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Deciding on tax evasion – front line discretion and constraints

Deciding on
tax evasion

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Abstract

Purpose – The purpose of this paper is to analyse everyday reasoning in public administration. This is done by focusing on front line tax inspectors' decisions about tax evasion.

Design/methodology/approach – The paper presents ethnography of bureaucracy and field audits. The material stems from fieldwork conducted in the Central Customs and Tax Administration.

Findings – The paper shows that the tax inspectors reason about tax evasion in a casuistic manner. They pay attention to similar cases and to particular circumstances of the individual cases. In deciding on tax evasion, the inspectors do not just administer the laws; they also enact a policy of fair-mindedness. Doing this they are constrained by time and man-powers, but also enabled by various organizational devices.

Research limitations/implications – The tax inspectors that the author followed were carefully chosen and acted in accordance with procedures. The ethnography should be understood in relation to this set-up.

Originality/value – The originality of the paper is that it shows that ethnography can open the territory of everyday reasoning in public administration. Also, it shows the discretionary room that any front line tax inspector navigates in. This is significant as revenue collection often is described as formal and dominated by a legal steering in which rules are univocal.

Keywords Public administration, Discretion, Ethnography, Everyday reasoning, Professional ethics, Tax evasion

Paper type Research paper

Introduction

On a continuous basis, civil servants make decisions that influence citizens' daily lives. A simple example from the field of tax administration is a carpenter who has had his business license withdrawn by the tax administration because he has not been meeting his tax obligations. This carpenter has had no new registered income, lives with a full household, and has an active web page that advertises his services. Now, the tax inspector must make a decision as to whether the carpenter runs a registered or an unregistered business and, depending on the answer to the first decision, whether he engages in tax evasion. The verdict of these two decisions will influence the business owner's status as a potential legal offender. While some of these decisions will be disputed in a courtroom, most of the determination of tax evasion is performed on a day-to-day basis in which tax inspectors find evidence, perform case-based reasoning and take appropriate actions. The practices of such ordinary administrative reasoning and of taking actions to stop tax evasion are the topics of this paper.

This paper draws inspiration from scholars who theorise everyday reasoning in public administration. A key source is Rohr (1998), who is known for his work on professional ethics and constitutional practice. An assertion in Rohr's work is that bureaucrats – who



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often have a passion for “anonymity” – have broad discretion in their daily work (see also Lipsky, 1980/2010). Therefore, Rohr, in accordance with Lipsky, describes bureaucrats not only as administrators but also as policy makers because they shape the governing process. In this enactment of what the legislation intends, bureaucrats’ professional ethics play a central role, as these ethics guide their decisions (Rohr, 1988, 1998). Jonson and Toulmin are other key figures in this field. They describe how civil servants perform case-based reasoning. In line with Rohr, their assertion is that legal codes stipulate a framework for regulation, though there always remains a need to pay attention to specificity when deciding cases, and adherence to the specificity of cases often challenges the more rigid guidelines (Jonsen and Toulmin, 1988). The approach to administrative and legal reasoning advocated by Rohr, Jonson and Toulmin and Lipsky stands in contrast to a “black letter law” approach (e.g. Freedman, 2005). In this approach, the technical aspects of the legal rules to be applied are in focus, and these are often seen as well-established and no longer subject to dispute. The works of Rohr, Jonsen and Toulmin and Lipsky are used to analyse the tax administration’s everyday reasoning about fraud because, in practice, this reasoning is neither well-established nor indisputable.

The scene for this study is the tax administration in Denmark, and the empirical focus is the inspection of continued business activity after a denial or cancellation of a business license; a business activity that, in Denmark, is considered to be tax evasion because these businesses engage in deliberate non-reporting of taxable gains. The primary material consists mainly of an ethnography of the tax inspectors’ front line work. In this paper, I ask how the tax inspectors reason about tax evasion and what constrains and/or enables their work. I conclude that the tax inspectors’ reasoning about tax evasion is performed in a casuistic manner in which cases are judged, based on the facts at hand, with regards to what seems to be the correct action to take in a given situation. Furthermore, I conclude that front line inspectors are confronted with a number of organizational constraints and abilities that both limit and support their work. The significance of this paper is thus twofold: it shows that ethnography – as a method – can open the territory of everyday reasoning in public administration, and it shows that a focus on reasoning in public administration – as a bureaucratic practice – can provide insight into the discretionary decision making of civil servants.

Paper outline: the first section introduces the case (i.e. the inspection of continued business activity and the risk of tax evasion). Consequently, the theoretical framework of the study, with a focus on reasoning in public administration, is presented. This is followed by the method section, which presents the ethnographic data. Next, the main body of the paper describes the tax inspector’s reasoning both in the tax office and when performing field audits. The penultimate section discusses the discretion and constraints involved in the tax inspector’s work. The final section provides the conclusion.

