

Monetary Incentives of Tax Whistleblower Programs: On Their Design and Implementation

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Abstract

The instant contribution discusses the monetary incentives established in tax whistleblower programs. The latter have been already designed and implemented in some developed OECD countries. Tax policy makers in Bulgaria are also considering mandatory awards for whistleblowers from proceeds collected from evaded taxes and/or social security contributions. However, the monetary incentives built-in to a possible tax whistleblower program have sparked controversy in Bulgaria, a country with past experience in whistleblowing due mainly to political and/or ideological reasons. Nevertheless, tax evasion is widespread in this country with a tax gap of BGN 2,0 -2,2 billion. Therefore, in order to improve tax compliance and collection, a tax whistleblowing program in Bulgaria should be considered and designed with regard to the public-private partnership framework. It has been also suggested in this paper that the awards paid by the tax authority to the whistleblowers in Bulgaria should be exempt from personal income taxation. The whistleblower program in this country may become a productive, although non-conventional tool for tax policy, given that its monetary incentives are aligned with the recommendations of the international good practice.

Keywords: tax evasion, tax whistleblower program, monetary incentives, mandatory whistleblower's award, tax compliance, tax collection

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Introduction

Reporting on tax irregularities in exchange for a monetary award is considered a non-conventional but controversial tax policy measure aimed at improving tax collection. This measure is well known as *whistleblowing*, which does not sound much scientific. Though the term is coined to highlight the need to grab the tax authority's attention, i.e. people who become aware of a tax irregularity committed by third parties, report it to the revenue agency and expect a *legitimate* monetary payment in exchange. Several developed OECD countries have already established and implemented paid tax whistleblowing programs, with the most sophisticated one currently operating in the US. Cash bonuses are believed to further fuel tensions and induce snitching – in this case, the specious pretext for protecting public financial interest could be exploited by masking the internal desire for defamation and revenge.

Given the past experience of snitching, mainly due to political and ideological reasons, the Bulgarian society is skeptical about remunerated whistleblowing concerning evaded tax and/or other public liabilities committed by third parties. On the other hand, the moral and ethical aspects in our country are confronted with massive evasion of levies. This phenomenon provokes a sense of injustice and inequality in terms of distorted competition. That is why any tax policy measures, including non-traditional ones, should not be lightly dismissed. The research object in this article focuses on the tax whistleblowing programs, while the subject relates to the design and implementation of their monetary incentives that have become a topical theme in Bulgaria.

1. Theoretical interpretation of tax whistleblowing – a main literature survey

Behavioral economics and finance have their achievements in modeling the factors that influence a person's decision whether and how much taxes to evade. According to Allighnam and Sandmo, a deterrent factor is the risk of an inspection and/or audit conducted by the revenue administration (200426). The probability that a taxpayer will end up on the tax agency's watchlist

depends on the frequency/intensity of the latter's control activities. These, in turn, depend on the administrative capacity, having regard to human, financial, technological resources, applicable procedures, etc. If the capacity is underdeveloped, the probability of conducting a tax audit declines, negatively affecting the disclosure and collection of evaded taxes.

If the figure of the whistleblower is integrated into such an environment, carrying out a tax inspection/audit becomes a certain event. Under these conditions, the propensity of firms and individuals to truthfully declare their tax capacity rises. Dourado draws attention to the fact that in a world with free movement of capital and severe international tax competition, whistleblowing a tax irregularity to the government is gaining importance. It becomes a tool that facilitates the exchange and verification of information between revenue agencies around the world (2018: 422-23).

In addition to the theoretical assumptions, the experimental work suggests that the integration and application of monetary parameters within programs preventing and counteracting corruption, conflict of interest and other financial abuses that erode public finance motivate people to cooperate with their government (Bigoni et al., 2012; Abbink and Wu, 2017; Butler et al., 2017). In the context of revealing unfair market practices (such as participation in cartel agreements), monetary rewards are usually associated with a reduction in the financial penalty should the former have been detected. Reducing the financial sanction is the monetary "reward" for those companies and/or individuals who are the first to report to the competition regulator about their involvement in cartels. Reducing monetary punishment in exchange for a "confession" is assumed to raise the instability of cartels and their disclosure to society (Bigoni et al., 2012). However, other researchers tend to dispute the positive effect of monetary incentives for a cartel's self-revelation and intensity of its detection (Apesteguia et al., 2007; Dijkstra et al., 2011).

