

## Summary

Several years since the introduction of horizontal tax monitoring in the Netherlands the question has arisen whether it functions and especially whether it is better than traditional tax monitoring. Traditional tax monitoring is characterised by a hierarchical relationship between the tax authorities and taxpayers. I define horizontal tax monitoring as a means of administrative control based on mutual (informed) trust, understanding and transparency between individual taxpayers and the (Dutch) tax authorities. In exchange for providing relevant tax information on a voluntary basis, taxpayers obtain fiscal certainty on their duty to pay taxes in advance and are - in principle - no longer subject to time and effort-consuming tax audits, sanctions and prosecution afterwards. Dutch tax monitoring has never before been based on mutual trust, understanding and transparency, where the behaviour of taxpayers largely determines the way they will be treated, without (substantial) differences in the conclusion of the tax assessment. A taxpayer may voluntarily choose whether to join horizontal tax monitoring; there is no legal obligation.

In my study of the effectiveness of horizontal tax monitoring, I assess its 'consequences' from various points of view. I develop four indicators to measure the effectiveness in the practice of medium-sized Dutch companies: better tax compliance, greater certainty on the tax position, a reduction of tax compliance costs and better relationships with the tax authorities compared to traditional tax monitoring. I describe tax compliance as the willingness to comply with tax laws and tax compliance costs as the expenses of complying with the laws. I describe the certainty on the tax position and the relationship with the tax authorities as the certainty and relationship as perceived by the Dutch medium-sized companies.

Dutch medium-sized companies are interesting to investigate; not only do they consist of more than 10,000 companies, their population consists of a variety of companies. There are larger medium-sized companies, which have similarities to large companies (multinationals), and smaller medium-sized companies, which have similarities to small companies. Also non-profit companies are included. Probably one of the background characteristics: annual turnover, number of employees and profit/non-profit firms, play a part in the functioning of horizontal tax monitoring.

I derive the indicators from three academic theories on encouraging regulatory compliance: *Interactive Legislation*, *Responsive Regulation* and *Interactive Compliance*. I develop a framework of requirements being the basis for horizontal tax monitoring *in theory*. I map the functioning of the Dutch horizontal tax monitoring model and test whether it meets these requirements. I further assess the international experiences with horizontal monitoring models to record what could be learnt from its local functioning and finally test whether the Dutch horizontal tax monitoring model *in practice* yields an improvement in comparison to traditional tax monitoring.

Van der Burg's *Interactive Legislation* theory yields that a flexible arrangement of the tax enforcement process should result in better compliance, greater certainty and better relationships with the tax authorities. Ayres & Braithwaite's *Responsive Regulation* theory yields that a moralistic approach of tax monitoring, with the possibility of sanctions, should lead to better compliance, greater certainty, reduced tax compliance costs and better relationships with the tax authorities. Also Sigler & Murphy's *Interactive Compliance* theory yields that mutual trust and cooperation based tax monitoring, should result in better compliance, greater certainty, cost savings and better relationships with the tax authorities. With these theories I also assume there is a link among the indicators themselves in the sense that a better relationship should result in better compliance, better compliance should result in greater certainty and greater certainty should reduce the costs of tax compliance. Moreover, I like to know which indicator taxpayers find most important to decide whether or not to join horizontal tax monitoring.

The principal research-question is:

*Is it likely that horizontal tax monitoring, compared to traditional tax monitoring, results in better tax compliance, greater certainty on the tax position, a reduction in tax compliance costs and a better relationship with the tax authorities? Which indicator find taxpayers most important for their decision whether or not to join horizontal tax monitoring? Is there a link between these indicators?*

To answer these questions, I set up a tax law and empirical research (Chapter 2). To gather information on taxpayers, I developed a questionnaire in collaboration with the Dutch tax authorities. Before developing the questionnaire, I conducted interviews to assess whether the indicators are also decisive in practice and to gather information to develop the questions to be included in the survey. I also used the interviews to ask the respondents which is the main indicator whether or not to join horizontal tax monitoring and whether they also see a plausible link between the indicators themselves.

From the total population of 10,465 medium-sized companies (autumn 2011), 3,025 companies were approached to participate in the survey. For various reasons such as: unknown at address, bankruptcy or in dissolution, 54 questionnaires were returned unanswered. Ultimately, 2,971 companies were effectively approached, 895 questionnaires of which were returned, implying a response rate of 30 per cent. The survey was conducted in the form of written and internet surveys among both directors and financial/tax law specialists from the Dutch medium-sized companies. In principle, I do not take this distinction into account, as the project focusses on the overall picture obtained from medium-sized companies. When survey questions have both been raised to directors and financial/tax law specialists and the results show a significant difference, I include a note.

