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Global comparative study of the personal income tax return process

Introduction

This is the fourth edition of the 'Comparative study of the personal income tax return process. This survey was conducted for the first time by Deloitte Belgium in April 2012, for the second time in May 2013, for the third time in May 2015 and now for the fourth time in April 2017. This study covers income year 2016 (tax year 2017). Each time, we have investigated how the tax return process for personal income taxes takes place in Belgium and whether there are similarities or rather significant differences compared to other countries.

Various aspects of the tax return process were examined, for example the question how smoothly the tax return runs and how the technologies are embedded in this process. We have also analyzed the difficulty of filing a personal income tax return and whether it makes any difference if someone is single, married or legally cohabiting. Deloitte Belgium has liaised the survey questionnaire, consisting of 22 closed questions, with their colleagues, tax consultants, in 34 countries.

This survey summarizes the main and most striking findings concerning the personal income tax return process in each country.

Countries

Australia, Austria, Belgium, Brazil, Canada, China, Czech Republic, Denmark, Finland, France, Germany, Greece, India, Ireland, Italy, Japan, Luxembourg, Malta, Mexico, the Netherlands, Norway, Poland, Portugal, Russia, Singapore, Slovakia, South Africa, South Korea, Spain, Sweden, Switzerland*, Turkey, United Kingdom and United States of America (US).

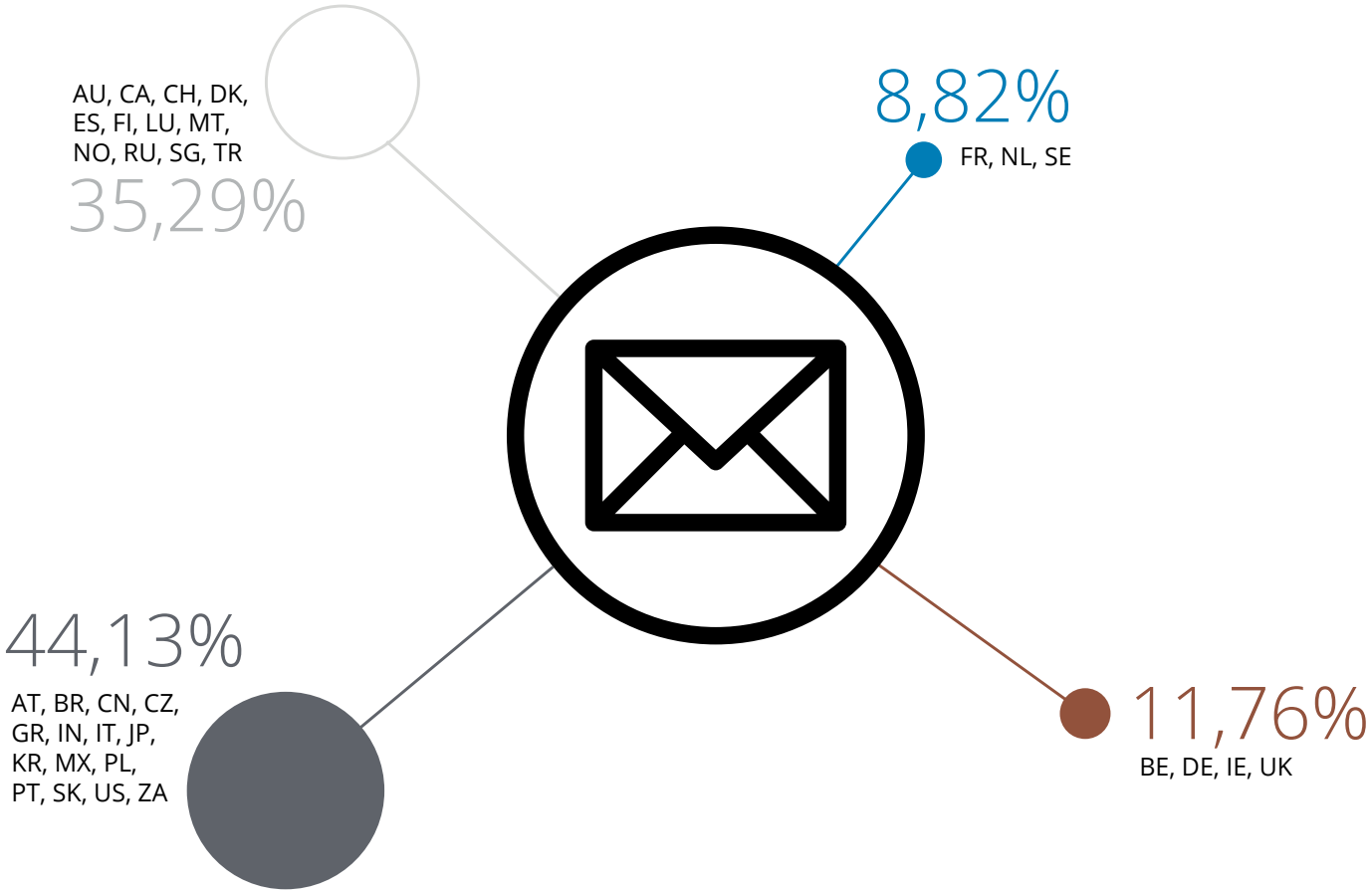
(*differences possible in the various cantons)

White envelopes take the lead

Approximately one third of the respective countries (Australia, Canada, Denmark, Finland, Luxembourg, Malta, Norway, Russia, Singapore, Spain, Switzerland and Turkey) prefer to send the annual income tax returns to their citizens in a neutral white envelope. Belgian, British, Irish and Danish tax payers typically see a recognizable brown envelope arriving in their mailbox. In France, the Netherlands and Sweden, the government sends out a paper tax return form in blue envelopes.

In line with previous years, less than half of the countries surveyed (44%), no longer automatically send out paper tax return forms. Consequently, 56% still send out a paper tax return form via ordinary mail to all taxpayers or at least to the ones that have requested it.

What is the color of the envelope in which the personal income tax return form is sent to the taxpayers?