Continued business activity as tax evasion

When someone wants to initiate a business in Denmark, one of the first administrative tasks is to procure a business license, whereby a business is certified by the national business authority and the tax administration. With this business license, a business gains the right to do business, but with it also comes a number of obligations. A licensed business is obliged to file the requisite tax information in a timely manner, report complete and accurate information (i.e. have good record keeping), and pay taxes and duties on time (e.g. OECD, 2004, p. 7)[1]. If these requirements are properly followed, a business may operate on a regular basis with no acute interference from the tax administration. If these obligations are not met, the tax administration will likely start to interfere – with their

legal basis to act given in the Danish tax control act (i.e. Skattekontrolloven). The interferences and actions from the tax administration often start with guidance and reminders to inform the business about its neglected obligations. If this does not have an effect and if the obligations are still not met, then tougher actions are gradually initiated. In the last instance, this implies the cancellation of an existing license, whereby the business is forbidden to continue operations, or the denial of a license application if the tax administration judges that obligations will not or cannot be met.

One aspect of the tax inspector's job is to pass decisions on the matter of granting, denying or cancelling licenses; another aspect is inspecting whether any of the denied or cancelled businesses continue operating. If these businesses continue selling services or products, and if they continue issuing their regular invoices with VAT without reporting this VAT to the tax administration, then they are engaging in tax evasion. It is a breach of the Danish tax and VAT legislation to continue business activity when one has no business license; the sanctions for this are either financial penalties or imprisonment for up to 18 months. Importantly, it is the task of the inspectors to prove whether such continued business activity occurs.

When tax inspectors investigate this type of tax evasion, there is one central indication that tax evasion has not occurred: income. The inspectors explain that if a business owner has had his license cancelled and if he, three to four months after this, starts to receive salary statements from another company (or receives unemployment benefits), then he has most likely gotten a new job or registered as unemployed. The opposite scenario is when there is not any new income registered. In this case, suspicion arises concerning whether the business owner has continued running his business off-record and earning his daily living without adhering to his tax obligations.

This type of tax evasion is different from the "normal" informal economy. The common way to deliberately misrepresent one's fiscal affairs through dishonest tax reporting is to not issue invoices. That is, sellers agree with buyers that services are paid in cash. This way, there are no invoices and no 25 pct. VAT paid, and the transactions completely sidestep the state's tax collection. This type of tax evasion is widespread but is not what happens in the case studied in this paper. Here, the focus is on the subtle version of tax evasion where a cancelled or denied seller continues issuing invoices levied with VAT to its buyers – a form of tax evasion that is often not detected by the buyer. There is a rationale for doing this: often, businesses are running for years with a regular base of customers who are paying for services in the well-ordered fashion. If such a business is closed by the tax administration – typically because of debts – and has its license withdrawn, then it is tempting to continue selling services to its regular buyers, levied with VAT, because the buyers will pay these as usual. Hence, businesses engaging in this type of tax evasion do so because it enables them to continue business activity as if nothing has changed. Buyers receive invoices, services are delivered, and payments are received. Only the tax administration is sidestepped.

Completing this introduction to the case, it is important to keep in mind that this paper has a "double-sided" relation to this case. First, the case is specific: it is placed in a Danish legislative context and concerns a narrow subset of tax evasion, which requires some technicality to grasp. Second, this specificity and technicality of the case is only provided as a basis for understanding the tax inspectors' practices – it is not the actual focus. Rather, the analytical focus is on the inspectors' reasoning. In principle, this reasoning could be performed in relation to any type of decision making in public administration. Hence, it is not the case as such that is important, but rather the analytical insights and mechanisms about reasoning by front line civil servants that can be extracted from this example.

Everyday reasoning in public administration

Before proceeding to the actual inspection and reasoning about tax evasion, this section presents the paper's theoretical inspiration. Because this paper's focus is on ethnography and on a "thick description" of the tax inspectors' practices, it is not theoretically dense. The focus is not on elaborate discussions of theory; instead, the analysis uses a number of concepts to unpack what happens in practice when front line inspectors reason about tax evasion.

As the introduction announced, the concepts used have been developed by scholars theorizing everyday reasoning in public administration. Among these, Jonsen and Toulmin (1988) are known for the concept of casuistry: practical or case-based reasoning. These authors explain that any civil servant faces challenges the moment a client walks through the door because specific track records form the client's situation (Jonsen and Toulmin, 1988, p. 31). They highlight that decisions about what to do with these clients always depart from an attention to similar cases because these can provide helpful answers for numerous situations. The point being that real-life situations often appear that cannot be settled by following univocal guidelines, and civil servants need to pay attention to the particular case and balance the ambiguity of the specific situation. Given this situation, casuistry emphasizes that reasoning is practical and always adheres to both the analogies to earlier cases and the specific and particularity of any given case. For various uses of the concepts of casuistry, see Braunack-Mayer (2001), Slettebø and Bunchrn (2004), Coleman (2007) and Robertson *et al.* (2007). Additionally, centrally, the concept of casuistry has been developed to analyse value conflicts in public policy (Thacher, 2004; Thacher and Rein, 2004; Stewart, 2006). These authors emphasize that casuistry can be used as a strategy for practical reasoning when policy actors experience conflicting values. In many ways, my study aligns with these authors' arguments, as the tax inspectors precisely perform "casuistic reasoning" because the cases they face often have potential for conflict between delivering sound judgements and adding pressure to strained resources and time.

