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Tax Screening, Tax Frictions, and Tax Ordeals as Mechanisms for Prevention of Information Asymmetry in the Tax System

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The article presents the tax system as an issue in the context of information asymmetry. It also discusses three mechanisms to reduce the negative impact of this asymmetry on the formation of the tax system and the level of tax compliance in the economy. Tax screening is a set of solutions allowing for the determination of the characteristics of groups of taxpayers based on their tax choices. This enhances evidence-based decision-making capabilities of tax authorities and regulators regarding taxpayer behaviour and allows for effective tax system decisions in general and more control activities in particular. Tax frictions automatically discourage taxpayers from making certain tax choices that are inconsistent with the intention of the legislator, reducing the intensity and cost of corrective actions. Tax ordeals impose additional costs on some procedures related to tax benefits, increasing the likelihood that only authorised entities benefit from them. The article analyses the above-mentioned mechanisms of eliminating information asymmetry in the tax system in the theoretical and practical context and presents recommendations for their effective implementation.

Keywords: tax system, tax evasion, tax avoidance; information asymmetry, tax frictions, tax screening

JEL Classification: H21, K34, H26

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Introduction

The tax system is surprisingly complex. This is due to a number of well-known reasons, such as the need to reflect an even more complex economic reality and the necessity to address often conflicting interests of numerous social groups as well as weaknesses of the legislative process. However, there is another less intuitive reason for the high level of complexity of the tax system. It was first identified by Mirrlees as significant information asymmetry between the taxpayers and the legislator. The concept of asymmetry itself is related to the interdisciplinary trend in research conducted mainly by Akerlof, Spence, and Stiglitz. It describes a situation where one party to a transaction (or in a relationship) has more information about its terms and conditions than the other ones and can put that advantage to a good use. Akerlof's research has been focused on market

transactions and proved that unequal access to information may result in negative market selection and market failure. Spence has successfully argued that on a market affected by information asymmetry, informed agents may take costly steps to pass on their knowledge to the uninformed parties and thus reduce the level of asymmetry and increase the efficiency of the whole market. Stiglitz has demonstrated that the principal could obtain some private information by providing a catalogue of possible choices to other market participants and watching their moves (Lofgren, Persson, & Weibull, 2002). These three approaches constitute one of the most significant works on information asymmetry, and Akerlof's article "The Market for «Lemons»" is one of the most often cited economic publications throughout history. It should be remembered, however, that five years before Akerlof, Spence, and Stiglitz received the Nobel Prize, the same honour was awarded to Mirrlees along with Vickrey for their fundamental contribution to research into information asymmetry. One of the key issues raised by Mirrlees was a model of the tax system (Blundell & Preston, 2019) set in this context.

The catalogue of private information known to taxpayers but not directly observable by the legislator and the tax authorities is vast and can be divided into three groups that are important from the point of view of the tax system: information on skills, information on postures, and information on actual events.

Information on skills is mainly concerned with income earning abilities and may serve the tax administration two purposes: to determine the scope of tax rates (taxpayers with higher earning capacity are considered to be able to bear higher tax rates) and to grant certain groups deductions or tax reliefs. However, since in principle the relationship between the number of hours spent working and actual earnings is not linear, the ability to generate revenue is not a simple quantitative indication. As also noted by Mirrates, taxpayers can invest in development of professional competencies or make career choices whose outcomes are delayed in time. Moreover, preferences (e.g., work or leisure time) can be dynamic and burdened with heuristic errors. As a result, real information on the possibilities of earning is complex and uncertain even for the taxpayers themselves (Mirrlees, 1990). This poses a serious challenge for fiscal decision-makers. In order to simplify matters, most tax systems use an imperfect substitute to determine the earning capacity – the level of actual income (Satterthwaite, 2016; Stern, 1982). In some cases, it is supplemented by tax tagging, which – based on publicly presented or declared characteristics – divides taxable persons into segments, e.g., taxpayers with disabilities (Osofsky, 2013).