However, there is a significant difference between participants in a cartel who decide to admit to the regulatory authority their involvement and individuals who report to the revenue administration about concealed taxes and/or social security contributions by third parties. In the first case, it is a question of breaking a conspiracy, with the "mole inside" being offered a reduced (financial) sanction in exchange for its cooperation. In the case of tax evasion, the person reporting (whistleblower) is usually an external party not involved in the irregularity¹. By reporting the latter, the whistleblower assists the revenue administration in improving tax collection, which is an act in line with the *public-private partnership concept*. In the context of the citizen being a "partner" of the government, it is justified for him/her to pretend to share the collected additional tax revenues that were disclosed in sight of their tip-off. Therefore, when designing and establishing programs for reporting tax irregularities, it is appropriate to propose and pay out an award, the amount of which is a function of the of the additional revenue disclosed and received by the government.

Researchers in the field of behavioral economics also share their views on monetary aspects of financial (including tax) reporting programs. The former focus on external and internal motivation factors that determine personal behavior in an environment dominated by tax evasion. Some authors believe that whistleblowers to the revenue institution act entirely on internal conviction, experiencing personal satisfaction with their civic action and sense of justice and responsibility (Ryan et al., 2000). According to other analyses, the external integration of bonuses into the tax whistleblower program distorts the intrinsic motivation in terms of loyalty and empathy toward the financial foundations of society. The outcome is a *crowding-out effect* where the external - replace internal motivation factors (Frey, 1997; Frey et al., 2011). In a laboratory experiment though, Breuer (2013) found a strong positive effect of monetary bonuses (external factor) on participants' willingness to report

¹Bradley Birkenfeld, an employee of the Swiss bank UBS, reported to the U.S. revenue officials about UBS's practices in advising wealthy U.S. citizens how to evade taxes. As a result, \$780 million in terms of proceeds were collected by the US Internal Revenue Service, and Birkenfeld received a \$104 million bonus (award) paid to his account. Birkenfeld was convicted and spent 31 months in US prison, while paying a \$30,000 penalty for advising a wealthy client on how to evade taxes in the United States.

irregularities in third-party tax returns without recording a crowding-out effect concerning non-monetary incentives (internal factors).

Yaniv (2001), referring to Frey (1997), with regard to the crowding out effect of monetary (external) versus non-monetary (internal) motivation factors, formalizes a model in which for the first time the figure of the tax whistleblower is emphasized. According to Yaniv, internal factors, in particular negative emotions, have an undeniable potential to induce witnesses of a tax irregularity to report it to the state. If the revenue administration takes advantage of people's emotions, then, provided that the crowding-out effect is at play, the amount of bonus offered should be small. Yaniv's conclusion seems to be an upgrade of Cowell (1990), who advises the tax agency to "... exploit the emotions of persons who evade levies...". In this case, Cowell takes the view of the non-compliant taxpayers, drawing attention to their feeling of shame and disgrace. The latter would arise as a consequence of revealing the tax evasion, thereby discrediting the non-compliant taxpayer.

Some researchers believe that both the external and internal motivation factors do not rival each other (Schmolke et al., 2016; Butler et al., 2019). The reason is that in the event of concealment of public liabilities, the financial return to the non-compliant taxpayers is higher (if undetected) than to the compliant ones. Thereby *the effect of income redistribution* is perceived as unfair and distorting competition. The whistleblower shares the same perception that induces him/her to report injustice to the tax administration. So far, the internal (moral and ethical) factors have been fostering the act of whistleblowing. If the whistleblower receives an award in terms of a part from the revenue collected, *the previous equilibrium, where everyone is equal before competition, is restored*. It should be mentioned that there is a cause-and-effect relationship between the report sent and the award received in exchange. The latter raises personal satisfaction. Obviously, within this interpretation framework, internal and external factors act unidirectionally, i.e. supporting the personal decision to report tax evasion to the government.