The concept of casuistry is also drawn upon by Rohr. In *Public Service, Ethics and Constitutional Practice* Rohr (1998), displays his interest for constitutional practices, which describes the way civil servants enact the constitution in everyday, down-to-earth problems, such as when they decide to suspend a child from public school or to terminate a welfare benefit. Rohr describes how civil servants always practice discretion in their decision making because although the constitution (the legislation, the acts and regulations) defines principles, these civil servants need to decide on specific cases and might have to deviate from the given principles.

This understanding mirrors Lipsky's understanding of the street-level bureaucrat as a bureaucrat that, per definition, has considerable discretion because he is expected to exercise discretionary judgment in his field (Lipsky, 1980/2010, p. 14). Rohr describes this as the "professions' casuistry" (Rohr, 1998, p. 10), and he claims that, most often, civil servants do not just administer the legislation; they also perform politics because they interpret cases differently. Rohr's and Lipsky's contention is that there are always "what ifs" present when front line bureaucrats reason about cases, such as what if the reasoning is morally suspect? (Rohr, 1998; Lipsky, 1980/2010, 54ff). Because of their discretion in everyday decision making, Rohr notes that the ethics of civil servants are important. Here, ethics refers to the civil servants' ability to exercise their discretionary powers in a responsible manner and to show sound judgement in their decisions.

A challenge to always providing "sound judgement" and "acting responsibly" – which Lipsky (1980/2010) particularly focuses on in *Street-Level Bureaucracy* – is the lack of resources. As Lipsky highlights, there are always constraints and limitations in the work

of street-level bureaucrats. Their work is not typically performed according to the highest standards because these front line workers lack time, information or other types of resources necessary to respond properly to their individual cases (Lipsky, 1980/2010, p. xi). This element of Lipsky's work has also been highlighted by Rowe (2012, p. 12), who explains that Lipsky's work is replete with references to financial constraints, financial crises and cuts. This gap between "service ideals" and the "reality of practice" is also central to this case, as the inspectors constantly navigate how to best do their job with the resources at hand.

This paper uses the concepts of casuistry, discretion, ethics and constraints to analyse the inspection of tax evasion. Taking inspiration from Rowe's (2012, p. 11) reading of Lipsky, the focus is not on whether casuistry or discretion is a "good" or a "bad" thing. Instead, the focus is on using these ideas to describe and highlight how the inspectors' actually reason and make decisions. Having this analytical strategy, the paper aligns with some of the more "classic" pieces on policy formulation and decision making in public administration, especially Lindblom's (1959) "The science of 'muddling through'". Lindblom describes how decision-making processes in public administration happen by way of successive limited comparison, which means that the analysis that any civil servant can perform is limited and builds on continuous comparison. These ideas are explicitly inspired by March and Simon's (1958) work, and they also mirror the ideas of casuistic and case-based reasoning.

The acknowledgement that reasoning and decision making unfold in a casuistic manner, or that the inspectors *muddle through*, is important because revenue collection and tax administration are often described as areas in which formal, legal steering is the dominant manner of governing (Torfing *et al.*, 2012, pp. 2-4). Taxation is considered a "rule-bound field", which is easy prey for positivism in the form of black letter law and formalist analyses (Boden *et al.*, 2010, p. 541). This paper does not question that there is formal legal steering at play – the inspectors follow the legislation – but it shows that there is much more involved because there exists a constrained discretionary room for deciding what to do in specific cases. A central contribution of this paper is simply to highlight how this shapes the tax inspectors' practices, their "muddling through", and their engagements with the tax evading business owners.

Ethnography of front line inspection

Methodologically, this paper combines an interest in public administration – specifically tax administration – and in the "ethnographic turn" in management and organization studies (Rouleau *et al.*, 2014). The aim of this study is to study an organizational phenomenon – administrative reasoning – by way of ethnography. The starting point is that there is a need to cultivate a "social studies of taxation" (e.g. Boll, 2014a, b; Oats, 2012) because while taxation is technical and driven by legal rules – as indicated above – there is also much more to it. There are acts of balancing, work routines, subjective decisions and work pressure that influence the taxation process. These elements can be captured in fieldwork, and I aim to convey this when presenting the inspection of tax evasion.