Information on postures mainly includes factors related to tax avoidance and tax compliance. In this respect, from a wide range of possible behaviours, Braithwaite distinguishes five fundamental motivational postures that are relevant from the point of view of the tax system: commitment, capitulation, resistance, disengagement, and game playing (Braithwaite, 2003). Each of these postures leads to different consequences in terms of the level of tax compliance and the effectiveness of the legislator's actions. However, due to information asymmetry in the tax system, the possibility of adapting tax regulations to postures maintained by tax groups is limited and manifests itself incidentally, for example, in the form of horizontal monitoring (Pałys, 2022). In many other cases, tax law is designed with the assumption that the worst possible combination of postures is in place. As a result, there is risk of not only reducing the level of tax compliance throughout the economy but also of reinforcing negative postures among increasingly broader groups of taxpayers.

Information on actual events is all the details concerning taxable activities occurring during an accounting period. This group mainly contains information about the level of income and tax-deductible expenses, supplemented by entitlements to tax benefits or other deductions. Tax administration has limited knowledge on the level of income generated by individual taxpayers (especially in the case of the monetary economy) and must rely heavily on the taxpayers' own declarations.

These declarations are supplemented with reports of income provided by professional third parties (e.g., employers, notaries, and investment intermediaries). Self-reporting, however, is an imperfect solution that generates social losses through, among others, revealing and reinforcing negative tax incentives as well as creating temptation to understate revenue (Satterthwaite, 2016).

Information asymmetry described above leads to a situation where tax systems contain many points where the taxpayer decides on the tax treatment of an event themselves. These decision-making points are known as tax elections and are commonly used in nearly all jurisdictions. Tax elections in the strict sense should be seen as deliberate optionality provided for in the tax law. The choice may be expressed, for example, by means of a taxpayer's declaration, such based on the American "check-the-box" rule, or by taking action, such as choosing which of the spouses will use a child tax benefit (Cauble, 2013). In a broader sense, tax elections may also cover unintended optionality (resulting from mismatches, contradictions, or loopholes in tax law). As a result, the tax system is a kind of an agency problem where the legislator is the principal and taxpayers as agents make individual decisions under the framework imposed by the principal. This gives rise to consequences known from the principal-agent market model, including negative selection and temptation to commit abuse (Jagodziński, 2019). The relevant literature also indicates other shortcomings of the existence of tax elections. Firstly, if the taxpayer makes a wise choices, they erode the tax base. Secondly, tax elections create injustice, allowing more sophisticated and experienced taxpayers to benefit from higher tax deductions or reliefs. Thirdly, an additional complexity is added to the tax system, which requires taxpayers to devote more time and resources to be able to understand and foresee the consequences of their choices (Cauble, 2013). Furthermore, from the point of view of tax authorities, tax elections also consume additional resources required to verify taxpayers' rights and identify related tax avoidance schemes. However, there is no realistic alternative to tax elections under the present circumstances as they are compromises necessary for the tax system to function in the context of information asymmetry (Field, 2011). While tax elections are inescapable and have negative consequences, there are several tools that can increase the efficiency of the tax system by generating additional information for tax authorities or by encouraging taxpayers to make more accurate decisions that reflect the reality. These are tax screening, tax frictions, and tax ordeals.

Effective tax elections in the context of information asymmetry

Tax screening

From the perspective of the tax system, it is important that taxpayers (or groups of taxpayers) are different in terms of characteristics such as postures (considering e.g., the materialistic versus idealistic spectrum), preferences (in terms of work and leisure time), and personal objectives. As already mentioned, in the theory of optimal taxation, these characteristics represent a benchmark for marginal tax rates that maximise social welfare (Strnad, 2004). However, information on these characteristics is taxpayers' private information and difficult to access by the tax authorities. Tax screening is a set of tools that allow partial collection of these data and more accurate construction of the tax system. There are two types of tax screening: passive and active. Passive tax screening is any mechanism that allows tax authorities to identify the fundamental characteristics of taxpayers. This approach – as presented by Osofsky – covers any procedure for collection of information, whether based on public or private information and taxpayers' declarations (Osofsky, 2013). In accordance with Stiglitz's approach, active tax screening is a mechanism where the legislator presents the taxpayer with a catalogue of possible choices. If such choices are properly designed, the taxpayer's elections will reveal their

private information and thus mitigate the consequences of information asymmetry (Lofgren, Persson, & Weibull, 2002).

