Using the Delphi method to determine a non-detection multiplier for the tax gap assessment

Swedish Tax Agency analysis unit

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Foreword

The purpose of this report is to assess non-detection multipliers for the verifiable tax gap found in the random audit programme Skattefelskontrollen using the Delphi method.

The report was prepared by Louise Johannesson and Elena Maximez at the Analysis unit.

Many thanks to the experts who participated in the panel and the Tax Agency's Scientific Council for their views and comments on earlier drafts of the report. The analysis and conclusions of the report, however, fall under the responsibility of the Analysis unit at the Swedish Tax Agency.

Sundbyberg, 20 December 2023

Thomas Pettersson Westerberg
Head of the Analysis Unit

Summary

Each year, approximately 600 randomly selected businesses are audited in the Swedish Tax Agency's tax gap assessment, and the results of the assessment are used in calculating the tax gap for businesses. However, there is a risk that the overall tax gap is systematically underestimated. Certain tax gaps cannot be detected with existing audit methods, while others are simply missed. Detectable tax gaps that are not found by audits are referred to as the verifiable tax gap. In order to assess the latter type of underestimation, the Swedish Tax Agency has used the Delphi method to develop a non-detection multiplier for the verifiable tax gap.

The Delphi method involves a panel of experts with in-depth knowledge of the tax gap assessment carrying out, on repeated occasions, anonymous quantitative assessments of the proportion of the verifiable tax gap not detected by the audits. Between the assessment sessions, the experts receive information that they or another expert have requested or used, as well as feedback on the other experts' answers and reasoning. The idea is that the assessments will improve over time through the exchange of knowledge, information, reasoning and assumptions, while avoiding the negative group dynamics that can arise during group discussions.

Nine experts participated in the project, and the procedure was based on five rounds of survey questionnaires. There was significant initial variation in the experts' responses: their assessments of the undetected tax gap for an average business varied between SEK 0 and SEK 75,000. The experts' assessments converged slightly during the process but remained relatively stable after three survey rounds. The final assessment, in the fifth survey round, resulted in an average estimated that a tax gap of SEK 7,103 per business is undetected in the tax gap assessment. This is equivalent to 25% of the tax gap that is actually detected and yields a non-detection multiplier estimated at 1.25%.

The main results are as follows:

- The non-detection multiplier for limited companies was estimated at 1.27; the undetected verifiable tax gap thus corresponds to 27% of the tax gap that is actually detected in the audit.
- The non-detection multiplier for sole traders was estimated at 1.17; the undetected verifiable tax gap thus corresponds to 17% of the tax gap that is actually detected in the audit.
- The non-detection multiplier for limited companies and sole traders was estimated at 1.25; the undetected verifiable tax gap thus corresponds to 25% of the tax gap that is actually detected in the audit.

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1 Introduction

Each year, approximately 600 randomly selected businesses are audited in the Swedish Tax Agency's tax gap assessment. In about half of the audits, errors are detected that give rise to a revised taxation decision. When a business is audited as part of the Swedish Tax Agency's tax gap assessment, the auditor follows a carefully designed audit procedure. There is always transparency regarding what has been reviewed and how, which enables a clear interpretation of the audit results. The results of these audits are used to assess the tax gap for businesses.

When the tax gap is calculated on the basis of these audits, there are two possible causes of a systematic underestimation. The first is that some errors are not detectable by the selected audit methods (the non-verifiable tax gap). The second is that audits can fail to detect some errors that are theoretically detectable using the selected audit methods (the verifiable tax gap). The non-verifiable tax gap may, for example, be due to unreported labour that does not leave traces in the company's accounts. The verifiable tax gap, on the other hand, may be due to a lack of knowledge, complexity in the taxpayer's organisation, or lack of data. To deal with the latter type of underestimation, the Swedish Tax Agency has now developed a non-detection multiplier. This multiplier can be used when calculating the results of tax gap audits, providing an estimate of the undetected tax gap that could theoretically have been detected by audits.

The purpose of this project and this report is to determine a non-detection multiplier for the verifiable tax gap.

There are several methods for determining a non-detection multiplier. One method is to vary the scope and depth of the audits carried out, and to analyse differences in the results. Another is to analyse variations in audit results between different auditors using the same method. However, all the methods identified are very demanding of resources. A less resource-intensive approach is to allow experts, such as experienced tax auditors, to assess the proportion of the tax gap that is not detected in the tax gap assessment.

The UK tax authority (HMRC) has adopted a technique called the Delphi method to estimate non-detection multipliers.[1] The aim of the method is to obtain the most reliable consensus from an expert panel.[2] According to the method, a group of experts is assigned to carry out an assessment of some kind

[1] HM Revenue and Customs, 2020, "Measuring Tax Gaps": 2020 Edition, London, HM Revenue and Customs. URL: Non-detection multipliers for measuring tax gaps - GOV.UK (www.gov.uk) (10-09-2023).

[2] Dalkey, N.C. and Helmer, O., 1963, 'An experimental application of the Delphi method to the use of experts', Management Science 9(3), 458 to 467

under structured conditions – in this case, a quantitative assessment of the proportion of the verifiable tax gap not detected by audits. This assessment is then used as the basis for determining a reasonable non-detection multiplier, drawing on the panel's combined knowledge and experience.

The Swedish Tax Agency's approach to estimating a non-detection multiplier is based on the UK's, but with some adjustments for Sweden-specific conditions. The Swedish Tax Agency's panel consisted of nine experts with a variety of backgrounds – including auditors, coordinators and programme analysts. All work with tax gap audits or have extensive knowledge of them. The Delphi method is relatively inexpensive to implement and can be tailored to specific assessment requirements. A disadvantage is that it is based on individual assessments rather than direct observations.

2 Outline of the Delphi method

The Delphi method is an approach for arriving at a joint group assessment, based on individual assessments, in situations where relevant information and data are either unavailable or considered to be very uncertain. In brief, the method is based on a panel of experts making individual written assessments relating to a given issue on several rounds. The group members are not aware of each other's identities. Between the assessment rounds, each expert is provided with information that they or another expert had requested or considered, and each is updated on the others' reasoning and responses to questions. The aim is to improve the assessments over time through the exchange of knowledge, information, reasoning and assumptions. The individual assessments are anonymous in order to avoid the influence of group dynamics not pertinent to the assessment process. The process is ended when the assessments have converged to a certain degree or there are no more changes.

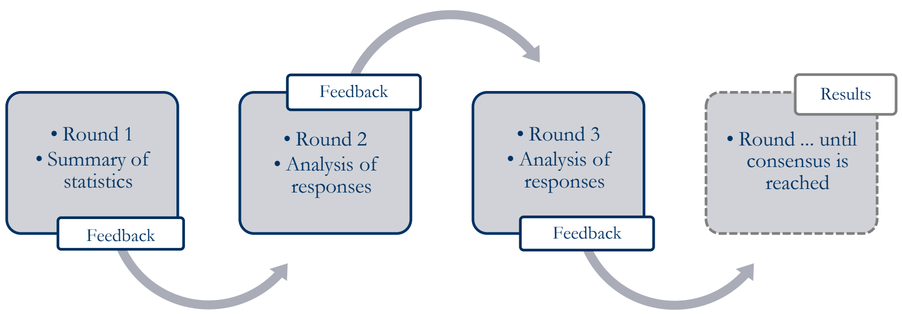


Figure 1 Schematic view of the Delphi method

2.1 Implementation of the Delphi method

There were two parts to our Delphi method study: a preliminary study and the main study. The preliminary study involved three experts, while the main study involved nine experts. One expert took part in both studies. We took a variety of factors into account when selecting experts and designing the survey questionnaires. However, it was particularly important that the panel should include experts with a good knowledge of the tax gap audits but different professional roles and duties. The panel included: five auditors; a program analyst for the Swedish Tax Agency's tax gap audits; a quality control specialist; the current and a former tax gap audit coordinator; and a risk analyst. The survey instructions were worded for clarity and to encourage detailed responses. With regard to both the survey questions and the background, we endeavoured to provide the experts with the information they needed for clarity, while striving to avoid influencing their assessments. For example, we avoided detailed questions that might tend to elicit narrow responses, while also attempting to frame the questions in a way that would encourage the panel to think outside their own areas of expertise.

We began the survey rounds by asking the experts to assess the average size of the undetected tax gap in an audit due to factors relating to:
- the auditor
- the audit methodology
- the audited business The panel members were asked to motivate and clarify their responses – to enable feedback on how other experts reasoned, and also to determine whether similar assessment conclusions were actually based on the same considerations.

Scope

We already know that tax gap audits fail to detect errors that leave no trace in corporate accounts, such as undeclared work and certain undeclared income. These types of tax gaps are only detected by audits in exceptional cases, and are mainly managed by other tax compliance activities at the Swedish Tax Agency. The extent of undeclared work is assessed within the scope of other projects and is therefore excluded from this project. Tax gaps related to international transactions are also largely excluded.

2.2 Preliminary study

We contacted three tax gap audit experts at the Swedish Tax Agency, with different experiences and responsibilities, for input into the survey design and formulation of questions. To evaluate the extent of the tax gap not detected by audits, we first needed to understand how this type of tax gap occurs. We therefore asked the experts to list the causes of non-detection that they were aware of. Most responses fell into one of three categories: factors relating to the auditor; factors relating to the audit methodology; and factors relating to the audited business.

The Swedish Tax Agency's tax gap audits are based on a comprehensive audit procedure, where between three and five pieces of supporting documentation are normally selected for evaluation per audit item. In line with our expectations, the panel members agreed that the auditor's experience and knowledge are crucial in selecting the most relevant supporting documentation and evaluating it correctly. Industry knowledge was considered to be of particular importance in evaluating specific risks typical for different industries. However, the panel members also considered that new auditors might have a more open-minded approach, which could enable them to detect errors in areas that more experienced auditors might not examine as closely. The panel members pointed out that all three reasons for non-detection relate to resource shortages, and that issues relating to auditors' lack of knowledge and experience could be ameliorated by making a process manager available to advise.

The panel members considered that the tax gap audit procedure is, on the whole, well designed. The greatest disagreement related to the impact of time constraints on the audit results. One expert highlighted time constraints as a significant factor in non-detection of tax gaps, while another did not consider them to be a major issue. An audit is generally estimated to take around 12 days, but one expert stated that it actually takes 35-40 days in practice. Panel members also considered that time constraints, or limited knowledge of different methods, may result in auditors not using all the tools available. Another aspect raised by the panel is the time it takes to become familiar with new or revised tax regulations.

The panel also agreed that tax gaps are more likely to be missed in audits of larger businesses with extensive and complex accounting. For example, when a business has many accounts for purchases of goods, it is difficult to determine the most appropriate sample of documentation to check. Further, it is almost impossible to detect errors in an audit if the business deliberately withholds information.

The panel considered the most significant factors in non-detection of tax gaps to be: extensive and complex accounting; deliberate deception; auditors' differing levels of industry or subject-matter knowledge; insufficient knowledge of available tools; and limited knowledge of alternative tools and methods. The issue on which opinions were most divided was the impact of time constraints. We incorporated the experts' input into the survey question design (see Appendix 1).

2.3 Main study: survey rounds

The Delphi process required five survey rounds. We commenced by asking the participants to assess the tax gap broken down by the three causes of non-detection identified in the preliminary study: factors relating to the auditor; factors relating to the audit methodology; and factors relating to the audited business. Table 1: Estimates of the causes of non-detection by the experts participating in the main study. Factors relating to the audited business were assessed higher on average, but the assessments were similar for all three identified causes of non-detection.

Table 1 Results: round 1

Average tax gap assessment

Reasons for non-detection	Average amount	Share of total
Factors relating to the auditor	5,860	29%
Factors relating to the audit methodology	5,750	31%
Factors relating to the audited business	7,280	40%
Total	18,890	100%

Source: Own survey data

Since all the panel members worked with different tasks and contributed to different aspects of the tax gap assessment, the aim of the first round was to encourage a broad assessment approach, taking as many issues as possible into consideration. We changed the approach in round 2. The participants were instead asked to assess the tax gap for limited liability companies in three size categories: small limited companies; smaller medium-sized limited companies; and larger medium-sized limited companies. The change was made in response to feedback from the panel members. We continued with this approach in the remaining rounds, and also asked the panel to assess the tax gap for sole traders.

Table 2: Smaller businesses were assessed to account for the largest share of non-detection, since they comprise the largest proportion of all businesses. However, the panel did not estimate a bigger tax gap per business for smaller businesses (see Table 3).