The data on the inspection of tax evasion are threefold. First, they consist of administrative documents such as protocols for procedures, project descriptions, case minutes, briefings, reporting, and project evaluations. These documents were provided to me by the tax inspectors, and they hold knowledge about the formal work set-up. Second, the data consist of on-spot observations of office work and field audits. In the spring of 2012, I contacted the inspection-team, who agreed that I could follow two inspectors on eight unannounced field audits. I drove with the two inspectors to the selected businesses

to conduct the inspections. I also spent time observing the briefings and debriefings of the field audits. These observations showed how the inspectors reason about tax evasion and how they approach the businesses. Third, I conducted 18 interviews with tax inspectors. Some of these interviews were focused on the procedures related to the inspection of continued business activity, while others were more broadly focused. All of the interviews were semi-structured and characterized by providing facts about different types of inspection.

Together, this material allows me to describe the inspection process for tax evasion. A specific focus was given to a description of the field audits. In the section “At the tax office”, three cases are presented: a thatcher, a master carpenter and a house painter. These are selected because they all initially provoked the inspectors’ suspicion but, upon further investigation, sparked different reactions and decisions by the inspectors. In the section “In the field”, five cases are presented. Three of these are additional processing of the already introduced cases, while two of them, a courier and an automobile mechanic, are new cases. These five cases were selected because they showed the setting of the audits and clearly highlighted elements of the tax inspectors’ reasoning in the field. These two sections are purposefully written in a “descriptive” manner with only a few theoretical commentaries. In these sections, I use my material to convey thick descriptions of the work practices (e.g. Geertz, 1973). These descriptions of the reasoning about tax evasion and the reasoning about which enforcement tools to use are detailed and microscopic. Paraphrasing Geertz, I try to inscribe, that is, write down, a number of past events and work practices that existed only in their moment of occurrence. Hence, these descriptions have an air of chronology; they simply provide an account of the daily routines of the tax inspectors. The intention with this is to fix or rescue these work practices so that the readers can get in touch with the lives of strangers, that is, the work of the front line tax inspectors. Subsequently, I use the section “Discretion and constraints” to develop a dialogue between these fieldwork findings and the theoretical concepts.

Broadly, this methodology follows Rhodes’ (2011, chapter 1) method, using observations, interviews and considered writing (in the form of the primary documentation) to provide the material for my interpretation. This approach provides a fruitful method of understanding the dilemmas and challenges in present day public administration. Rhodes argues that such methods are central to discover the meanings of what civil servants do – whether they are ministers or street-level bureaucrats.

At the tax office: selecting cases of potential tax evasion

This section introduces three cases of possible tax evasion. When tax inspectors meet at work, such cases are what they need to review and reason about. This is not dramatic, nor complicated. They apply straightforward and matter-of-fact reasoning to each case at hand. I sat at the side of the tax inspectors as they did their investigative work on their computers; I reproduced the information that they spoke out loud to partly sort their reasoning and partly explain to me as an outsider. The inspectors need to process and pass judgement on many of these cases, and the reasoning about each case may take as little as ten minutes. The work is based on looking up information in central documents such as case files and tax payers’ income tax forms.

One case is that of a thatcher who has a business that constructs and repairs thatch. This thatcher had his business license withdrawn in 2011, and, a few months prior to when the fieldwork was conducted, the thatcher was asked by the tax administration to provide collateral if he wanted to re-register because he still owed considerable debts to the tax administration. No response was received, and the thatcher still has no license and still has

not registered any alternate income. This information is accessible to inspectors when consulting the thatcher's case file. A few days prior to my observations at the tax office, the tax inspectors had visited the thatcher's home address to discuss the matter with him, but they found no one home. The tax inspectors further explained that a custom officer at the Danish-German border had, in a random audit, investigated a truckload of thatch. The truck driver stated that the receiver of the material was the thatcher. On this basis, the initial reasoning about tax evasion was based on the fact that the thatcher has no registered income and receives loads of materials for thatching. The tax inspectors agree to investigate the case further.

The inspectors also investigated a master carpenter. This carpenter had cancelled his own license in 2010, but he applied for a new one in early 2012. This was denied because the carpenter had personal debts and debts from his old businesses. From the income tax form, the tax inspectors cannot see any income registered for the carpenter in this period of time. What the tax inspectors can see, however, is that a person has applied for a tax deduction due to carpenter work conducted by the carpenter. This shows that the carpenter has been issuing invoices with VAT to clients while neither having a business license nor having settled his VAT account. To see how active the carpenter is on the market, the tax inspectors Google him. They find a full web page with descriptions of his firm, services and contact information. The web page also shows the carpenter's old business license from before 2010. The tax inspectors are provoked by seeing this: it indicates deliberate tax evasion.

