Introduction
Ethics are the keystone of integrity. But how do we define what is actually right and wrong? With the grey area dominating most cases, integrity or lack thereof must be judged on a case-by-case basis. Some governments regard lack of integrity as a non-existent issue, whilst others use it as a tool to work with. Lack of integrity costs money and time and – most importantly – weakens the prestige and credibility of governments. And what is the effect on the taxpayer? A tax administration with low integrity standards undermines taxpayers’ trust and respect thereof, which in turn adversely affects the fundamental premise behind voluntary compliance and self-assessment. The same can be said of tax administrations with an undue focus on collecting funds according to regulations, at the cost of taxpayers’ trust.

Whilst integrity and corruption are closely related, a lack of integrity does not necessarily result in corruption. There are, for example, many situations which one can class as integrity issues (violations of values and/or regulations), but not as corruption, as there is no evidence of financial bribing or coercion. With integrity issues far outweighing corruption issues, the fight against corruption cannot be won without considering the integrity aspects of behaviour (regarding management and organization).

The fight against corruption is difficult – and may even be a lost case – without an analysis of the circumstances that enable a lack of integrity. In this sense every existing malpractice is an encouraging circumstance for more lack of integrity. Furthermore, although corruption may be especially evident in many developing countries and economies in transition, integrity issues play a role everywhere, as any community will encounter violations of its norms.

Ethics and integrity
Any discussion of the complicated issue of integrity has to address the role of ethics in society. The philosophical debate on ethics has been held in the ancient Greek world, in the European Eras of Renaissance and Enlightenment, and in the old Indian and Chinese empires; thus, cultural aspects and history do play their roles in this debate. Still, it is impossible to comprehensively discuss, in this paper, the interference and mutual adjustment between religion, tradition, legal culture and formulated ethics in society. All of these are interlinked, and the author only wishes to make a marginal comment in this context: integrity issues can only be discussed in recognition of social and cultural conditions; these must also play a role in any proposed solutions to improve integrity. One
has to be careful in exporting Western values and ethics to countries that have no tradition in the teachings of Machiavelli, Descartes and Rousseau. The author is from a continent which suffered under violent wars for centuries – wars set on by conflicting religions or ideologies. Thus, the continental European and Anglo-Saxon standards are a painful result of these massacres, forming the lessons learned to protect society from abuse of power by the authorities. Further, these standards, the legal system, the accepted values, and the formulated ethics are also a product of an evolving middle class, which fought for its rights and emancipation. The correlation between ethics, democracy, civil rights and the middle class is significant. The rulers and the paupers hardly contributed to the ethics discussion in society, which is why the leaders of the labour and socialist movements in the 18th and 19th centuries (mostly children from the middle class) strove for education for the working class, knowing that an economic uplift had to go hand in hand with cultural emancipation.

Another important aspect is the long tradition of individualism in the Western world that influenced the ethics discussion. The concept of individualism has little meaning in many societies in the developing world. Concepts such as accountability and responsibility may be recognized, but only as a member of a group (what one owes to one’s village, group, family or clan), having no relevance between individual workers and their employers. Naturally, when a public administration is rather new and a public service tradition non-existent, many authorities may want to start the discussion on fighting corruption by introducing Western experts and their standards. Nevertheless, the lessons for the perfect bureaucracy (as formulated by Max Weber, for example) say more about the societies of Germany and the Austro-Hungarian Empire than about anything else.

**Ethics and tax administrations**

Ethics may be regarded as standards of behaviour that instruct human beings on their actions in different situations. These standards are also important for relationships between the individual and society at large, including institutions such as family, religious bodies, business communities and public authorities.

However, ethics should not be taken to mean the same as a legal system. Laws are not always based on ethical principles. Of course, although democracy encourages basing laws on ethics, this is not a guarantee. This is why many democracies create institutions to protect the individual against power abuse or a wrong interpretation of the law.