Summarizing the theoretical aspects, some relevant conclusions can be drawn. First, the decision to report a tax irregularity to the revenue administration is a complex one – it is a result of the interaction of both external and internal motivation factors. Second, no valid empirical evidence has been provided for the crowding out effect of monetary (external) incentives on internal emotions and beliefs yet. Third, by setting up a whistleblower program, the tax authority should not exploit people's (negative) emotions. Its purpose is to improve tax collection and reinstate (if possible) tax justice in public's perceptions. Fourth, following the conclusions above, the application of a financial bonus may be embedded into the context of a public-private partnership concept where partners share the proceeds collected.

2. Whistleblowing tax irregularities around the world and its monetary parameters

Despite the theoretical conclusions that whistleblowing tax frauds in exchange for a monetary bonus may strengthen the capacity of the tax administration to disclose additional revenues, there are relatively few countries that have adopted and institutionalized these research results. Compared to other market economies that implement mandatory rewards programs for reports on tax fraud, Europe is too restrained toward implementation of this political measure. This attitude has its historical roots and logical explanation. In the past, both Nazi Germany and Soviet Russia had a notoriety for snitching, with citizens turning against and opposing other citizens mostly for ideological and political reasons (Givati, 2016).

Therefore, in this part of the paper, we try to focus, sort out and analyze the monetary incentives built in tax whistleblower programs, implemented mainly in some OECD member countries. Monetary parameters seem to be the most controversial ones in terms of tax whistleblowing's perceptions in Europe. The prototype of a tax whistleblower program is in the United States, where as early as 1863 Lincoln's law was adopted and enforced. The norm was approved then in order to limit any corrupt activities related to the provision of supplies to the Unionist army. The Lincoln Act, however, goes beyond procurement problems (as we would interpret

them today) and stipulates that the Internal Revenue Service remunerates people who contribute to the detection and punishment of violators of federal revenue law.

Important changes occurred in 2006, when the US Congress passed the False Claims Act. It legitimizes the reporting of tax irregularities in the modern era. It is organized into a program run by the U.S. Revenue Administration. The law regulates *mandatory remuneration* for individuals who have helped the tax agency to disclose, prove and collect claims that were previously concealed from the government. The award varies between 15% and 30% of the final receipts, which are not further subject to litigation. The whistleblower is entitled to receive payment if the minimum amount of proceeds the tax administration collected thanks to his/her disclosure is at least USD 2,0 million. The amount includes the tax liability, interest on arrears and fine imposed.

A signal can be filed against both a company and an individual. If the latter is proven to have committed tax evasion, proceedings are initiated against him/her in case their gross income is over USD 200,000 for at least one year within the tax periods audited (IRS Whistleblower Office, 2023). This regulation shows that the tax whistleblower program aims at raising the detection rate among *taxpayers with high ability to pay*. According to a recent study (Guyton et al., 2021), the richest 1% of the US population on average evades 36% of their personal income taxes due, which is circa USD 175 billion per annum. Against this background, Guyton et al. are concerned that *the tax audit rate* among the top 1 percent of the richest Americans falls, which can be counteracted by some non-conventional measures, including also tax fraud reporting in exchange for receiving a mandatory award (2021: 4).

