

The role of the tax administration in combating bribery and corruption

Tax administrations have an important role to play in combating bribery and corruption. In the course of their activities tax examiners and auditors are in a very strong position to identify indicators of possible bribery or corruption, and the tax administration has a responsibility to exercise its duties and powers to assist other government agencies in fighting these crimes. The tax administration assists the fight against bribery and corruption in two main ways.

Firstly, a tax administration is responsible for ensuring compliance with domestic tax law. In most countries, bribes and other payments associated with corruption are not tax deductible. Tax examiners and auditors should take steps to identify these payments and ensure that deductions are not allowed for tax purposes and, where applicable, apply the appropriate penalties in accordance with domestic tax law. Bribes received and other proceeds of corruption may also be taxed under domestic tax legislation, and this should be enforced. In spite of denying a deduction for bribes paid or taxing the income or gains of bribes received and applying penalties accordingly, tax administrations may never totally put an end to corrupt behaviour but do what is in their power to limit it. Some individuals and companies will continue to accept the risks as a cost of doing business. However, by enforcing these laws strictly, tax administrations will reduce the benefits of corruption, thus sending a clear message that bribery and corruption are not acceptable business practices.

Secondly, where in the course of their work a tax examiner or tax auditor uncovers information that leads them to suspect bribery or corruption may have occurred, the tax administration in most countries has an obligation to refer these suspicions to the appropriate law enforcement authority or public prosecutor. This can significantly increase the likelihood of a successful prosecution. It also means that, alongside a prosecution, steps can be taken by the appropriate authority to recover the proceeds of the corruption from the people or companies involved. This ensures that, to the extent possible, nobody obtains a financial benefit from the corrupt activity.

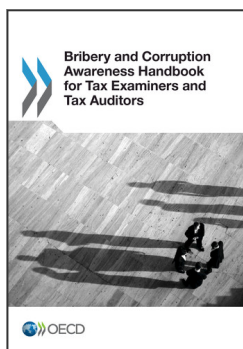
Where a tax examiner or auditor refers their suspicions of possible bribery or corruption to a law enforcement authority or public prosecutor, the tax administration should take all steps necessary to ensure this information remains strictly confidential and to ensure the safety of their employee. A clear policy that is put into practice to protect tax examiners and auditors enables them to do their jobs in safety and encourages others to refer similar suspicions. The content of such a policy may vary depending upon the particular profile of a

country and its tax administration, and should be based on an assessment of the risks faced by tax examiners and auditors in that country.

Links to money laundering

Bribery and corruption are predicate offences for money laundering purposes, and so where a tax examiner or auditor identifies indicators of possible bribery or corruption, they should also consider whether any indicators of possible money laundering are also present. If this is the case, the tax examiner or auditor may also be under an obligation to report this to the national Financial Intelligence Unit (FIU). This means that information uncovered by a tax examiner or auditor may also result in a money laundering investigation.

The OECD *Money Laundering Awareness Handbook for Tax Examiners and Tax Auditors* is a practical guide to raise awareness of issues surrounding money laundering, and the indicators of possible money laundering that tax examiners and auditors may come across in the course of their work.



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