The results from the empirical research enable me to assess whether horizontal tax monitoring works, and especially whether it works better than traditional tax monitoring. I describe these results in Chapter 8. However, in order to understand *whether* horizontal monitoring works it is important to know *how* it works. In order to understand how it works, I give answers to the following questions first: how has Dutch tax monitoring evolved from a traditional hierarchical model to a more modern horizontal model (Chapter 3); under which academic preconditions should horizontal tax monitoring operate (Chapter 4); how is horizontal tax monitoring embedded in the Dutch legal tax system (Chapter 5); how is it embedded in the tax enforcement process (Chapter 6) and what may be learnt from international experiences with horizontal monitoring models (Chapter 7)? To each of these questions, I devote a chapter in which I give answers to the question on the basis of several sub-questions.

In Chapter 3, I describe the transition from traditional to horizontal tax monitoring in the Netherlands. Dutch tax authorities became increasingly dependent on *cooperation with taxpayers* to arrive at a correct tax assessment, influenced by social trends such as the individualisation and internationalisation of society by the end of the twentieth and the early twenty-first century.

In Chapter 4, I place horizontal tax monitoring in a more general social trend of horizontalisation of society and the law in particular. I describe why horizontal tax monitoring in the light of the academic theories *Interactive Legislation*, *Responsive Regulation* and *Interactive Compliance* should work and what the preconditions are.

To provide a framework in which horizontal tax monitoring should work *in theory*, which implies that it is plausible that horizontal tax monitoring compared to traditional tax monitoring results in better compliance, greater certainty, reduced tax compliance costs and a better relationship with the tax authorities, it must be subject to the following three conditions:

1. Tax assessments resulting from an individual compliance agreement (covenant) should – within the tax authorities' discretion to treat taxpayers who are willing and able to comply with the laws and regulations differently from taxpayers who are not able to or will not comply – be the result of an interactive process between taxpayers and the tax authorities during the entire process from tax relevant transaction to the formalisation of the tax assessment (*Interactive Legislation*, Van der Burg);
2. Tax authorities should align the tax monitoring to the level of the internal and fiscal control system of the company, whereas the willingness of taxpayers to comply with the tax laws and regulations should determine their treatment in the tax enforcement process, with the possibility to exercise enforcement measures or punish on hand, if and when necessary (*Responsive Regulation*, Ayres & Braithwaite);
3. Taxpayers must show that they are willing and able to comply with the tax laws and regulations by bringing or keeping their internal and fiscal control system up to the standard, where tax compliance is an essential part of the business strategy and the compliance strategy is implemented across the company (*Interactive Compliance*, Sigler & Murphy).

In Chapter 5, I describe how horizontal tax monitoring works, in particular its incorporation in the Dutch tax legal system. Although horizontal tax monitoring has no specific legal basis, the Dutch tax authorities may arrange the enforcement process on the basis of discretion and may develop public policies. General rules on horizontal tax monitoring can be found in publicised policies, while the individual cooperation is based on a covenant which may according to Dutch civil law - in my view - be classified a private mutual agreement between the taxpayer and the Dutch tax authorities. As a consequence civil law apply to the agreement. However, traditional tax rules remain applicable whilst some covenant obligations (also) have a traditional tax law-basis. The tax administration is bound by publishing the policy. The covenant contains agreements which go beyond the rights and obligations resulting from traditional tax monitoring; these additional covenant obligations have no basis in public law. By classifying the covenant as a private agreement, the obligations not only bind the tax authorities but also the taxpayers. Mutual covenant arrangements are the basis for tax cooperation under horizontal tax monitoring. The main significance of classifying the agreement as a private agreement, is that covenant parties may request the civil court to impose fulfillment of the additional covenant rights and in exceptional cases, compensation of damage. The policy to treat companies who are willing and able to comply with the law and regulations (by having their internal and fiscal systems up to standard and the adoption of a socially responsible attitude towards taxation) differently from taxpayers who can or will not comply, does not conflict with the *principle of equality* (actual inequality).