Passive tax screening

The simplest passive tax screening mechanism is tax tagging. Within the framework of this procedure – as proposed by Akerlof – taxable persons may be defined as 'in need' on the basis of their age, sex, level of education, social status, or disability (Akerlof, 1987). Despite its popularity, this method is unreliable because many important characteristics of taxpayers cannot be credibly observed. For example, the fact of being a single parent can be artificially produced by an apparent divorce. In turn, disability is not always visible but also not always correlated with the individual's well-being (Osofsky, 2013). More advanced passive tax screening procedures are based on a combination of observable factors. For example, flexibility of labour supply can be reliably estimated on the basis of three indicators: composition of the household (male versus male and female), age of the taxpayer(s), and value of household assets (Karabarbounis, 2015). One study took into account data from the entire life cycle of taxpayers and proved that income that is actually received is an imprecise characteristic of taxpayers (Judd, Ma, & Saunders, 2017).

Active tax screening

Active tax screening is not based on observable or declared characteristics of taxable persons but on preferences disclosed by tax elections. This approach is valuable in identifying taxpayers' private information such as response to taxation or attitude to tax avoidance. Satterthwaite provides an indepth and practical analysis of this method using the American itemisation rule as an example (Satterthwaite, 2016). In accordance with Article 63e of the US Tax Code, in a given year, a taxable person may opt for a standard flat-rate tax deduction (standard deduction) or for deduction of actual costs incurred in specified categories (itemised deduction). The second approach requires additional effort from the taxpayer needed to understand what is deductible, calculate the deductible value, collect documentation, and fill in tax returns. As a result, application of the itemisation rule is much more time-consuming than applying the standard deduction. In addition, election of a non-standard deduction method may expose the taxpayer to further costs of tax control. Therefore, the decision to apply the itemisation rule is based not only on estimated tax savings but also on the taxpayer's individual hierarchy of values and risk aversion (Zelenak, 2013). Satterthwaite identifies three categories of private information that can be assessed on the basis of elections made by the taxpayer in this respect. Firstly, the choice of itemisation instead of a standard deduction may indicate that the person is conscientious and responsible, which suggests that they may have a higher earning capacity. Moreover, rapid changes in choice in-between tax periods may indicate change in the taxpayer's economic situation. Secondly, taxpayers that apply the itemisation rule are likely to be more sensitive to tax incentives and more willing to take steps allowing them to reduce their tax liabilities. In other words, if someone deems it worthwhile to devote additional effort to choosing itemisation, they may also be interested in structuring other areas of their economic activity in order to reduce their tax burden. This decision can also serve as basis to assess the taxpayer's attitude to tax compliance. Taxpayers who prefer not to strive for potential tax savings in exchange for simplicity of the standard deduction may be considered to be more compliance-oriented, while the choice of itemisation (especially since it generates a significant number of small costs) may suggest that the taxpayer is willing to exploit tax loopholes (Satterthwaite, 2016). Undoubtedly, the tax screening mechanism described is imperfect. The standard deduction may be elected both because of a lower earning capacity and greater willingness to comply with tax regulations, whereas the choice of itemisation signals both greater sensitivity to tax incentives and a potential significant deduction in a given year. Nevertheless, in combina-

tion with other factors such as income level, type of employment, or tax compliance record, the decision to use itemisation may have a real impact on the assessment of the taxpayer's private information. The same is the case with other active tax screening mechanisms. Considering the number of tax elections present in many tax systems, the range of private information that can be obtained from taxpayers based on their choices can be vast and highly significant for a tax policy.

Tax frictions

While tax screening mechanisms focus on obtaining private taxpayers' information, tax frictions are automated tools motivating taxpayers to make the choices that the legislator expects. The main driving force in this case is the increase in non-tax costs associated with the elections that are unfavourable from the point of view of the tax system.[1] A comprehensive analysis of such cost groups is provided by Shaviro (Shaviro, 2001). The first group that he distinguishes is related to business factors and includes risk, time, and level of financial exposure. If a tax election resulting in a tax advantage requires:

- additional risk accumulation (e.g., involvement of a third party in the transaction);
- a longer period of engagement (e.g., meeting the minimum holding period);
- or higher investment (e.g., because of a minimum holding threshold),

it is less likely that the taxpayer will be willing to structure the transaction only in order to obtain tax savings.