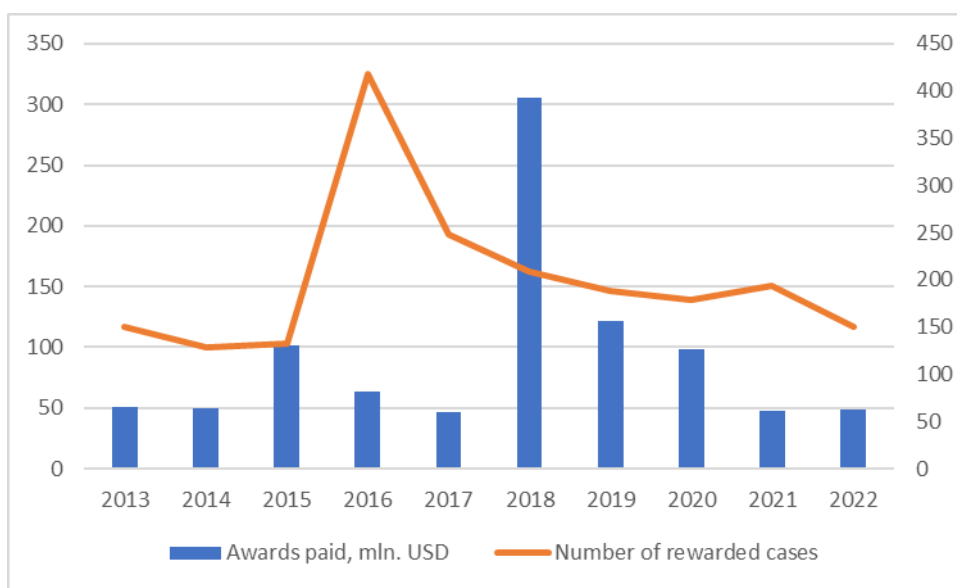


Figure 1. Number of rewarded cases and awards paid to whistleblowers in the USA, 2013-2022 (\$ mln.)

Source: IRS Whistleblower Office, 2023

Figure 1 presents data for the US on the number of tip-offs paid (on the right vertical axis) and the sum of total awards paid (on the left axis) for each fiscal year within a ten-year period. The awards paid are not proportional to the number of rewarded whistleblowing alerts submitted and verified. In 2016, there were 418 rewarded tip-offs in the US, the highest number for the period under review, for which a total bonus of more than \$60 million was transferred to whistleblowers. It represents 16.7% of the additional tax revenues to the federal budget amounting to \$369 million. In 2018, the bonus reached its maximum in absolute terms for the period under review - just over \$312 million paid out for 217 reports. The financial stimulus is 21.7% of the additional tax revenues disclosed and collected by the IRS – over \$1.4 billion.

Some US states also replicate the program of the federal tax administration by creating decentralized ones – Washington DC, Maryland, New York, Illinois. Thanks to reports from whistleblowers, New York's state revenue authorities were able to collect extra \$105 million, evaded by a hedge fund, and another \$330 million – from the fourth-largest telecommunication provider in the U.S. with more than 54 million clients (Forbes, 2023).

Following the US example, *Canada* initiated and institutionalized its own program for reporting taxes and other public liabilities concealed from its tax authority. The tax whistleblower program is administered by the Canada Revenue Agency (CRA). The Program's scope extends to tax frauds committed throughout the cross-border activity of economic operators. It encompasses undeclared domestic taxable income transferred to foreign countries and territories, including aggressive tax avoidance and evasion schemes.

To our knowledge, the program run in Canada has a short history of implementation and modest information disclosed on the results achieved. Bonus payment is mandatory if whistleblowers have helped CRA uncover tax fraud for at least CAD 100,000 (USD 79 932,50). The financial incentive varies between 5% and 15% of the additional revenues collected thanks to whistleblowers (Canadian Whistleblower Rewards Law, 2023). From its beginning in 2014 to March 31, 2022, 979 reports from individuals were received. As a consequence, the Canadian Revenue Agency has conducted 653 tax inspections for non-compliant taxpayers. By the end of March 2022, 250 of them had been completed, resulting in additional federal taxes and fines equal to USD 69.3 million. The unfinished tax audits aim at collecting the equivalent of another USD 45 million. There is no information about bonuses paid out to whistleblowers who helped CRA to uncover any tax irregularities (<https://www.canada.ca/en/revenue-agency/campaigns/pay-report-international-tax-cheating.html>).