The electronic return becomes more popular

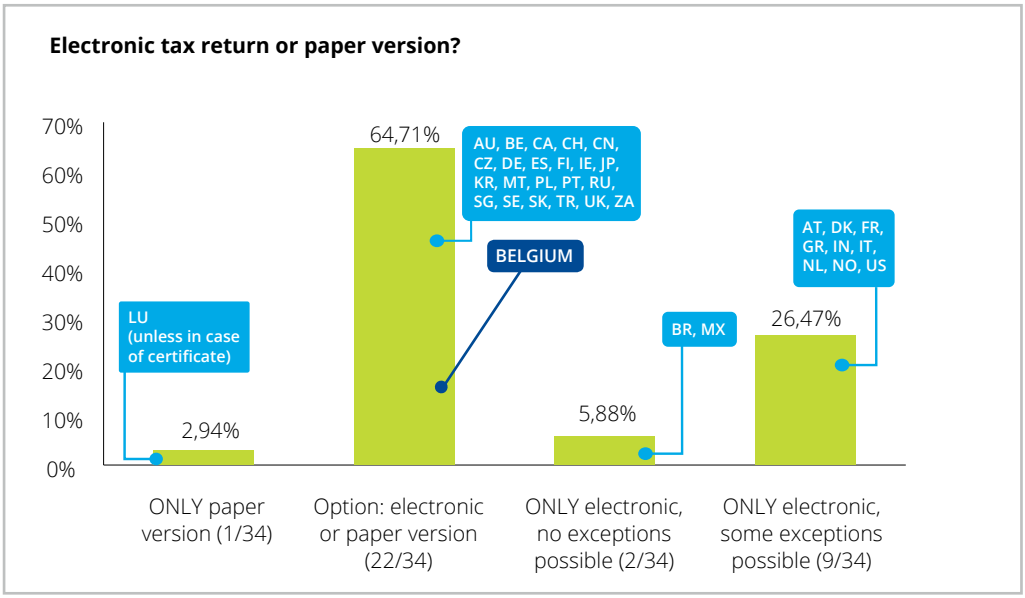
Similar to previous editions of this survey, many countries did reach a higher level of automation and computerization of the personal income tax return process.

What level of automation and computerization of the individual income tax return process have several countries achieved?

Outlier Luxembourg does provide the possibility to file individual income tax returns through an electronic filing system however it requires a specific certificate "LuxTrust" which is rather expensive for the taxpayer. Consequently, paper filing is still common practice in Luxembourg.

In line with previous years, in a minority of countries, taxpayers are obliged to comply with personal income tax formalities through an electronic system. Next to Austria, Brazil, Greece, Italy, India, Mexico, the Netherlands, the US, this is now also the case for France, Denmark and Norway. The vast majority (almost 65 %) allows taxpayers to choose whether they want to file their personal income tax return on paper or through an electronic system.

We can conclude that electronic filing becomes the norm.



Filling the gaps

What is the level of prepopulation of the tax return process in the countries surveyed?

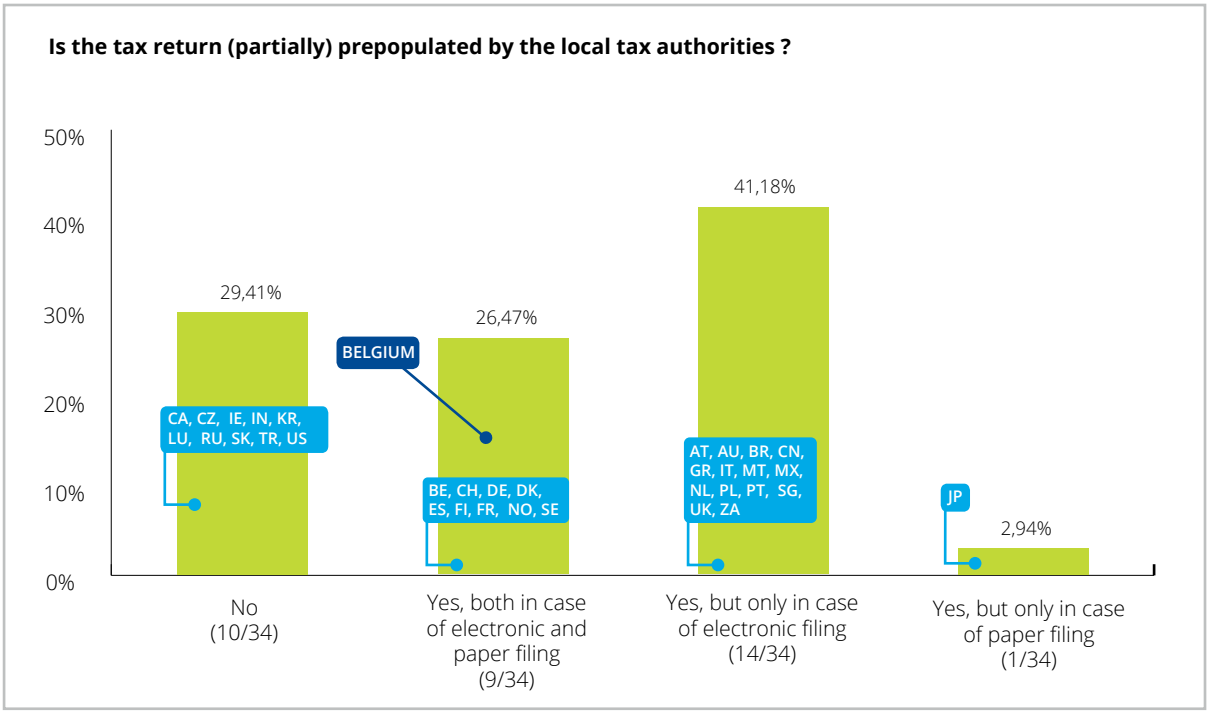
This year, the survey reveals that the level of prepopulation has increased again (74%). Four years ago, the tax return form was (partly) prepopulated in only one third of the respective countries (36%). In the previous edition of this survey, this was 53%.

Spain remains at the top as the Spanish tax authorities complete the entire tax return in advance (both the paper and the electronic version).

Denmark, Italy, Greece, Malta and Norway also perform well as their tax return forms are completely filled out upfront with exception of the details regarding foreign bank accounts, movable property in Denmark and the details regarding the foreign bank accounts and potential tax deductions in Sweden. The French tax returns (both, paper and electronic version) are always partially prepopulated whereas in Portugal and South Africa only the electronic tax return is completed upfront.