The second group of frictions includes market and business factors. This is particularly relevant on the financial market where limited supply of a particular type of securities reduces the possibility of using them for the purpose of tax planning. Technological factors may also be important, for example increasing off-shoring costs of certain business activities (Avi-Yonah, 2000).

The third group of tax frictions is more complex and includes legal and accounting limitations, namely substantive requirements, agency costs, credit risk, and financial accounting requirements. The substantive requirements are the legal actions required to make the elections. A clear example may be the requirement that only officially confirmed divorce makes one eligible to tax relief for a single parent. Other requirements may include running a business in a specified legal form; executing a contract; or the need to have a trusted intermediary (e.g., an exchange or notary). Agency costs are frictions resulting from different attitudes to tax compliance manifested by the taxpayer and their agents or counterparties involved in tax elections. For example, a tax manager in an organisation may have less preference for aggressive tax planning than the organisation's owner, especially if the former could bear personal responsibility for this. At the same time, if some tax schemes require a reduction in ownership control over an entity or asset, the owner might prefer to avoid this type of arrangement. Credit risk is related to the cost of using the financial sector for the sake of tax planning and represents the cost of securing against the risks associated with transactions such as those involving derivatives, futures, swaps, and other sophisticated securities. Finally, financial accounting requirements include, for example, restrictions on dividend payments or unattractive assets valuation methods in the event of making specific tax elections (Shaviro, 2001).

Tax frictions also cover the costs of according tax structures with the right business content (Raskolnikov, 2013) and – in the case of certain tax elections – limitations of the benefits arising from the legal and patent protection, international agreements, and bankruptcy or anti-trust laws as well as restrictions on participation in public tenders (Mun, 2016).

[1] Stiglitz pointed out that if there were no tax frictions, the effective tax rate of entire groups of taxpayers would come to zero because every taxpayer would be making tax elections (mainly on the financial market) for as long as it would allow them to completely minimise their tax base. In this context, tax frictions ensure the functioning of the tax system (Stiglitz, 1985).

Tax ordeals

Tax ordeals are a special type of solution combining the characteristics of tax frictions and tax screening. They consist in a deliberate increase in the cost of the procedures for obtaining legal tax preferences.[2] As a result, assuming reasonableness of the taxpayers, only those who actually need a given preference will be willing to bear such costs. At the same time, the fact that additional time is spent on a specific procedure is a signal passing on some of the taxpayer's private information to the tax authorities. Raskolnikov cites the requirement to render public services in order to receive social transfers as an example of a tax ordeal. The necessity to spend a significant amount of time on this type of activity is an ordeal that reveals the actual need for support among the people undergoing it (Raskolnikov, 2013). Other examples of tax ordeals include the need for a personal visit to the tax office, longer periods of waiting for tax decisions, longer prescription periods for tax liabilities or the possibility of achieving certain tax benefits only through an application for a tax refund (Satterthwaite, 2016).

The effectiveness of tax screening, frictions, and ordeals

All these three categories of solutions are prevalent in tax systems. In many cases (particularly in the area of tax frictions), they have not arisen as a result of economic or social analysis of the tax system, but from historic decisions based on the legislator's intuition, recommendations of groups of taxpayers or solutions adopted from other tax systems (Schizer, 2001). As a result, their effectiveness is limited and the tax administration or the society are often not even aware of that.[3]

As far as tax screening is concerned, four main cases related to its effectiveness can be singled out, as shown in Table 1.

Table 1. The matrix of effectiveness of tax screening

	Information is retrieved	**Information is not retrieved**
Information is or can be used	Effective solution	Solution generating lost benefits
Information is not or cannot be used	Solution generating unnecessary costs	Effective solution

Source: own work.

