IMPROVED TAX COMPLIANCE

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Tax administrations moving to risk-based audit

- Traditional approach to improving tax compliance – strong deterrence
  - increase audit (scrutiny) frequency,
  - more extensive audits and
  - large penalties on cases of tax evasion.

- Result is
  - year-after-year audit
  - not judicious, may be wasteful, to routinely examine low-risk, compliant taxpayers
  - opportunity costs of roving examinations high.

- Modern tax administrations adopt risk management to effectively and efficiently manage compliance
  - base their tax system on self-assessment and voluntary compliance
Compliance obligations

• Four primary tax compliance obligations:
  
  • **Registration risk** - associated with inaccuracies in tax registration impacting tax yield
  
  • **Tax filing risk** - associated with a reduced tax yield because of the failure of taxpayers to file their returns
  
  • **Payment risk** - associated with the failure to pay the tax amounts due
  
  • **Declaration risk** - associated with incorrect tax returns, either due to error or as a deliberate act

• Curing these risk not to be confined only to deterrence – direct action, rather more holistic approach to regulatory and compliance management
Compliance management

• Focus is to improve compliance; also important to ensure that taxpayers understand their compliance obligation.

• Identify risk, assess them, prioritise them, and treatment them as per the tax types and taxpayer segments

• Do not ignore taxpayer services

• Study taxpayer behaviour and attitudes towards paying taxes
International experiences

• Normally 30 per cent of staff is on tax audit, investigation, and other verification related activities

• Taxpayer population is not homogeneous, and so segmentation into groups
  • This facilitates better identification, categorization and assessment of compliance risks, and so more focused risk treatments

• Compliance is considered a continuum – emphasis on voluntary compliance and enforcement actions to correct the infraction

• Focus on understanding the behaviour and incentives of taxpayers - address the cause rather than the symptoms of non-compliance

• Overall approach - to change the non-compliant behaviour by
  • promoting good compliance design
  • preventing non-compliance
  • responding to residual non-compliance robustly.
### Compliance strategies for different risk groups

<table>
<thead>
<tr>
<th><strong>Non-filer’s case</strong></th>
<th><strong>Risk assessment</strong></th>
<th><strong>Shadow economy</strong></th>
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</thead>
<tbody>
<tr>
<td>Review master file records for all registered taxpayers.</td>
<td>Risk assess for major tax types:</td>
<td>Select an economic area with known compliance issues {e.g., real estate sector}</td>
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<tr>
<td>Identify and flag all non-active taxpayers:</td>
<td>– corporate tax</td>
<td>Identify all taxpayer in this industry</td>
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<tr>
<td>– liquidated/bankrupt</td>
<td>– personal income tax</td>
<td>– importers/exporters</td>
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<td>– deceased</td>
<td>– employment tax</td>
<td>– manufacturers</td>
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<td>New master file records with separation of active vs. inactive taxpayers</td>
<td>Establish compliance profiles for three major tax processes:</td>
<td>– suppliers/retailers/wholesalers</td>
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<td>Establish a compliance programme for “stop-filers/non-filers”</td>
<td>– Filing</td>
<td>Utilise available external data to:</td>
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<td>– take a statistical sample of registered, non-filing taxpayers and verify appropriate compliance actions</td>
<td>– Payment</td>
<td>– identify non registered businesses</td>
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<td>Validate taxpayer segmentation of the population, based on some of the international best practices</td>
<td>– Reporting</td>
<td>– identify non-filers</td>
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<td></td>
<td>Establish past three year’s profiles</td>
<td>– identify compliance patterns for filing, payment and reporting</td>
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<td></td>
<td>– by industry</td>
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<td>– by taxpayer type</td>
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<td>– by operational results:</td>
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<td></td>
<td>‣ profit</td>
<td>Recommend appropriate compliance treatments for various segments following the compliance model.</td>
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<td>‣ loss</td>
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<td></td>
<td>‣ zero balance</td>
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</tbody>
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Risk in operation
Good practices, supporting taxpayers to improve compliance

- Public education and information through guides, brochures, website, FAQs
- Customised information for specific taxpayer segments
- Use of cost effective online service delivery channels
- Commitment of service delivery standards in taxpayer services
- Routinely updating information on changes in law and procedures
- Monitoring taxpayer perceptions & seeking feedback

Supporting taxpayers to compliance