportunities for extorting higher bribes, and thus act as stronger incentives to corruption practices. Therefore, other things equal, higher penalties may result in higher bribe levels. This would show as higher levels of corruption by the size-of-the-bribe indicators in the corruption monitoring system. In the analytical framework of the bribe as a price of corruption service, however, the level of the bribes in itself should hardly be a reliable indicator of corruption levels. Similar to other markets and according to elasticities of demand, higher prices should lead to lower demand for corruption services. In this line of reasoning higher bribes may in practice lead to reduction in the spread and frequency of bribery deals. Sometimes there is a tendency in the regulatory economics to interpret tax and bribe costs as regulatory and administrative costs of doing business. In this context the increase in the level of bribes is often interpreted as deterioration of the business environment.¹⁰

In the case of corruption related to tax frauds, the growth in the average level of bribes may reflect increased costs on the supply side rather than increased demand for corruption services. Increased costs and risks on the side of the administration, however, imply effective anticorruption policies and stronger checks

¹⁰ See for instance World Bank's Business environment and enterprise performance surveys in transition countries (BEEPS, 1999;2002) as well as the analysis of the corruption aspects of BEEPS findings in Gray et al (2004)

against corrupt practices. To interpret the increase of the average size of tax bribes as an increase in the regulatory burden is tantamount to defining increased fines for tax evasion as higher business costs. In this line of reasoning the bribe may actually be a stronger deterrent to evasion than the fine. Moreover the prospect of a bribe provides stronger incentive to the corrupt tax inspector to detect the fraud.

The business cost of evasion through bribery includes as well the penalty for the act of bribery. When bribery is a felony (included in the criminal penalty code, as is the case in the Bulgarian legislation), the cost of evasion exceeds the administrative and criminal sanctions for evasion in the tax and criminal laws. Taxpayer's assessment of the expected cost of evasion then includes as well his/her perceptions of the probability of detection and proving of the bribery. It reflects taxpayers' evaluation of the efficiency of administrative anticorruption mechanisms and of the court. In balance as bribery is harder to detect and prove in court than evasion, the chance to work out a deal with the auditor through a bribe is likely to reduce the restraining power of the sanctions against evasion.

It has to be specified that the analysis of tax corruption as a result of demand and supply of services is valid only in the case of targeted evasion. Non-compliance may be a result as well of complexity or ambiguity in the legal framework, which provides strong opportunities for discretionary enforcement by tax officers. In this case voluntary compliance with tax and accounting regulations may be a matter of tax officer's interpretation rather than of taxpayer's choice. The tax inspector is in a position to direct the interaction with the taxpayer towards a bribery solution. Similar to the corruption for better tax services, the drivers and the balance of bargaining powers differ from the case of corruption related to evasion and call for other policy instruments.

Bribes for preferential services

The survey of Bulgarian tax office employees finds a relatively high share of corruption for preferential services (see figures 1 and 2 above). Roughly one in four respondents identify poor services as a leading driver for offering bribes on the side of the firms. The list of most common corruption services ranks at the second and third places the speeding up of tax procedures and the refund of VAT. While corruption related to evasion is driven mainly by taxpayer's compliance choice – the tax officer can only benefit from the violation if it is detected – in the case of corruption for faster and better services the taxpayer's choice is much more limited. The net benefits for the briber in this case depend on the quality and equity in the services provided to the taxpayers. They are measured by the cost of staff time saved less the cost of the bribe. These benefits may in fact exceed the net benefits of fraud and evasion. Faster refund of VAT for instance may provide stronger liquidity relief to an exporter than concealing of income for instance. Moreover, when corruption services do not include fraud, there is lower risk of detection and penalty.

The supply side can also take the lead in this type of corruption. A corrupt officer can generate demand for his bribery services by performing his duties below

the acceptable standards. The low efficiency may reflect the preferential services provided to those who have already paid to jump ahead of the line. The compliant taxpayer is placed in a situation where s/he should also pay a bribe in order to avoid losses. In other words in this type of corruption it is not always clear even for the briber if s/he pays to “jump ahead of the line” or not to allow others to do so.

There are two groups of institutional factors that generate demand for this type of corruption services. The first one is related to the long statutory terms for the various administrative procedures and services. Standards of services and e-services are also rare or underdeveloped in transition countries. The second one stems from flaws and imperfections in the tax and accounting regulations, which allow large degree of administrative discretion in the enforcement of the law.

Surveys of taxpayers’ and tax officers’ perceptions indicate that the prerequisites for this type of corruption are fairly strong. According to the ranking of Global Competitiveness Report (2004) Bulgaria is at the bottom of the list (ranking 89th out of 102 countries) in efficiency, transparency and simplicity of the tax system. The low efficiency of the Bulgarian tax administration is singled out as a major constraint to the small business in an OECD (2003a) report. Furthermore it is worth noting that most of the business surveys identify as a leading problem to their activities the unfair competition. It is very much a result of the inability of the tax administration to guarantee equitable and just enforcement of the law.