In case information that could be useful to tax administration is not obtained, it seems worthwhile to analyse the available tax elections and identify those that would reveal such information directly or after a minor modification. In case redundant data is obtained at the same time generating costs both for taxpayers and the tax administration, collection of such data should be put to a halt in order to free up resources for the acquisition of other more relevant information.

Moreover, as far as the efficiency of tax screening is concerned, three additional dimensions should also be considered:

- Integration of information – in line with the approach proposed by Satterthwaite, a set of integrated information (e.g., household composition, specific types of expenditure, and tax elections made) is most valuable for the tax administration. Therefore, if tax screening provides knowledge of taxpayers' private information, it is valuable to seek additional related information to increase the

[2] Artificial increasing of the costs of adopting a procedure makes tax ordeals different from tax screening. The itemisation rule discussed above is an example of tax screening, since all additional activities resulting from the taxpayer choosing it are necessary to calculate and confirm the value of a deduction. If, however, the rule required additional, personal appearance at the office, more frequent settlements or – following the metaphor proposed by Shaviro – a backflip, it would constitute a tax ordeal.

[3] This is in line with Pope's concept describing the different stages of awareness of the cost of the tax system in societies (Pope, 1992).

efficiency of this solution, which may reveal further or more detailed knowledge of the taxable person.

- Continuity of information – similarly enriched taxpayer's information will be provided by continuous tax screening over time. In such a case, in addition to the basic knowledge of the taxpayer's elections, the tax administration will also obtain information about changes in these elections, which may reflect the moment of the taxpayer's life cycle or sudden changes in their circumstances affecting their earning capacity.
- Level of detail of information – more detailed information will often hold greater value for tax administrations. However, its acquisition may require adding complexity to tax elections (e.g., making more options available).

In the light of the above considerations, it is essential that the tax administration and the legislator first define the scope of data relevant to making the right decisions regarding the tax system, then analyse the existing tax screening mechanisms, and ultimately introduce possible evolutionary changes in line with Kaplow's recommendation. The frequently observed reversed sequence of actions will lead to both unnecessary costs and the costs of lost benefits. Other important issues that need to be considered for the proper functioning of tax screening are also the appropriate construction of a general rule (since if the menu of available tax elections requires taking action, it is necessary to have a general rule automatically applicable, if no action is taken) as well as the time given to the taxable person for the sake of making the tax election within a specified period of time (e.g., only at the beginning of the year). The period during which the tax election will affect one's tax position (e.g., over the following three tax years) will also be relevant for tax screening.

As regards tax frictions and tax ordeals, recommendations with respect to their effectiveness can be based on the works of Schitzer and Raskolnikov. Firstly, the power of tax frictions and the complexity of tax ordeals should be adjusted to the potential tax benefit. In this context, frictions on the actual taxable income should be stronger than those placed on virtual capital gains. Similarly, more complex ordeals (and so greater frictions as well) should be placed on reducing taxation than on postponing it. Secondly, effective frictions and ordeals should be differential in character, that is, the more aggressive the taxpayer's actions or the less eligible they are for a tax advantage, the higher the costs the frictions and the ordeals should generate.[4] Thirdly, frictions and ordeals should actually discourage taxpayers from avoiding taxation or benefiting from relief they are not entitled to. It is undesirable, if taxpayers continue to show non-compliance with the expectations of the tax administration despite higher costs (Schitzer, 2001, Raskolnikov 2013). It also seems important that both tax frictions and tax ordeals should be analysed in the context of the overall economic impact they produce. Even small costs imposed on a large group of taxpayers, despite their high effectiveness, may be inefficient, if the benefits of imposing them do not offset the cost for the economy. In addition, as far as the informative function of tax ordeals is concerned, remarks applicable to the mechanism of tax screening are relevant in this case as well.

[4] In this context, Raskolnikov refers to the US use-it-or-lose-it mechanism applicable to medical security accounts. This arrangement allows the employer to pay the employees part of their remuneration without tax being imposed on it, provided that all of that part is spent exclusively on medical expenses. However, since there is a concern that medical security accounts could be used to defer taxation indefinitely, based on the use-it-or-lose-it principle, funds accumulated on such accounts will be lost completely after the period of one year. As a result, taxpayers that in fact need funds for medical expenses are supplied with them in a manner that is optimal from the perspective of taxation; while taxpayers who are not affected by this need cannot use this solution as a vehicle for deferring taxation (Raskolnikov, 2013).