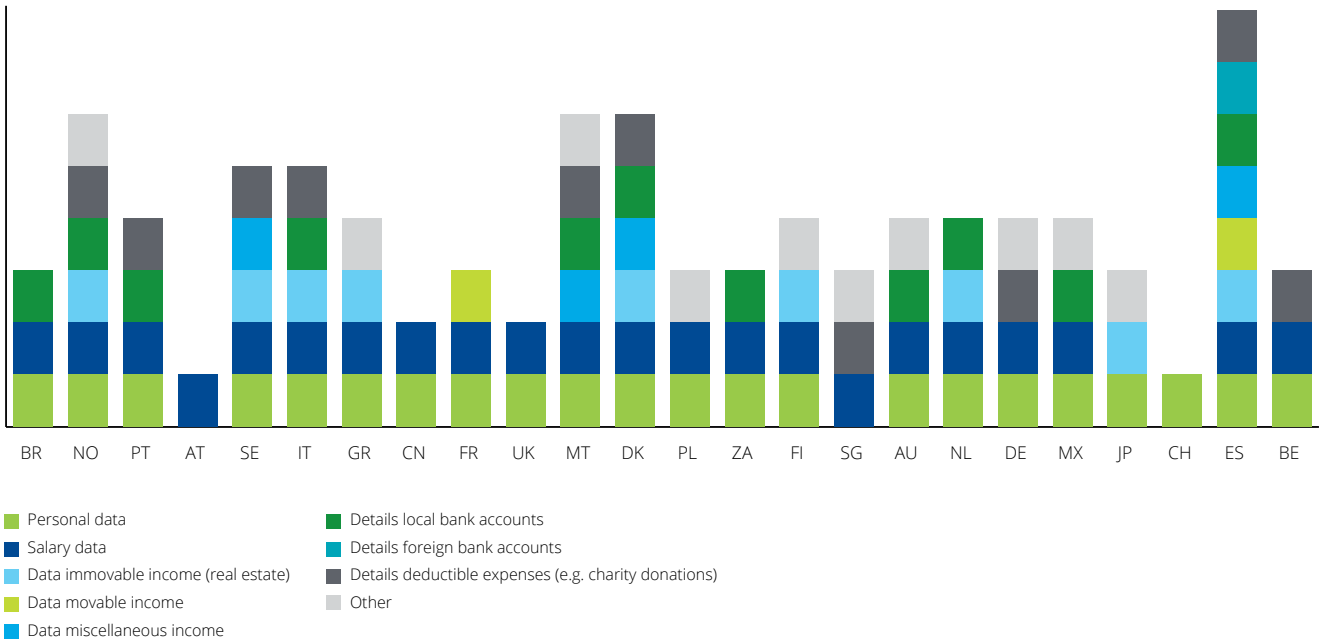
Out of the 11 countries (Austria, Brazil, Denmark, France, Greece, India, Italy, Mexico, Norway, the Netherlands and the US) where the government obliges taxpayers to file their personal income tax return electronically, India and the US do not prepopulate the tax return form. In exceptional circumstances, a Dutch and French taxpayer are allowed to file a tax return on paper. In such a case the tax return form is largely prepopulated. China, Malta, the Netherlands and Denmark clearly made some progress. In contradiction with previous years, they have now prepopulated certain information in case of electronic filing.

The countries that in principle work with (partially) prepopulated tax return forms, typically limit the upfront completed input to the taxpayer's personal data, the salary information and the details regarding the local bank accounts. Compared to previous years, many of the interviewed countries already prepopulate substantial data, whereas Austria, Japan, Switzerland and the UK stay a bit behind with little information prepopulated, mostly personal data. Finally, there are still a number of countries (Czech Republic, Slovakia, South Korea, Ireland, Canada, Luxembourg, Turkey and Russia) that do not prepopulate at all.



Spain remains at the top as the Spanish tax authorities complete the entire tax return in advance.

Prepopulated data



Ireland wins gold with 1.300 boxes

The countries with the highest number of boxes remain the same compared to the prior edition: Ireland ranks first with 1.300 boxes, followed by Belgium (885 boxes), Luxembourg (839 boxes) and Spain (610 boxes).

We noted that two countries managed to decrease the number of boxes considerably: Germany went down from 500+ boxes to less than 200 while the Netherlands decreased from less than 200 to less than 50.

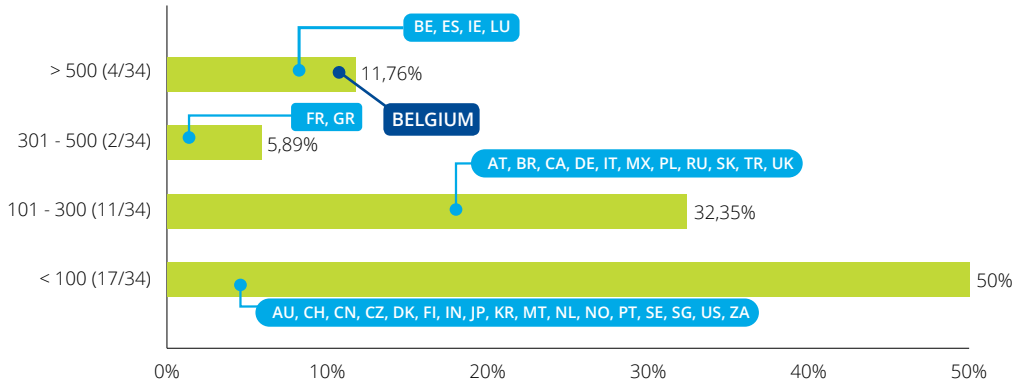
As in previous years, the average tax return form comprises less than 200 boxes. China, Denmark, Norway and Portugal are outsiders with maximum 25 boxes to fill in!

Some other countries even increased the number of boxes: Belgium, Russia and Mexico.

A Belgian tax return contains 885 boxes for income received in 2016 (obviously not all boxes are applicable to each individual taxpayer), which represents 75 extra boxes compared with 2015. Over the last 15 years the number of boxes has been more than doubled. The high number of boxes can be explained by the fact that married or legally cohabitant individuals file a joint tax return, whereby each partner has his/her own boxes to complete. The latter is also the case in Greece, Malta, Luxembourg and China.

1	1.300	boxes in **Ireland**
2	885	boxes in **Belgium**
3	839	boxes in **Luxembourg**
4	610	boxes in **Spain**

Number of data fields to be completed?



Less boxes = less burdensome

Tax professionals in 34 countries were asked how burdensome it is to complete a tax return in their respective country. A standard situation of a taxpayer earning salary, being owner of one real estate with a mortgage loan was considered for this survey.

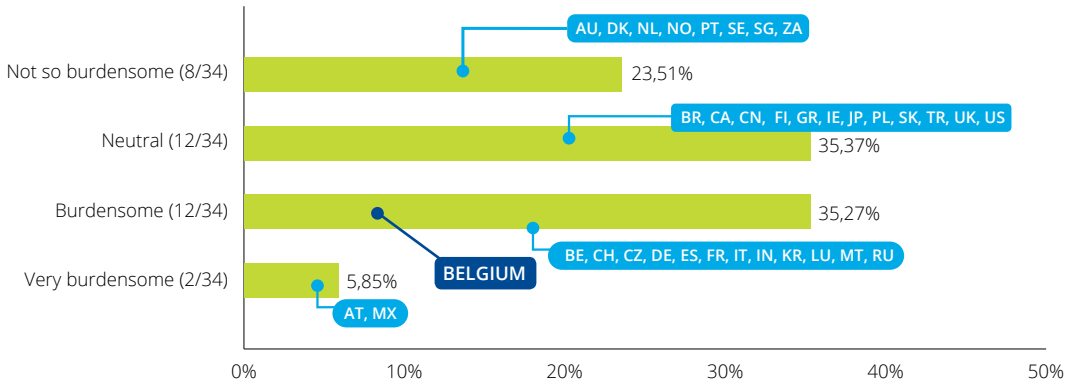
Many Belgian taxpayers believe that the completion of their annual tax return is the most burdensome task of the year. 41% of the countries surveyed, perceive that filling out a tax return is difficult, amongst which France, Germany, Luxembourg and Belgium.