In South Korea, the program for detecting and preventing corruption was established in 1951 and is administered by the National Tax Service (NTS). In 2008, the program was upgraded with an additional module on reporting tax fraud by individuals. The latter is a tax policy step for improved collection in the context of the then unfolding global crisis. The amount of the monetary bonus is set at 5%-20% of the collected taxes. It shall be paid no later than two months after the NTA has collected its receivables in an undisputable way. The NTA is obliged to pay the awards to those whistleblowers whose reports contributed to disclosing evaded tax amounts exceeding USD 44 000.

In 2012, a second program was established within NTS. It aims at verifying tip-offs of tax irregularities committed by domestic companies and citizens who have invested in financial assets outside Korea, failing to declare or partially declaring them. Tax fraud is committed, while opening and maintaining non-declared accounts in foreign banks, investments in financial instruments and/or commodity futures abroad, etc. Whistleblowers are allowed to receive a bonus from the NTS under the conditions set out in the second program if the former helped to uncover foreign assets held by third parties in excess of USD 88 million (KRW 1,0 billion) (National Whistleblower Center, 2023).

Figure 2 below shows that after expanding the scope of the program in 2012, both the number of awards and their total amount rose. In 2010, individuals who reported on 126 separate cases of evaded taxes were rewarded for their cooperation. In 2017, their number tripled - 389 (on the right axis). At the same time, the total amount of remuneration paid increased fivefold: from KRW 2 billion in 2010 to KRW 11.5 billion.

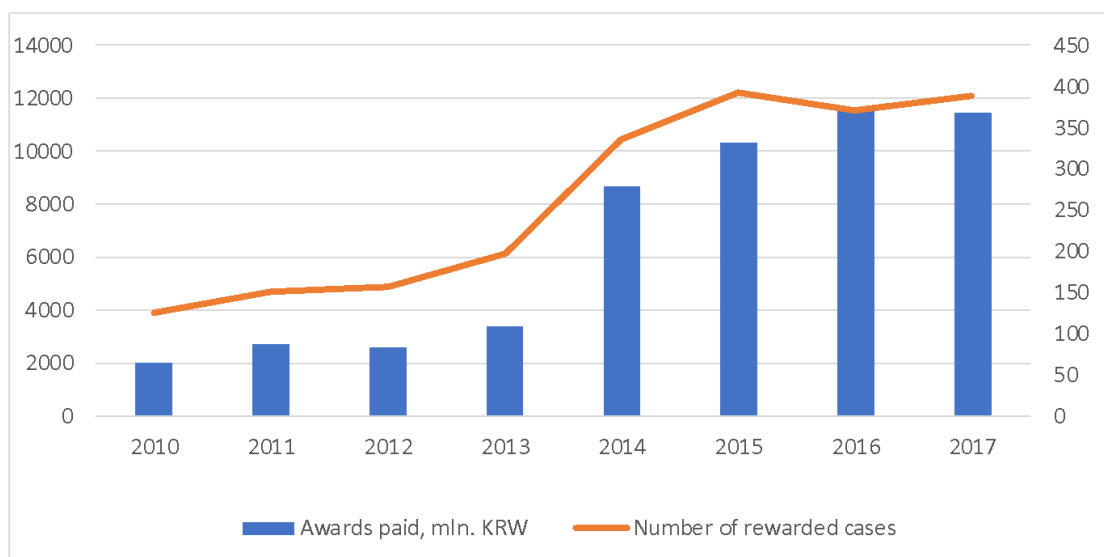


Figure 2. Number of rewarded cases and total amount of awards paid in South Korea, 2010-2017 (KRW mln.)

Source: Kohn, Kohn & Colapinto LLP

The outpacing growth rate in the amount of bonuses paid, compared to the number of reports sent in South Korea, is due to the introduction, regular update and public disclosure of a progression that applies for award’s calculation. Therefore, the monetary bonus grows faster than the amount of taxes uncovered and collected by the NTS, which is similar to the progression used for income tax calculation.