Tax screening, frictions, and ordeals in the Polish tax system

Tax elections are also prevalent in the Polish tax system. Mechanisms that can be categorised as screening, frictions, and ordeals are observable, however, there is limited recognition of the character of these mechanisms in both the relevant literature and the legislative process.

Analysis of the Polish tax system shows that an example of ubiquitous tax screening in Poland is the possibility for natural persons conducting business to choose how to tax their activity (by electing taxation on a scale, flat rate taxation, or lump-sum taxation of recorded revenue).[5] Each of these solutions offers different tax benefits as well as different documentary effort is required for each, and each poses different tax risks. As a result, the taxpayer's election of the manner of taxation may provide relevant information on their attitude to tax procedures or the willingness to seek optimal tax structures for transactions (including in the future). Additional information in this respect may be obtained based on the choice of the lump-sum rate made by the taxable persons who have decided to use lump-sum taxation. Since some (lower) rates are associated with higher risk (e.g., of fiscal control), choosing them may reveal information about the taxpayer's willingness to take it in order to make tax savings. Another example of tax screening in the Polish tax law is the process of establishing a tax group of companies (hereinafter referred to as TGC).[6] This option allows for consolidation of tax revenues of a group of entities and thus, among other things, for more efficient use of tax losses and reduction in transfer pricing obligations and risks. At the same time, the establishment and operation of a TCG requires taxpayers to make additional effort and entails greater risk of tax control (where additional effort is directly linked to the establishment of the TCG, which is why the mechanism has been classified as tax screening rather than a tax ordeal). Other examples of potential tax screening could include the manner of compliance with the obligation to publish one's tax strategy, the frequency of filing applications, individual interpretations, or the use of non-standard depreciation rates. Tax screening can also be found in the area of local taxes as well as various types of public-law fees or the use of professional tax advisors and tax intermediaries by the taxpayer. No legislative document that has been analysed (such as an explanatory memorandum to a draft bill, impact assessment, or opinion in the consultation process) points to the possibility of obtaining information on taxpayers as a purpose of implementing the measures in question.

Clear tax frictions in the Polish tax system are the accounting principles, specifically the method of determining a company's profit to be distributed among the shareholders.[7] The need to demonstrate accounting profit for a dividend to be paid out is a mechanism that can limit shareholders' eagerness to generate significant additional tax costs that are simultaneously accounting costs (e.g., license fees or financing costs). Another example is the tax scheme that was used in the past, which limited taxation on sale of shares provided that they were donated within a zero-tax group prior to the sale.[8] In this case, the need to effectively transfer ownership of shares can be a significant deterrent for many taxpayers. Many tax frictions are linked to the way the financial market operates. For example, tax schemes build around a closed-end investment fund are rarely used due to high costs of establishing and running such an entity. Moreover, limited availability of certain de-

[5] Article 9a of the Act on Income Tax on Natural Persons, Journal of Laws of 2021, item 1128, consolidated text.

[6] Article 1a of the Corporate Income Tax Act, Journal of Laws of 2021, item 1800, consolidated text.

[7] Article 192 of the Commercial Code, Journal of Laws of 2000, No 94, item 1037.

[8] In accordance to the former wording of Article 24 of the Act on Income Tax on Natural Persons. However, the scheme is currently not applicable because of the wording of Article 24(5d) which provides that where shares are acquired by way of inheritance or donation, the expenses incurred by the testator or donor for the acquisition of those shares are tax-deductible.

rivatives or types of bonds may be an example of a tax friction. Other examples of tax frictions in Poland include certain invoicing rules, the need to use professional intermediaries for certain types of transactions, company registration rules, investment requirements concerning some types of tax relief or the requirement of public disclosure of selected tax data. Again, no legislative document that has been analysed (such as an explanatory memorandum to a draft bill, impact assessment, or opinion in the consultation process) points to the role of these solutions in limiting stimuli for tax avoidance.