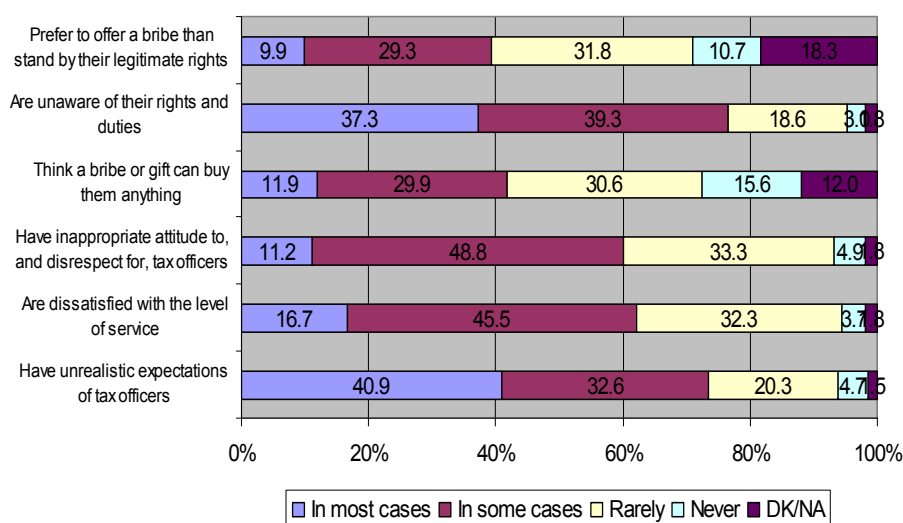


Fig. 5. Contacts with Taxpayers Assessed (“How often during the past one year have you encountered the following taxpayer behaviour?”)

Tax officers’ assessment of their interactions with taxpayers also provides strong evidence that there is large room for corruption for better services. Figure 5

reveals a considerable gap in the understanding and expectations of each party in regard to the other party's duties and serious communication problems. They may partly reflect a strong bureaucratic inertia of ignoring the importance of voluntary compliance management through better services to tax payers. It appears, however, that the gap between the administration and its clients may be partly due to the low level of business ethics and tolerance. Many clients seem to be guided by the desire "to jump ahead in the line" and to achieve advantages over other clients at all costs.

It is important to note in this context two more factors on the demand side. The first one is the assessment of the business of the reliability of the bribe. The more reliable the bribe is, the more likely the taxpayer is to resort to it as a problem-solving device. A business survey of Vitosha Research¹¹ shows that entrepreneurs are not unanimous about the effect of the bribe. According to about 45% of the respondents the briber gets what s/he pays for, but a considerable 36% testify that they may need to pay additional money to the same or another officer. Evidence on the degree of the institutionalization of corruption can be derived from the degree of "price setting" for the various corruption services. According to one third of the respondents the bribe is an established element of the business operations in their sector. Roughly 27 percent verify that the commissions for the various services are established and accepted part of the business costs.

Countermeasures to bribery for preferential services

The good news from the above-mentioned survey findings is that there is considerable potential for short-term achievements in the fight against corruption through improving the services to taxpayers. Various steps have already been taken. The time for VAT refund has been reduced, and a special VAT account introduced to simplify the refund procedure.¹² A World Bank study finds that the average time for VAT refund has been reduced from 59 days in 2002 to 41 days in 2004 (FIAS, 2004). Nevertheless it is still up to the discretion of the tax authority to decide whether or not to return the tax credit even if VAT account has been used in the transaction and whether or not to apply the principle of joint responsibility in the case of a missing trader.¹³ These arrangements provide good opportunities for corruption pressures onto compliant taxpayers.

There are two major groups of policy instruments for reducing bribery for preferential taxpayer services. The first one includes the expansion of electronic and internet-based services. They increase the productivity of the public employees; reduce the staff time spent on lines and the direct interaction between

¹¹ Vitosha Research, 2004b, annex 3, Table 5.

¹² On VAT compliance problems in Bulgaria see Pashev, 2005b, chapter 4 and 5.2.

¹³ According to the principle of joint responsibility the tax authority may refuse to pay back the tax credit if there is a missing or non-compliant trader along the production-distribution chain.

taxpayers and tax employees. The second group of instruments includes the so-called “standards of services”. The standards establish the optimal time for the various administrative procedures. The rate of the attaining these standards is subject of monitoring and evaluation.

The *Ethical norms of conduct of the employees of the tax administration* contain a section named “Standards of services”, but it contains rather general principles of service provision – such as equity, respect of taxpayers’ rights, obligation for providing complete information to various inquiries, ban on abuse of power and use of pressure on the taxpayers, etc. Without playing down their importance, it is worth noting that these principles cannot be substitutes of the standards of time and quality of services. In the advanced administrations the standards are usually established in a *Chart of taxpayers’ rights and obligations*, and contain commitments on both sides.¹⁴ The standards set above all the duration of a service procedure. Unlike the time limits set in the Tax procedure codes, the standards establish rather the optimal duration of a given work process, which the administration is trying to maintain, i.e. they should be shorter than the time stipulated by the legislation. Furthermore, regulatory deadlines imply administrative accountability for not meeting them, while the standards are rather used as positive incentives and instrument to identify the “bottlenecks” in the work processes. They allow as well setting different classes of services – standard, fast and express, etc. – with differentiated costs. This would reduce substantially the opportunities for special privileges against bribes, or the incentives for the clients to offer bribes.