The playing field of tax administrations is marked by (1) the authorities, who need tax revenues for their expenditures, (2) taxpayers, who want to be protected by a sound and tax officials, who want to have a fair pay and a prospect of personal development: This playing field is exactly the area where lack of integrity, non-compliance and corruption can occur. It has to be realized that the tax authorities powerful and privileged taxpayers. Tax laws, and administrative procedures,
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bestow certain powers on the authorities, such as:
- assessment of taxes;
- collection of revenues;
- adjustments and fines on tax declarations;
- property seizures;
- payments (and delays) on tax returns;
- interest provisions on late payments;
- garnishment of bank accounts;
- closure of business activities;
- commencement of criminal or civil proceedings; and
- exchange of information with other authorities.

Execution of these powers may mean that a taxpayer looses his business, his property or his income, and can even lead to imprisonment. It is beyond doubt that abuse of these powers can create severe damage to the civil rights of the taxpayer. This is why tax officials have to use these powers with care, especially because the balance of power is tilted so much to their advantage.

**Ideas for an integrity programme**

Many tax administrations already have ideas, a policy or a system in place to fight corruption within their organizations. However, a broader vision is necessary to improve integrity in the organization and – even more important – to put the issue of integrity on the management agenda.

The schedule below, resembling an oriental temple, illustrates the different aspects involved in making an organization more resistant to lack of integrity.
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Tax administrations should focus on the following:

- an HRM policy for creating circumstances that encourage integrity (a system of internal auditing, job descriptions, transparency in the remuneration system, transparent recruitment policy, no political appointments, recruitment and promotion based on merit, segregation of duties, staff rotation, continuous training programme, etc.);

- an HRM policy that brings about an open atmosphere, where ethics can be freely discussed within the organization (dilemma training, appointment of an ombudsman, guarantee to protect employees who report on integrity cases, ethics as a standard issue during team and management meetings, etc.), including the development of an internal communication plan;

- considering ethics in all external communication plans – more specifically regarding image, reputation management and proactive involvement of the media;

- a whistle-blower programme for employees who report on integrity cases, etc., including the development of an internal communication plan and measures to guarantee protection;

- development of a plan for external communication on ethics, including reputation management and proactive involvement of the media. Processes such as internal auditing and procurement should be integrated in the improvement of integrity; one division should coordinate these processes and take responsibility for the whole integrity/ethics programme (HRM is the most obvious choice);

- performance standards for teams and individual officials, regarding both quantity (production and revenue) and quality (taxpayer satisfaction, due care, correctness, etc.), to be used in a continuous planning and control programme;

- the important role of the planning and control department in informing and influencing politicians and the legal department, making certain that any tax reform is based on simple and clear rules, has a limited number of exemptions and has as little ambiguities and loopholes as possible;

- development of an overall communication and training strategy for implementation of ethics programmes;

- as last resort, investigation and prosecution of integrity cases, possibly bringing violators before the court, in consideration of the best outcome (punishment, attention in the media, putting an example and experience for future cases);

- reflection of all actions and policies in a single programme that enables strategy alignment in the organization (isolated actions are never effective);

- design (if necessary) of a code of conduct as a reminder and support tool for employees regarding the integrity strategy; and

- consideration of the elements of organizational design that support the integrity policy (independent ombudsman function, internal audit function, anti-corruption and lack-of-integrity department, supervision function for audits regarding integrity aspects, taxpayer rights department, etc.).
The presence of an integrity strategy presupposes that an organization wants to learn from integrity issues. It is therefore important that knowledge about integrity issues is recognized as a keystone of such strategy. Case studies can be crucial for managers and officials, in order to learn from practical examples, where – in order to discover the boundaries – the grey areas are more interesting than black-and-white cases. Furthermore, cases of corruption and lack of integrity are indicators of what is wrong in an organization, as vulnerable officials and bribing taxpayers take advantage of the weak spots in such organization. Although prosecution of offenders is one side of the solution, it is even more important to strengthen the weak aspects of the organization.

