

**RECENT DEVELOPMENTS IN THE COLLECTION OF SOCIAL
CONTRIBUTIONS (EMPLOYMENT TAXES)**

by

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Recent Developments Are Having Major Impacts on Collection Systems – Revenues Are Generally Declining

- Adverse Economic Changes
- Social Changes
- New Technologies
- Public Attitudes
- Constraints on Administrative Funding
- Enhanced Uncertainty

Collection Systems Require Continuous Adaptation to Change

- Increasing numbers of self-employed and atypical workers create problems that must be addressed
- Second-pillar funds transferred to first-pillar pay-as-you-go systems in Central/Eastern Europe
- Predominance of guaranteed minimum pensions in Chile reduces contributions
- Mandatory defined contribution systems are problematic
- Well-designed pay-as-you-go systems and social pensions (means-tested) may be appropriate

Recommendations: Aggressive Enforcement Steps Need to be Taken Promptly to Combat Avoidance and Evasion and Encourage Voluntary Compliance

- Adopt a comprehensive compliance strategy
- Short-term steps (1 to 2 years) need to be tied to an intermediate term plan (5 to 10 years) and a long-term plan (10 to 20 years)
- Address new obligations (e.g., data exchanges) forthrightly
- Pursue delinquent contributors promptly and forcefully to maintain a culture of compliance
- The viability of contributory pension systems depend on robust collection – it is fundamental to financial viability, coverage, and sound administration generally

A Government-wide Approach to Collection Is Needed In All Events

- Many countries are taking steps to integrate collections: For example, Macedonia, Hungary, Romania, Albania, Estonia, Latvia, Lithuania, Serbia, Bosnia/Herzegovina, and Montenegro in Europe; Brazil in South America; Vietnam and Korea in Asia
- Social security executives often prefer parallel collection systems
- Tax collection agencies generally are more efficient collectors and better at specialized collection activities, e.g., auditing, assessment, and enforced collection
- Tax agencies need to supply necessary data to pension agencies promptly and efficiently
- World Bank tends to be country specific in its advice and at times accepts inefficient dual collection systems
- IMF tends to encourage integration and cost-effective systems

The U.S. Experience: A Model for Integration and a Need to Address the Tax Gap

- IRS is an efficient collector of employment taxes
- Tax Gap of 10% of legally due amounts
- \$80 - \$100 billion annually could be added to social security revenues
- Trust Fund accounting protects social security from non-payment, but not non-reporting
- Remedying the tax gap on wages should be a priority and requires more resources and effort
- Accurate beneficiary records are maintained (96% are posted currently), but there is a growing suspense account (4% annually)
- SSA attempts to credit earnings from the suspense account at the time benefits are claimed if earlier steps have failed to give proper credit to contributors

Conclusion: Collection Is A Priority

- Political will is required
- Aggressive collection is needed to keep pension systems viable in difficult times
- Government-wide approaches to collection need to be followed and social security and tax officials must cooperate
- Integrated collection systems should be initiated in many circumstances to achieve maximum cost-effectiveness