Lastly, the tax inspectors focus on a house painter. His business license was cancelled in 2011, also because of debts. The inspectors list the facts: the man is 36 years old, he has two kids who are aged 11 and 13, he has a debt of around one million DKK (134,000 EURO), his wife receives an early retirement pension of approximately 10,000 DKK (1,340 EURO) a month, and there is no income registration for the man. He does have a web page, but it is very simple and does not contain much information. Looking at the case, the tax inspectors find it unlikely that the family is capable of living only on the wife's early retirement pension. The tax inspectors suspect that the house painter works off-record. They agree to investigate the case in more detail.

Initial reasoning about potential tax evasion

To characterise the above reasoning, I should first note that the tax inspectors make sure that some time has passed from the denial or cancellation to when the inspectors start to check up. They understand that people can live some months without income and that sometimes it does take time to find a new job. Yet, after three to four months it is relevant to inspect whether a new source of income has been found. The tax inspectors estimate about how long persons can normally live without income to judge when it is reasonable to check up on an individual. It is not a violation of the law to make a living without income, but it is suspicious to make a living without income while having many expenses. Hence, when no income is registered, the tax inspectors start to look for information indicating that income stems from continued business activity. In these cases, they notice the suspicious tax deduction, the compromising border control report and the dubious active web pages. This information is paired with knowledge of how large a household and private expenses the business owners have: Is there any income from partners? Are there children or loans? In each case, the inspectors focus on the specific context of the situation.

To describe what happens in the office, Jonson and Toulmin's concept of casuistry is relevant. What we see happening in these cases is that the tax inspectors pay attention to

similar cases and general experiences – for instance, determining how long a person can live without income in Denmark. Then, they start to pay attention to the particular cases and judge the specific situations of the individuals. Importantly, when performing this reasoning, the legislation functions as a frame: it stipulates that it is tax evasion to continue business activity without a license. Yet, human discernment and judgement enter the picture when the tax inspectors have to decide what it means to run a business and who is potentially guilty of doing this.

This office reasoning, where information is pieced together to indicate continued business activity, is the first step in documenting tax evasion. As the inspectors can only make assumptions about tax evasion at this point in time, they need either to catch the business owners actually doing work or to prove income, for instance, by receiving statements of accounts with regular transfers of money. To catch the business owners “in the act”, a number of field audits are planned.

In the field: documenting tax evasion

One spring morning in 2012, two tax inspectors and myself are seated in one of the tax administration’s cars ready for field audits. The tax inspectors have a list of business owners who are potentially still running their businesses. We start by driving to the home of the thatcher – who was introduced previously. Arriving at the house, no one is at home this morning. The tax inspectors comment that the thatcher lives in a small but very neat thatched house. The tax inspectors also have an address for the thatcher’s storage. However, this is too distant from the planned day route, so they decide to simply call the thatcher to hear what he is doing. To make these types of calls, the tax inspectors have brought with them a cell phone with an unregistered number; if the tax inspectors use their personal work phones, they are worried that the called person may recognize the number of the tax administration and deny the call. Even with the non-traceable phone, no one answers. The inspectors’ decide to leave the case for now, but they will contact the thatcher to get a copy of his bank statements, which they assume will show income.

The tax inspectors have also decided to visit a courier. This business is run by a couple who was previously registered with a courier delivery for newspapers, but who had their registration cancelled because of debts. Neither the man nor the woman has had any registered income for the year since the courier license was cancelled. Yet, the tax inspectors have been able to provide evidence that a loan on their house has been paid down continuously during the last year. Hence, they conclude: “well, they must have the money to do this from somewhere”. Additionally, the couple has three children, aged eight, 12 and 16, and this “is also something which costs money”. An Opel Vivaro carrier is parked at the entrance to their house, and the tax inspectors note that it is being leased by the couple: “This leased car, it also needs to be paid”. To reach the front door, the tax inspectors follow a path around the house into the garden. No one is at home when the bell is rung. Upon looking around in the garden and at a roofed terrace, it is observed that the house is a mess; children’s toys are tossed all around, a worn-out BBQ is standing, becoming rusty and the garden furniture is out, even though it is March. One of the inspectors says: “it is a bit messy here. You know, if they have a mess with us, they also have a messy home”. The tax inspectors conclude the visit by saying that they need to request the couple to hand over their statements of account. The tax inspectors assume that these must hold indications of the couple’s source of money.

Later in the day, we are standing outside the door of the house painter – also introduced previously. In the car, the tax inspectors summarize the man’s situation: “This man cannot make a living from his wife’s 10.000 DKK [1,340 EURO]. [...] there is

no doubt that he continues doing business". The context for the visit is that we are in a suburb south of Copenhagen with a majority of subsidized housing known for having many second-generation immigrants, people on social benefits, low employment, and high crime rates. In the tight and dimly lit entrance hall, there are dark marks from fires, the banisters and walls are vandalised, and there is a bad smell. Upon ringing the door bell, a woman hesitantly opens the door. She wears night clothes and is untidy; behind her, in the apartment's entrance hall, piles of dirty clothes, newspapers and clutter are observed. To enter the apartment one must zigzag between the piles. After a short presentation, one of the inspectors asks for the house painter. The woman replies that her husband is not at home and one of the inspectors swiftly asks: "Well, is he at work?" The woman: "No, no. He is at the hospital. He has gotten a coronary, and he doesn't work anymore". As she talks, her voice has a hopeless tone and she explains that she is also sick. The woman is asked to provide a number for her husband's cell phone. This she gives to the tax inspectors, and we leave. Outside again, one of the tax inspectors comments: "Perhaps this case is closed quickly. I believe that the man is hospitalised; we can perhaps check his insurance. They were living on a stone". The inspectors agree that there were no signs of excessive spending and that sickness was plausible.