In Chapter 6, I describe the embedding of horizontal tax monitoring in the tax enforcement process. The interactive relationship between the taxpayers and the tax authorities will not only actualise the tax monitoring but also makes it more flexible. Companies with a horizontal tax monitoring covenant are required to disclose relevant tax issues to the tax authorities and the tax authorities are obliged to provide an answer; not only questions about the application of the law but also questions about cases the law should be applied to. The flexibility for tax planning under horizontal tax monitoring is, however, limited compared to traditional tax law; tax planning in accordance with the spirit of the law is allowed, however, aggressive tax planning should be avoided as it risks termination of the covenant. Under horizontal tax monitoring the information from taxpayers is voluntarily obtained without a legally sanctioned obligation, so its use has a wide application.

The power to impose a tax penalty under horizontal tax monitoring is identical to that under traditional law and in both cases the culpability of the tax behaviour determines the amount of the fine; *culpability factors* may however be different, so the participation in horizontal tax monitoring may as yet be of importance for the level of the penalty to be imposed. For instance, whereas causing a deficient definitive tax assessment by the taxpayer's deliberately withholding relevant tax issues, may be reproachful under horizontal tax monitoring, it may not be under traditional tax monitoring.

The Dutch horizontal tax monitoring model, as described in Chapters 5 and 6, meets the preconditions under which horizontal tax monitoring should work *in theory*, as formulated in Chapter 4, provided that companies take care of a company-wide implementation of the tax compliance strategy themselves.

In Chapter 7, I describe the international experiences with horizontal tax monitoring models. Based on these experiences the Dutch horizontal tax monitoring model meets the principles for a successful fiscal cooperation as formulated by the OECD (commercial awareness, an impartial approach, proportionality, disclosure and transparency, responsiveness and the investment in a Tax Control Framework by taxpayers). From these experiences we also learn that the monitoring of small companies is directed to gathering information from third parties acquainted to the taxpayers. Moreover, these experiences teach that horizontal tax monitoring for large companies, who better value internal control systems, works better than traditional tax monitoring. Finally, these experiences teach us that a solution to improve European tax compliance may consist of a cooperation-based tax enforcement process of mutually exchanging tax information, rather than entering into a single European tax model.

Chapter 8 shows the results of the empirical study. The results show a difference between the experience with regard to the four indicators of horizontal tax monitoring by companies which are and which are not subject to horizontal tax monitoring. However, the companies which are subject to horizontal tax monitoring are not directly comparable to the companies that are not. It may not be excluded that there is a form of *self-selection* under horizontal tax monitoring; for companies under traditional tax monitoring which show fiscal compliant behaviour - by having their internal and fiscal control systems up to standard and the adoption of a socially responsible attitude towards taxation - joining horizontal tax monitoring only seems a formalisation of the existing tax attitude and behaviour.

Suppose there were only traditional tax monitoring and all Dutch medium-sized companies were in one bucket. Some of these companies have a positive attitude, would like to comply with the tax laws and regulations, would rather not run risks, and take an interest in 'doing good'. The other part with a lower ambition toward tax compliance, would like to follow the most tax efficient route and prefer not pay too much tax.

When I reclassify these companies into a first group which is subject to horizontal tax monitoring, whilst the second group remains subject to traditional tax monitoring, and this *reclassification* is all that occurs, horizontal tax monitoring has *no effect*; in that case possible differences are no more than a confirmation of the actual situation.

However, I expect horizontal monitoring to affect the four indicators: tax compliance, fiscal certainty, tax compliance costs and the relationship with the tax authorities. When the outcome of this research shows that horizontal tax monitoring results in better compliance, greater certainty, lower tax compliance costs and a better relationship with the tax authorities, I presume that horizontal tax monitoring works better compared to traditional tax monitoring.

When the results show that there is a difference between companies subject to horizontal tax monitoring and companies which are not, the question arises whether the difference is a result of horizontal tax monitoring or whether other background characteristics of the company play a part? I judge whether horizontal tax monitoring works better than traditional tax monitoring on the basis of two tests:

- 1) A comparison between horizontal and traditional tax monitoring based on the four indicators: tax compliance, fiscal certainty, tax compliance costs and the relationship with the tax authorities;
- 2) A comparison between horizontal and traditional tax monitoring based on the *effect* of horizontal tax monitoring on the four indicators.

Based on the first test – in which the concept of horizontal tax monitoring is *not* mentioned – I can determine whether there are significant differences between the group with and without experience with horizontal tax monitoring. When I additionally exclude the influence of the background characteristics: annual turnover, number of employees and profit/non-profit firms and the differences remain *unaffected*, this contributes to the likelihood that the differences *result from* horizontal tax monitoring.