Supply-side incentives and deterring factors

Summing up the analysis of the demand side drivers, in the case of bribery for tax evasion, the net benefit for the taxpayer from the act of evasion is the leading motive to offer a bribe. In addition, ambiguous and unclear legislation or excessive compliance costs due to bureaucratic procedures or inefficient administration provide strong impetus to seek solution through bribe as well. In contrast to evasion-related bribery, in the bribery induced by excessive compliance costs the taxpayer has less choice. Moreover, the employee may not just be a passive bribe taker, but is in a position to extort the bribe by delaying the procedure.

As tax corruption is primarily related to tax frauds and evasion, it is reasonable to accept the prevailing opinion among tax employees that the initiative for most corruption deals comes from the taxpayer. But it is equally important to note that the pressure from the clients is not such a critical factor for the completion of the bribery deal as are the various drivers and opportunities on the side of the administration.

¹⁴ See OECD, 2003b; Пашев, 2004a, p. 93-96.

Table 1

Which are the major drivers of corruption in tax administration?
(% up to three choices)

Tax officers' low salaries	52.2
The ethics of the tax officers	35.2
Legislation allowing discretionary enforcement	30.9
Mixing administrative duties and personal interests	21.5
The pursuit of fast increase in income	19.3
The wide spread of corruption in society	17.7
Pressure from taxpayers and insufficient protection and safety of tax officers	17.6
Complex and lengthy, bureaucratic procedures	16.9
Demoralizing impact of grand corruption	10.3
Obsolete facilities and equipment and poor work conditions	10.2
Frequent changes in legislation	9.2
The insufficient number of the tax officials	6.3
Inefficient internal control and sanctions mechanisms	4.9
High taxes, fees and fines	3.1
Flaws in enforcement and work processes	2.9
Pressure from colleagues and superiors	1.9
Inefficient service provision (slow procedures)	1.7
Inefficient risk management and selection of audits	1.4
Other (please, specify)	0.9
Don't know/No answer	3.7

Table 1 shows the aggregate ranking compiled from tax officers' assessment of the major administrative and professional drivers of corruption. The pressure from taxpayers comes as low as seventh. Tax officers identify instead low remuneration, bad ethics, flaws in regulations, and the attraction of a fast improvement in welfare as the major drivers of corruption. Thus tax corruption can be defined as a product of low wages, low ethical standards and regulatory and organizational opportunities for providing corruption services against bribes.

Accordingly, the countermeasures identified by the tax professionals are mainly in the field of remuneration, reduction of the legislative prerequisites for discretionary enforcement of the law, improvement of taxpayer services, optimization of human resources management, the administrative appeal procedures, the accountability, etc (table 2).

Table 2

Which of the following countermeasures can reduce corruption?
(% of responses)

Countermeasures	Yes	No	Already done	DK/NA
Increasing tax administration remunerations	95.6	0.7	1.6	2.1
Clear legislation with reduced opportunities for administrative discretion	90.7	3.0	3.4	2.9
Optimizing the information to taxpayers on changes of legislation	81.0	4.6	12.4	2.0
E-services for taxpayers	78.5	4.6	11.9	5.0
Incentives for the tax officers to report corruption pressure on them	69.7	11.4	13.7	5.2
Efficient professional training system	68.5	8.4	19.9	3.1
Access of tax officers to unified tax register	63.8	8.2	18.6	9.4
Simplifying appeal procedures	59.8	12.7	15.2	12.3
Higher standards of reporting, control and sanctions	48.4	10.7	34.8	6.2
Rotation of auditors and inspectors	47.1	18.2	24.2	10.6
Optimizing work processes	44.2	5.2	47.4	3.3
Higher recruitment standards	43.9	13.0	37.9	5.2
Code of ethics	26.8	10.2	59.5	3.6
Other (please, specify)	0.9	16.9	0.6	81.7

A further (indirect) confirmation that the clue for reducing corruption is on the supply side is the opinion of the tax employees on the issue of the penalties for corruption. Only 8 percent think that taxpayers should be punished more than tax officers for their involvement in the bribery. For about 25 percent the employees bear the major responsibility, while for about 60 percent of the respondents the two parties share equal responsibility. In balance, tax officers appear inclined to seek the reasons and the responsibility for tax bribery on their side first and then on the side of the taxpayer.

If ethical brakes are temporarily ignored, the behavior of the tax employee is determined also by his/her assessment of the expected benefits and costs. The benefits are usually defined as an increase in utility. This means that the lower the income of the tax officer and the higher the bribe, the larger the increase in his utility, the stronger the incentive to engage in the act of bribery. The costs in terms of Becker's (1968) classical theory of crime prevention are determined by the bribee's assessment of the probability of detection of the bribery and the cost of the punishment. Other things equal, the lower the probability of detection and the cost of the penalty, the more inclined the tax official would be to take a bribe.