Table 1. Calculation of the award paid to individuals reporting on non-compliant taxpayers in the Republic of Korea

Taxes disclosed (KRW)	Amount of the award
50 mln. – 0,5 billion	5%
From 0,5 billion – 2,0 billion	75 mln. + 10% ;
More than 2,0 billion	225 mln. + 20%.

Source: NTS

The UK is lagging behind South Korea and the US in implementing a program to report tax irregularities. In the 2020-2021 fiscal year, the gap between collected and payable taxes amounted to GBP 32 billion, remaining stable at 5-7% of the levies due. In the same year, the country's revenue administration paid bonuses of only GBP 495,000 to individuals whose reports proved well-grounded in revealing evaded taxes. The amount of bonuses paid by the HMRC is negligible as an incentive, but it is still 25% larger than the one awarded in the previous 2019-20 fiscal year.

According to a survey conducted by the British government, only 2% of respondents confess they will report to HMRC, motivated solely by the prospect of being rewarded with a monetary bonus. Around 40% of respondents consider themselves ready to report irregularities despite the inherent risks to them and their families following this action (YouGov, 2021). At the same time, some NGOs point out the need for the monetary incentive to depend less on the additional proceeds collected, but rather to be bound by the risks associated with the whistleblower's decision to report. This means rethinking the entire philosophy, with the payment of a bonus becoming *a financial compensation for damages inflicted rather than a monetary award*. Such an interpretation of the bonus is appropriate

insofar as in several cases people decide to report, despite the risks of losing jobs, ruining careers for the rest of their lives as well as being persecuted (Gardiner, 2022).

3. The tax whistleblowing in Bulgaria – mission impossible?

Bulgaria does not operate a tax whistleblower program yet. The mere intention of the Ministry of Finance (MoF) to set-up a procedure for paid reporting on possible tax fraud generated negative emotions among people. Nevertheless, the government proposed a new legislation that should have become part of the Tax and Insurance Procedural Code (TIPC) in this country. Though, the project proposed failed in the Parliament. In spite of legislative disapproval, the monetary parameters of a tax whistleblowing procedure in Bulgaria are worth analyzing, having regard to the foreign experience and the potential impact the former might have had on domestic tax collection.

Reporting on possible tax irregularities is not an innovative measure in Bulgarian tax policy. The National Revenue Agency annually receives more than 5 000 reports on non-declared corporate receipts, personal income, properties, assets, etc. through its communication venues. It turns out that by the time taxpayers' audits have been carried out, only 100-120 reports are well grounded, which leads to BGN 700 000 in terms of evaded tax proceeds that were disclosed and collected by the revenue authority (MoF, 2023). At the same time, the tax and social insurance gap in this country amounts to BGN 2,0 – 2,2 billion and constitutes between 3,7% and 4,7 % of the government revenue collected in accordance with the consolidated fiscal program for 2021 (MoF, 2021). The above cited statistics concern tax arrears, which are *known* to the Bulgarian revenue agency. In case of evasion, witnessed and reported by whistleblowers, the tax bases and the impositions thereon are concealed from the tax agency.

The foreign experience shows that sending substantiated reports on public liabilities' evasion is considered and implemented as a measure toward improved tax collection. The attempted regulation on tax whistleblowing would have been situated in a broader context. At the beginning of 2023, Bulgaria transposed the EU Directive 2019/1937, with the National Assembly adopting a law on the protection of whistleblowers who report on financial irregularities.

The scope of the latter encompasses public procurement, EU financial interests, financial services and markets, money laundering, food safety, environmental protection, nuclear safety and security, etc. In the context of taxation, the new legislation will apply to the protection of whistleblowers who report on 1) tax schemes avoiding corporate income tax in order to acquire tax advantage (Art. 3 (1), p.4) and 2) any violations to the rules for collecting any public (government and municipal) liabilities (Art. 3 (2), p.1). The latter encompasses the issue of tax and other public liabilities evasion committed in this country.