Table 2 Results: rounds 2–5

Average tax gap assessment (weighted*))

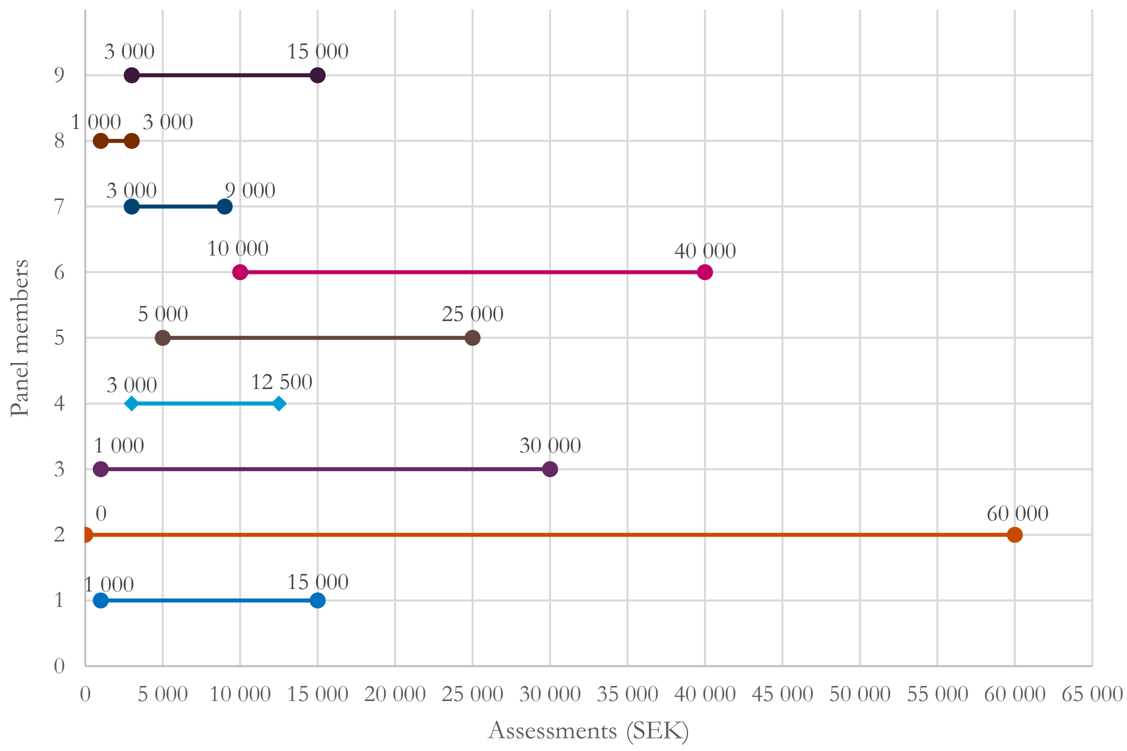
	Round 2	Round 3	Round 4	Round 5
Sole traders	39%	32%	29%	29%

Small limited companies	31%	28%	29%	29%
Smaller medium-sized limited companies	17%	24%	25%	25%
Larger medium-sized limited companies	13%	16%	17%	17%

* The following weights were used. Sole traders0.44; small limited companies: 0.35; smaller medium-sized limited companies: 0.15; larger medium-sized limited companies: 0.06.
Source: Own survey data

Naturally, it was impossible for the panel members to provide exact figures, and the absence of detail could result in the assessments being perceived as more certain than is actually the case. In round 3, we therefore asked the panel members to set a reasonable upper and lower limit for the undetected tax gap. This was also a challenging task, and the assessed intervals varied significantly between panel members: from SEK 0 to SEK 60,000 (see Figure 1). However, all intervals except two overlap at SEK 10,000.

Figure 1 Plausibility range for tax gap intervals



Source: Own survey data

In round 4, we asked the expert panel to relate the causes of non-detection to the types of businesses that are included in the Swedish Tax Agency's tax gap assessment. They did this by responding to a list of statements about the causes of non-detection. Almost 80% of the panel members agreed that the audits fail to detect tax gaps in most medium-sized businesses, while only 44% considered that the audits fail to detect tax gaps in small businesses. However, almost all agreed that the audit procedure detects most errors – including the most serious ones – and that the undetected errors relate to smaller amounts and are of a more exceptional nature. This is also reflected in the survey responses. Relatively few of the panel members (11% and 33% for small and medium-sized limited companies respectively) believed that tax gaps of more than SEK 10,000 are missed in audited businesses, and very few (0% and 11% respectively) believed that tax gaps of more than SEK 50,000 are missed in audits of these businesses (see Table 3). In cases where a random check leads to an in-depth audit, 89% of the experts considered that virtually all tax gaps of a certain type are detected for the business in question.

In round 4, the experts were also asked to specify the main reasons for non-detection of tax gaps in audits. These were:

- the auditor's inability to assess and select the most appropriate verifications on the basis of the accounting records on file
- the fact that the audit procedure and verifications do not cover all types of costs,
- auditors' lack of experience and competence, including with regard to the audit methodology
- carelessness and lack of knowledge
- human error
- time constraints, auditors' lack of knowledge, and the risk of not proceeding with additional verifications in the event of an error being detected
- not being able to examine all accounting records
- the fact that random samples of preselected sections of a business's accounts do not give a complete picture – especially for large businesses
- smaller businesses: disorganised accounting records and poor documentation
- larger businesses: audit time constraints prevent detailed examination of extensive and complex transactions or documentation

Table 3 The percentage of panel members in agreement with various statements

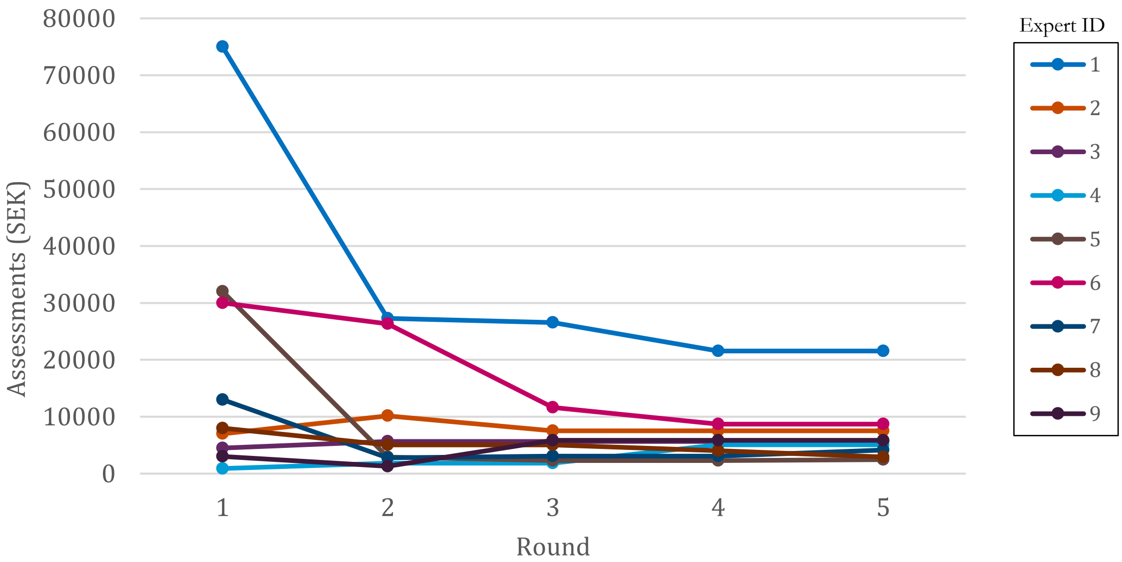
Round 4

Statement	Percentage in agreement	
Overall statement	*Small limited companies*	*Medium-sized limited companies*
The audit procedure detects the most significant errors	100%	89%
The audit procedure detects most errors	100%	89%
One or more errors are missed in most audits	44%	78%
Audits of businesses often (in more than 10% of cases) fail to detect tax gaps above SEK 10,000	11%	33%
Audits of businesses often (in more than 10% of cases) fail to detect tax gaps above SEK 50,000	0%	11%
Statements about the effectiveness of the audit procedure	*Small limited companies*	*Medium-sized limited companies*
In more than 25% of business audits, errors are missed due to random verifications checks being conducted, rather than comprehensive evaluation of all documentation.	67%	89%
If an audit detects no errors, this is usually because none were present – i.e. nothing has been missed.	75%	38%
If a random verifications check leads to an in-depth audit, we usually detect almost all tax gaps of that type for the business in question.	89%	89%
More exceptional errors are also detected within the scope of the audit procedure.	56%	33%
Perceived or actual time constraints result in non-detection of tax gaps due to insufficient investigation	38%	63%
Statements relating to auditors	*Small limited companies*	*Medium-sized limited companies*
Less-experienced auditors generally receive the support they need from experienced colleagues.	86%	86%
Auditors too easily accept businesses' explanations regarding purchases suspected of being for private use, since this is hard to prove.	38%	43%
Auditors ignore issues where the scope for investigation is unclear, for example due to lack of support from the Legal Department or difficulties in providing sufficient evidence.	25%	50%

Source: Own survey responses

In all rounds except the first, the participants were anonymously informed of the other participants' assessments in different ways. In all five rounds, the experts' assessments of the average size of the tax gap for a business ranged between SEK 0 and SEK 75,000. However, the interval in the last round (see Figure 2) decreased to an upper limit close to SEK 20,000 and a lower limit of SEK 1,000. The survey rounds are ended when the assessments have converged to a certain degree or there are no more changes. The aim is to reach a level of consensus in the assessments. Figure 2 shows that estimates of the average tax gap for a business converged slightly but were relatively stable after round 3. With the exception of the panel member with ID 1, the panel's assessments are very close, and all assessments are below SEK 10,000.

Figure 2 Individual assessments over time



Source: Own survey data

Although the assessments are very uncertain, the panel members agree that the audits do not detect all tax gaps. The final assessment, in the fifth survey round, resulted in an average estimated tax gap for businesses of SEK 7,103. This estimate yields a non-detection multiplier of 1.25, which corresponds to 25% of the verifiable tax gap which was actually detected. In other words, the verifiable tax gap has been underestimated by 25%. The non-detection multiplier is estimated at 1.17 for sole traders and 1.27 for limited companies, as indicated in Table 4.

Table 4 Assessments on non-detection multipliers by business type

Business type	Average undetected tax gap (SEK)	Average tax gap detected in random audits (SEK)	Undetected tax gap expressed as a percentage (%)

Sole traders	4,700	33,000	17
Limited companies	9,100	27,000	27
Total	**7,100**	**30,000**	**24**

Source: Own survey data

2.4 Concluding group discussion

Many of the panel members wanted more interaction and discussion to improve their assessment of the tax gap. This is not within the scope of the Delphi method, which is based on structured information and feedback, and participant anonymity. However, in order to accommodate the panel members' wishes, a voluntary concluding group discussion was arranged. The aims were to evaluate the method, and to see whether such a discussion might cause participants to change their assessments.

During the group discussion, it emerged that the panel members had found the exercise very difficult. Further, many felt that the statistics they were given access to were difficult to use in their assessments. Overall, the panel members felt that the feedback was insufficient. They expressed the need for access to more detailed reasoning, rather than just the responses from the previous round. Many felt that anonymity was not helpful; dynamic feedback, discussion and knowledge of each other's backgrounds would have been informative. Our effort to get the experts to think broadly and outside their own areas of expertise turned out to be a complex task, since all had very different perspectives and experience. However, the survey questions raised interesting follow-up questions that had not been addressed previously, such as the design of the audit procedure and its impact on the tax gap.

All the panel members agreed that it is unreasonable to assume that an audit will detect all errors, and that the non-detection multiplier for the tax gap must be greater than one (i.e. the tax gap not detected by audits is greater than zero). The panel considered the amounts estimated in the survey rounds to be reasonable and agreed that a non-detection multiplier of 1.25 reflects reality more accurately than the factor (1.0) which was previously used. We gave the panel members the opportunity to change their final assessments after the concluding group discussion. However, none wished to do so.

3 Summary and conclusions

The panel members all agreed that tax gap audits do not detect all errors. The tax gap assessed annually for businesses on the basis of these audits can therefore be considered as a lower limit for the actual tax gap. The Delphi method provides a way to assess the size of the verifiable tax gap for businesses by applying a non-detection multiplier to the audit results. We assembled a panel of nine experts with experience in tax gap audits, who then determined a non-detection multiplier following five rounds of feedback. The panel's combined assessments resulted in a non-detection multiplier of 1.25, which is based on the assumption that 25% of the verifiable tax gap is not detected by audits. The panel agreed that this is a reasonable non-detection multiplier, and probably a better reflection of reality than a non-detection multiplier of 1.0. This means that the accuracy of the overall tax gap assessment is increased by taking into account the verifiable tax gap not detected by audits.