In our prior survey, the Netherlands indicated that they had between 101 and 200 boxes to complete. This year, this number is reduced to a maximum of 50 boxes. To the question as to whether a Dutch tax return is perceived difficult to complete, our Dutch colleagues answered in the prior survey "very burdensome" while this years' answer is "not so burdensome". Also, the Dutch taxpayers answered that tax return assistance is less required this year. The other way around, Mexican and Spanish taxpayers perceive the completion of their tax return as burdensome, whereas in 2015 they answered to that same question: "not so burdensome". Remarkably, we noted that in both countries, the total number of boxes did significantly increase compared to 2015.

The latter could be an indication that the perceived difficulty of a tax return is directly related to, amongst others, the number of boxes to complete.

2015		2016
the Netherlands		
very burdensome	→	easy
Mexico - Spain		
not so burdensome	→	burdensome

Completing the annual tax return: always perceived as a burdensome task ?



On average, it takes 1 to 2 hours to fill out a straightforward tax return. It is no surprise that taxpayers perceive the completion of their tax return as difficult or burdensome when they spend more than 3 hours or even up to 5 hours to complete their tax return. The Austrian taxpayers spend more than 5 hours to complete their tax return and perceive this task as very burdensome.

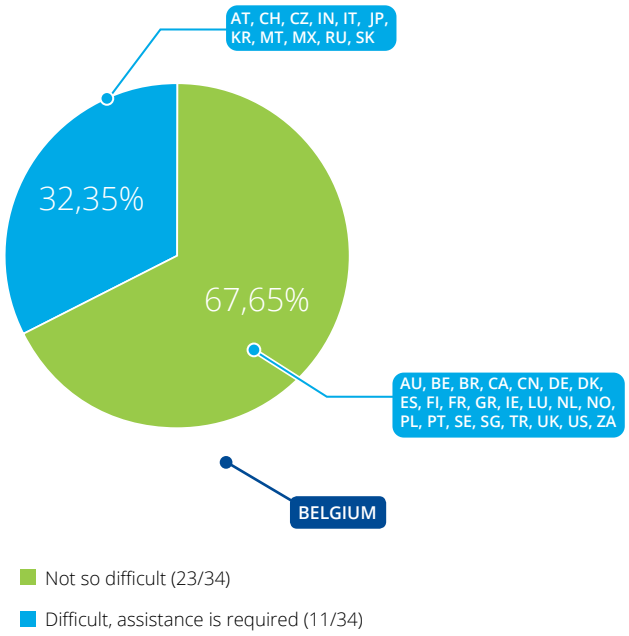
When we are looking at the level of complexity of the tax return, it turns out that in almost 68% of the countries concerned, completing a tax return is not seen as a very difficult task and in principle does not require any tax assistance (as most of the boxes are filled in automatically).

As in previous years, it is common practice to request the tax authorities or a professional consultant for their assistance in Austria, Czech Republic, India, Italy, Japan, Russia, Slovakia, South Korea, Switzerland, Malta and Mexico. In Belgium, most self-employed persons ask for professional assistance to complete their tax return.

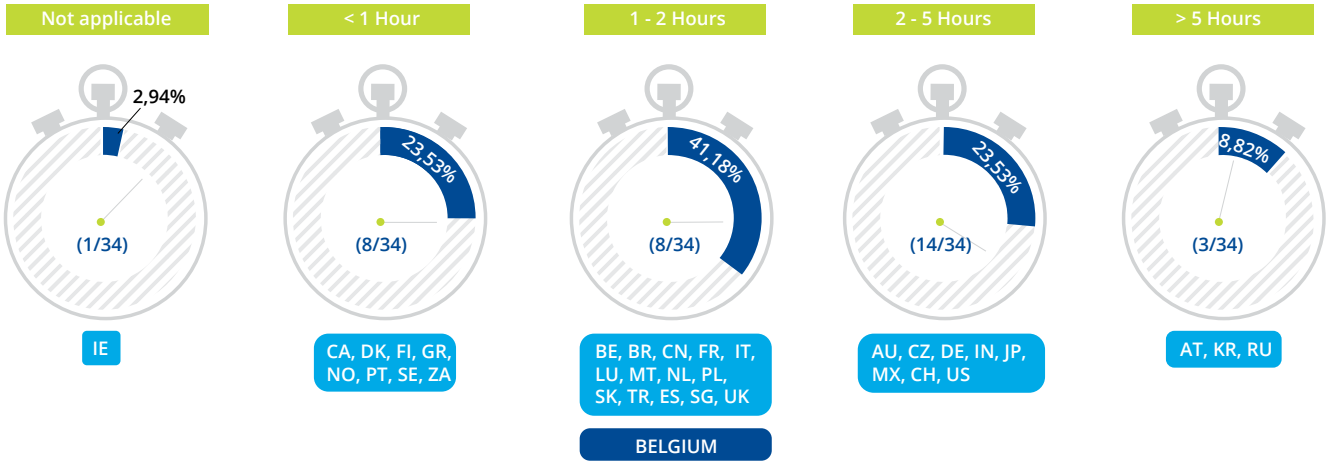
This year, 11 out of 34 countries experience the tax return process as difficult. However, taxpayers in only 9 countries (Austria, Czech Republic, India, Italy, Russia, South Korea, Slovakia, Mexico, and Switzerland) require assistance with the completion of their tax return.

Although, the completion of a tax return in Japan and Slovakia is considered not so difficult, professional assistance is required in most cases. We can therefore conclude that the negative perception to complete a tax return is not really caused by the level of difficulty, but rather to the required time investment (e.g. in Belgium, Germany, France and Luxembourg).

Level of difficulty



Average time spent on filling out the tax return (with only salary data, real estate data and mortgage loan details)?

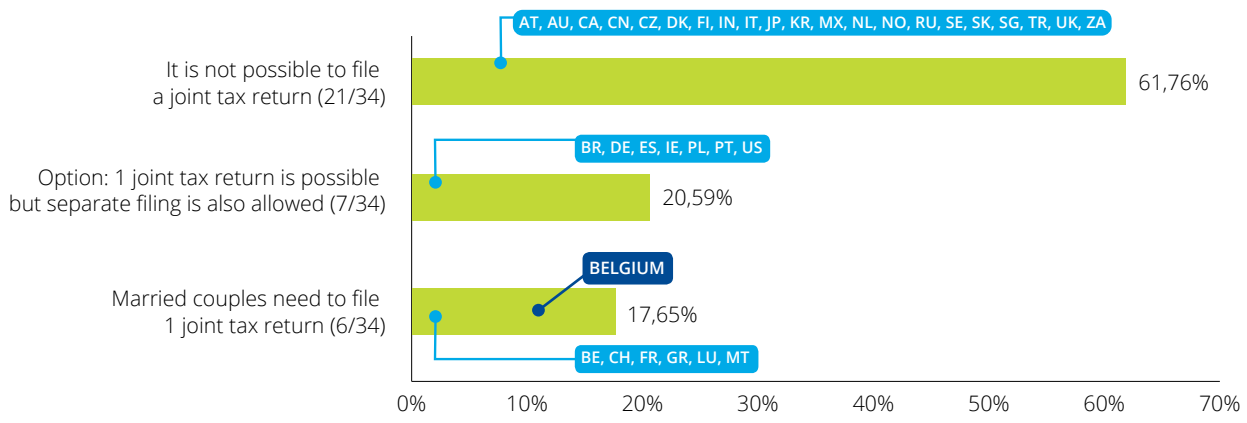


Are married people aware of each other's tax affairs?