Furthermore, as already mentioned, the tax officer is not necessarily a passive taker of the bribe. In the case of strong incentives and weak brakes s/he may go beyond the normal call of duty to detect a fraud, or take advantage of ambiguities in regulations, or threaten with high fine, or take too long to provide a service or process an application.

Moreover, the tax officer has much stronger positions in the price setting process. The taxpayer cannot “buy” the bribery “service” from anyone else. His choice is basically between the cost of the bribe and the cost of the penalty or the cost of the delay. This puts him in a position of a price taker. It is the supplier who is more in a position of a price maker. The value of the bribe is likely to be set by the tax officer in the range starting from the assessment of his costs up to the cost of statutory penalty. His/her price-setting power is especially high when the legislation leaves the fixing of the fine largely in the hands of the administration, as is in the case of the Bulgarian legislation. In this context, the higher the probability of detection and penalty, the higher the risk premium that the tax officer includes in the price of the service would be. Therefore, other things equal, successful anticorruption policies may result in higher average bribe costs, which might be misinterpreted as indicator of deteriorating business environment. Actually this means only increased business costs for the bribers.

Incentives

Low wages are identified as the main problem by all functional units of the administration, but the employees of the “Inspections” departments are most sensitive to it: nine out of ten inspectors identify wages as a serious problem (Table 3). Accordingly, 96 percent of all surveyed employees identify the adjustment in the remuneration as the most important anticorruption measure.

Table 3

Problems faced by the tax administration
(% of employees who defined the problems below as serious on a 3-grade scale)

Problems	Total	TRS*	Audits	Inspections	Collect	Account	Appeals	Other	NA
Low remuneration	75.5	72.2	77.2	89.6	77.8	68.2	42.9	70.8	100.0
Obsolete facilities & equipment	61.4	60.1	69.0	56.7	70.4	45.5	71.4	29.2	70.0
Red tape and slow procedures	58.7	53.8	65.5	58.2	66.7	54.5	42.9	45.8	80.0
Frequent changes in tax regulations	58.1	51.4	69.4	52.2	66.7	40.9	57.1	58.3	80.0
Loopholes in the legislation	52.5	39.9	67.2	59.7	59.3	38.6	57.1	58.3	50.0
Low level of taxpayer culture and awareness of their obligations	51.9	60.1	45.7	46.3	51.9	45.5	42.9	41.7	60.0
Refusal by taxpayers to cooperate	40.5	35.8	43.5	58.2	40.7	38.6	28.6	25.0	40.0
Ineffective enforcement (detection and sanctions against frauds)	35.6	31.9	40.1	37.3	48.1	29.5	14.3	33.3	40.0
Base	699	288	232	67	27	44	7	24	10

*TRS: Taxpayers Registration and Services

Wages

Let us consider the two major causes for corruption identified in the tax officers' survey: the low levels of wages and professional integrity. Tanzi (1998) defines these two drivers of the decision to accept or reject a bribe as corruption due to need and corruption due to greed. Figure 6 illustrates the negative relationship between corruption and the level of remuneration. The curve CC' indicates that the higher the wage level, the lower the corruption levels. High wages, however, do not eliminate corruption, as not all corruption is due only to need. Thus corruption levels may indeed be reduced to the point A through increasing the wage level to R. Between point A and O progress in limiting corruption slows down as corruption due to greed prevails. Thus, even though the level of corruption is negatively related to the level of remuneration, above certain level of wages they are not effective tool of reducing corruption. Such a relationship is well documented by empirical tests as well.¹⁵

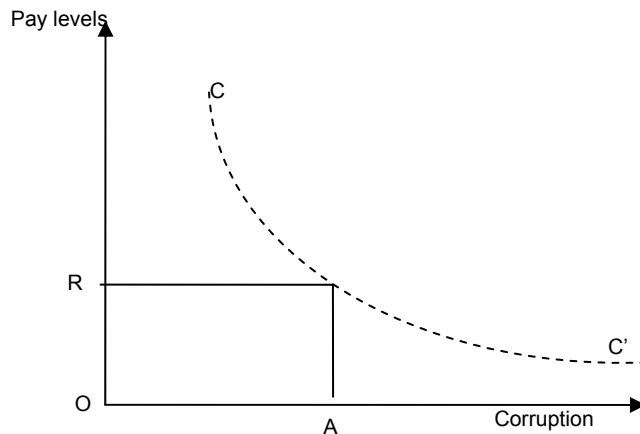


Fig. 6. Corruption and wages

The reason for the limited anti-corruption capacity of wage adjustments above certain levels is that one cannot expect universal reaction by all employees to the increase in wages. Income-driven motivation may be reduced but greed may still motivate individual choice considerably. The policy implications are that depending on the current level of wages the costs of wage adjustment may exceed the benefits of reduced corruption. Furthermore, identifying the optimal level of wages – where the marginal costs of wage adjustment equals the marginal benefit of reduction in corruption – is a hard task. First, the distinction between corruption

¹⁵ See Van Rijckeghem and Weder, 1997; Haque and Sahay, 1996.

due to need and corruption due to greed is fairly elusive. From an individual perspective, the “greedy” employee also acts upon his/her perceptions of own needs, i.e. the level of welfare that s/he would like to achieve. Distinguishing between needs that are real and needs that reflect greed would imply some benchmark of “normal” utility levels (presented by the part OR on the illustration), which implies value judgment. Another difficulty is related to the assessment of the marginal social benefits of reducing corruption.