The more direct approach used in the second test – the concept of horizontal tax monitoring is *explicitly* mentioned – already makes it more likely that observed differences result from horizontal tax monitoring compared to the first test, but keeping the differences unaffected by excluding the background characteristics makes it *even more likely* that the differences result from horizontal tax monitoring. This makes the results from the second test even stronger compared to those from the first test.

The study shows significant differences between companies subjected to horizontal tax monitoring and companies which are not. It seems therefore that horizontal tax monitoring is more effective than traditional tax monitoring. However, the differences may be explained by different background characteristics rather than joining horizontal tax monitoring. Do these significant differences remain when the size of the company and the classification as profit or non-profit company are no longer relevant?

The results of the first test show that by eliminating the background characteristics: annual turnover, number of employees and profit/non-profit companies, most significant differences remain unaffected and some significant differences only even emerge by exclusion of the background characteristics.

The statistically stronger second test also shows that with regard to the directors of the companies, all significant differences remain. The results of the analysis of covariance show, moreover, that it is *very likely* that the differences as shown within the population of the directors *result from* horizontal tax monitoring, because the differences remain unaffected despite checking the background characteristics. All *directors* are positive about an improvement on the indicators, however, the directors of the subjected companies are *even more positive* than directors of non-subjected companies.

When eliminating the size of the company and whether or not the company is a profit company, for *financial and tax law specialists* the differences for *greater fiscal certainty* and a *better relationship with the tax authorities* remain unaffected, but the differences for *better tax compliance* and *reduced tax compliance costs*, do not. For that reason, I include a note.

Further analyses of the experiences of *financial and tax law specialists* imply that:

- it is *very likely* that the observed differences for *certainty on the tax position* and *the relationship with the tax authorities* result from horizontal tax monitoring. All financial and tax law specialists are positive about the increased certainty and the improved relationship with the tax authorities, but financial and tax law specialists of subjected companies are *even more positive* than financial and tax law specialists of non-subjected companies;
- the previously observed differences in the *tax compliance* and *reducing costs* are obviously *associated with the background characteristics*: annual turnover, number of employees and profit/non-profit companies;
- the perceived improvement on tax compliance by non-profit companies is stronger than for profit companies and the perceived reduction in tax compliance costs for smaller companies is stronger than for larger companies;

- it is not the financial and tax law specialists of subjected or non-subjected companies who disagree about an improvement in tax compliance, however it turns out that the financial and tax law specialists of profit or non-profit companies disagree; non-profit companies are more convinced of an improvement in tax compliance through horizontal tax monitoring compared to profit companies;
- it is not the financial and tax law specialists of subjected or non-subjected companies who disagree about a reduction in tax compliance costs, however, it turns out that the financial and tax law specialists of larger or smaller companies disagree; smaller companies are more convinced of a reduction in tax compliance costs as a result of horizontal tax monitoring compared to larger companies.

The study therefore shows that horizontal tax monitoring is *effective* and the observed differences are *not just a confirmation* of the actual situation. The study further shows that the experience with horizontal tax monitoring is also linked to the *size* of the company; larger companies are more willing to comply and are more often subjected to horizontal tax monitoring. This confirms the presence of the above-mentioned *self-selection*; larger companies work differently and horizontal tax monitoring seems to fit them better.

The fact that horizontal tax monitoring brings an improvement compared to traditional monitoring is likely due to the following two results:

- 1) When eliminating the impact of a number of background characteristics related to horizontal tax monitoring (annual turnover, number of employees and profit/non-profit companies) the observed differences remain unaffected. The differences are therefore not (only) influenced by the size of the company or whether or not being a profit company, but are also due to horizontal tax monitoring;
- 2) When respondents are asked to indicate what they think of horizontal tax monitoring, the subjected companies are more positive on various points than non-subjected companies (they are more positive about horizontal tax monitoring, feel more certainty, attach more importance to a good relationship with the tax authorities and are also more often satisfied about that relationship).

In addition, it follows from the research that medium-sized companies consider *having more certainty about the tax position* as the most important consideration to join horizontal tax monitoring. The results also show that the larger companies more often consider greater certainty about the tax position as the most important indicator. Moreover, *non-profit companies* consider greater certainty about the tax position as the most important indicator. The smaller companies more often consider a *reduction of the tax compliance costs* as the most important indicator as to whether or not to join horizontal tax monitoring.