Similar to our last edition, almost 62% of the countries concerned apply the principle that every taxpayer is responsible for his/her own tax return, regardless of his/her marital status. This is the case in the Netherlands and the United Kingdom for example. In almost 21% of the investigated countries, the taxpayer can file a joint tax return with his/her partner (spouse or legal cohabitant).

In principle, married and legally cohabitant taxpayers in France, Greece, Luxembourg, Malta and Switzerland have to file a joint tax return. Whereas the tax authorities in Belgium and France allow partners to file a separate tax return in exceptional circumstances (for example in case of factual separation).

Are married couples obliged to submit a joint tax return?



Multiple tax returns?

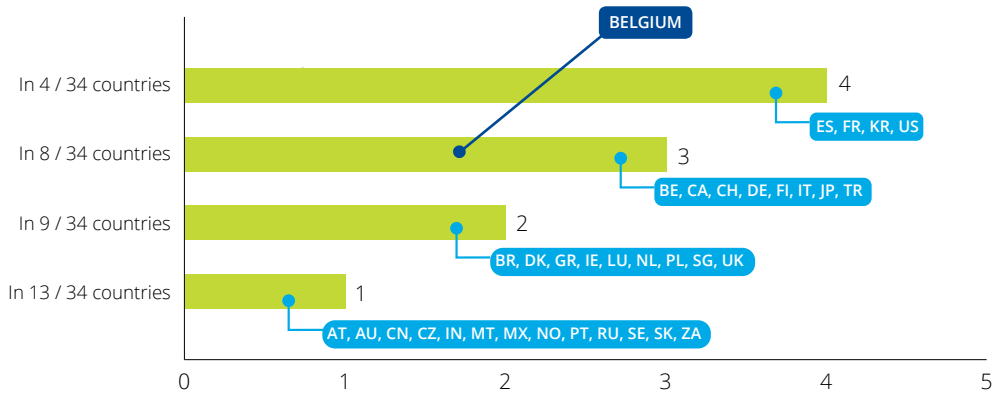
In all countries surveyed, at least one (regional or federal) personal income tax return has to be filed every year. Each American, Canadian and Swiss taxpayer has to complete both returns.

In more than 47% of the countries, separate tax returns should be filed depending on the type of income (e.g. the Finnish and Japanese tax return for donations or the South Korean tax return in case of realized capital gains.) Only France and Spain impose a wealth tax, obliging wealthy taxpayers to file an additional tax return. Before that, Indian and Mexican individuals were also obliged to file a wealth tax return. On the other hand, Switzerland also taxes wealth although this income is taxed through the cantonal tax return. Spanish taxpayers still need to complete an additional tax return (form 720) if they have foreign financial assets or rights located outside of Spain.

In theory, a South Korean taxpayer could possibly be required to file four different tax returns during the same fiscal year, i.e. a federal tax return, a retirement tax return, a capital gains tax return and in case of death, the heirs have to introduce an inheritance tax return.

Currently, Belgian taxpayers only need to complete one tax return per year (with the exception of the inheritance tax return in case of death, which is similar to 38% of the inquired countries).

Maximum number of tax returns due in 1 year



Taxation of passive income – who taxes at source?

In most countries, passive income (i.e. interest, dividends and capital gains) is taxed at source and/or there is a reporting obligation in the personal and/or the separate income tax return.

Most countries (53%) have a taxation at source as well as a reporting obligation in the tax return. In more than a quarter of the countries (26%), there is no taxation at source and all taxable passive income needs to be reported in the personal income tax return. Certain countries, like Czech Republic and South Korea, apply a certain threshold in order to determine whether there is a reporting obligation.

With respect to the reporting of one's financial assets, we observe a different approach: in more than half of the countries surveyed, there is no reporting obligation of financial assets? In 44% of the countries concerned, financial assets have to be reported entirely (e.g. Denmark, Norway, Spain and Switzerland) or partially (e.g. France, the Netherlands and the US). In South Africa, financial assets only need to be reported in case a certain threshold is exceeded. Since recently, Russian taxpayers have to report their financial assets in a separate tax return. In all other cases, a certain threshold has to be reached in order to report financial assets.

	Dividends	Interest	Capital gains
taxed at source	CZ*/PT/AT/TR/SE/IT/GR/FR/CN/KR/IE/DK/LU/PL/ZA/RU/AU/DE/JP/CH/ES/BE	BR/CZ*/PT/AT/TR/SE/IT/SK/GR/FR/CN/KR/IE/MT/LU/PL/ZA/RU/AU/IN/DE/JP/CH/ES/BE	AT/SE/IT/SK/CN/MT/PL/ZA/RU/DE/JP/ES
reported in the personal income tax return	BR/CZ/NO/US/TR/SE/IT***/SK/GR/FR/CN/KR/UK/IE/MT/DK/CA/LU/PL/ZA/FI/RU/SG/AU/IN/MX/JP/CH/ES/BE	BR/CZ/NO/US/SE/IT***/SK/GR/FR/CN/KR/UK/IE/MT/DK/CA/LU/PL/ZA/FI/RU/SG/AU/IN/MX/JP/CH/ES/BE	BR/CZ/NO/PT/US/TR/SE/IT***/SK/GR/FR/CN/UK/IE/MT/DK/CA/LU/PL/ZA/FI/RU/SG/AU/IN/MX/JP/ES
reported in a separate tax return	MX	LU	KR/PL/FI/MX/JP

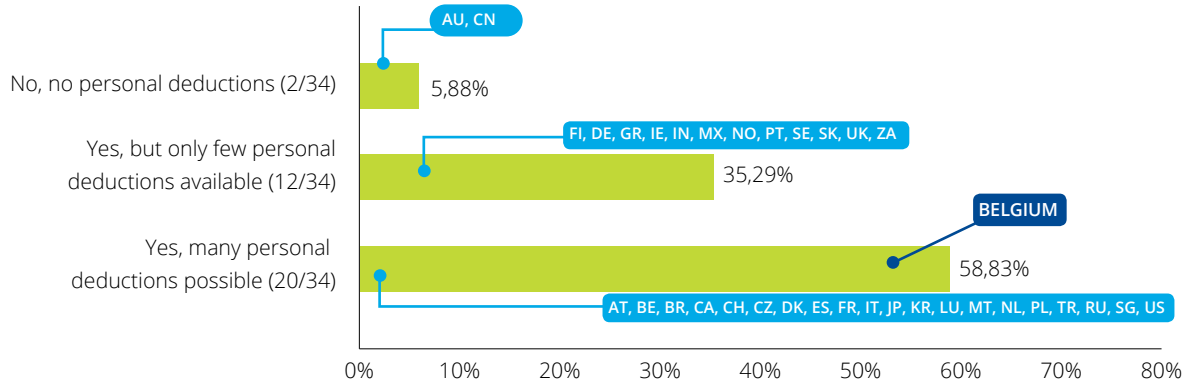
Your personal situation has an impact on your tax deductions

The government can significantly influence citizens' behavior by allowing tax deductions.