All panel members considered the task of determining a non-detection multiplier to be very difficult – almost impossible. They also had different ways of reasoning with regard to the undetected tax gap, and different approaches to assessing it. Most felt that the feedback given in each round was not relevant to their particular approach. However, it was difficult for them to indicate what type of additional information could have influenced their reasoning and thus their assessments. It is unclear whether this problem could be addressed by improving the feedback process, or whether the Delphi method is poorly suited to this type of task.

However, the process led to interesting new discussions around the design of the audit procedure and its relationship to the tax gap. On the basis of these benefits, we believe the Delphi method has good potential for application in other areas as well.

During the course of the project, different views emerged on the current tax gap audit procedure. We believe that it would be useful for the Swedish Tax Agency to undertake an evaluation of the tax gap audit procedure, with the involvement of the Analysis Unit. We also believe that it would be valuable to make a comparison of random audits and risk-based audits.

Annexe 1: Survey round 1

Part 1 – Background

As part of its annual tax gap assessment, the Swedish Tax Agency audits a random selection of businesses. This is an effective way to ensure that audit results are representative of a larger population of businesses. When a business is audited as part of the Swedish Tax Agency's tax gap assessment, the auditor follows a carefully designed procedure. There is always transparency regarding what has been reviewed and how, which enables a clear interpretation of the audit results. However, we lack knowledge about what is *not* detected by the audits for various reasons. The aim of this project was to address this issue. The results are important for several reasons. Tax gap audits are an important source of knowledge – both for risk management activities and for the Swedish Tax Agency's ability to carry out its task of assessing the size and development of the tax gap. It is therefore important for us to have greater awareness of the areas in which audits fail to detect all tax gaps.

Survey questions

The questions we wish to address:

- What types of errors do we miss when we audit businesses as part of our tax gap assessment?
- Why do we miss these errors?
- How big is the tax gap?

Scope

We already know that audits fail to detect tax gaps that leave no trace in corporate accounts, such as undeclared work and certain undeclared income. This type of tax gap is only detected by audits in exceptional cases (with the possible exception of staff register checks). The extent of undeclared work will be assessed within the scope of other projects and is therefore excluded from this one.

Method

The approach used is called the Delphi method, which is a technique that facilitates group consensus through individual assessments. The main principle is that a panel of experts are invited to answer questions on several occasions. You are one of our selected experts. An important requirement of this structured approach is that the experts do not talk to each other about the process, or their responses to the questions, while the project is ongoing. We therefore ask you not to discuss the project with anyone else at the Swedish Tax Agency until the process is completed. All participants are anonymous to each other throughout the process and in follow-up reports.

Introduction to the survey

We will now ask you a number of questions relating to the tax gaps we fail to detect when auditing businesses as part of the Swedish Tax Agency's tax gap assessment. We will ask you about *how big* you think the tax gap is. We ask you to try to answer all the questions – even though you will probably be uncertain about how to answer in some cases. We will also ask you to outline your reasoning and the information or assumptions you have considered in your assessment. If you are uncertain of anything, you will have the opportunity to give details about this. There are no right or wrong answers to these questions, and no one has more knowledge of this area than you and the other participants.

Finally, we will ask you to consider whether you lacked any information that might have helped in your assessments.

Reasons for non-detection of tax gaps in businesses: three categories

When audit businesses as part of the tax gap assessment, we fail to detect tax gaps for various reasons. We have previously asked for your opinion on the reasons for non-detection of tax gaps during audits. Now, we ask you to consider three significant categories. These categories were identified in a preliminary study involving a different panel of experts.

Please read through the sections outlining the three categories before you answer the survey questions. We understand that it may be difficult to distinguish the various reasons for non-detection of tax gaps in audits, since the boundaries between the main categories are not always clear. Then try to answer the questions in the survey section as fully as you can.

Knowledge, experience and other factors relating to the auditor

Audits of businesses can miss errors due to factors relating to the auditor. We have given a few examples below, but naturally this list is far from exhaustive.

Examples:

- Levels of experience vary between auditors. Less experienced auditors may lack insight into where errors are likely to be found, or knowledge of risk factors for the audit. On the other hand, more experienced auditors may be less meticulous and narrower in their approach.
- Lack of knowledge about the design or application of tax regulations may cause an auditor to miss errors.
- The auditor may lack knowledge of industry-specific risks that could affect the audit.
- Auditors are just people, and we all make mistakes to varying degrees.

Design of the audit procedure

The standard tax gap audit procedure is both broad and precise. However, the procedure is designed to enable a relatively quick audit, and there is limited scope for flexibility. This can result in tax gaps being missed. We have given a few examples below, but again, this is not an exhaustive list.

Examples:

- The audit procedure often specifies a certain number of documents for review. However, there may be errors in the unreviewed documentation.
- The audit is conducted on the basis of accounting records and tax returns. If no issues are evident in these, additional information is not requested from third parties. More errors could be detected if additional information were always gathered.
- The design of the audit procedure can result in non-detection of more exceptional errors.
- A real or experienced requirement for audits to be completed in a short time limits the extent of the audit and makes it less likely that the auditor will follow up on suspected risks.

Factors relating to the audited business

No two businesses are the same, and the level of difficulty in carrying out an audit can vary significantly. Factors that make businesses difficult to audit often arise for natural reasons, but in some cases, businesses take deliberate measures to avoid scrutiny. There may therefore be different reasons for suspecting that our audits fail to detect tax gaps due to variations between businesses.

Examples:

- A business may have a complex organisational structure, with many subsidiaries or subsidiaries abroad, for example. This can make the accounts more complicated to follow and result in tax gaps being undetected in an audit.

- A business's documentation may be in a language other than Swedish, which also makes the evaluation more difficult.

- Businesses can actively try to conceal tax gaps in their accounts, for example by disguising purchases for private use through re-invoicing.

- Some serious accounting errors are difficult to detect, such as fake invoices.

Part 2 – the survey

The following questions are about assessing the size of the tax gap undetected by our audits. The questions are divided according to the three main categories of reasons for non-detection of tax gaps outlined above. We understand that the questions may be difficult to answer, but please try to answer all questions to the best of your ability, and follow the structure of the three main categories.

Each year, about 600 randomly selected businesses are audited in the Swedish Tax Agency's tax gap assessment. In about half of the audits, errors are detected that give rise to a revised taxation decision. Among the businesses in which we detect errors, the average tax increase (tax gap) is approximately SEK 60,000 for all tax categories combined (VAT, income tax and employer contributions).

This means that a tax gap audit detects, on average, a tax gap of approximately SEK 30,000. In the following questions, please consider an audit of an average business within the scope of the tax gap assessment. The audits are carried out by employees who currently work with tax gap audits.

Factors relating to the auditor

Question 1a How big do you think the average undetected tax gap[3] is in audits as indicated above, due to factors relating to the auditor? Select the closest answer (amounts in Swedish kronor) from the list below (tips in footnote[4]).
(Factors relating to the auditor include lack of experience, human error, etc. See section 2.1.1 above for more information. If you have absolutely no idea, please give your best guess and mention your uncertainty in question 1b).

Answer: Select a figure here SEK

Question 1b Explain clearly how you reasoned in your assessment in question 1a, and specify what information or assumptions you have taken into account. Please also indicate any areas of uncertainty.

Answer:

Factors relating to the audit procedure

Question 2a How big do you think the average undetected tax gap is in audits as indicated above, due to factors relating to the audit procedure? Select the closest answer from the list below (amounts in Swedish kronor)
(Factors relating to the audit procedure include, for example, limitations on the amount of documentation we examine or the type of information we request. See section 2.1.2 above for more information. If you have absolutely no idea, please give your best guess and mention your uncertainty in question 2b).

[3] As mentioned earlier, the term tax gap in this context refers the tax consequences of errors in a business's reporting.
[4] Tip If you find it easier to estimate the undetected tax gap as a percentage of what is detected, please do so, and then calculate the amount based on the average audit result of SEK 30,000.

Answer: Select a figure here SEK

Question 2b Explain clearly how you reasoned in your assessment in question 2a, and specify what information or assumptions you have taken into account. Please also indicate any areas of uncertainty.

Answer:

Factors relating to the audited business

Question 3a How big do you think the average undetected tax gap is in audits as indicated above, due to factors relating to the audited business? Select the closest answer from the list below (amounts in Swedish kronor)
(Factors relating to the audited business include, for example, complex accounting or deliberate concealment of errors. See section 2.1.3 above for more information. If you have absolutely no idea, please give your best guess, and mention your uncertainty in question 3b).

Answer: Select a figure here SEK

Question 3b Explain clearly how you reasoned in your assessment in question 3a, and specify what information or assumptions you have taken into account. Please also indicate any areas of uncertainty.

Answer:

Reflection

This is not a question, but rather a point where we would like you to reflect on your responses. If you add up the figures you gave in your answers to questions 1a, 2a and 3a, what is the total amount? Write the number in this box:

Click or tap here to enter text

Your answers indicate that an average audit (where a tax gap of SEK 30,000 is detected on average) fails to detect the amount you wrote in the box above. If you are satisfied with your answer, please proceed. Otherwise, you can adjust your assessments in questions 1a, 2a and/or 3a above.

Other questions

Question 4 We understand that the assessments in questions 1-3 are difficult to make, and that access to more information would probably have made the process easier. If you found the questions difficult to answer, please indicate areas where additional knowledge would have helped you in making the required assessments.

Answer:

Question 5 Other comments Here you can outline problems you experienced in answering the questions. Please also indicate whether any instructions were unclear or, for example, if you are aware of other reasons for non-detection of tax gaps that we have not discussed and you therefore have not had the opportunity to assess.

Answer:

When you have completed the questionnaire, please send it to Elena Maximez;

elena.maximez@skatteverket.se

Many thanks for participating in this project.

Annexe 2: Survey round 2

Information for the second round of assessments

In this second round of the project, you have received an email with information in three parts.

The first part, in this document, provides a summary of all the expert panel's responses in the first survey round. This indicates the panel's initial assessments of the undetected tax gap – both the size of the assessments and the strategies used in answering the questions.

The second part, also in this document, presents some facts and statistics that one or more experts have either considered in their assessment or requested in order to make a better assessment.

The third part is a new survey questionnaire with similar questions to those in the first survey. The questionnaire is in a separate Word document, which we have sent to the same email address where you received this document. The questions in this round are formulated slightly differently to those in the first round. This is to reflect the panel's reasoning in the first round and the information provided in part 2 of this document.

Part 1 - Summary of assessments from round 1

Most panel members found it difficult to assess the average size of the undetected tax gap in an audit. The assessments are summarised below in Table 1. As anticipated, the estimated amounts vary considerably. However, at least as important as the estimated amounts themselves is the feedback on reasoning and strategies for making the assessments that the panel members' provided in the first round. This gives the opportunity for a meaningful exchange of information that can lead to better-informed assessments in this second round.

In the round 1 responses, all panel members have provided detailed feedback – in some cases very extensive – on the reasons for non-detection of tax gaps. The various reasons the panel has identified are summarised in Section 2.6 of part 2.

Estimated amounts

In Table 1 below, you can see your own assessments of the undetected tax gap relating to the three main reasons or non-detection presented in the first survey questionnaire. You can also see details of the other panel members' assessments (lowest and highest, average and median assessments). In the last row, you will find the same statistics for the combined assessments (a summary of the panel's three separate assessments).

Table 1 Distribution of panel members' assessments of the undetected tax gap

Reason for non-detection	Your assessment	Lowest assessment	Highest assessment	Average	Median
Factors relating to the auditor	SEK 30,000	SEK 100	SEK 30,000	SEK 5,860	SEK 2,000
Factors relating to the design of the audit procedure	SEK 20,000	SEK 500	SEK 20,000	SEK 5,750	SEK 3,000
Factors relating to the audited business	SEK 25,000	SEK 300	SEK 25,000	SEK 7,280	SEK 5,000
Total	**SEK 75,000**	**SEK 900**	**SEK 75,000**	**SEK 18,890**	**SEK 10,500**

We would like to give you two reflections on the results in the table.

First, it might be easy to assume that the average value of the assessments in the first survey will be close to the actual value of the undetected tax gap. However, this may not be the case at all (and if it were, we would be finished now). The values in the table reflect your first-round assessments, for which you had to rely on your own knowledge and the limited information you received from us. Now you have access to additional information from us and from the other panel members, including statistics relating to the amounts estimated, and therefore have the possibility to make more informed assessments. How you choose to evaluate and use this information in your new assessment is of course up to you.