Table 4

What is the remuneration level* (including bonuses) that would reduce the drivers of corruption to a minimum? (%)

Min. monthly wage (BGL)	300	400	450	500	550	650	800	1000	DK/NA	Total
% respondents	3.6	5.7	3.4	14.0	7.2	12.4	16.7	25.8	11.2	100.0
Actual household income										
< 149	4.0	0.0	0.0	0.0	0.0	1.1	0.9	1.1	1.3	0.9
150-199	8.0	0.0	0.0	2.0	2.0	1.1	3.4	2.2	0.0	2.0
200-299	12.0	15.0	25.0	10.2	10.0	6.9	6.8	6.1	11.5	9.2
300-399	20.0	27.5	12.5	18.4	22.0	20.7	15.4	14.4	11.5	17.0
400-499	28.0	17.5	33.3	21.4	16.0	24.1	16.2	11.7	12.8	17.5
500-599	12.0	15.0	16.7	20.4	18.0	10.3	15.4	11.1	16.7	14.6
600-699	12.0	15.0	4.2	9.2	14.0	13.8	13.7	15.0	9.0	12.6
700-799	0.0	0.0	0.0	7.1	10.0	5.7	10.3	12.8	7.7	8.3
800-899	4.0	5.0	0.0	1.0	2.0	5.7	4.3	10.0	3.8	5.2
900-999	0.0	2.5	0.0	4.1	2.0	4.6	5.1	5.6	9.0	4.7
> 1 000	0.0	2.5	0.0	1.0	2.0	4.6	4.3	6.7	6.4	4.1
NA	0.0	0.0	8.3	5.1	2.0	1.1	4.3	3.3	10.3	4.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Monthly wages in BGL. The lev is pegged to the euro in the rate EUR1 = BGL 1,956. For reference, the statutory minimum wage in 2004 is BGL120. The highlighted percentages show what share of those that indicated the respective anti-corruption minimum actually enjoyed this level of income.

Trying to evaluate the cost and feasibility of minimizing corruption through wage adjustments, this study compares employees' estimates of the wage levels that would minimize their vulnerability to bribery pressures with their actual incomes. Such a comparison (table 4) shows that a small portion of the surveyed tax officers enjoy income levels that according to their own perceptions are

corruption-proof. About 26 percent estimate the optimal anti-corruption monthly wage level at BGL 1,000. More than half of them assess the anti-corruption wage minimum at BGL 650, which is 62.5 percent above the average monthly wage of the tax employees in 2003 (BGL 400). The table shows the gap between the perceptions of the anti-corruption minimums and the share of employees that actually enjoy such levels of income (the shaded part in the table). By way of illustration, only 12 employees out of the 180 who assess the corruption-proof level of remuneration at BGL 1,000 have attained it. In aggregate about 43 percent of the employees have incomes that are more than 40 percent below their perceptions of bribery-proof levels. These findings imply high propensity to take bribes. Furthermore, they imply a limited capacity of the wage adjustments to lead to tangible anti-corruption outcomes.

A further indirect proof of the limited power of reducing corruption through wage adjustment is provided by the survey evidence of the relationship between propensity to corruption and the age and years of service. Over two thirds of the respondents, irrespective of their wage and years in the tax office deny any clear pattern that links age or years of service and the propensity to take bribes. The age and the years in the tax office, however, are closely related to the level of the wage. The explanation of these findings may be in the fact, that the absolute level of payment is not so good an indicator of the propensity to take bribes, as would be the payment relative to the needs of the individual. The latter also grows with the age.

The problem with wages, however, is not only in their levels. Tax officers' satisfaction with their wages would depend also on their perceptions of the fairness of the wage and career system, i.e. how objectively they reflect individual performances. This goes beyond the perceptions of own necessities and pertains to the efficiency and fairness of the human resource management, including recruitment, performance evaluation and training, and position and wage development.¹⁶ Rauch and Evans (2000) study recruitment and promotion practices in the public service of 35 developing countries and find strong positive relation between merit-based recruitment and internal promotion on one hand, and the efficiency of the bureaucracy, on the other (including the level of corruption). The stronger the competitive principles of external selection and internal promotion are, the smaller the incidence of administrative corruption.¹⁷

The bonus system

The uncertain anti-corruption effect of adjusting the base wages has made tax administrations rely on the non-fixed part of the remuneration, which is tied to

¹⁶ Bulgarian tax employees do not have the status of civil servants. There is a sensitive trade off, as the benefits of extra guarantees against political dismissals for civil servants may not compensate for the cost of conformity with lower wage levels.