Australia and China are the only countries (6%) where the taxpayer cannot benefit from a decrease of taxes by taking into account personal deductions in the tax return. However, such deductions could, in almost 58% of the countries, result in a substantial tax saving.

In the second group of countries (35%), personal deductions have only a limited impact. In South Africa, such deductions can only be granted to protect against revenue losses or in case of retirement.

Can the tax burden be lowered by reporting certain personal tax deductions in the tax return?



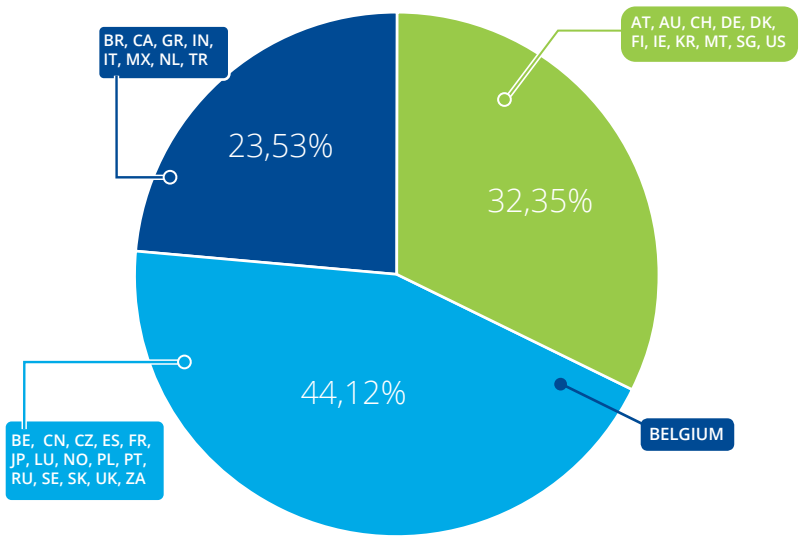
Actual or lump sum business expense deductions?

As confirmed in our prior survey, the vast majority of the countries (76%) offer their taxpayers the possibility to claim their actual or itemized business expenses, resulting in a more favorable final tax liability. Only in Brazil, Canada, Greece, India, Italy, Mexico, the Netherlands and Turkey, the tax authorities do not allow actual business expenses.

In one third of the countries surveyed (compared to less than 25% in the previous edition), taxpayers opt to report actual business expenses in order to decrease their tax burden. In more than half of the countries, the majority of the taxpayers prefer a lump sum business deduction.

When the taxpayer has the choice between a lump sum deduction for professional costs or claiming the deduction of itemized business expenses, the lump sum deduction most often prevails. This also applies for Belgium, except for self-employed persons, who generally opt to deduct their actual business expenses.

Can the taxpayer choose to deduct actual business expenses incurred?



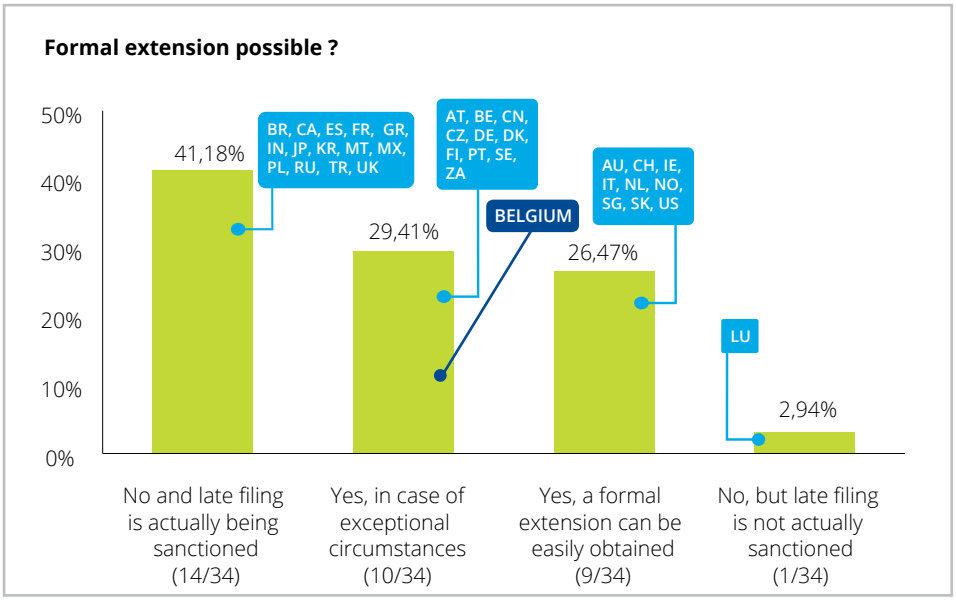
- Yes, many taxpayers report their actual business expenses (11/34)
- Yes, but the majority prefers the lump sum business expense deduction (15/34)
- No, the tax authorities do not take into account actual business expenses incurred (8/34)

Is late filing sanctioned?

In the majority of the countries questioned, the tax authorities penalize taxpayers who do not file their tax return in due time. In France and the United Kingdom, no extension is possible and moreover late filing is penalized.

Only in exceptional and justified circumstances, some countries (amongst others Belgium and Germany) grant a formal extension. Malta grants only an extension of one month to the individuals who are filing electronically.

Remarkably, Luxembourg never grants formal extensions but does also not penalize late filings.



Tax refund or tax due?

Do taxpayers have an expectation about the final tax balance (tax due or tax refund)? For this question, we assumed that the majority of the taxpayers are locally employed as a white-collar worker and own a real estate with a mortgage loan. In line with prior studies, the largest group (12 out of 34 countries) indicate that a refund or tax due is hard to predict as it depends on personal circumstances. The second largest group (11 out of 34 countries) indicate that they expect a tax refund (including Belgium).

In almost 15% of the countries surveyed, the taxpayer has a zero tax liability, meaning that no payment has to be made, nor a tax refund is expected. This is only possible if the withholding tax, deducted by the employer on the professional income, takes into account the personal situation of the taxpayer. Switzerland and Ireland belong to this group. Germany has also an accurate system of withholding taxes on professional income, but the survey indicated that the German taxpayer, in general, expects a tax refund. This can be explained by the fact that German taxpayers often opt to deduct itemized business expenses.