Second, we can see that the average is higher than the median of the panel's assessments. When assessments vary greatly, the average may be significantly influenced by individual assessments. In this case, the higher assessments have had a greater impact on the average than the lower assessments. The median represents the mid-point assessment when the estimated amounts are set out in order of size. In other words, the number of assessments that are higher than the median is equal to the number that are lower than the median. The median therefore provides a complementary picture of the size of the mid-point assessment.

Assessment strategies

The panel used several different strategies in its assessments. A common method was to create subcategories for each main reason for non-detection, and then to assess the tax gaps separately. Another was to make an assessment for one of the questions and use it as a starting point for the other assessments ("This will probably be slightly less than my answer for 1a, so my assessment is...").

When determining the actual value, the most common approach was to base the assessment on intuition and informed guesses. Another common approach was to assess the size of the tax gap in two steps: estimating both how frequently a certain type of tax gap will be undetected, and then the average size of the undetected tax gap. To make these assessments, the panel used a variety of information, such as data on population sizes and the results of the audit quality assurance reviews we carry out. (These are retrospective reviews of the audits themselves, with the aim of ensuring that we maintain high quality in our audits.) Information about these reviews is presented in part 2 of this document.

Information

The panel often based its assessments on various types of information. In addition, panel members frequently requested information that would enable more confident assessments. Most commonly, panel members expressed the view that different kinds of tax gaps are likely to be undetected for different business types, and that it would therefore be helpful to know the distribution of business types in the population. We have provided this information in part 2, along with other information requested or considered by the panel that we have been able to obtain.

Part 2 – Information considered or requested

Here are some facts and information that the panel has either considered or requested in its responses to the first survey questionnaire. We have attempted to obtain all the information requested, and we have only provided information that was requested by one or more panel members. Please note that we are simply passing on this information. Whether or how to use it is entirely up to you. Hopefully, it can be of help in your assessments.

Statistics by business size and legal form

Several panel members asked for more information about the distribution of different types of businesses in the population, and the results of audits for different types of businesses. In particular, members wanted to know more about distribution by size and between limited companies and sole traders. We have therefore divided the information provided here according to four groups of businesses: small limited companies (salary total between SEK 100,000 and SEK 600,000); smaller medium-sized limited companies (salary total between SEK 600,000 and SEK 3 million), larger medium-sized limited companies (salary total over SEK 3 million); and sole traders (regardless of salary total). We will also apply this breakdown to the assessments in this survey round. The breakdown of businesses in the population, and the tax gap audit results for the different groups, are outlined in Table 2 below.

Table 2 Business population composition and audit results Average for the financial years 2014-2018.

Group	Number in population	Percentage of population	Average tax gap	Percentage with changes
Small limited companies	184,000	35%	23,000	44%
Smaller medium-sized limited companies	82,000	15%	47,000	60%
Larger medium-sized limited companies	34,000	6%	50,000	61%
Sole traders	233,000	44%	27,000	54%
Total	**532,000**	**100%**	**30,000**	**52%**

Other statistics regarding the business population

Below are some other statistics relating to the business population, which the panel has requested or considered.

Businesses in Swedish and foreign groups

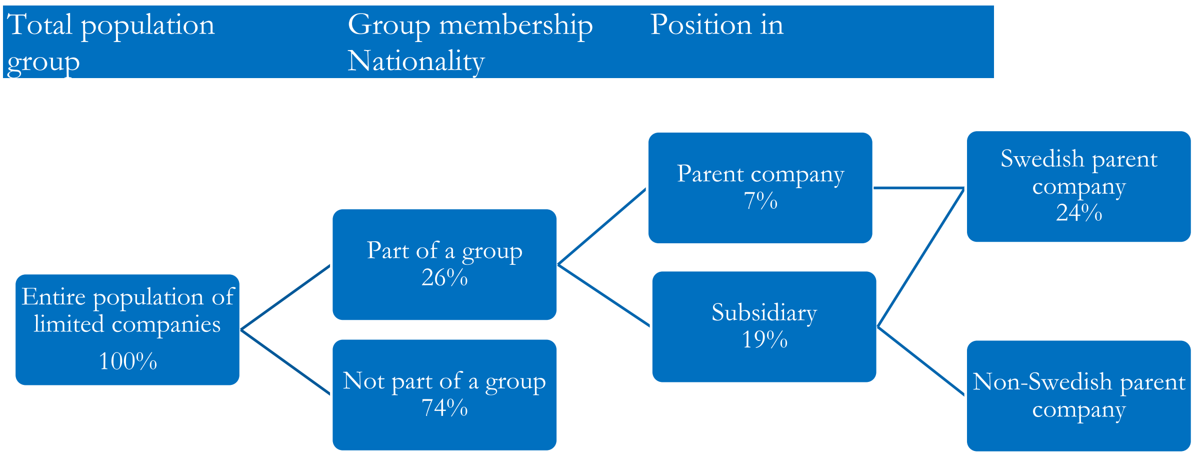
Several panel members requested details of how many of the businesses belong to a corporate group, and how many are part of group that includes non-Swedish businesses. These factors may affect the level of difficulty in auditing a business.

No sole traders belonged to a corporate group. In contrast, 26% of the limited companies included in the tax gap audit population were part of a group. Of the total population of limited companies, 7% were parent companies and 19% were subsidiaries in a group.

Unfortunately, our data does not indicate how many of the businesses are part of a group that includes non-Swedish subsidiaries. On the other hand, we can see that approximately 2% of the limited companies are directly or indirectly owned by a non-Swedish parent company, which means the group includes at least one non-Swedish company. This figure should therefore be seen as a lower limit for the number of limited companies that belong to groups including non-Swedish businesses. The actual figure is certain to be higher, but we do not know the upper limit.

The statistics outlined above are presented in Figure 1 below.

Figure 1 Group structures in the tax gap audit population. Reported as a percentage of all limited companies in the tax gap audit population.



Breakdown of businesses by industry sector

Several panel members have noted that risks may vary between industry sectors, or that requirements for industry-specific knowledge may differ. We have therefore produced statistics that provide a breakdown of the audit population by industry sector. The breakdown includes both limited companies and sole traders. (See Figure 2 below).

Figure 2 Industry sector breakdown of businesses (both limited companies and sole traders) in the tax gap audit population.

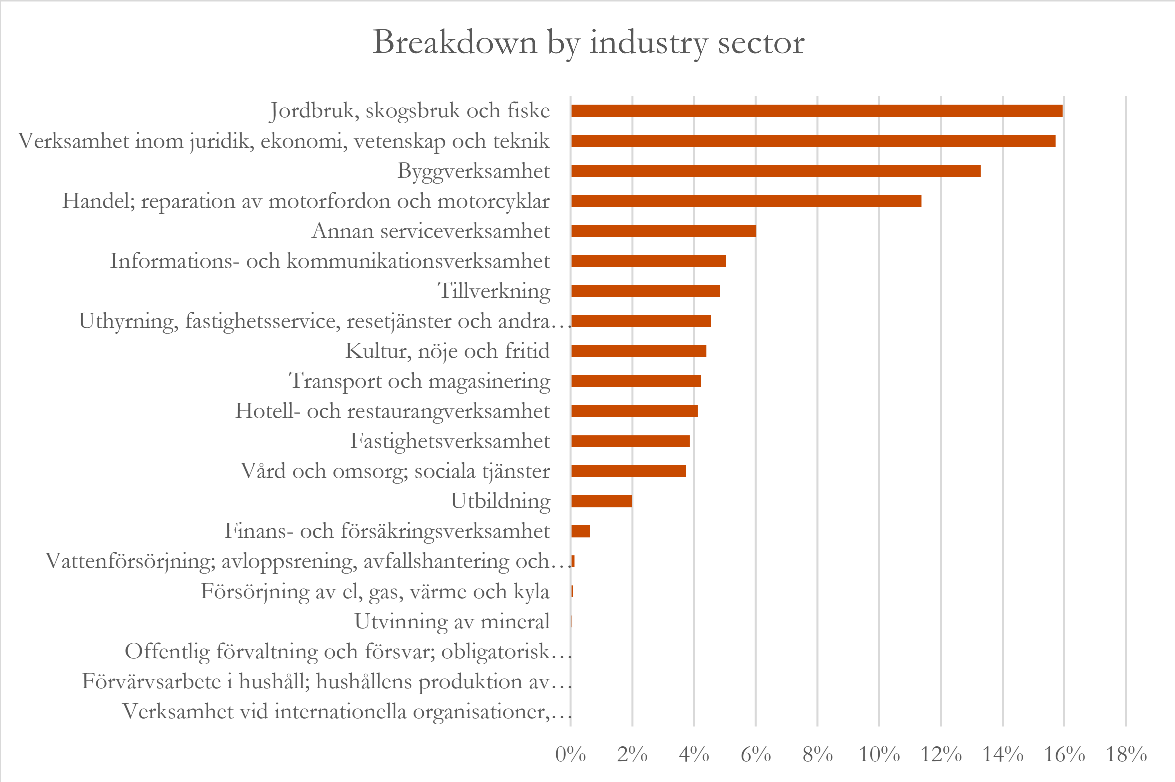


Figure 3 indicates the likelihood of detecting tax gaps for businesses in different industry sectors during the Swedish Tax Agency's tax gap assessment. The percentage of errors is highest (about 70%) in the *hotel/restaurant* and *building/construction* sectors. Please note that this does not necessarily mean that more errors are missed in audits of businesses in these sectors. Among other sectors, the audits detect a slightly higher proportion of tax gaps (60%) for businesses in *education*, *transport* and *rental services* – compared to the overall average of about 50%.

Note that businesses in the different industry sectors may differ in terms of both size and legal form. The fact that compliance appears to be lower in one sector than in another may therefore be due differences between the sectors themselves, differences between the types of businesses in the different sectors, or both.

Figure 3 Percentage of businesses whose taxes are adjusted after an audit as part of the Swedish Tax Agency's tax gap assessment – by industry sector.

Percentage of businesses that use external accountants

The involvement of an external accountant can affect the audit results for at least two reasons (which panel members have noted). On one hand, an external accountant can help to ensure that more is done right from the start (which means a *reduced* risk of undetected tax gaps). On the other hand, it may lead to the Swedish Tax Agency auditor being less thorough and accepting risks that should actually be investigated (which means an *increased* risk of undetected tax gaps).

Among audited limited companies, the use of external accountants generally increases with company size. In the smallest group of limited companies, with a total salary amount between SEK 100,000 and SEK 600,000, about 40% have used an external accountant. Among those with a total salary amount between SEK 600,000 and SEK 3 million, the figure is 80%. Of the limited companies with a total salary amount over SEK 3 million, virtually all have used an external accountant. Unfortunately, we have no information regarding the percentage of sole traders who have used an external accountant.

Further, our risk analysis gives no indication that a business's use of an external accountant is likely to affect the audit results. However, it is of course still possible that *non-detection* rates are affected.

Statistics on tax gap types

Several panel members have asked for information about the types of tax gaps we detect in the tax gap assessment. We have therefore collected the following statistics from the tactical risk analysis report that we present each year based on the results of the tax gap assessment.

Three tactical risks constitute the most common issues among business by a significant margin: - errors in the withdrawal of funds from a business (45% of the tax gap)
- incorrectly declared or undeclared income (15%)
- incorrectly reported expenses or deductions claimed for non-deductible expenses (14%)

<u>Errors in the withdrawal of funds from a business</u>: This risk area covers everything that owners of close companies and sole traders withdraw from their own business without correct taxation. This includes private living costs borne by the business; use of the business's property or withdrawals of goods and services; reimbursement of expenses; dividends; incorrect application of “3:12 rules”, etc. The risk also includes other forms of withdrawals, such as prohibited loans, unreported salary, invoicing by own business, etc.

<u>Incorrectly declared or undeclared income</u>: This risk area covers income that is undeclared or incorrectly declared, and consequential changes with regard to VAT. It does not include the disposal of property, tax on withdrawals or benefits relating to partners or sole traders.

Incorrectly reported expenses or deductions claimed for non-deductible expenses: This risk area covers incorrectly reported costs and incorrect deductions claimed for non-deductible costs, and consequential changes with regard to VAT. It does not include deductions for private costs, or costs associated with the holding, construction or disposal of property.

The incidence of tax gaps linked to the different tactical risks in our population, and their proportion of the overall tax gap detected in audits, is shown in Table 3 below.