¹⁷ It is worth noting, however that their work failed to establish such a relationship between merit-based wages and bureaucratic efficiency (corruption).

the individual performance of the employee, especially to their contribution to law enforcement and prevention of corruption. If they are well targeted and transparently linked to performance bonuses are more flexible and efficient anti-corruption tool than overall wage adjustments. They are superior incentives to wages for at least three reasons. They entail less fiscal cost, they do not require setting the optimal anti-corruption level of wages, and are a better targeted way to reward individual achievements. Moreover, they allow channeling limited resources to the most important functions and units, such as "Audits", "Inspections" and "Internal control". The reward system, however, depends very much on the efficiency and accountability in these units. It would not yield much effect if the selection, assignment, monitoring and evaluation of audit and control procedures is not modernized and optimized, thus leaving opportunities for benefiting selected employees or customers. Furthermore, it requires modern and transparent methodology of performance evaluation of individual performance.

The Bulgarian tax administration deserves full credit for its bonus system. The bonus fund is raised from the so-called "additional revenues", i.e. tax liabilities, interest and fines charged and collected in the process of auditing and inspection. The Tax Procedure Code leaves 25 percent of these extra revenues generated through administrative enforcement to the tax administration budget. Thirty five percent of these funds (or 8.75% of the total collected) is appropriated to the bonus fund.¹⁸ At that, most of the appropriation is set apart for direct distribution to the 'front-line' officers in the fight against tax fraud and corruption, i.e., to the TTDs and local tax offices, which get 90-92 per cent of the extra revenues,¹⁹ and the Large Taxpayers TTD alone gets 30 per cent. Thus, the appropriation, which is a direct function of a TTD's performance, is distributed by quotas among its departments and functional units, and most of it goes to: Tax Audit (up to 76% at the Large Taxpayers TTD, and up to 36%, at the other TTDs); Taxpayers Registration and Services (24% at TTDs, and 7%, at Large Taxpayers); and Operational Control (15%) and Collection (5% at TTDs, and 4%, at Large Taxpayers).²⁰ Some units can have their quota raised by 5-10 percentage points if other units have undistributed quotas left.

In addition to the direct appropriation, TTDs and local tax offices can get bonus funds in the discretion of the General Tax Director. These can reach up to 46 per cent of the extra revenues accounted for by Large Taxpayers and are again distributed by quotas. It should be noted in this regard that the Large Taxpayers

¹⁸ Of the remainder, 60 % goes to capital improvement of the physical facilities and to regulation clothing for the tax officers, and 5% is set apart for pay supplements to the officers of the Ministry of Finance.

¹⁹ The remainder of 8-10% goes to the Regional Tax Directorates (RTD) and the GTD.

²⁰ The remainder (20% at TTDs and local offices, and 13%, at Large Taxpayers) is distributed as bonuses to TTD management positions and the staff of other functional areas, including: Methodology and Appeals; Finance and Accounting; Legal; General Administration and Procurement; Statistics Analyses and Projections; Human Resource Management; Information Technologies.

TTD accounts for some 60 per cent of all tax revenues and if operations are streamlined, its share in the administration's own revenues should be much higher than 60 per cent.

Overall, the bonus system is fairly balanced and targets with priority those functional areas, which come into direct contact with taxpayers and are most exposed to the risk of corruption. Still, things could be done to improve it. Above all, 8.75 per cent is a rather modest portion of the additional tax liabilities assessed and can hardly afford adequate incentives to the officers at TTDs and local offices, which have a limited revenue potential. These mostly rely on the General Tax Director's generosity for their funding.

Secondly, the existing bonus distribution scheme strongly encourages tax collection by enforcement, while advanced tax administrations increasingly rely on compliance management. In other words, the administration's primary objective should be to help taxpayers steer clear of non-compliance, rather than catch them 'red-handed'. Of course, the main condition for this change of focus is a clear, simple and stable legal framework, and the administration has a rather limited say in that. However, the more user-*unfriendly* the legal framework is, the more dependent taxpayers are on the administration for their compliance costs. The existing SFI system does not measure and reward TTDs compliance management performance. There are some valid reasons for this: unlike the detection of non-compliance, compliance management is much more difficult to evaluate and attribute to particular functional units. It is not impossible, however. Modern methods exist of measuring voluntary compliance by type of tax liability, and of its corresponding compliance gap, without which no tax administration today should approach the assessment of its effectiveness. These are gradually making their way into the Bulgarian tax administration and their application at the TTD level is only a matter of information technologies and analytical resources. Besides, even under the existing arrangement, it should not be a problem to account for both extra revenues (resulting from law enforcement) and planned revenue targets (relying on voluntary compliance) for the purpose of distributing pay bonuses. At present, the compliance-management element can only be plugged into the equation by the General Tax Director distributing 46 per cent of correction revenues coming from Large Taxpayers.²¹

Lastly, to enhance its effectiveness, the pay bonus scheme should be more clearly defined in policy. Under its existing arrangement, at least half of the available funds can be allocated, on a discretionary basis, by the General Tax Director. This is of course necessary in order to redistribute some of the enforced collection by the Large Taxpayers Directorate to the other TTDs and local tax offices. It should be done, however, on more clear criteria set in advance so that it can work as a meaningful performance incentive to both line staff and supervisors.