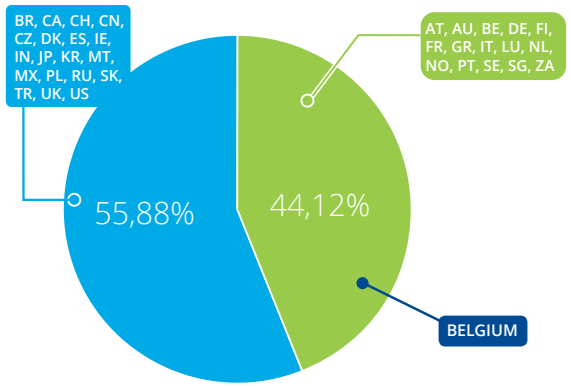
We further investigated whether the final tax liability is paid through a formal tax bill (after the tax return has been filed) or whether the liability is payable directly upon filing of the return.

This year 15 countries (or 44%) responded that they issue a tax bill or tax assessment. This group consists of Germany, France, Belgium, Luxembourg and the Netherlands as well as the Scandinavian countries. In Luxembourg, it is even possible that the final tax assessment is drafted 5 years after the filing of the tax return! Most countries wait one to two years before issuing the tax bill.

Spanish taxpayers can opt to pay the tax due upon the moment of filing of their income tax return. In the US, taxpayers are also encouraged to pay in advance. This amount could have been paid by the taxpayer in order to avoid late payment interest (which would be charged upon receipt of the effective tax bill).

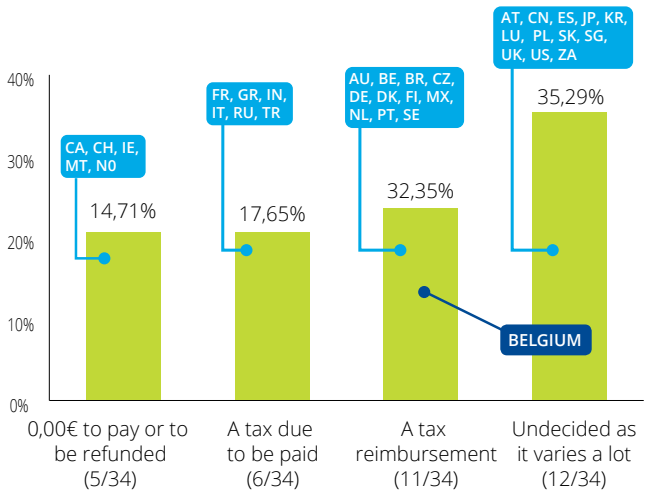
In summary, the majority of the countries surveyed do not require a formal assessment in order to complete the tax return process. In those countries, the taxpayer needs to pay the tax due (if any) at the moment of submission of the tax return (e.g. Canada, Ireland, Japan, the US and Czech Republic). An Italian taxpayer even has to pay the tax due before the filing deadline. Similar to Italy, the Russian tax return process also ends when the tax return has been filed, but the tax due only has to be paid after a short (but definite) period of time. In Poland and Japan, the taxpayers need to assess the tax due or refund themselves (which can be based on last year's situation) and the payment is expected upon submission of the tax return.

When does the taxpayer need to pay the final tax balance due ?



- Upon receipt of the formal tax bill (15/34)
- The latest upon filing of the tax return (or within a certain limited period afterwards) (19/34)

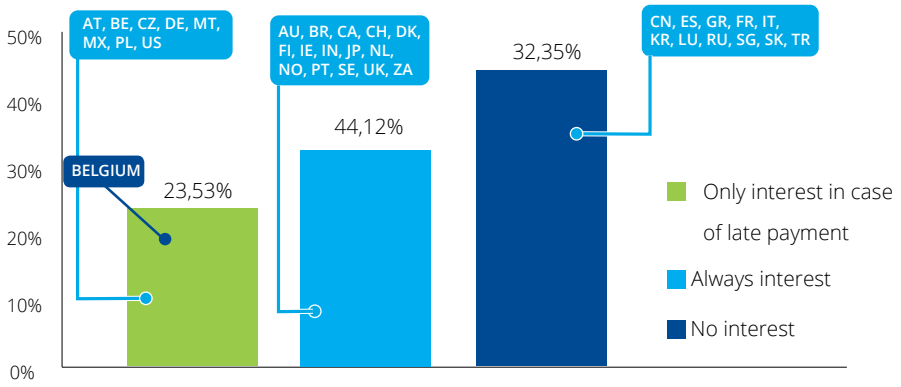
What result does the taxpayer expect upon filing the tax return ?



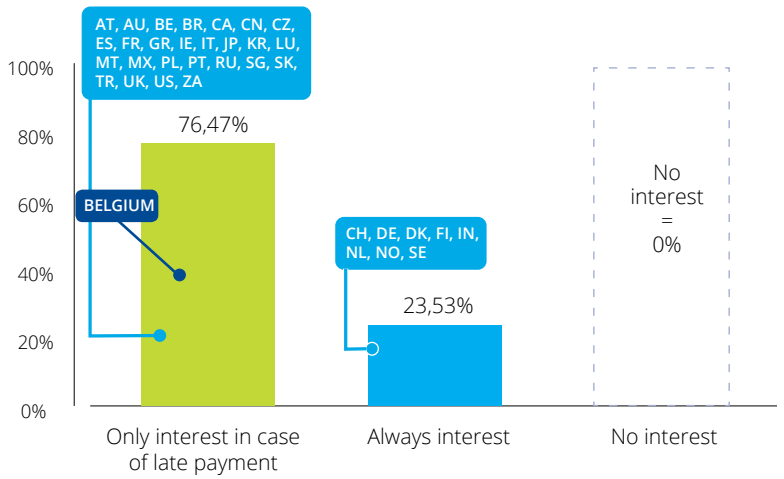
Interest free loan for the tax authorities or a bonus for the taxpayer?

In case of a tax refund, the taxpayer may expect a late payment interest from the authorities in 44% of the countries surveyed. Only in 24% of the investigated countries, the tax authorities pay interest due to a late reimbursement of the tax refund. In 44% of the countries, there is always an interest paid by the tax authorities in case of a tax refund. This means that the tax authorities do not pay interest at all on tax refunds in the remainder of the countries surveyed. In case of a tax due, only in 24% of the inquired countries, the taxpayer needs to pay interest to the tax authorities (even when the taxpayer has paid the taxes within the requested time frame). If the amount of taxes is not paid in due time, the taxpayer needs to pay interest in 76% of the countries.

Do tax authorities pay interest to taxpayers?



Do taxpayers need to pay interest to the tax authorities ?