Table 3 Tax gap per tactical risk Percentage of businesses with tax gaps, and percentage of the total audit result by tax gap type

Tactical risk	Percentage of businesses with this tax gap	Percentage of overall tax gap
Errors in withdrawal of funds from own business	40%	45%
Incorrectly declared or undeclared income	10%	15%
Incorrectly reported expenses or deductions claimed for non-deductible expenses	31%	14%
Other tactical risks	–	between 1% and 8% each

Statistics regarding administrators and assignment of audits

Panel members have also asked for information about the experience and backgrounds of the administrators working with tax gap audits, and which type of businesses administrators with different backgrounds work with. This is not easy to quantify, but about 50% of the administrators have worked as auditors for more than five years; about 30% have worked as auditors for one to five years; and the rest (20%) are new to the role.

Regarding the allocation of audits, the aim is for the more experienced administrators to work with the larger businesses. However, the allocation is also based on geographical location and access to the businesses that will be audited.

Results of the tax gap audit quality assurance reviews

Each year, about 10% (60) tax gap audits are reviewed for quality assurance purposes. The aim is to ensure that the Swedish Tax Agency's audits fulfil their purpose. Since these reviews are carried out retrospectively, they can only find errors that are evident from the audit documentation. In other words, undocumented issues will not emerge in the quality assurance reviews.

The results of these quality reviews vary from year to year, but a small number of material errors are usually detected each year, leading to the conclusion that the tax decision was incorrect. These are relatively serious errors. In addition, a few other cases are usually discovered in which the tax decision *may* have been incorrect, for example because the obligation to investigate was not fulfilled.

In order to facilitate the interpretation of these figures, the following can be noted. If we assume that we detect one or two serious errors and a similar number of less serious errors when reviewing 10% of audits each year, we can also assume that we would detect about 10 serious and 10 less serious errors if all audits were reviewed. This corresponds to the detection of serious errors in about 1.5% of our audits, and less serious errors in another 1.5%. Since many errors may not leave traces in the audit documentation, even these figures can be considered as lower limits for how much we miss in our audits.

List of reasons for non-detection of tax gaps

Below is a list of the reasons for non-detection of tax gaps in the Swedish Tax Agency's audits indicated by the panel in the first round. We have not assessed the relative importance of the various reasons. Rather, we have tried to include all the possible reasons raised by the panel. The aim is to give you a more complete picture of the possible reasons for non-detection of tax gaps identified by the panel.

Factors relating to the auditor

- Less-experienced auditors may find it difficult to select the most appropriate documentation sample and to assess risks. They may have less material knowledge and find it harder to see the overall picture. They may also experience greater pressure due to time constraints.

- However, less experienced auditors may also be more thorough and request more samples than a more experienced administrator.
- Less experienced auditors are normally paired with experienced auditors, which should reduce the risk of errors. However, a less experienced auditor may be reluctant to disturb his or her colleague too often, and might therefore not follow up on issues they are uncertain about.
- Experienced administrators may be less careful about following the audit procedure, and they may also have knowledge gaps. The audit procedure covers a wide range of areas, and no auditor is an expert on all of these.
- It is an advantage to have experience in different types of audits and industries, in order to know about common errors and specific rules.
- Auditors who have previously worked with risk-based audits may decide not to follow up on errors that would be considered too small to investigate in the context of other audits, but which should be checked and corrected in the tax gap assessment.
- Knowledge gaps can be a source of misses – particularly in the area of VAT, but also with regard to taxation of benefits, for example.
- Knowledge gaps can have an impact on assessment issues.
- Auditors may be overly trusting of businesses that have had external help with accounting.
- In some cases, the auditor might fail to follow the audit procedure.
- Auditors differ in terms of experience, knowledge and approach. They have different levels of ambition and engagement.
- Everyone makes mistakes.

Design of the audit procedure

- In many cases, we only evaluate a few documentation samples. There may be errors in other documentation.
- It can be difficult to select the most appropriate sample. Especially if the business has many suppliers and different types of costs. Problems can occur in all types of businesses, but especially in larger businesses. There can often be many different accounts, and a certain transaction could be entered under several possible accounts.
- More samples are required in order to detect errors in larger businesses. If a business's accounts contain many transactions, errors can be hidden by the volume of documentation.
- Sampling is also hampered by the absence of verification/transaction clarifications in the SIE file.
- If nothing is obviously wrong, we do not investigate in depth. A more rigorous check might have detected errors.
- The audit procedure does not cover all areas where errors may occur.
- Errors can be missed in separate systems that are not visible in the general ledger, since we do not carry out system mapping.

- It can be difficult to assess items that extend beyond the close of accounts, since we normally only examine documentation for the financial year in question.
- Errors are more likely to occur in business transactions that are unusual for the business in question, and there is a risk that we might not follow the audit procedure fully.
- Some areas, such as stock valuation or ongoing work, are difficult to cover without a more thorough check. Other areas, such as car benefits, tax return expenses, health insurance, telephony costs, business entertainment and leisure travel are either systematic in nature or have so little documentation in the accounts that they can be included in the audit. However, it is always difficult to detect when private costs have been entered under the wrong account.
- Returned costs during tax adjustments, transactions between settlement accounts, and lack of knowledge about benefits may also increase the risk of missing errors.
- The distribution of VAT between VAT-liable and VAT-exempt activities is also a difficult area.
- Few audit points relate to the valuation of balance sheet items.
- Real or perceived time constraints can cause auditors to let uncertain issues pass. There is therefore a real or perceived trade-off between accuracy and speed.
- Time constraints may also result in auditors being “satisfied” when a certain number of errors have been found, and therefore not completing the audit as thoroughly as they might otherwise have done.

Factors relating to the audited business

- It can be difficult to detect errors when a business deliberately evades taxes and covers its tracks. For example, tax avoidance schemes are difficult to detect in the tax gap assessment. There may also be re-invoicing or incorrect invoices (for example where the invoice details do not match the actual transaction). Such errors are infrequent, but the sums involved can be significant.
- Businesses can be vague in their descriptions. This problem can be more significant if the business does not fully cooperate with the audit. It can then be difficult to ascertain whether something is wrong.
- Some businesses have minimal accounting records due to carelessness, lack of knowledge or unwillingness to document transactions. Some document only lump sums or include very little information in their invoices. Factors such as these can lead to us miss errors – especially if the business does not fully cooperate with the audit.
- Finding errors in businesses that are complex, or have complex accounting, requires more experience and a certain amount of luck in sampling of documentation.
- Transactions between group companies or associated enterprises may be difficult to assess from a legal perspective. Foreign subsidiaries increase both complexity and the risk of errors. These errors can also

correspond to significant amounts. This complexity makes it difficult to assess whether or not a deeper investigation is warranted.

- Automated account assignment often results in errors, and the risk of missing errors increases with the number of account assignment corrections made. The same applies generally to items that have been recategorised or reclassified.
- Some businesses have foreign charts of accounts, which may complicate documentation sampling (for example, it may be difficult to tell whether an account is a balance sheet account or a profit and loss account).

The following questions are about assessing the size of the tax gap undetected by our audits. In the first survey round, you made assessments of the tax gap according to the three main categories of reasons for non-detection of tax gaps in our audits. You have now been informed of the results of the other panel members' overall assessments, and have received a variety of additional information regarding the Swedish Tax Agency's tax gap assessment and the business population that is subject to audit. In this survey round, we instead want you to make separate assessments of the undetected tax gaps in average audits as part of the Swedish Tax Agency's tax gap assessment, according to different business types. The reason for this change is that a breakdown by business type is more in line with the panel's reasoning in the first survey round and the information requested by members.

We hope that the new supporting materials will give you a better basis on which to make your assessments, but we understand that the questions may still be challenging. Please try to answer all six questions to the best of your ability, and make sure to consider the information you received in part 2 of the information document.

Part 3 – the survey questionnaire

For the following questions, please base your assessments on tax gap audits of average businesses in particular categories (which will be specified in each question). The audits are carried out by employees who currently work with tax gap audits. For each question there is some additional information about the business categories (this information is also available in part 2 of the information document).

Sole traders

The category *sole traders* accounts for 44% of the tax gap audit population. Our audits result in a tax adjustment for 54% of businesses in this category. Among those whose tax is adjusted, the average increase is SEK 50,000. This means that the average tax gap detected for sole traders during the Swedish Tax Agency's tax gap assessment is SEK 27,000.

Question 1a What is your estimate of the average undetected tax gap[5] if the audited business is a sole trader? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Question 1b Explain clearly how you reasoned in your assessment for question 1a, and specify what information or assumptions you considered. Please also indicate any uncertainty you felt.

Answer:

Small limited companies

The category *sole traders* accounts for 35% of the tax gap audit population. In this context, a small limited company refers to a limited company with a salary total between SEK 100,000 and SEK 600,000. Our audits result in a tax adjustment for 44% of businesses in this category. Among those whose tax is adjusted, the average increase is SEK 52,000. This means that the average tax gap detected for small limited companies during the Swedish Tax Agency's tax gap assessment is SEK 23,000.

Question 2a What is your estimate of the average undetected tax gap if the audited business is a small limited company? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Question 2b Explain clearly how you reasoned in your assessment for question 2a, and specify what information or assumptions you considered. Please also indicate any uncertainty you felt.

Answer:

Smaller medium-sized limited companies

The category *smaller medium-sized limited companies* accounts for 15% of the tax gap audit population. In this context, a smaller medium-sized company refers

[5] In this context, the term tax gap refers to the tax consequences of errors in a business's reporting.

to a limited company with a salary total between SEK 600,000 and SEK 3 million. Our audits result in a tax adjustment for 60% of businesses in this category. Among those whose tax is adjusted, the average increase is SEK 78,000. This means that the average tax gap detected for smaller medium-sized companies during the Swedish Tax Agency's tax gap assessment is SEK 47,000.

Question 3a What is your estimate of the average undetected tax gap if the audited business is a smaller medium-sized company? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Question 3b Explain clearly how you reasoned in your assessment for question 3a, and specify what information or assumptions you considered. Please also indicate any uncertainty you felt.

Answer:

Larger medium-sized limited companies

The category *larger medium-sized limited companies* accounts for 6% of the tax gap audit population. In this context, a larger medium-sized company refers to a limited company with a salary total over SEK 3 million. Our audits result in a tax adjustment for 61% of businesses in this category. Among those whose tax is adjusted, the average increase is SEK 82,000. This means that the average tax gap detected for larger medium-sized limited companies as part of the Swedish Tax Agency's tax gap assessment is SEK 47,000.

Question 4a What is your estimate of the average undetected tax gap if the audited business is a larger medium-sized limited company? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Question 4b Explain clearly how you reasoned in your assessment for question 4a, and specify what information or assumptions you considered. Please also indicate any uncertainty you felt.

Answer:

Reflection

This is not a question, but rather a point where you have the opportunity to reflect on your responses. In the first survey, we provided a space for reflection where we asked you to summarise your assessments with regard to previous questions. You could thus consider the implications of your answers for your overall assessment of the undetected tax gap for an average audit.

A corresponding reflection is not as easy to do in this questionnaire. Your assessments in questions 1a to 4a now relate to different categories within the total business population for the Swedish Tax Agency's tax gap assessment. It is therefore not as easy to see what combining the individual assessments might mean for an average audit as part of the tax gap assessment.

Open the inserted Excel document below (double click on the icon to open) and fill in your answers to questions 1a-4a. You can then see the overall assessment, provided by your assessments, of the undetected tax gap in an average audit for the entire population in the Swedish Tax Agency's tax gap assessment. As a comparison point, the average tax gap actually detected in our audits is SEK 30,000.

Delfireflektion
omgång 2.xlsx

If you are satisfied with your answer, please proceed. Otherwise, you can adjust your assessments for questions 1a, 2a and/or 4a above.

Close the Excel document when you have finished – you do not need to save it. Other questions

Question 5 We understand that the assessments in questions 1-4 are difficult to make, even though you had access to more information than in the first survey. There is almost certainly additional information that could have facilitated your assessments. Here you can specify areas in which you feel additional knowledge would have been beneficial.

Answer:

Question 6 Other comments Here you can describe problems you experienced in answering the questions. Please also indicate whether any instructions were unclear or, for example, if you are aware of other reasons for non-detection of tax gaps that we have not discussed and you therefore have not had the opportunity to assess.

Answer:

When you have finished the questionnaire, please send it to: elena.maximez@skatteverket.se

Many thanks for participating in this project.

Annexe 3: Survey round 3

It is now time for the third survey round. You now know the background to the project, and you were asked to make your assessments in slightly different ways in the first two rounds. This time, you will receive a little less information. The survey questionnaire is quite similar to the previous one. We think, therefore, that the assessments will probably take less time.