While no signs of spending were indicated at the house painter's home, signs of excessive spending show up when we are in a neat neighbourhood northwest of Copenhagen. It is the home address of the master carpenter with the active web page and the tax deduction. The carpenter has a very well-ordered house: large pots with well-trimmed plants, a green front lawn and large blue and purple orchids in the windows. When the inspectors ring the doorbell, no one answers, and we return to the car, which is parked opposite the house in the street lined with single-family houses. One of the tax inspectors says that she has found yet another client who has claimed deductions from the carpenter's work. There is not much more to do here in the car, but the tax inspectors reason that this man does not seem to be short of money and that they need to push to get copies of his statements of accounts.

The tax inspectors' list also leads us to an automobile mechanic. The mechanic is an "old friend" of the inspectors, and his case concerns the problem that he does not have a business license, yet he repairs cars in his garage and makes a profit from this to sustain his living. The tax inspectors have visited the garage on three former occasions, finding cars waiting to be fixed and the man busy repairing cars with oil-coated hands – that is, he was caught in the act of working – but he does not report any income. The inspectors have asked to get the man's statements of account – which they have not received – and they have threatened the mechanic with imposing day fines until he stops his activities. For the fourth time during the preceding months, the inspectors are once again at the garage. Driving down the main road to his garage, the tax inspectors notice that although the man was asked to remove his advertisement sign at the road, the sign is still hanging there. The tax inspectors are not satisfied; he cannot advertise for a non-existing business.

When we arrive, the garage is open, but the man is not there. At the counter, the order book is laying open. One of the inspectors flips the papers for the past few days and sees different number plates registered – indications of work being done. A few minutes later, the mechanic arrives in his work clothes. He is not overly happy to see the inspectors again. Upon hearing the tax inspectors explain about his potential tax evasion and the importance of getting things right, he is remorseful. In agony, he comments that his wife is even picking on him to get things settled more than the tax

inspectors are. We smile at this reaction, but the inspectors are not easily satisfied and explain again that they need to get copies of his statements of account and that they need to get documentation for his personal finances. He explains that this is being stored in one large mess in moving boxes, though he promises to deliver the material within two weeks. The inspectors leave the property.

Reasoning about tax evasion in field audits

The above snippets all concern small businesses: a skilled worker, a thatcher, a courier, etc. According to the tax inspectors' desk research, these businesses are all at risk of engaging in tax evasion. Some of them are, however, quickly exempted from suspicion. This is true for the house painter. The visit to his apartment lasted approximately ten minutes, but it was enough to make the inspectors reason that the case should be closed because there was nothing that indicated continued business activity. The situation with the worn-down apartment, the coronary and the sick wife indicated that 10.000 DKK (1,340 EURO) was what the household in fact spends. This reasoning about tax evasion is based on a concrete understanding of the specific situation at hand: that is, it is a casuistic reasoning. Being on the spot and witnessing the circumstances is important because this exempts businesses from suspicion despite initially appearing suspicious.

Matters are different with the thatcher, the courier and the master carpenter. In these cases, being on the spot only increased the tax inspectors' suspicions of tax evasion because there were indications of spending. In these cases, the conclusion is that there must be income to uphold the observed spending; one simply cannot live in a neat-looking, single-family house in a well-off neighbourhood without income, one cannot pay off loans regularly and lease a van without money, and one is most likely actively working when materials are imported. Hence, in these cases, more investigation is needed, and the next step is to ask for copies of statements of accounts to document the flow of income.

Reflecting on these field audits, I find it fascinating that the "lived life" of the potential tax evaders takes up so much space; it is not just a matter of tax numbers, earnings or documents. It is also a matter of homes, personal stories, partners, children, smells and mess. In this way, the cases illustrate the moment when legislation encounters the lived life of ordinary people who get by on whatever way they can. The field audits were personal, and it was an emotional experience to talk to the sick woman in the worn-down apartment. Additionally, I found it intimidating to stand in the garden of the courier couple – we were looking into their private space. Here, the bureaucracy is immediate and delicate; it is obvious that it is not just the legislation that is in focus. The focus is also on understanding life situations, which need to be judged in an orderly fashion while paying attention to individual circumstances. Here we see – as Lipsky describes – situations where responses to the human dimension is required; there is a call for sensitive observations and judgments, which are not reducible to programmed formats (Lipsky, 1980/2010, p. 15).

