THE ROLE-PLAY
TAX OBEDIENCE IN COVID-19 TIMES*

The Tax Authority has submitted three cases to the court in which it sued taxpayers who refused to pay income tax according to an assessment determined by the income tax assessor. Each taxpayer had their own explanation for their refusal to pay the tax:

Ronni: Ronni is the owner of a small jewelry design business located in the Zefat open mall. Ronni started her business without equity capital by convincing her bank manager to approve a 50,000 shekels business loan that she committed to pay back over the course of five years. She rented a small store in the open mall for two years and signed a two-year contract obligating her to pay the rent monthly. She also purchased raw materials and produced jewelry to present in the store for sale. Three months after the store's opening, the Coronavirus pandemic broke out and she was forced to close the store unexpectedly and immediately. Her landlord agreed to meet her halfway and collected only half of the rent amount agreed on in the contract for as long as the lockdown due to the Coronavirus continued, but he could not waive the whole amount as he was in need of the income as well. The store was closed during the entire period of the lockdown and even though Ronni opened her doors as soon as the government allowed her to do so, there were still very few customers. Ronni believes that this is a combined result of the governmental ban on overseas tourism, as she was aiming for tourists as her main clientele, and the harsh financial state that many have suffered due to the pandemic which leaves with them little disposable income to spend on things like jewelry (a luxury and not a necessity). Ronni claims that the Coronavirus pandemic has brought her to the verge of bankruptcy. She was not eligible for financial aid from the state because she started her business less than a year before the start of the pandemic. Since she had made no profit, she was not able to make payments towards her debts or pay her taxes.

Asher: For the past 30 years, Asher has owned a grocery store located not far from Ronni's store. Unlike Ronni, he had customers coming in during the pandemic, a lot more than usual and a lot more than he expected. Every time a lockdown was announced, his store would fill with hysterical shoppers buying anything they could get their hands on. In general, since the break of the pandemic, people have spent more time at home, so their consumption of groceries and household products has increased. Asher suddenly saw customers he hadn't seen coming in for years; they were scared to shop in the big supermarkets or shopping centers due to the fear of contracting COVID-19, so they preferred the local grocery store, which seemed safer to them. Like any savvy business owner, Asher took advantage of

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* This role-play was developed by Nellie Munin and Yael Efron (2021) and used successfully in the tax law course at Zefat Academic College.

the situation and tastefully raised his prices a bit. After all, aren't supply and demand rules the basis of modern economics? Despite this, Asher is unwilling to pay his taxes. He is angry at his government that did not offer him any financial aid since he did not suffer a decrease in profits over the pandemic. Did he not pay taxes his whole life? Is he not scared to contract COVID-19 from his customers? Does he not provide an essential service while risking his life and his health? And, in any case, when he watched the news on TV, he was angered by all the poor business owners who had to close shop because the government deprived them of financial aid and decided that not paying his taxes was his way of protesting as a citizen in his country.

Sammy: Sammy owns a chain of well-known fashion stores that market clothing, accessories, and, in recent years, glasses. Sammy is known as one of the richest businessmen and as one of the largest employers in the country. After the outbreak of the pandemic, he did not hesitate to threaten the Israeli government. Along with a few other employers like him, he said that if the government does not allocate financial aid to them immediately, they will not allow their employees to return to work. The government gave in, and Sammy and a few others like him received government grants worth millions of shekels. Despite receiving the grant, Sammy fired 100 senior employees who received high salaries for their work, replacing them with new employees who earn less – while stating that he had done so due to difficulty stemming from the pandemic, when actually he had been planning this strategic move for a while, and was just waiting for the right moment. In addition, Sammy refuses to pay income tax. In his eyes, the government gave with one hand and is now trying to "take back" the grant with the other hand, masking it as income tax, and he will not have it. He read in the newspapers how many government grants have been given to businesses in Europe and in the United States. He has started seriously considering that maybe basing his business in Israel was not wise. He understands that the Israeli government has limited resources in comparison to these powerful countries. Still, he definitely thinks it is appropriate that Israel meets him and the other large-scale employers halfway, recognizing that if they would close their businesses in Israel then the unemployment rate would rise even higher than it has so far due to the COVID-19 pandemic.

<u>The exercise's schedule and outline</u>:

1) Set a date for submitting the written arguments to the instructors.
2) Set a date for classroom negotiations.
3) Classroom negotiations between the groups should last at least 45 minutes. Negotiators should attempt to reach an agreed-upon solution by that time.
4) Give the groups at least 30 minutes to present the agreements reached and/or points of disagreement between the participants.
5) Leave at least 20 minutes for exercise debrief and summary.
6) For further instructions and/or ideas regarding the exercise's setting, please consult part 2 of this book.

Instructions for performing this exercise

You belong to one of the following groups (see division into groups separately):

Group 1: the lawyers representing Ronni
Group 2: the lawyers representing Asher
Group 3: the lawyers representing Sammy
Group 4: the lawyers representing the tax authorities
Group 5: the court (the judges)

The tasks that are to be carried out by each of the groups:

1) You must establish a legal argument that supports your group's position, based on the basic bibliography for the exercise, listed below, and additional sources that you will locate yourselves.
2) You must devise a strategy for presenting your group's argument to the court.
3) Groups 1 through 3 must try to reach an agreement with the tax authorities (group 4) to avoid a court hearing and the risk of the court's unpredictable ruling. If you do reach an agreement, you will have to put it down on paper, signed by all group members (the lawyers for the individual and for the tax authorities). In addition to the written and signed agreement, you will have to submit a document that legally establishes the reasoning for the agreement you have reached. The court will either accept or reject your agreement, due to its possible impact on the overall tax policy and the message it conveys to the public.

The court's task (Group 5):

To receive a written legal argument from each group. To prepare questions for the oral arguments, and, after the court hearing, to present a ruling (with the legal reasoning for it, of course) for each of the three court cases.

Basic bibliography for the exercise:

Income Tax Ordinance Section 1 (Definition of the taxpayer) Section 2 (The obligation to pay tax) in the opening section 'it will be profitable, Definition of the source of income: business section 2(1), The relevant penal provisions.[2]

Nellie Munin & Karnit Malka-Tiv. *Tax Obedience in Corona Times* Journal of Multidisciplinary Research, St. Thomas University, Florida, Vol. 13(2), Autumn 2021.

Nellie Munin & Karnit Malka-Tiv. *Tax Obedience in Corona Times*, IUP Journal of Governance and Public Policy, vol. 16 (4), 46-68, 2022.

Bibliographic sources mentioned in the citations of these articles.

It is advisable and recommended to look for additional sources and use them to build a stronger legal foundation for your argument.

[2] Note that these sources refer to Israeli law, but the relevant definitions from any country's tax code can serve as basis of this role-play.