This document consists of two parts.

In the first part, you will find information about your assessments from round two. This is somewhat more detailed than the information provided after the first round. However, in this round, we have not produced any new statistical information or similar data.

The second part contains the questionnaire itself. Here we ask you for assessments in the same way as in the previous survey round. New for this round is that we ask you to consider what would be reasonable limits for the assessment. This will enable us, for example, to give you clearer feedback on other panel members' opinions in a possible fourth round[6].

Part 1 – Information about your assessments

In the last round, you assessed the average undetected tax gap in audits of particular types of business. The panel members' combined assessments yielded an average undetected tax gap assessment of SEK 10,379 for our audits, with an assessment range between SEK 1,295 and SEK 32,700. In the first round, the corresponding average assessment was SEK 18,890, with an assessment range between SEK 900 and SEK 75,000. The difference between the lowest and highest assessments has thus decreased between the rounds. The revised assessments (in SEK) are presented in Table 1a below. In Table 1b, we present the same estimates expressed as a percentage of the average audit result for each group (i.e. your assessment of the average undetected tax gap divided by the average tax gap actually detected). In Figure 1, you can also see the combined assessments of all panel members presented on a number axis, with the mean and the median points marked.

[6] We do not currently know how many survey rounds there will be. It is important that the project provides sufficient opportunities for panel members to take new information on board and to have a structured interaction with the other experts. We anticipate that between three and five rounds will be required. Probably (and hopefully) the responses will require a little less time as the survey rounds progress.

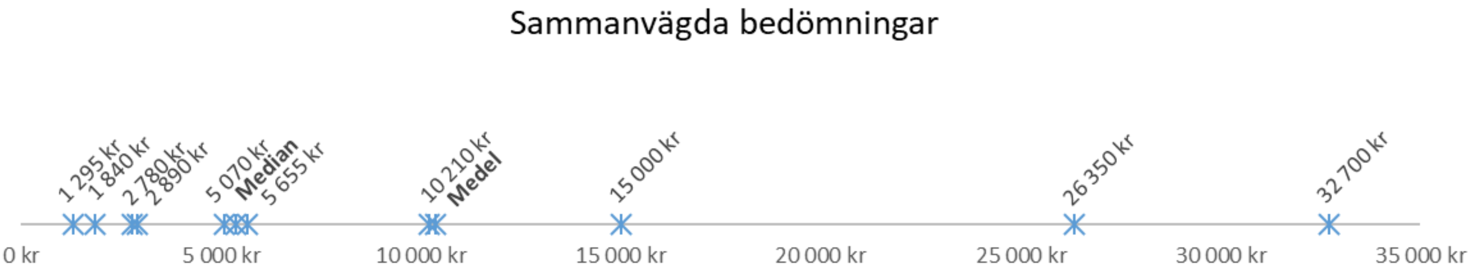
Table 1a Your assessment and categorisation of all panel members' assessments of the undetected tax gap in the Swedish Tax Agency's tax gap assessment. SEK

Business type	Your assessment	Average	Median	Min	Max
Sole traders	SEK 0	SEK 8,222	SEK 3,000	SEK 500	SEK 30,000
Small limited companies	SEK 0	SEK 8,222	SEK 3,000	SEK 500	SEK 30,000
Smaller medium-sized limited companies	SEK 0	SEK 14,333	SEK 10,000	SEK 2,000	SEK 40,000
Larger medium-sized limited companies	SEK 0	SEK 20,222	SEK 10,000	SEK 2,000	SEK 50,000
Combined assessment	**SEK 0**	**SEK 10,379**	**SEK 5,363**	**SEK 1,295**	**SEK 32,700**

Table 1b Your assessment and categorisation of panel members' assessments of the undetected tax gap in the Swedish Tax Agency's tax gap assessment. As a percentage of the average audit result.

Business type	Your assessment	Average	Median	Min	Max
Sole traders	0%	30%	11%	2%	111%
Small limited companies	0%	36%	13%	2%	130%
Smaller medium-sized limited companies	0%	30%	21%	4%	85%
Larger medium-sized limited companies	0%	40%	20%	4%	100%
Combined assessment	**0%**	**35%**	**18%**	**4%**	**109%**

Figure 1 Panel members' combined assessments of the average undetected tax gap for businesses in the Swedish Tax Agency's tax gap assessment.



Even if the panel members do not fully agree on the average undetected tax gap in an audit, there are some points of commonality. First, the panel members consistently assessed the undetected tax gap to be about the same in audits of sole traders and small limited companies. In most cases, the panel members assessed the undetected tax gap to be exactly the same. This is also reflected in Table 1a, where the overall assessments for these groups are identical.

With only a few exceptions, the panel members also expected the undetected tax gap to increase with the size of the business. This is particularly notable in monetary terms (see Table 1a). However, we also detect more tax gaps in larger businesses. If we look at the panel's assessments of the undetected tax gap as a percentage of what is detected in audits, the larger businesses do not differ as significantly. See Table 1b above for the percentages of the average and median assessments.

On the other hand, several panel members have mentioned that the reasons for non-detection of tax gaps differ between business types. The risk of errors relating to private costs, for example, is perceived as greater in smaller businesses, and it can be difficult to detect all of these – especially since accounting records may be unreliable in smaller businesses. Accounting records tend to be more reliable in larger businesses, which often have external help with accounting. However, in larger businesses, it may be difficult to detect errors related to more complex issues such as group company relationships and tax avoidance schemes – areas that may not even be covered by the audit procedure. Further, it can be difficult to detect all errors in larger businesses even if they are covered by the audit procedure, for example because we only request a certain number of documentation samples.

The assessment strategies used by the panel members were similar to those used in the first survey round, with detailed reasoning and evaluations. The assessments include calculations based on standardised formulas, as well as qualified guesses. Many of the panel members said they were impressed by other experts' replies and some of the statistics we presented. For example, panel members have referred to the various reasons for non-detection of tax gaps contributed by other experts, the distribution of audit results according to business types, and the proportion of businesses belonging to corporate groups.

Panel members also requested some new information. In many cases, this information was difficult for us to obtain. But one thing we have taken up is the request for more information about how other panel members have reasoned. It is very difficult to sum up such information, in view of the open assessments the panel has has made so far. We have therefore included a few new questions in the survey, where we ask you to comment on specific values. We hope these questions will clarify – both for the panel and for us – your reasoning with regard to levels of reasonableness in an assessment.

Part 2 – the survey questionnaire

In this round, you will once again assess the tax gap undetected by the Swedish Tax Agency's tax gap assessment. As you are familiar with the background to the project, we have formulated the questions somewhat more briefly, but the arrangement is basically identical to that of the previous round. We ask you to assess the average undetected tax gap in audits of four types of businesses: sole traders (all of whom are included in audit the population, i.e. businesses with a turnover above SEK 100,000), small limited companies (salary total between SEK 100,000 and SEK 600,000), smaller medium-sized companies (salary total between SEK 600,000 and SEK 3 million) and larger medium-sized limited companies (salary total above SEK 3 million). In Table 2 below, we have summarised information regarding the different business types. An outline of the panel's assessments for the different business types can be found in part 1 above.

Table 2 Overall statistics for the different business types

Group	Percentage of population[1]	Percentage of audited population[2]	Average tax gap[3]	Percentage of tax gap assessment population with adjustments
Sole traders	44%	35%	SEK 27,000	54%
Small limited companies	35%	25%	SEK 23,000	44%
Smaller medium-sized limited companies	15%	21%	SEK 47,000	60%
Larger medium-sized limited companies	6%	19%	SEK 50,000	61%
Total	**100%**	**100%**	**SEK 30,000**	**52%**

1) Refers to the distribution of businesses in the entire population that *can* be audited in the Swedish Tax Agency's tax gap assessment (target population).
2) Refers to the distribution of businesses in the *population actually audited*, i.e. the businesses randomly selected for audit.
3) Average tax gap for all audited businesses in the group, including those whose taxes are not adjusted as a result of the audit. Naturally, the average tax gap is higher among the businesses whose taxes are adjusted as a result of the audit.

Before we get to the survey questions, we would like to remind you of two things.

The first reminder relates to the scope of the project, i.e. the exclusion of errors that leave no trace in accounting records and that are generally undetected by the Swedish Tax Agency unless we receive specific information about them. We already know that we do not detect such errors in tax gap assessment, and such tax gaps will be assessed using other methods. One example is undeclared work, where the contractor and the client agree terms between themselves and compensation is paid in cash. We are reminding you about this because some panel members' reasoning in survey responses suggests that undeclared work may have been included in the assessment.

The second reminder is to respond as candidly as possible. We will not follow up on your responses at an individual level. Candidness is essential for us to make a correct interpretation of the panel's responses and the results of the project.

Tax gap assessments

A number of questions now follow. The first questions are basically the same as in round 2. These are followed by some questions about what you consider to be reasonable – and unreasonable – assessments. As we have noted before, we are aware that these assessments can be difficult. However, please try to answer each question as fully as possible.

Assessments

What is your estimate of the average undetected tax gap[7] if the audited business is...

Question 1a ...a sole trader? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Question 1b ...a small limited company? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Question 1c ...a smaller medium-sized limited company? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Question 1d ...a larger medium-sized limited company? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

[7] In this context, the term tax gap refers to the tax consequences of errors in a business's reporting.

Reflection

Before proceeding with the survey, we would like you – as you did in round 2 – to use the Excel file attached below to consider how your answers combine to provide an assessment of the average undetected tax gap in audits. This combined assessment can be compared with the assessments in Figure 1 and the lower rows in Tables 1a and 1b above.

Delfireflektion
omgång 3.xlsx

If you are satisfied with your combined assessment, please proceed. Otherwise, you can adjust your assessments in questions 1a-d above.

Close the Excel document when you have finished – you do not need to save it.

Changes in assessments

Two questions follow here, and we would like you to respond to one of them. If you have changed your assessments since round 2, please respond to question 2a. Otherwise, please respond to question 2b.

Question 2a *Respond to this question if any of your assessments in questions 1a–d have changed since round 2.* Please state what has led you to change your assessment, and outline how you reasoned in your latest assessment.

Answer:

Question 2b *Respond to this question if none of your assessments in questions 1a–d have changed since round 2.* Outline briefly why you have not changed your assessments. Please also tell us about any type of information that might cause you to change your assessments.

Answer:

Reasonableness assessments

Question 3 In the first two rounds, the panel members received some information about the reasons for non-detection of tax gaps in our audits, the characteristics of the business population, what we actually detect in our audits, etc. In addition, you have received some input on other panel members' assessments. However, there is still a high degree of uncertainty in the panel's assessments. In order to give us and the panel members a better picture of what you, as experts, consider to be *reasonable assessments* of the average undetected tax gap in audits, we now want you to determine a reasonable lower and upper limit for the undetected tax gap in an average audit. Remember that our audits detect an average tax gap of about SEK 30,000.

3a What do you consider to be the *lower* limit for the undetected tax gap in an average audit? I.e. you consider that a lower undetected amount than this would be an unreasonable assumption. Enter your answer in Swedish kronor in the box below.

Answer: Select a figure here SEK

3a What do you consider to be an *upper* limit for the undetected tax gap in an average audit? I.e. you consider that a higher undetected amount than this would be an unreasonable assumption. Enter your answer in Swedish kronor in the box below.

Answer: Select a figure here SEK

Question 4 Some questions now follow in which we ask you to comment on the lowest and highest assessments in round 2. The aim of these questions is to share feedback between panel members, providing a better understanding of the members' thinking and reasoning.

Please note the following, as you are now being asked to comment on a specific assessment: If you were one of the panel members who made the highest or lowest assessment in round two, remember that the correct figure is unknown. It's fine for the panel members to have different opinions, and no one knows whose assessment is the most accurate.

4a In round two, the lowest combined assessment of the undetected tax gap in an average audit was SEK 1,295. Please indicate whether or not you consider this to be a reasonable assessment of the undetected tax gap in an average audit. Please also outline why you consider the assessment to be reasonable or unreasonable.

Answer:

4b In round two, the highest combined assessment combined assessment of the average undetected tax gap in an audit was SEK

32,700. Please indicate whether or not you consider this to be a reasonable assessment of the undetected tax gap in an average audit. Please also outline why you consider the assessment to be reasonable or unreasonable.

Answer:

Question 5 Other questions and comments. Here you can indicate any other comments or questions you have. You can also request additional information.

Answer:

When you have finished the questionnaire, please send it to: elena.maximez@skatteverket.se

Many thanks for participating in this project.