Changes in tax legislation due to the EU Directive transposition went through a public debate stage before becoming part of the TIPC in Bulgaria. The discussion is beneficial to both the public choice as well as the awareness of all tax policy stakeholders. With regard to tax collection and – compliance, the stakeholder is the public at large – compliant and non-compliant taxpayers, employers, employees, NGOs, public administration, media...

People who report on possible tax and/or social security contributions fraud could have been awarded 10 % of evaded amounts collected by the National Revenue Agency (NRA) in Bulgaria as far as the latter constitute a direct result of a whistleblower's report. There were, nonetheless, some qualitative requirements concerning the report. First, the latter should provide information of circumstances and facts that prove public liabilities' evasion committed by the third party. Second, in order to escape conflict of interest, the whistleblowers are not allowed to acquire the contents reported, while being employed by the tax, customs or any other body authorized for conducting an audit and/or other control activity (Art.79a (4)). Third, the circumstances and facts provided were not subject to a public disclosure in the past, i.e. in printed, social or electronic media (Art. 3).

If the project of a tax whistleblower program were adopted by the Bulgarian Parliament, its monetary incentives would have been bound by the additional collected tax revenue that is not eligible

for further litigation. A possible problem may have arisen in the case of a late award's payment to the whistleblower/s. It depends on the duration of the tax audit with subsequent preparation of a report thereon and its possible administrative appeal. With regard to the heavy workload of the court, any subsequent appeal of the audit report before the court may take extra time. Therefore, the delay may vary between eight months and two years in total once the whistle-blower's tip-off has been approved for further investigation.

In fact, it is a very short period compared to the US practice. The IRS estimates that it takes more than 11 years on average between sending a report and rewarding the whistleblower/s. The longest part from it is the time spent on possible appeal/s before the administrative and/or judicial body – 5,89 years on average. Relatively shorter is the period for collecting the evaded proceeds and the affected party's (possible) appeal before the court - 3,77 years on average. The rest of the time is spent on checking and verifying the tip-off's contents – 1,58 years on average (IRS Whistleblower Office, 2023).

The long duration of the procedure following a report's submission is explained by the requirements toward any rule of law state, which is aware of human rights protection - for strict compliance with the rights and interests of both the whistleblower and the affected party. Financial incentives are provided only after all possible protection measures (concerning interests and reputation of the involved parties), envisaged by the procedure, have been exhausted. Therefore, the feasibility of the 10% bonus could have been questioned in this country, given the attempts of delinquent taxpayers to procrastinate or even thwart the payment of their evaded taxes and/or the inability of public enforcement authority to collect the latter. There were suggestions to "speed up" the procedure, i.e. to reward whistleblower/s *before* the tax evaded is collected by the revenue agency. It seems unacceptable for at least two reasons. First, the link between the report and the revenues received by the National Revenue Agency is broken. Second, the proceeds must be available to the tax administration in an indisputable way. Otherwise, its budget will be burdened with additional costs for award payments.

If the bonus in Bulgaria were adopted and set at 10% of the extra collected proceeds, then with the current success rate of 100-120 reports and BGN 700,000 additionally disclosed taxes annually, an average award of BGN 700 would have been due for a substantiated report. Although the amount seems negligible, it is appropriate for the latter to become a *tax-exempt individual income*, integrated into Art. 13 of the Personal Income Taxation Act. Such treatment is in line with the *public-private partnership concept*. Meanwhile, the Law on National Revenue Agency (LNRA) provides for 25% of the extra proceeds collected from evaded taxes to be retained within the NRA's budget (Zakon za NAP, Art.18). Thus, should Bulgaria have adopted a tax whistleblower program, the distribution of extra proceeds would have followed the proportion 65:25:10. The biggest part would have been reserved for the government budget, while the NRA and the whistleblower would have received ¼, resp. 1/10 of the additional amount collected. The latter appropriation is also aligned with the public-private partnership concept.