The results from my research also show the likelihood of a link between a better relationship, better tax compliance and greater fiscal certainty, whilst the likelihood of a link between greater fiscal certainty and a reduction of tax compliance costs, causes greater dissension among the population. The reduction of tax compliance costs rather seems to be related to the size of the company; smaller companies are more convinced of a reduction of tax compliance costs through horizontal tax monitoring, rather than larger companies.

Although the likelihood of a link between the indicators is also supported by the theories of *Interactive Legislation*, *Responsive Regulation* and *Interactive Compliance*, more research is required to gain an (even) better insight. Such research should in my view no longer focus on the likelihood of a link between the indicators themselves, but whether an *improvement of the relationship* should be seen as the *catalyst* to improve the other indicators; especially smaller medium-sized companies experience a reduction in tax compliance costs through horizontal tax monitoring and these companies lack such a relationship until they join horizontal tax monitoring.

I give the following reply to the principal research question:

*It is likely that horizontal tax monitoring, compared to traditional tax monitoring, leads to better tax compliance, greater fiscal certainty, reduction of tax compliance costs and a better relationship with the tax authorities. Medium-sized companies consider having more certainty on their tax position as the most important indicator to join horizontal tax monitoring; for smaller companies, the importance of a reduction in tax compliance costs increases. It is also plausible that there is a link between a better relationship with the tax authorities and better tax compliance as well as between better tax compliance and having more certainty on the tax position. A link between having greater certainty and a reduction in tax compliance costs causes greater dissension among the population. It is more likely that the reduction in compliance costs under horizontal tax monitoring is related to the size of the company; smaller medium-sized companies are more convinced than larger ones.*

Larger and smaller medium-sized companies have different experiences with horizontal tax monitoring. Larger companies feel greater responsibility for compliance, require a higher level of control and greater certainty, collaborate more often with the tax authorities and are also more satisfied compared to smaller companies. Smaller companies are less willing to comply, have a more distant relationship with the tax authorities, find the tax process more difficult and expensive. However, they feel more confident about their tax position and more often experience a reduction of tax compliance costs through horizontal tax monitoring.

Profit and non-profit companies also have a different experience with horizontal tax monitoring. Profit companies find the tax process more expensive and time consuming, but more often feel certain, compared to non-profit companies. Non-profit companies find the tax process more difficult, however they feel more responsibility, require greater certainty and more often collaborate with the tax authorities.

Larger and non-profit companies are more willing to comply and need more control and greater certainty than smaller and profit companies, thereby joining horizontal tax monitoring seems more logical to them. These differences justify a different approach for larger and non-profit companies compared to smaller and profit companies. Horizontal tax monitoring makes such differentiated approach possible.

### **Recommendations**

#### *Objective requirements to underline the tax authorities' confidence*

The Dutch tax authorities are bound to the execution of tax laws and regulations by the general principle of good governance, which includes ensuring that they have to make a decent judgment to treat one taxpayer in one way and another taxpayer in a different way. That judgment should be reflected in the distinctive criterion to enter into a covenant with one taxpayer and not with another.

I find it desirable that the tax authorities' comfort to agree a covenant with one taxpayer and not with another, is capable of objective assessment and specifically applicable requirements are included in the covenant.

Where two taxpayers are in an identical situation in fact and legally, in principle they are both entitled to a covenant or not (identical cases). Insufficient confidence in the anticipated willingness to comply voluntarily, may for the tax authorities, however, be a reason to agree a covenant with one taxpayer and not with another (actual inequality). The actual inequality can be tested if the confidence in taxpayers can be *objectified*.

The Dutch tax authorities' confidence is based on positive expectations of the taxpayer's behaviour: a *good client image*. The client image is based on the *tax strategy*, the *internal and fiscal control* and the *fiscal transparency* by the company. To counter arbitrary treatment of taxpayers, the *good client image* should be capable of being assessed objectively.

With *eight sub-processes to optimise the tax control process* and the details of the expectations regarding the outcome of these processes (Dutch Tax Authorities 2013, *Supervision Large Business in the Netherlands*, par. 7.2) in my opinion the Dutch tax authorities meet the requirement for more (objective) clarity to join horizontal tax monitoring.

The sub-processes, however, do not provide minimum requirements for the *establishment* of a tax control process, but they point to the *result* of the tax control process; such as an overview of relevant tax events in the various segments of the company, a tax planning strategy that fits with the company's compliance strategy, identification and management of tax risks, an internal control function, complete and accurate data recording, et cetera.