²¹ To amend the situation, a weighting factor could be applied to SFI funds reflecting TTDs' voluntary compliance rate, or at least, their performance on planned revenue targets.

Another linkage that could be improved is that between the bonus distribution scheme and the system of performance appraisal. While there is some clarity as to the allocation of bonus funds to structural units, it seems hazed by head of unit discretion when bonuses are distributed among staff members.

In the final analysis of performance incentives, it should not be forgotten that even the best HRM system couldn't replace a fair and capable manager. It can, however, help a less fair and capable manager by providing the right tools for greater accountability, transparency and impartiality throughout the organisation. This is the ultimate objective of modern selection, appraisal, and training techniques that ensure a closer link between compensation and career development, and the personal contribution of every member of the organisation to its objectives.

Deterrents

Even though this study's focus is on the potential of positive incentives in the fight against corruption, the capacity of the deterrents is not to be neglected. They could be broadly classified into two groups of policy measures: control and sanctions on the one hand and reduction of the institutional opportunities for corrupt practices.

Control and sanctions

Applying Becker's (1968) classic theory of crime prevention to the employee's decision to gain from bribes, this choice depends on the individual assessment about the probability of detection of the bribery and the size of the penalty. It follows that at least in theory, more severe sanctions against corruption should have strong deterring impact that may compensate for lower detection rates. Accordingly, the policy focus in Bulgaria so far has been on the codification of corruption acts in the criminal law and on strengthening administrative control. In 2002-2003 the Criminal Penalty Code underwent substantial amendments in its anti-corruption clauses.²²The Tax Procedure Code also contains anti-corruption clauses, but the administrative sanctions there lack restraining power. In general, the Bulgarian anti-corruption legislation has been brought in line with the best European practices, but enforcement still leaves a lot to be desired.

The administrative control and the internal anti-corruption checks and balances are of course a major prerequisite for the effectiveness of anti-corruption law enforcement. These are entrusted to the "Inspectorate" departments in the GTD and the RTD. A further important component of the internal system of checks and balances is the professional code of ethics, which is in effect in the tax administration since April 2004. Internal control within the executive power falls also under the prerogatives of the Public Internal Financial Control Agency (PIFCA), while external control (of the legislators) is exercised by the Audit Office.

²² For details see Велчев, 2003, p. 130-136.

Despite above anti-corruption bodies and mechanisms, real penalties for bribery are rather rare.²³ Similarly, court convictions for tax evasion are also rare. The gap between legislation and enforcement is one of the main reasons for the shift in efforts towards prevention through eradicating the institutional opportunities for corruption and through increases emphasis on positive incentives.

Institutional opportunities

The institutional flaws that invite tax corruption may be grouped in two broad categories which outline two major targets of anticorruption policy measures: those that target tax policy and legislation, and those that target the work processes and procedures in the administration.

Tax policy anticorruption priorities are oriented towards optimizing and simplifying the legislation. This includes: a) reducing tax rates and expanding the tax base through eliminating various exemptions and deductions; b) reducing the opportunities of arbitrary and selective law enforcement by the administration; c) minimizing taxpayers' voluntary compliance costs. The latter is especially important for the small business ventures, which in average face higher compliance costs relative to their incomes (i.e. compliance costs are regressive). Therefore forms of presumptive taxation not only save enforcement costs, but also compliance costs, and limit the opportunities for discretionary interpretation of the laws and extortion of bribes from small businesses.

The anti-corruption potential of streamlining work processes is mainly in the clear assignment of responsibilities across functional structures, establishing clear procedures for communication and reporting; introduction of advanced risk management techniques and corresponding procedures for audits and inspections including selection, audit of documents stocks and flows and reporting. The control mechanisms would not be corruption proof without an adequate and efficient system of appeals.

Last but not least the strength of the anticorruption checks and balances in the administration depends very much on its capacity to assess compliance rates and gaps and to monitor and evaluate the individual efficiency of tax officers and especially of auditors and inspectors. Even though the information system has a major role to play in risk assessment and management of voluntary compliance and enforcement, it is not in itself *the* ultimate solution. The international and for that matter even more so the Bulgarian experience provide sufficient evidence that if the human factor is not prepared for a change the ICT in itself cannot provide automatically the needed administrative capacity for preventing and curbing corruption.

²³See the Annual Corruption Assessment Reports of Coalition 2000 for court statistics of the number of investigated prosecuted and convicted for corruption crimes.