The experience abroad shows that an important feature of a possible tax whistleblower program is the *threshold amount*, at which the award becomes *mandatory* for payment by the revenue agency. According to the rejected proposal, the bonus for tax whistleblowing in Bulgaria is due under two conditions: 1) the report sent is found to be justified *and* 2) the amount of disclosed and collected taxes, social security contributions, and overdue interest is at least BGN 100 000. The introduction of a "threshold" that "triggers" mandatory award for the whistleblower can be defended as follows. First, in terms of a cost-benefit analysis, the benefits to the tax administration should outweigh the cost of the monetary incentive paid out. Second, the amount of the "threshold" - BGN 100 000 - is in line with the "understanding" of the Criminal Code for *tax evasion in particularly large amounts*. According to the legal norm, this offense is committed when taxes of at least BGN 12,000 are concealed from the government (Art. 93, para. 14). Third, with a "threshold" of BGN 100 000, petty

“claims” would be avoided. Such “claims”, especially if not substantiated, would cause cost inefficiency to the tax agency.

Initially, the threshold amount at which the Bulgarian Revenue Agency was obliged to pay a bonus to tax whistleblowers was fixed at BGN 3 000. During the public discussion, it was raised and was set at *BGN 100 000* in the project that was rejected by the National Assembly. Thus, encouraging whistleblowing for obtaining a mandatory bonus was targeted mainly at taxpayers with a *high ability to pay*. Usually, they are relevant economic entities: they create high added value and employment, have a dense network of business partnerships in- and outside the country. Raising the mandatory bonus payment threshold for whistleblowers from BGN 3 000 to BGN 100 000 shows that the tax administration prefers *fewer* tip-offs with *reliable* evidence on possibly evaded public liabilities.

What would have happened to whistleblowing alerts about concealed taxes to the NRA that do not exceed BGN 100 000? Such can be submitted as well, also via the Internet, and if justified, they are useful for the tax office. The government would have collected its revenue by incurring additional administrative costs to verify the facts and circumstances that concern possible tax evasion. The essential difference, however, affects whistleblowers - *the NRA would not have been prescribed by law to pay whistleblowers a 10% bonus* since they report on evaded taxes, total amount of which does not exceed BGN 100 000.

To avoid reporting just for the sake of revenge and/or incitement, some preventive measures were also projected to change the Tax and Insurance Procedural Code. They aimed to penalize any person who, *in a row*, submits three unfounded signals for tax irregularities against one and the same person. The sender would have been fined from BGN 500 to BGN 1 000. The fine would have been imposed after the revenue agency had notified the whistleblowers that their signals were unfounded but the former went on reporting. We suggest that the amount of the fine should have been set higher in order to dissuade whistleblowers without *ability to pay problems*, which keep on reporting. A fine of BGN 500 - BGN 1,000 is a negligible sanction for them, while the revenue agency’s verification of each signal is a resource- and cost-intensive exercise.

Another hypothesis seems also justified but remained neglected in the project that failed: a whistleblower persists in sending evidence that the same person evaded public obligations, but the revenue agency neither conducts an inspection, nor sends a notification that the signals are non-substantiated. In such a case, there is suspicion of a “cover-up” over the non-compliant taxpayer. That is why it is necessary to create and maintain a register of received tip-offs and their progression status at the central management level of the revenue agency, with sensitive data to be known only by explicitly authorized agency employees.

Conclusion

The monetary parameters of any program for reporting tax irregularities – size of the bonus, threshold for extra collected tax revenue at which the bonus becomes mandatory, duration of the procedure for paying the award - should be carefully weighed out and aligned in terms of their smooth implementation. The design of monetary incentives is a complicated and delicate task in order not to let both emotional and pragmatic aspects clash, thereby compromising the tax whistleblower program.

Despite the proposed monetary parameters being relatively well balanced and in line with good international practice, politicians rejected the projected tax whistleblowing legislation in Bulgaria as a non-conventional public policy measure. Both society and legislators could not overcome the reminiscence from the past of reporting for political and ideological reasons. The emotional aspects overturned the pragmatic ones that might have contributed to better tax collection and tax compliance in Bulgaria.

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