

IMPROVED TAX COMPLIANCE

Sanjay Kumar

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

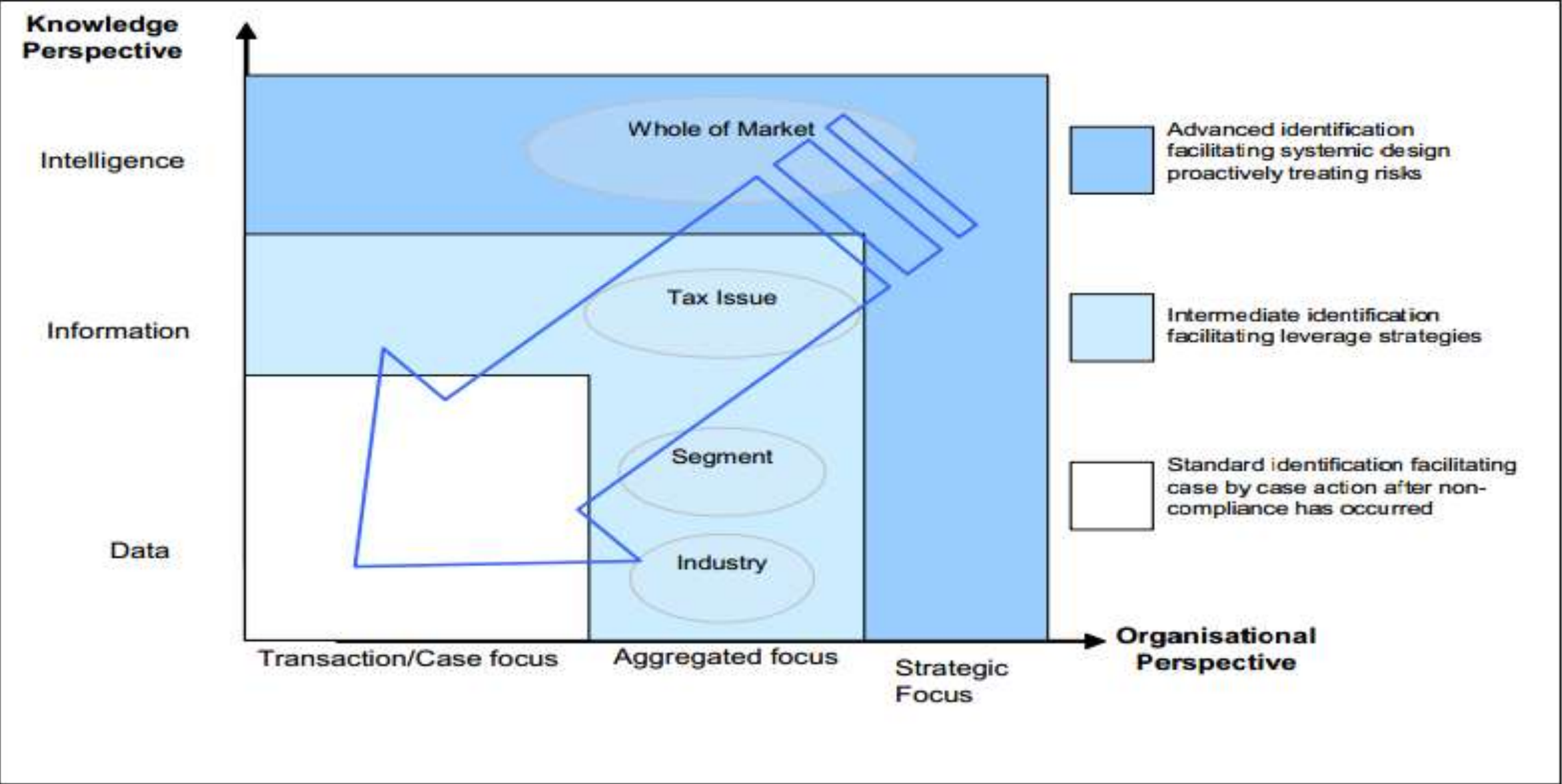
International experiences

- 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

Non-filer's case	Risk assessment	Shadow economy
<ul style="list-style-type: none"> ▶ Review master file records for all registered taxpayers. ▶ Identify and flag all non-active taxpayers: <ul style="list-style-type: none"> – liquidated/bankrupt – deceased ▶ New master file records with separation of active vs. inactive taxpayers ▶ Establish a compliance programme for “stop-filers/non-filers” <ul style="list-style-type: none"> – take a statistical sample of registered, non-filing taxpayers and verify appropriate compliance actions ▶ Validate taxpayer segmentation of the population, based on some of the international best practices 	<ul style="list-style-type: none"> ▶ Risk assess for major tax types: <ul style="list-style-type: none"> – corporate tax – personal income tax – employment tax ▶ Establish compliance profiles for three major tax processes: <ul style="list-style-type: none"> – Filing – Payment – Reporting ▶ Establish past three year's profiles <ul style="list-style-type: none"> – by industry – by taxpayer type – by operational results: <ul style="list-style-type: none"> ▶ profit ▶ loss ▶ zero balance 	<ul style="list-style-type: none"> ▶ Select an economic area with known compliance issues {e.g., real estate sector} ▶ Identify all taxpayer in this industry <ul style="list-style-type: none"> – importers/exporters – manufacturers – suppliers/retailers/wholesalers ▶ Utilise available external data to: <ul style="list-style-type: none"> – identify non registered businesses – identify non-filers – identify compliance patterns for filing, payment and reporting <p>Recommend appropriate compliance treatments for various segments following the compliance model.</p>

Risk in operation



Supporting taxpayers to compliance