Moreover, the cases show that tax evasion permeates all layers of society; in one day, we were, before lunch, in the most deprived area of Copenhagen, and, after lunch, in the upper-class single-family area. Both were selected for inspection, and this indicates how taxation and tax evasion potentially concern us all. No matter how different these families were in their daily lives, they were put together on a list and investigated by the inspectors, who effortlessly moved from the one to the other. This recalls the work of Rohr and Jonsen and Toulmin, who describe that reasoning is practical, that it concerns real-life situations, and that civil servants continuously solve everyday, down-to-earth problems. This focus maps precisely onto what we have seen here: it is not just formal, legal steering we see at play but also reasoning enacted to pass sound judgements.

Discretion and constraints

To understand the mechanisms in the tax inspectors' reasoning further, it is relevant to note the elements of how the inspectors become "well informed" about the possible tax evasion being practiced. They use small "traps" to catch sight of tax evasion: the untraceable cell phone to get the thatcher to answer his work phone. The quick question "Well, is he at work?" posed to the house painter's sick wife to nudge her to a quick yes-answer. This approach to the businesses is initiated because the inspectors know from experience that the business owners are themselves masters of disguise and quick to lie to them. Not to appear naïve, the inspectors need to be clever in their approaches to obtain correct information.

One of the most efficient tools to making a "well informed" inspection and bringing to light tax evasion is the tax deduction for construction work. While the tax deduction has a political goal of encouraging activity in the construction sector, the deduction also has an administrative goal. Because buyers of construction services are interested in getting the deduction, it encourages them to, first, not buy services off-record and, second, apply for the tax deduction. Upon receiving this application, the tax administration is presented with neat documentation of construction work. The careful mechanism in this is that the burden of evidence of tax evasion is on the tax inspectors and presented to them by the buyers, who voluntarily present evidence. Moreover, what is desirable about the tax deduction is its "bulletproof-ness": if a buyer has an invoice and has applied for a deduction, there is no way to avoid the fact that business activity has occurred. Hence, the tax deduction functions as a powerful tool for documenting tax evasion, with an added benefit of helping the tax inspectors do their job.

While the inspectors have these effective tools to reveal tax evasion, they are also constrained in their resources. It takes too long to drive to the thatcher's storage, so they decide to call him. The inspectors decide not to spend time calling the house painter to ask if he is, in fact, hospitalized. Resources are also an important factor in the tax inspectors' inspection of the mechanic. At their visits, the inspectors have told the mechanic that they will impose day fines on him if he does not close down his business. No day fines are issued, however, because it requires that the inspectors daily observe if the business is still running. With the centralization of tax units, such a daily observation has become a time-prohibitive activity because the tax inspectors are based in a tax unit some distance from the garage. Issuing day fines is thus more a theoretical threat than an actual practice.

In brief, these limitations in resources are important because they shape how the tax inspectors' reason and they shape the decisions they end up carrying out. This aligns with Lipsky's (1980/2010, p. 29) description that bureaucratic decision making always occurs under the conditions of limited time and information, and that civil servants are constrained by the cost of obtaining information relative to their resources.

Doing politics while administering

Rohr (1988, p. 170) writes that "The model problem for the bureaucrat is how to exercise his discretionary powers in a responsible manner even though he is not formally accountable to the electorate". He continues to argue that bureaucrats are called upon to promote the common good by showing sound judgement in their decisions (Rohr, 1988, p. 170). Looking at the presented cases, the tax inspectors rest the case of the sick house painter, while they pursue the thatcher and the master carpenter, who must have money to cover their observable spending. Here, the inspectors enact a policy of fair-mindedness and reasonableness because they judge that these are the correct interpretations of the situations; I observe that they draw on their experiences and their ethics to enact these

judgements. Yet, as indicated above, the tax inspectors' work ethics and their feeling of doing a sound job are challenged by constraints; they are not proud of the situation with the automobile mechanic who they cannot sanction. Rather, they seek to explain the context for why they act as they do and explain their organizational constraints.

Now, a caveat to the material presented in this paper is that it pictures the inspection as rather harmonious. This is a point that should be highlighted when using ethnography: when I am allowed to follow inspectors, the inspectors are carefully chosen by managers in the organization. I must take into consideration that these tax inspectors are expected to act in accordance with procedures to present a somewhat neat and correct picture of the tax agency's work. My observations are a result of this set-up. To gain a different impression of work ethics and fair-mindedness, one need only to follow stories about Danish tax inspectors in the media. Considering the media's taste for headlines – which is, of course, also just another partial view of the inspectors' work – it is easy to collect stories where tax inspectors' actions towards tax payers are described as outrageous, aggressive, threatening, zealous and not appropriate for a democratic society based on the rule of law (BT, 2013). Additionally, the tax administration has itself recently started disciplinary proceedings against a number of its own employees because they used inappropriate methods and did not treat the tax payers professionally (Olsen, 2014). Lastly, the tax administration – in response to critical media stories – has published a report focused on transparency in the tax inspectors' work methods and formal authority (SKAT, 2013).