Annexe 4: Survey round 4

It is now time for the fourth round of this project. This document consists of two parts.

The first part summarises the assessments you made in the last round. We have tried to reflect the panel's reasoning, and we have included information about panel members' considerations of what is reasonable or unreasonable. In this way, we hope to give you a better idea of how other panel members have reasoned.

The second part of the document contains the survey. First, we ask the same assessment questions as in the previous round. These questions are followed by a number of statements. Please indicate whether or not you agree with each statement. The aim of the latter part is to clarify the reasoning behind the panel members' assessments. The aim is to enable a fifth round of assessments based on the answers to these questions. It is not certain that there will be a fifth round, but if so, we will try to make it as simple as possible.

Part 1 - Your assessments

Several panel members have stated that their assessments for certain business types have changed in the light of the reasoning and assessments of other members. Some have also reduced their assessments due to the reminder about the limitations on the scope of the project (i.e. the exclusion of factors that cannot be detected in audits because they leaves no trace in accounting records).

However, several panel members have pointed out that their assessments remained unchanged because they received no new information that was significant enough to warrant a change. Many panel members have also asked for more information about the other members' answers.

It is difficult to make an even-handed summary of the panel's written answers. The answers vary in their level of detail, and the responses to our open questions are not always directly comparable. In the last round, we therefore asked slightly more specific questions, where we asked you to comment on levels of reasonableness. Below, we present the panel members' reasoning and the results of your reasonableness assessments.

To increase precision, we have also included several highly standardised questions in survey. We ask you to state whether you agree or disagree with a number of statements. These statements are designed to reflect the panel members' differing opinions on the reality of the situation with regard to tax gaps. The aim is for panel members to give their final assessments in a relatively quick final round after this one. We will also be able to give you a simple, transparent and relatively precise picture of the other panel members' perspectives on some of the most important reasons for non-detection of tax gaps.

Assessments of undetected tax gaps

Table 1a and 1b below present your latest assessments of the undetected tax gap in an audit of an average business as part of the Swedish Tax Agency's tax gap assessment. In Figure 1, you can also see all panel members' combined assessments on a number axis, with the mean and median points marked.

Table 1a Your assessment and categorisation of a panel members' assessments of the undetected tax gap in the Swedish Tax Agency's tax gap assessment. SEK

Business type	Your assessment	Average	Median	Min	Max
Sole traders	SEK 0	SEK 5,611	SEK 4,000	SEK 1,000	SEK 20,000
Small limited companies	SEK 0	SEK 6,167	SEK 4,000	SEK 1,000	SEK 25,000

Smaller medium-sized limited companies	SEK 0	SEK 12,556	SEK 10,000	SEK 3,000	SEK 40,000
Larger medium-sized limited companies	SEK 0	SEK 20,222	SEK 20,000	SEK 2,000	SEK 50,000
Combined assessment	**SEK 0**	**SEK 7,918**	**SEK 5,655**	**SEK 1,840**	**SEK 28,300**

Table 1b Your assessment and categorisation of a panel members' assessments of the undetected tax gap in the Swedish Tax Agency's tax gap assessment. As a percentage of the average audit result.

Business type	Your assessment	Average	Median	Min	Max
Sole traders	0%	21%	15%	4%	74%
Small limited companies	0%	27%	17%	4%	109%
Smaller medium-sized limited companies	0%	27%	21%	6%	85%
Larger medium-sized limited companies	0%	40%	40%	4%	100%
Combined assessment	**0%**	**26%**	**19%**	**6%**	**94%**

Figure 1 Panel members' combined assessments of the undetected tax gap for an average business in the Swedish Tax Agency's tax gap assessment.

The latest combined assessment is an undetected tax gap of SEK 7,918 for an average business audited as part of the Swedish Tax Agency's tax gap assessment. Although there are still relatively large differences between the assessments, convergence has continued.

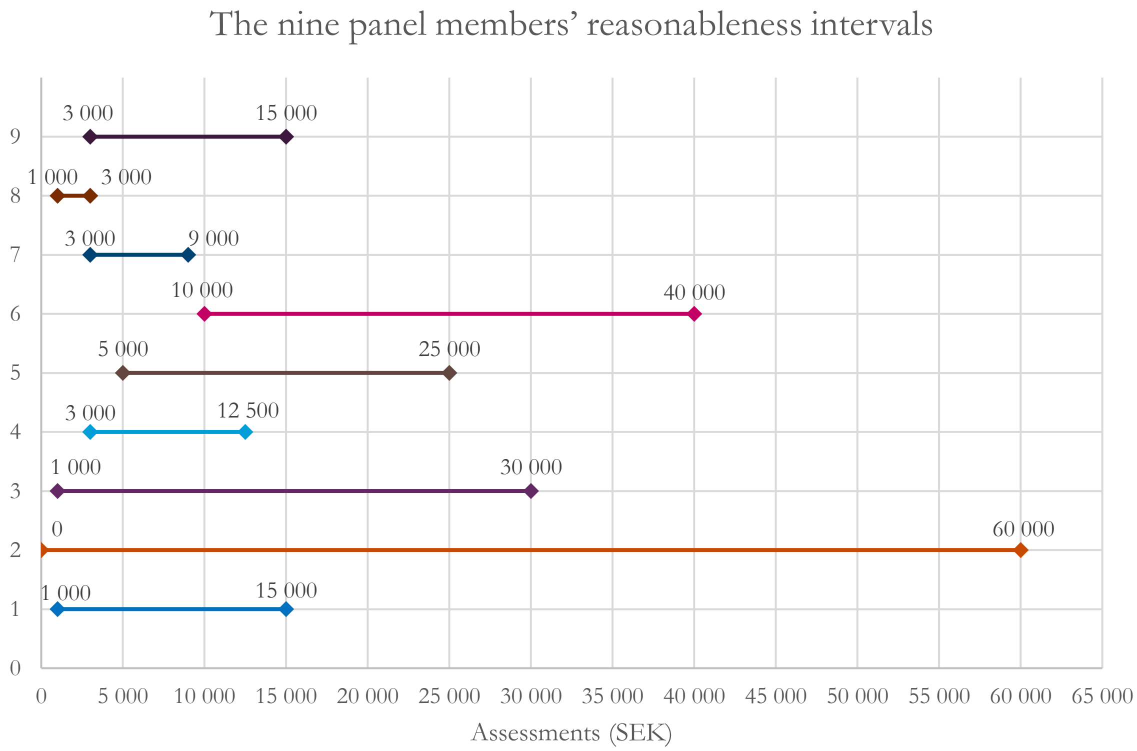
Reasonableness assessments

Here we have compiled the panel members' answers to the questions about reasonable assessments of the undetected tax gap in our audits. Rather than including every detail, we have tried to give a broad yet concise overview of the panel's reasoning.

In the previous survey questionnaire (round 3), we asked you to specify the highest and lowest estimates of the undetected tax gap in audits that you considered reasonable. The results are presented in Figure 2 below. The horizontal x-axis shows the different the assessment amounts, and the vertical y-axis shows the reasonableness intervals specified by each of the nine panel members. Each coloured horizontal line in the diagram represents what a panel member considers to be a reasonable span for the undetected tax gap in audits as part of the Swedish Tax Agency's tax gap assessment. The starting point of each line represents the lowest reasonable assessment, and the end point represents the highest reasonable assessment. If you look directly up from an assessment level on the x-axis, you can see how many of the panel members have specified a reasonableness interval that this amount falls within.

The results are somewhat difficult to summarise, but we can say that most panel members consider amounts between SEK 3,000 and SEK 15,000 to be within a reasonable span. Most of this span is considered reasonable by seven of the nine panel members. Assessments outside this range (i.e. below SEK 3,000 and above SEK 15,000) are only considered reasonable by a minority (maximum four of the nine panel members).

Figure 2 All nine panel members' reasonableness intervals for the average undetected tax gap in audits as part of the Swedish Tax Agency's tax gap assessment.



We can also note that the majority of panel members (five of nine) considered the lowest assessment from round 2 (SEK 1,295 SEK) to be unreasonably low.

Further, the highest assessment (SEK 32,700) was considered unreasonably high by seven of the nine panel members.

The five panel members who considered that SEK 1,295 to be an unreasonably low level reasoned in different ways. Several mentioned that there are many different reasons for non-detection of tax gaps, and for example that only “lack of knowledge, carelessness and financial limits” should lead us to miss more than this amount, or that a small proportion of larger tax gaps would be undetected for the same reason. One panel member mentioned the fact that the audits only examine a limited part of business's accounting records; another indicated that the amount seemed too low as the audits probably miss a significant number of errors relating to private purchases and benefits. One member pointed out that the amount seems low in relation to the results of the quality assurance reviews, which can be seen as an assessment baseline.

Of the seven panel members who considered SEK 32,700 to be unreasonable, most reasoned that the assessment is too high in relation to the detected tax gap, since we probably detect most errors. If we fail to detect so much, the audit procedure or the competence of the auditors must be called into question. However, taking into account what the audits actually detect, there is no evidence for such a conclusion. It has also been noted that, since most of the audited businesses are small, it is unlikely that errors resulting in large tax gaps would go undetected. In the case of larger businesses, it has further been noted that, since the sample is random, it is unlikely that many are engaged in advanced forms of tax avoidance (that we subsequently fail to detect).

Part 2 – the survey questionnaire

In this round, you will once again assess the tax gap undetected by the Swedish Tax Agency's tax gap assessment. The arrangement is basically identical to that of the previous round. We ask you to assess the average undetected tax gap in audits of four types of businesses: sole traders (all of whom are included in audit the population, i.e. businesses with a turnover above SEK 100,000), small limited companies (salary total between SEK 100,000 and SEK 600,000), smaller medium-sized companies (salary total between SEK 600,000 and SEK 3 million) and larger medium-sized limited companies (salary total above SEK 3 million). In Table 2 below, we have summarised information regarding the different business types. An outline of the panel's assessments for the different business types can be found in part 1 above.

Table 2 Overall statistics for the different business types

Group	Percentage of population[1]	Percentage of audited population[2]	Average tax gap[3]	Percentage of tax gap assessment population with adjustments
Sole traders	44%	35%	SEK 27,000	54%
Small limited companies	35%	25%	SEK 23,000	44%

Smaller medium-sized limited companies	15%	21%	SEK 47,000	60%
Larger medium-sized limited companies	6%	19%	SEK 50,000	61%
Total	**100%**	**100%**	**SEK 30,000**	**52%**

1) Refers to the distribution of businesses in the entire population that *can* be audited in the Swedish Tax Agency's tax gap assessment (target population).
2) Refers to the distribution of businesses in the *population actually audited*, i.e. the businesses randomly selected for audit.
3) Average tax gap for all audited businesses in the group, including those whose taxes are not adjusted as a result of the audit. Naturally, the average tax gap is higher among the businesses whose taxes are adjusted as a result of the audit.

Tax gap assessments

A number of questions now follow. The first questions are basically the same as in round 3. As we have noted before, we are aware that these assessments can be difficult. However, please try to answer each question as fully as possible.

What is your estimate of the average undetected tax gap[8] if the audited business is...

Question 1a ...a sole trader? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Question 1b ...a small limited company? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Question 1c ...a smaller medium-sized limited company? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Question 1d ...a larger medium-sized limited company? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Reflection Before proceeding with the survey, we would like you to use the Excel file attached below to see – as you did in round 2 and 3 – how your answers are combined to assess the average undetected tax gap in an audit. This combined assessment can be compared

[8] In this context, the term tax gap refers to the <u>tax consequences</u> of errors in a business's reporting.

with the assessments in Figure 1 and the lower rows in Tables 1a and 1b above.

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If you are satisfied with your answer, please proceed. Otherwise, you can adjust your assessments in questions 1a-d above.

Close the Excel document when you have finished – you do not need to save it.

Opinions on certain issues

A number of statements follow here. Please indicate whether you substantially agree or disagree with each statement. We have noted some differences of opinion among the panel on all of the statements, and that the content of the statements has the potential to influence your assessments. The aim is to provide clear, easy-to-understand and relevant information about the panel's opinions and reasoning.

Question 2 Here is a list of statements. Please indicate the extent to which you agree or disagree with each statement, giving separate responses for small and medium-sized businesses. You should therefore give two answers for each statement. Example: For the claim "We miss one or more errors in most audits of businesses", please indicate your level of agreement first with regard to small businesses, and then with regard to medium-sized businesses. Small businesses refers to limited companies with a salary total of less than SEK 600,000, and all sole traders. Medium-sized businesses refers to limited companies with a salary total of more than SEK 600,000.