Tax ordeals seem to be the least frequent mechanism countering information asymmetry in the Polish tax system. The analysis that has been carried out allowed to identify three solutions of this type. The first is the mandatory reporting of tax schemes imposed by Directive 2018/822 (the Mandatory Disclosure Rule, MDR).[9] the second is the procedure for using the relief due to running research and development (R&D) operations; and the third is the procedure for treating 50% of copyright revenue as tax-deductible. Reporting tax schemes obliges the taxpayer to inform tax authorities of the solutions they apply, which may cause reduction in tax liability. In principle, this solution is intended to limit the taxpayers' willingness to use tax optimisation schemes (which makes it an example of tax friction in this respect). However, in the case of legal mechanisms reducing taxation, such as the tax relief for R&D activities, accelerated depreciation or certain salary payment patterns, the need for reporting based on MDR will meet the definition of a tax ordeal since it imposes additional time-consuming obligations on taxpayers, which do not generate added value for them. As regards the R&D relief, the right to use this tax advantage is reserved exclusively to taxable persons who keep cost records enabling the costs of R&D activities to be distinguished from other costs that the relief does not apply to.[10] Keeping additional/extended cost records does not create added value for the taxpayer (but often involves costs of modifying the accounting system), yet it limits the use of the tax relief. Similarly, the requirement to collect documentation confirming performance of copyrighted work[11] is an additional time-consuming obligation that may discourage taxpayers from using this preference and in many cases delay the commencement of using it (until relevant documentation procedures are in place). Just as before, no legislative document that has been analysed (such as an explanatory memorandum to a draft bill, impact assessment, or opinion in the consultation process) indicates deliberate increasing of the burden placed on taxpayers with the intention to identify those who are actually entitled to benefit from the preference.

Conclusion

Information asymmetry among the taxpayers, the legislator, and the tax administration is an important challenge for the process of creation of the tax system and the efficiency of its operation. The challenge becomes all the more difficult as the complexity of national economies and the world economy increases, technological progress intensifies, and mobility of capital and people among countries rises. Research into tax compliance and the psychological and social aspects of taxpayers' decisions offers deeper understanding of the mechanisms of the functioning of the tax system and of undertaking initiatives that reduce the negative impact of information asymmetry. Three

[9] Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements (OJ EU L 139/2018, pp. 1-13).

[10] Article 9(1b) of the Corporate Income Tax Act, Journal of Laws of 2021, item 1800, consolidated text.

[11] This requirement does not arise directly from tax regulations but can be derived from a well-established line of interpretation, including the general interpretation of 18 September 2020, reference: DD3.8201.1.2018, or subsequent individual interpretations, for example the individual interpretation of 24 March 2021, reference: 0113-KDIPT3.4011.207.2019.12.JR.

of such solutions – tax screening, tax frictions, and tax ordeals – seem to be of key importance for the improvement of the efficiency of the tax mechanisms being implemented. However, analysis shows that in the Polish tax system these issues are only recognised to a limited extent, and the efficiency of tax screening, tax frictions, and tax ordeals is not analysed during the legislative process. It seems that adding this context to the analysis of the proposed solutions could increase the efficiency of the tax system and the tax authorities or at least allow avoiding pointless burdening of taxpayers with obligations that do not have the effect of reducing the negative impact of information asymmetry. One might think of a metaphor comparing the tax system and the system of traffic law on speed limits. In fact, tax screening, frictions, and ordeals are comparable to speed thresholds. In a basic scenario, these would be speed bumps affecting all the drivers in a uniform way. Based on their behaviour, information on their respect for the law and property could be obtained and adoption of a threshold would lead to a general reduction in the average speed on a given section of the road. However, adoption of such solutions will limit the flow of traffic. In the advanced version, tax screening, frictions and ordeals may be compared to traffic-channelling islands of limited width. They allow keeping the benefits of the speed bumps but simultaneously limit their negative effects on longer-axle vehicles (e.g., public transport vehicles). Similarly, modern tax arrangements should allow for differentiating among taxpayers based on their private information as well as for effective reduction in negative behaviours of individuals with minimum possible additional costs for the entire taxpayer population.

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