*

It is often argued today that progress in curbing corruption takes time, as it requires changes in mindsets and ethical values. Accordingly the short-term emphasis is on prevention through stringent control and more severe sanctions. This paper is an attempt to bring into the limelight of academic and policy debate measures and approaches, which might be feasible as well in the short run, and seem more attractive from a cost-benefit perspective. It looks at the act of bribery as a transaction driven by mutual benefits and tries to identify measures that address both the demand-side and supply-side drivers of this transaction.

It identifies relatively good chances for curbing corruption in the short and medium run through addressing the drivers of corruption for better and faster taxpayer services. It seems to have considerable weight in the corruption drivers on the side of the business, allowing at the same time relatively low-cost intervention. The clue lies in the fast expansion of e-services, introduction of standards of services and a monitoring and accounting mechanisms that would allow identifying the bottlenecks in the administrative services and the corresponding corrective measures.

The second priority in this regard requires more time and efforts. It includes legislative and policy measures oriented towards repairing the various loopholes and inconsistencies in the legislation, which provide room for administrative discretion in the enforcement of the tax legislation. Most of these flaws are well known to accountants, tax practitioners and the administration. What is lacking is political will and consistency in pursuing the legislative amendments agenda. It is not realistic to expect however those efforts to eradicate all opportunities for arbitrary administrative enforcement. Moreover, tax legislation would always contain legal means to reduce individual tax liabilities. It is important in this regard for the lawmakers and the enforcement authorities to draw a clear borderline between tax evasion and tax avoidance. Currently this borderline is very much left to the discretion of the administration, which opens the door to bribery. A clear-cut line of distinction between evasion and avoidance would have anti-corruption impact in two ways. First, it would allow the firms to apply tax-planning techniques rather than rely on bribing the tax auditor. This would expose corrupt officers to direct competition with tax consultants and accountants, thus putting downward pressures on the size of the bribe. Second, these practices will allow optimizing legislation through distinguishing targeted tax incentives from legislative deficiencies and loopholes.

Crowding out corruption related to voluntary compliance would channel administrative resources in the medium and long run towards the major policy challenge, i.e. corruption related to tax fraud and evasion. In contrast to services-related corruption, driven mainly by excessive compliance costs, evasion-related corruption can hardly be reduced any further through reducing direct taxes (which has been the policy priority in the last years). The problem here is that evasion (including income taxes) is driven by excessive payroll taxes rather than income

taxes.²⁴ As for deductions and exemptions, they are not so many and complicated as in the advanced countries, where tax systems reflect centuries of lobbying and privileges for different business and political interests.

There is however an opportunity to streamline the penalty structure for tax evasion. Currently it opens the doors wide open to administrative discretion and is regressive above the statutory ceilings.

The major anti-corruption opportunities however seem to be in the positive incentives on the supply side. It goes without saying that the capacity of the budget for that are limited relative to the bribe capacity of rent-seeking firms. Moreover, the size of bribes is in average much lower than the benefit for the briber. Tax officers' assessment of the corruption-proof pay levels exceeds about 160-200 percent their current income levels. This finding indicates both a high vulnerability of the administration to the temptation of taking a bribe as well as a need of considerable fiscal resources for such kind of remedy.

Much higher and still not quite studied and discussed is the capacity of the bonus component of the remuneration. Its share in the overall remuneration should be increased, with priority to the most exposed functions of inspections and audits. Furthermore the distribution of bonuses should be better tied to the individual contribution of each employee to the prevention of evasion and corruption.

To sum up, if as it seems to be the case, the benefits of further strengthening of control and sanctions could hardly exceed the costs, if changing mindsets and ethical values takes time, while raising pay levels across the board takes fiscal resources which are not available, then where is the clue? With all risks of simplification, a one-sentence answer may sound like this: If there is money for tax police or for expensive foreign consultants' services (such as those of Crown Agents of the UK), it might be worth considering the effect of channeling part of these resources into extra anticorruption incentives for those that are in the front-line of the fight with delinquent taxpayers. The anticorruption return to such measures might seem much higher especially if longer-term anti-corruption benefits are brought in the equation.

Any policy measure should be based of course on cost-benefit analysis. In this context even the best designed and targeted policy intervention can hardly yield lasting effect if not monitored and evaluated through a good set of indicators. These indispensable tools of ex-ante appraisal and ex-post evaluation constitute perhaps one of the major practical immediate challenges to experts and policy makers.

In a way of conclusion, the effectiveness and efficiency of all above identified policy priorities and opportunities – incentives and sanctions; anti-corruption cleaning of legislative procedures and work processes, optimizing

²⁴ See more in Pashev, 2005a.

control and audits – and many others for that matter related to political corruption (which remains out of the scope of this paper), hinge crucially on the precondition that the tax office has a real administrative autonomy. It includes budgetary and organizational authority, as a main prerequisite for transparency and ability to take responsibility for administrative failures to perform. It would also limit to a minimum the involvement of the administration in state capture and tax clientelism. Finally, the administrative autonomy is the necessary condition for the effective linking of the budgetary allocations and individual pay levels to the collection and anti-corruption efficiency of employees and functional units.

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