If you feel that you have no idea in regard to a particular question, it is also fine to answer that you do not know. But as usual, we ask you to try to answer the question even if you are unsure.

To what extent do you agree with the following statements?

Statement	**Substantially agree = 1; Substantially disagree =2; or enter "Don't know"**	
Overall statement	*Small businesses*	*Medium-sized businesses*
The audit procedure detects *the most significant* errors		
The audit program detects *most* errors		
One or more errors are missed in most audits		
Business audits often (in more than 10% of cases) miss tax gaps above SEK 10,000		
Business audits often (in more than 10% of cases) miss tax gaps above SEK 50,000		
Statements about the effectiveness of the audit procedure	*Small limited companies*	*Medium-sized limited companies*
In more than 25% of business audits, errors are missed due to random sample checks rather than comprehensive evaluation of all documentation.		
If an audit detects no errors, this is usually because none were present - i.e. nothing has been missed.		
If a documentation sample check leads to an in-depth audit, we usually detect almost all tax gaps of that type for the business in question.		
More exceptional errors are also detected within the scope of the audit procedure.		
Perceived or actual time constraints result in tax gaps being missed due to insufficient investigation		
Statements related to auditors	*Small limited companies*	*Medium-sized limited companies*
Less-experienced auditors generally receive the support they need from experienced colleagues.		
Auditors too easily accept businesses' explanations regarding purchases suspected of being for private use, since this is hard to prove.		
Auditors ignore issues where the scope for investigation is unclear, for example due to lack of support from the Legal Department or difficulties in providing sufficient evidence.		

Question 3 Finally: what do you think is the main reason for non-detection of tax gaps in audits as part of the Swedish Tax Agency's tax gap assessment? Please answer in no more than one sentence

Answer:

When you have finished the questionnaire, please send it to: elena.maximez@skatteverket.se

Many thanks for participating in this project.

Annexe 5: Survey round 5

It is now time for the fifth and final round of this project. This document consists of two parts.

As before, the first part provides a summary of the assessments you made in the last round. Here you can also see the extent to which the panel members agreed with the statements included in the fourth-round survey questionnaire. We hope it will give an overview of your colleagues' views on various issues.

The second part of the document contains the closing survey. This is very brief – you should give only your final assessments. The answers to **this round's survey questionnaire** will provide the basis for the results of the project.

Part 1 — Your assessments

First, we would like to inform you about a question we received during the assessments in round 4. The question was whether or not the assessments should take the audit procedure thresholds into account. Our answer is that your assessment should still include tax gaps that we fail to detect because they are below the thresholds. The only undetected tax gaps that should not be included are those that leave no trace in accounting records, such as certain types of undeclared work. We will assess these in one or more separate projects, probably using a different method.

Assessments of undetected tax gaps

Table 1a and 1b below present your latest assessments of the average undetected tax gap in an audit as part of the Swedish Tax Agency's tax gap assessment. In Figure 1, you can also see all panel members' combined assessments on a number axis, with the mean and median points marked.

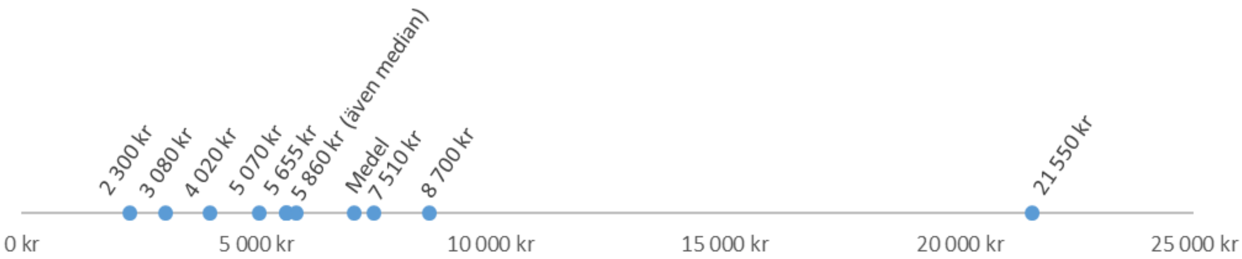
Table 1a Your assessment and categorisation of a panel members' assessments of the undetected tax gap in the Swedish Tax Agency's tax gap assessment. SEK

Business type	Your assessment	Average	Median	Min	Max
Sole traders	**0**	4,722	4,000	2,000	15,000
Small limited companies	**0**	5,833	4,000	2,000	20,000
Smaller medium-sized limited companies	**0**	11,778	10,000	4,000	35,000
Larger medium-sized limited companies	**0**	19,944	20,000	2,000	45,000
Combined assessment	**0**	**7,083**	**5,655**	**2,300**	**21,550**

Table 1b Your assessment and categorisation of all panel members' assessments of the undetected tax gap in the Swedish Tax Agency's tax gap assessment. As a percentage of the average audit result.

Business type	Your assessment	Average	Median	Min	Max
Sole traders	0%	17%	15%	7%	56%
Small limited companies	0%	25%	17%	9%	87%
Smaller medium-sized limited companies	0%	25%	21%	9%	74%
Larger medium-sized limited companies	0%	40%	40%	4%	90%
Combined assessment	0%	**24%**	**19%**	**8%**	**72%**

Figure 1 Panel members' combined assessments of the average undetected tax gap for businesses in the Swedish Tax Agency's tax gap assessment.



The latest combined assessment is an average undetected tax gap of SEK 7,083 for businesses audited as part of the Swedish Tax Agency's tax gap assessment, with a median assessment of SEK 5,655. This corresponds respectively to 24% and 19% of the average result for the audit population.

It must be noted that the assessments have converged significantly over time. In the first survey round, the panel's combined assessments were between SEK 900 and SEK 75,000, and there was significantly more variation within this span. Both the average and the median have also changed significantly.

Responses to the various statements

In Table 2 below, you can see a summary of the extent to which the panel members agreed with the statements in the round 4 survey questionnaire. The number of respondents per claim varies between 7 and 9, so an individual panel member's response corresponds to between 11 and 14 percentage points of the percentage in agreement. I.e. if eight out of nine panel members agree with a statement, this corresponds to 89%. However, if six out of seven agree, then this corresponds to 86%.

Table 2 The percentage of experts in agreement with various statements.

Statements	Percentage in agreement	
Overall statement	*Small limited companies*	*Medium-sized limited companies*
The audit procedure detects the most significant errors	100%	89%
The audit procedure detects most errors	100%	89%
One or more errors are missed in most audits	44%	78%
Business audits often (in more than 10% of cases) miss tax gaps above SEK 10,000	11%	33%
Business audits often (in more than 10% of cases) miss tax gaps above SEK 50,000	0%	11%
Statements about the effectiveness of the audit procedure	*Small limited companies*	*Medium-sized limited companies*
In more than 25% of business audits, errors are missed due because we conduct random sample checks rather than a comprehensive evaluation of all documentation.	67%	89%
If an audit detects no errors, this is usually because none were present, i.e. nothing has been missed.	75%	38%
If a documentation sample check leads to an in-depth audit, we usually detect almost all tax gaps of that type for the business in question.	89%	89%
More exceptional errors are also detected within the scope of the audit methodology.	56%	33%
Perceived or actual time constraints result in tax gaps being missed due to insufficient investigation	38%	63%
Statements related to auditors	*Small limited companies*	*Medium-sized limited companies*
Less-experienced auditors generally receive the support they need from experienced colleagues.	86%	86%
Auditors too easily accept businesses' explanations regarding purchases suspected of being for private use, since this is hard to prove.	38%	43%
Auditors ignore issues where the scope for investigation is unclear, for example due to lack of support from the Legal Department or difficulties in providing sufficient evidence.	25%	50%

We do not wish to comment on these results in detail, but as you can see, there are some issues on which the panel members have a relatively high level of agreement. For the following statements, the opinions of the panel members differed significantly – with regard to both small and medium-sized businesses. The panel members consider that the audit procedure detects both the majority of tax gaps and the largest tax gaps. The panel also considers that we detect virtually all tax gaps of a particular type in cases where a sample check leads to an in-depth audit of a business. In addition, the panel considers that less-experienced auditors generally receive the necessary support. Business audits often (in more than 10% of cases) miss tax gaps above SEK 50,000

In round 4, you were also given the opportunity to indicate what you thought was the main reason for undetected tax gaps in audits as part of the Swedish Tax Agency's tax gap assessment. Here is an full list of your answers (in some case edited linguistically).

- the auditor's ability to assess and select the most appropriate documentation samples on the basis of the information on file
- the fact that the audit procedure and documentation samples do not cover all types of costs
- auditors' lack of experience and competence, including with regard to the audit methodology
- lack of knowledge and carelessness
- human error
- time constraints, auditors' lack of knowledge, and the risk of not requesting additional documentation samples in the event of an error being detected
- not being able to examine all accounting records
- the fact that random samples of preselected sections of a business's accounts do not give a complete picture – especially for large businesses.
- In smaller businesses: there can be disorganised accounting records and poor documentation – in larger businesses: time constraints prevent in-depth investigation of extensive and complicated transactions/documentation.

Part 2 – the survey questionnaire

We have now tried to provide the panel members with both factual knowledge (mainly in rounds 1 and 2) and information about the opinions and reasoning of the other panel members in several rounds (perhaps to a greater extent towards the final round). It is now time to give your final assessment of the undetected tax gap in audits as part of the Swedish Tax Agency's tax gap assessment.

The arrangement is basically identical to that of the previous round. We ask you to assess the average undetected tax gap in audits of four types of businesses: sole traders (all of whom are included in audit the population, i.e. businesses with a turnover above SEK 100,000), small limited companies (salary total between SEK 100,000 and SEK 600,000), smaller medium-sized limited companies (salary total between SEK 600,000 and SEK 3 million) and larger medium-sized limited companies (salary total above SEK 3 million). In Table 2 below, we have summarised the information on the different business types. An outline of the panel's assessments for the different business types can be found in part 1 above.

Table 2 Overall statistics for the different business types

Business type	Percentage of population[1]	Percentage of audited population[2]	Average tax gap[3]	Percentage of tax gap assessment population with adjustments
Sole traders	44%	35%	SEK 27,000	54%
Small limited companies	35%	25%	SEK 23,000	44%
Smaller medium-sized limited companies	15%	21%	SEK 47,000	60%
Larger medium-sized limited companies	6%	19%	SEK 50,000	61%
Total	**100%**	**100%**	**SEK 30,000**	**52%**

1) Refers to the distribution of businesses in the entire population that *can* be audited in the Swedish Tax Agency's tax gap assessment (target population).
2) Refers to the distribution of businesses in the *population actually audited*, i.e. the businesses randomly selected for audit.
3) Average tax gap for all audited businesses in the group, including those whose taxes are not adjusted as a result of the audit. Naturally, the average tax gap is higher among the businesses whose taxes are adjusted as a result of the audit.

Tax gap assessments

Several questions now follow which are identical to those in round 4. As we have noted before, we are aware that these assessments can be difficult. However, please try to answer each question as fully as possible.

What is your estimate of the average undetected tax gap[9] if the audited business is...

Question 1a ...a sole trader? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Question 1b ...a small limited company? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Question 1c ...a smaller medium-sized limited company? Select the closest answer from the list below (amounts in Swedish kronor)

[9] In this context, the term tax gap refers to the tax consequences of errors in a business's reporting.

Answer: Select a figure here SEK

Question 1d ...a larger medium-sized limited company? Select the closest answer from the list below (amounts in Swedish kronor)

Answer: Select a figure here SEK

Reflection In the same way as before, you can see in the Excel file below how your answers are combined to provide an assessment of the average undetected tax gap in an audit. This combined assessment can be compared with the assessments in Figure 1 and the lower rows in Tables 1a and 1b above.

Delfireflektion omgång 5.xlsx

If you are satisfied with your answer, please proceed. Otherwise, you can adjust your assessments in questions 1a-d above.

Close the Excel document when you have finished – you do not need to save it.

Final comments

Question 2 To round off the project, we would like to give you an opportunity to comment on your assessments and those made by other panel members. Please enter any specific comments you have regarding the assessments in the text box below.

You are also welcome to comment on the project methodology if you wish. We will evaluate these comments separately. We are aware that this method has both merits and shortcomings. Please write your thoughts about the Delphi method here. You are welcome to give longer comments.

Answer:

When you have finished the questionnaire, please send it to:

elena.maximez@skatteverket.se

Finally: A big thank you for your participation, your efforts and your patience in this project! We are very interested to hear your impressions of this project, and we will contact you about this later.