The sub-processes are currently publicised in public policies, which only bind the tax authorities and not taxpayers themselves. The disadvantage is that taxpayers might see the publicised requirements as maximum requirements, which might slow down their initiative to optimise the tax control process. Inclusion of the requirements in the covenant will also bind taxpayers and the requirements may further be specified by mutual agreement.

In my view, with the *eight sub-processes*, the Dutch tax authorities clarify the requirements that have to be met in order to substantiate their confidence in taxpayers. These requirements should however - in order also to bind taxpayers - be included in the covenant itself and not only be publicised in public policies.

*The ability for objection against tax positions taken by the tax authorities on an agree to disagree basis*  
The answers given on application of the law by the Dutch tax authorities, are interpreted in accordance with traditional tax monitoring. According to traditional tax monitoring, an undesired answer to a *question of law* is not open to objection.

There is no public law obligation for the Dutch tax authorities to answer *factual* questions. The obligation resulting from the covenant should be interpreted according to private law. Failure or delay in giving an answer to a factual question, results in non-fulfillment of the covenant obligation. In such case a taxpayer may apply to the civil courts to get an answer. An undesired answer, however, can under private law not be challenged, as the covenant does not oblige the tax authorities to give an answer which *pleases* the taxpayer.

When the tax authorities give an undesired answer to a submitted question (on the facts or the law), the taxpayer has to await the final tax assessment, in which the answer is *possibly* reflected, to file an objection. When a planned activity - on which the tax authorities have answered a question raised by the taxpayer - is, however, not carried out, an objection against the assessment cannot be filed.

Taxpayers have no direct options available to challenge an undesired answer from the tax authorities in response to a submitted question (on the facts or on the law).

I find it desirable that the answer to a submitted question (on the facts or on law) is capable of being objected. If taxpayers would not need to await the tax assessment - in which the answer to a question is possibly reflected - before an objection can be filed, both taxpayers and the tax authorities alike faster and greater certainty. In addition, a planned activity should not be performed first in order to get the desired certainty. Planned activities should, however, have a real meaning and not be merely hypothetical.



The ability to objection should - with respect to the *principle of equality* - be available to taxpayers subjected to either horizontal tax monitoring or traditional tax monitoring. The possibility to file an objection could - for monitoring capacity reasons - be limited to situations in which taxpayers and tax authorities *jointly* decide. A relationship based on mutual trust, transparency and understanding under horizontal tax monitoring, is expected to create more room for a joint decision to issue a tax position which is open to objection, rather than a more distant relationship under traditional tax monitoring.

The ability to object against tax positions taken by the tax authorities on an *agree to disagree basis*, will ensure faster and greater certainty about tax implications of proposed activities, purchases and investments, and contributes to the need for more fiscal certainty.

#### *A commitment to a company-wide implementation of the compliance strategy*

Testing horizontal tax monitoring against the theoretical framework under which it should operate (Chapter 4), shows that neither the covenant nor public policies bind taxpayers to a company-wide implementation of the compliance-strategy. For an effective compliance programme it is important that management is involved, staff is aware and the compliance programme is implemented in daily practice. Under the Dutch horizontal tax monitoring model the responsibility for company-wide implementation of the compliance strategy lies with the taxpayers themselves. Including the commitment to a company-wide implementation of the compliance strategy in the company's Tax Control Framework, or at least in the *eight sub-processes to optimise the tax control process*, may help further to improve the effectiveness of horizontal tax monitoring.

#### *Future research*

I have three recommendations for future research:

- 1) Repetition of the research; a measurement at two points in time gives an even better understanding of the likelihood of the demonstrated links;
- 2) The review of an improvement in the relationship between taxpayers and the tax authorities as the *catalyst* for an improvement in tax compliance, fiscal certainty and the reduction of tax compliance costs; a reduction of tax compliance costs seems to be the result of an improved relationship rather than the improvement of fiscal certainty: especially smaller medium-sized companies experience a reduction in tax compliance costs through horizontal tax monitoring and these companies lack such a relationship until they join horizontal tax monitoring;
- 3) Review of an inversely proportional relationship between the size of a company and the effectiveness of gathering information from third parties acquainted to the taxpayers (a measure of traditional tax monitoring); the research shows that larger medium-sized companies are more willing to comply and need more control and greater certainty compared to smaller medium-sized companies. Where companies are larger, the added value of gathering information from third parties seems to diminish. By contrast, additional information with respect to smaller companies provides - compared to larger companies - a better picture more promptly. Where companies are smaller, the added value of additional information rather seems to be increasing. Further review may help to improve the tax enforcement process particularly for smaller medium-sized companies.