Such a strategy concentrates on prevention, as prevention in the end is always cheaper than the costly and damaging prosecution process. An organisation as a whole should focus on monitoring and evaluation (after the prevention phase) – and not only the departments for procurement, internal auditing or anti-corruption. The management (especially the middle management) has a major responsibility in monitoring the behaviour of their team members, and should be sensitive to questions and conflicting situations. Managers have to support their employees; in this sense, monitoring is a broader and a more positive management method than the classical way of control and verification (which is limited to supervision of employees and checking their decisions).

**The function of a code of conduct**

A code of conduct may present a unique, comprehensive legal text of expected standards of behaviour, or a non-prescriptive document that includes desirable standards of conduct, for which non-compliance could be penalized through other measures. The code also provides guidance to the employees, who have to make decisions that have both personal and professional aspects. In other words, a code of conduct is a tool to avoid any professional or business activity that may create a conflict between personal interests and the duties of the tax authorities.

Each tax administration should establish a strategy for the development of its own code of conduct and ensure its dissemination, implementation, and promotion through a comprehensive and sustainable integrity programme.

The development and implementation of a code of conduct should consider:
- the organization’s mission and values;
- management’s participation in and commitment to the process;
- the involvement of staff, key focus groups, and unions in the process;
- the adoption and promotion of preventive measures that provide incentives for professionalism and high standards of conduct;
- the importance of establishing an office of internal investigation;
- the need to establish an internal communication strategy for the dissemination of the code of conduct;
- the need to develop training programmes on the code of conduct;
- the establishment of mechanisms for employees to raise and resolve ethical dilemmas and questions relating to the expected standards of behaviour; and
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- the development and adoption of policies that deal with specific ethical issues, such as discipline, conflicts of interests, harassment, the use of the electronic network, etc.

Establishing a code of conduct is mainly based on the following principles:
- fairness and equity;
- transparency;
- integrity; and
- accountability.

These principles should provide the ethical standards that a tax administration requires in its relationship with taxpayers and other authorities. The following is a short description of these principles:

*Fairness and equity* require that the law is applied consistently, without bias or prejudice, and that programmes and policies do not discriminate against any taxpayer or employee. Every employee and taxpayer should be treated equally and fairly, given the identity of their circumstances.

*Transparency* means that taxpayers should be informed of their rights and obligations. It also means the tax administration must actually be run in the same manner as is presented externally. Transparency encompasses encouragement of external checks and balances, based on an internal auditing programme, under which the outcomes are communicated with internal and external stakeholders. Transparency also means private interests of managers and employees should be disclosed, as should be the acceptance of any gifts. Finally, transparency is relevant in the recruitment and promotion system within the organization, which has to be based on merit only.

*Integrity* may be regarded as steadfast adherence to a strict moral or ethical code. Another interpretation is that the power of the law should be used to conduct the business of the state.

*Accountability* signifies that the tax administration and its individual officials are responsible for their actions. They should report fully and honestly about their actions and behaviour. Accountability means that one cannot address an issue to a colleague or another institution without regard to one’s own part in the process.

A code of conduct can consist on the following rules (based on the Louisiana Association of Tax Administrators):
- obey all laws relating to taxation and grant no exemptions, credit or advantage to any taxpayer that is not provided by the law;
- be dedicated to the highest ideal of honesty and integrity in all matters in order to maintain the respect and confidence of the government and taxpayers;
- refrain from actively participating in partisan political activities;
- strive to be impartial, fair, neutral and consistent in administering the law, without regard to race, social or economic circumstances;
- provide prompt, efficient and quality service to all stakeholders in an effort to exceed their expectations;
- accurately record proceedings and maintain taxpayer information in the strictest confidence and highest level of security;
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- refrain from soliciting gifts for actions and non-actions;
- make reasonable effort to collect the proper amount of tax revenue due at the lowest possible cost to the state, and in a manner that warrants the highest degree of confidence in the tax administration’s integrity, efficiency, effectiveness and fairness;
- respond to valid taxpayer refund claims with the same diligence as employed in collection of taxes;
- educate taxpayers on their rights and responsibilities to ensure the highest possible levels of voluntary compliance to the laws.

The code of conduct and the mission statement of the tax administration are interrelated; integrity forms the foundation of both.

**IBFD welcomes your feedback as follows:**

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