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**HORIZONTAL MONITORING SYSTEM IN THE LIGHT OF LAW &
ECONOMICS**

SUMMARY

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The horizontal monitoring system is a tax solution consisting of three basic elements. First, the tax administration implements risk-based control methods in addition to the existing evidence-based control methods. Second, taxpayers oblige to implement a tax supervision framework that ensures internal tax settlement procedures of an adequate quality. Third, with regard to taxpayers who have an appropriate quality framework for tax supervision, the tax authority refrains from conducting fiscal audits based on the facts and provides support to the taxpayer in the ongoing clarification of any doubts.

Establishing a new type of relationship between the tax authorities and taxpayers is the subject of numerous studies. The achievements of the economy of transaction costs are also of key importance for these purposes. According to this approach, each market relationship is associated with the costs of coordinating the participants' activities called the transaction costs. In line with the Coase's Theorem, if the transaction costs are significant, entities participating in the relationship will seek ways to reduce them. The relationship of the tax authorities, under certain conditions, may be considered as subject to Coase's Theorem. In the long term, maintaining a high level of the transaction costs will adversely affect the overall effectiveness of the functioning of the tax administration. As a result, the incentives to lower them will increase in strength.

In addition to the growing collection of research literature on the new relationship between the tax authorities and taxpayers, it is also increasingly reflected in practical solutions and tax mechanisms created in countries belonging to the Organization for Economic Cooperation and Development. However, the experiences of tax administrations with the horizontal monitoring systems are differentiated. Despite numerous positive feedbacks, there were also many cases where the implementation of the system met with some negative reactions among all types of stakeholders. This is due to the fact that the system of horizontal monitoring system is often inconsistent with the traditional model of the operations of the tax administration bodies, and the process of its implementation is burdened with various risks. Due to the relatively short time of the horizontal monitoring systems existing in practice, as well as their differentiation between individual countries, the concept of such a system is still at an initial stage. The first two horizontal monitoring systems functioning in practice (Dutch and British) and the extensive theoretical concept of the horizontal supervision system developed by the OECD, became an inspiration for other countries that introduce their own versions of the

system. The legal and comparative analysis of these solutions provide valuable information about their impact on the relationship between the tax authorities and taxpayers.

Applying the Williamson's transaction costs estimation method, it is possible to compare transaction costs in two abstract tax systems – one based on the classic paradigm of relations between taxpayers and tax authorities (vertical supervision) and second - based on the conclusions of a comparative analysis of the horizontal monitoring systems.

The first chapter presents the concepts of legal sciences and economic analysis of law that constitute theoretical support for the paradigm shift in the approach of tax authorities to relationship with the taxpayer. The analysis begins with Allingham's neoclassical model of tax compliance. It is subsequently enriched by the concept of stages in the development of Selznick's and Nonet's legal systems, Kirchler's and Braithwaite's models, and Grabovski's concept of meta-regulation. The importance of the issue of tax certainty for maintaining tax compliance by the taxpayers is also emphasized. The chapter ends with the presentation of the horizontal monitoring system as an example of the analysed change in the tax paradigm.

The second chapter shows research tools to identify the causes of paradigm changes. First, the concept of transactional costs and methods of their estimation are presented, including detailed discussion of Williamson's concept of comparative transaction costs. Then, based on Evan's empirical research, categories of transaction costs related to the tax system were identified. Subsequently, a set of classical research methods of legal comparative studies were analysed, with particular emphasis on the functional method. The possibility of using classic methods in the field of tax law was also considered and the scientific achievements on selected methods of comparative legal studies in the field of tax law were presented. The chapter ends with a description of the research method used in the dissertation to identify the generalized characteristics of the horizontal monitoring system - Kamba and Infanti method.

In the third chapter, the selected research method is applied to the comparative analysis of the horizontal monitoring systems in the OECD countries. First, the extensive model of the horizontal monitoring system proposed by the OECD is presented. Then, the descriptive stage of the analysis of horizontal monitoring systems according to the Kamba and Infanti method was carried out. It contains a detailed description of the systems

implemented in three European countries (the Netherlands, Great Britain, Sweden) along with the effects of their implementation. The general principles of the horizontal monitoring systems in Slovenia and Denmark were also presented. As part of the information stage, similarities and differences between the systems were identified. As part of the exploration stage, generalized conclusions from the analysis were presented, identifying the benefits, costs and risks associated with such implementation. The chapter ends with a description of the Polish proposal for a horizontal monitoring system implementation.

The fourth chapter is devoted to the analysis of the change in the tax paradigm in the relationship between the tax authorities and taxpayers in terms of the economic analysis of the law and transaction costs. Based on the conclusions of the legal and comparative analysis of horizontal supervision systems, a comparative assessment of transaction costs was made for the relationship between the tax authority and the taxpayer in the case of the current and the new paradigm. The comparison of the relative levels of transaction costs made it possible to explain the sources of the analysed change. Complementarily, the horizontal monitoring system is also considered in the light of game theory and from the perspective of the Macneil's relational contract theory.

Chapter five contains conclusions and proposed areas for further research.

The conducted analyses indicate that the mechanisms based on the new paradigm of relations between the tax authorities and taxpayers translate into a decrease of transactional costs in the economy. Therefore, with the increasing complexity of the economic relations, tax mechanisms based on a new paradigm of relations between the tax authorities and taxpayers will become more and more important. Tax administrations and international institutions should proactively seek opportunities to implement modern, collaborative and trust-based tax mechanisms to ensure the effective functioning of tax authorities and the economy.