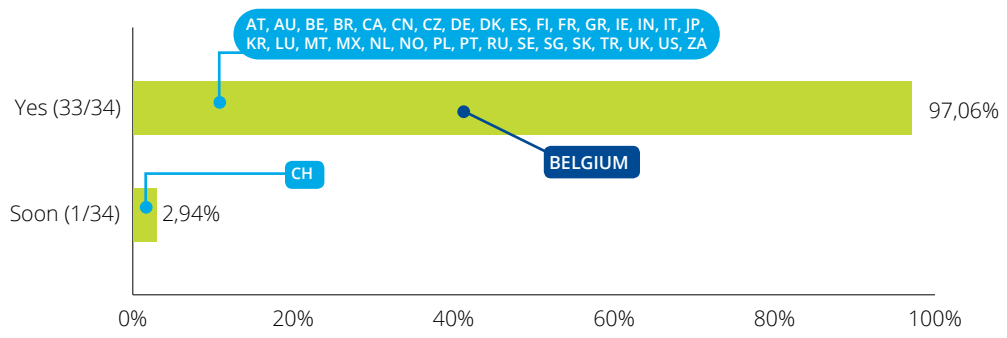


Worldwide fiscal transparency is the norm

This year's survey confirms that tax authorities communicate more regularly with their foreign colleagues to share information to ensure an accurate collection of personal taxes.

The necessary steps have been taken to allow information exchange between different countries in almost all countries (97%). In Belgium, the Netherlands and France, amongst others, such tax information exchange is common practice for several years. Switzerland is currently the only country that stays behind. However, as of January 1, 2018, Switzerland will start exchanging information applicable to the 2017 tax period. Next to that, since recently, Greece also started to exchange information with foreign tax authorities.

Do the local tax authorities exchange information with their foreign colleagues?

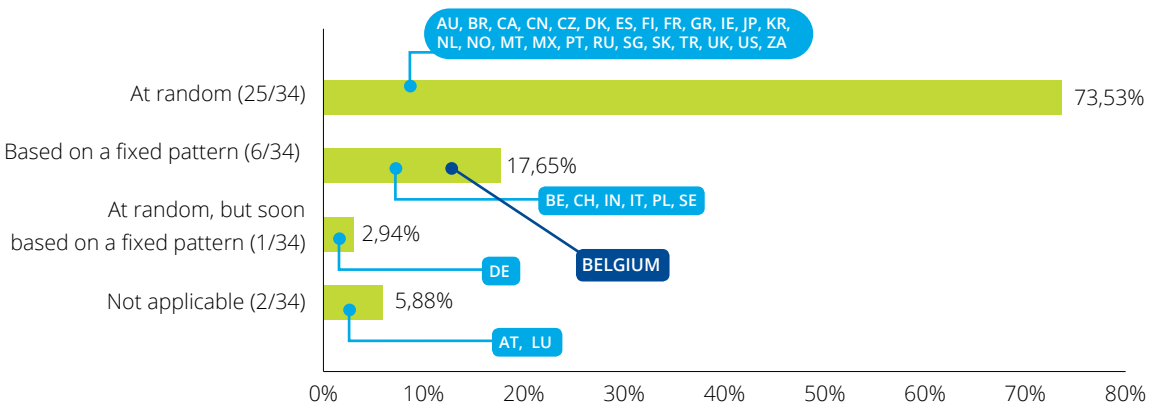


Audits at random or following a fixed pattern?

In accordance with prior years, the tax authorities decide randomly which files to audit in almost 76% of the countries investigated. Some of these countries also use a certain methodology by focusing on particular points of interest: high tax deductions, an exemption for foreign source income and huge refunds often lead to a tax audit. A minority of the countries surveyed (18%) are currently using a fixed pattern to select the files to audit, such focused audits typically lead to a higher efficiency. Belgium, India, Italy, Poland, Sweden and Switzerland are using this methodology.

Finally, we noticed that there is a tendency that audits are held more frequently and that more factors are triggering an audit.

Tax audit: are files selected at random or based on a fixed pattern?



General conclusion

In most of the countries investigated, we noticed the increased use of electronic filings and prepopulation of tax returns. This year, the survey reveals that the level of prepopulation has increased to 74%. Four years ago, the tax return was prepopulated in only one third of the respective countries while in the previous edition, this was 53%.

This trend is a positive evolution, certainly since the completion of the tax return is considered burdensome by almost half of the respondents (both the number of boxes to be completed, as the average time needed to fill out the tax return). The countries that in principle work with prepopulated tax returns, typically limit the upfront completed input to the taxpayer's personal data, the salary information and the details regarding the local bank accounts. The completion of the tax return is perceived not so difficult in case the tax return is prepopulated and consists of less than 200 boxes.

Many Belgian taxpayers believe that the completion of their annual tax return is the most burdensome task of the year. This could be explained by the large amount of boxes to complete as well as the complexity of the real estate taxation in Belgium. Contrary to Belgium, we have noticed that the boxes concerning real estate and mortgage loans are already prepopulated in 9 of the 34 countries.

41% of the countries surveyed, perceive that completing a tax return is difficult, amongst which France, Germany and Luxembourg. In our prior survey, the Netherlands indicated that they had between 101 and 200 boxes to complete. This year, this number is reduced to a maximum of 50 boxes. To the question as to whether a Dutch tax return is perceived difficult to complete, our Dutch colleagues answered in the prior survey "very burdensome" while this years' answer is "not so burdensome". Also, the Dutch taxpayers answered that tax return assistance is less required this year. The other way around, Mexican and Spanish taxpayers perceive the completion of their tax return as burdensome, whereas in 2015 they answered to that same question: "not so burdensome". Remarkably, we noted that in both countries, the total number of boxes did significantly increase compared to 2015.

The latter could be an indication that the perceived difficulty of a tax return is directly related to, amongst others, the number of boxes to complete.

In accordance with prior years, the tax authorities decide randomly which files to audit in almost 76% of the countries investigated. Some of these countries also use a certain methodology by focusing on particular points of interest: high tax deductions, an exemption for foreign source income and huge refunds often lead to a tax audit.

In general, we noticed that there is a tendency that audits are held more frequently and that more factors are triggering an audit. In all countries surveyed, at least one (regional or federal) personal income tax return has to be filed every year. Each American, Canadian and Swiss taxpayer has to complete both returns. In more than 47% of the countries, separate tax returns should be filed depending on the type of income. Only France and Spain impose a wealth tax, obliging wealthy taxpayers to file an additional tax return. On the other hand, Switzerland also taxes wealth although this income is taxed through the cantonal tax return.

In most countries, passive income (i.e. interest, dividends and capital gains) is taxed at source and/or there is a reporting obligation in the personal and/or the separate income tax return. Most countries (53%) have a taxation at source as well as a reporting obligation in the tax return. In more than a quarter of the countries (26%), there is no taxation at source and consequently all passive income needs to be reported in the tax return.

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