Hence, although the cases reported here render a positive image of tax assessment work, there are, needless to say, also other stories and perceptions of what happens in tax inspection. In other situations, severe critique has been raised concerning the judgment and fair-mindedness of tax inspectors. This fact connects to worries raised by Rohr and Lipsky, who are concerned about situations where civil servants are abusive, show neglectful treatment, and do not adhere to appropriate work ethics (Lipsky, 1980/2010, 54ff; Rohr, 1998, 9ff). This is important because these situations provoke us and make us react. Yet, an understanding of the "flip-side", as shown in this paper, is equally important because it highlights the functioning of the normal, sound bureaucracy.

What happened next?

To follow up on how the cases developed, I had several telephone conversations with the tax inspectors after the fieldwork. Here, they explained that in most of the cases, they had contacted the business owners to get copies of their statements of accounts. From these statements, they were able to piece together income stemming from continued business activity – unless services or products had been paid in cash. At first sight, this appears as a straightforward task and as a positive way to close the cases. At second sight, however, the inspectors explained that there are challenges in closing the cases. Some of the business owners were very non-cooperative and reluctant to provide access to their statements of account, while some of them had a credit history of changing banks and accounts, which made their income trail difficult to re-construct. Additionally, in some of the cases, the statements of account did not show anything because of cash payments. Again, the inspectors note that it requires many man-hours to piece together an accurate picture of income. As a consequence, the investigation work of the presented cases continued months after my fieldwork, and in most cases, I was not able to follow the individual cases through to their final ruling.

One exception was the automobile mechanic. A few weeks after the fieldwork, the tax inspectors told me that the mechanic provided them with his statements of accounts. Yet,

unfortunately – or expectedly – they showed no noteworthy transactions. This is because all of the services at the garage were paid in cash. Consequently, the tax inspectors were not provided with material that could document the mechanic's earnings for the last few years, and they could not start a case because of their lack of evidence. While not being able to prosecute, the inspectors were nonetheless satisfied. The mechanic had explained that he was seeking a new job and that he was trying to sell his house to pay his debts to the tax administration. Hearing this, the tax inspectors explained that they decided to rest the case. They were not able to re-construct his previous earnings, but they had succeeded in stopping his continued business activity, which was initially the purpose of their work.

Conclusion

In this paper, I have shown that on an everyday basis, tax inspectors reason about tax evasion in a casuistic manner. First, they pay attention to experience and to similar cases. Next, they pay attention to the particular circumstances of the individual cases. Finally, in deciding whether they will investigate cases, the inspectors do not merely administer the laws; they try to enact a policy of fair-mindedness by judging each case according to its context and facts. In this article, I have also shown that there are constraints and enablers that influence the tax inspectors' reasoning. The tax inspectors are limited in their range of choices about what to do because of pressure in terms of time and man-power. Not being able to use the tools that might be most effective challenges the tax inspectors' work ethics. At the same time, however, the inspectors are deeply engaged and thrilled about tools, such as the tax deduction, as this functions effectively and provides them with soundproof evidence of tax evasion.

The significance of this paper is twofold. First, it shows that the ethnographic approach enables fore-fronting of the human facets of the inspections; tax inspection is about lived lives and families in all spheres of society. Emphasizing this, the study renders a unique picture of the mechanisms of bureaucratic reasoning that is, in the literature, seldom described in such detail: it shows the situations that inspectors decide on every day in their work. This shows the merits of the ethnographic approach in public administration. Second, this paper encourages placing attention on the mundane, everyday reasoning occurring in public administration. While some may perceive bureaucrats and particular tax inspectors as "rule-abiding, paper-pushing administrators" – or even as aggressive and zealous officers – this analysis shows that they administer the rules with discretion and that they engage in a constant balancing act concerning what to do in specific cases.

This way of working and reasoning relates back to Lindblom's thesis about muddling through. Reflecting on his own analysis and how it is received by the public administrators, he writes:

The reaction of the public administrator to the exposition of method doubtless will be less a discovery of a new method than a better acquaintance with an old. But by becoming more conscious of their practice of this method, administrators might practice it with more skill and know when to extend or constrict its use (Lindblom, 1959, p. 88).

This citation precisely captures the practical implications of this study. This paper has not endeavoured to add a layer of theory to describe how the inspectors reason. Instead, it has endeavoured to describe what the inspectors do in a matter-of-fact way for these inspectors to acquire consciousness about the mechanisms in their work – and thereby enable them to consciously reflect on this work and their own everyday reasoning.

Note

1. These obligations are also described in more detail in the Danish “Value Added Tax Act” and the “Income Tax Act”.

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