



Enhancing Risk-Based Compliance: Achievements, Challenges and Prospects

THE 8TH ANNUAL TAX SUMMIT (2022)

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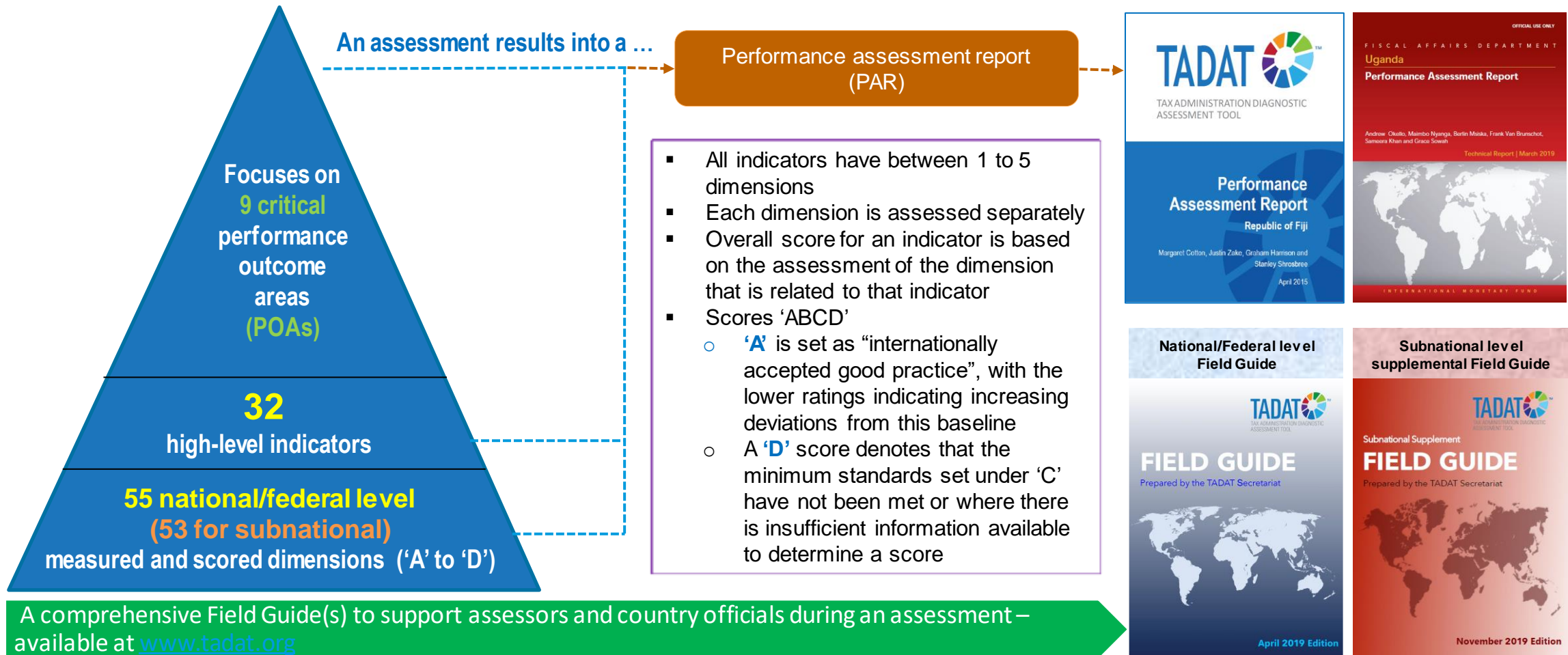
1. Broad presentation framework

- **Context and definitions**
 - The presentation is premised on good practices espoused by the Tax Administration Diagnostic Assessment Tool (TADAT) framework
 - Compliance management
 - Risk management
 - Compliance improvement planning (CIP)
- **Evidence on compliance management performance** from 144 TADAT assessments (covering status quo – existing situation and challenges)
 - Globally (144)
 - Sub-Saharan Africa (68)
- **Some reflection issues:** To what extent does quality service delivery by tax administrations enhance risk-based taxpayer compliance? Is digitalization enough?
- **Prospects** – a more holistic management approach illustrated by the TADAT linkages model

2. Context and related definitions

- The TADAT framework
 - Based on nine Performance Outcome Areas (POAs)
 - Provides an objective and standardized performance assessment of key areas of a country's system of tax administration
 - Identifies relative strengths and weaknesses
 - Provides a baseline for reform initiatives
- Compliance management
 - Facilitating and ensuring that taxpayers meet their tax obligations (registration, filing of returns, payment [or refund] of taxes, accurate reporting)
- Risk management
 - Identifying risks (intra-agency and external) to compliance management and revenue mobilization
- Compliance improvement planning (CIP) and management:
 - Documenting the identified risks and mitigating measures
 - Monitoring implementation and impact of the mitigating measures
 - Reviewing and refining CIP

3. The TADAT framework's hierarchy



4. TADAT compliance risk management indicators and dimensions (POA2)

POA2: Effective Risk Management

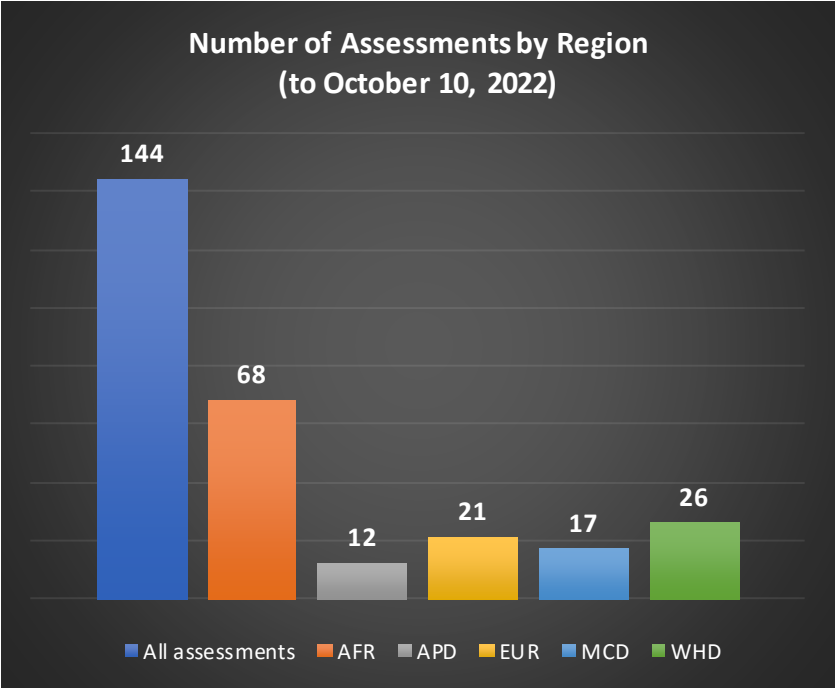
Desired outcome: Risks to revenue and tax administration operations are identified and managed effectively.

Indicators		Dimensions
P2-3	Identification, assessment, ranking, and quantification of compliance risks.	<ul style="list-style-type: none"> The extent of intelligence gathering and research to identify compliance risks in respect of the main tax obligations. The process used to assess, rank, and quantify taxpayer compliance risks.
P2-4	Mitigation of risks through a compliance improvement plan.	<ul style="list-style-type: none"> The degree to which the tax administration mitigates assessed risks to the tax system through a compliance improvement plan.
P2-5	Monitoring and evaluation of compliance risk mitigation activities.	<ul style="list-style-type: none"> The process used to monitor and evaluate the impact of compliance risk mitigation activities.

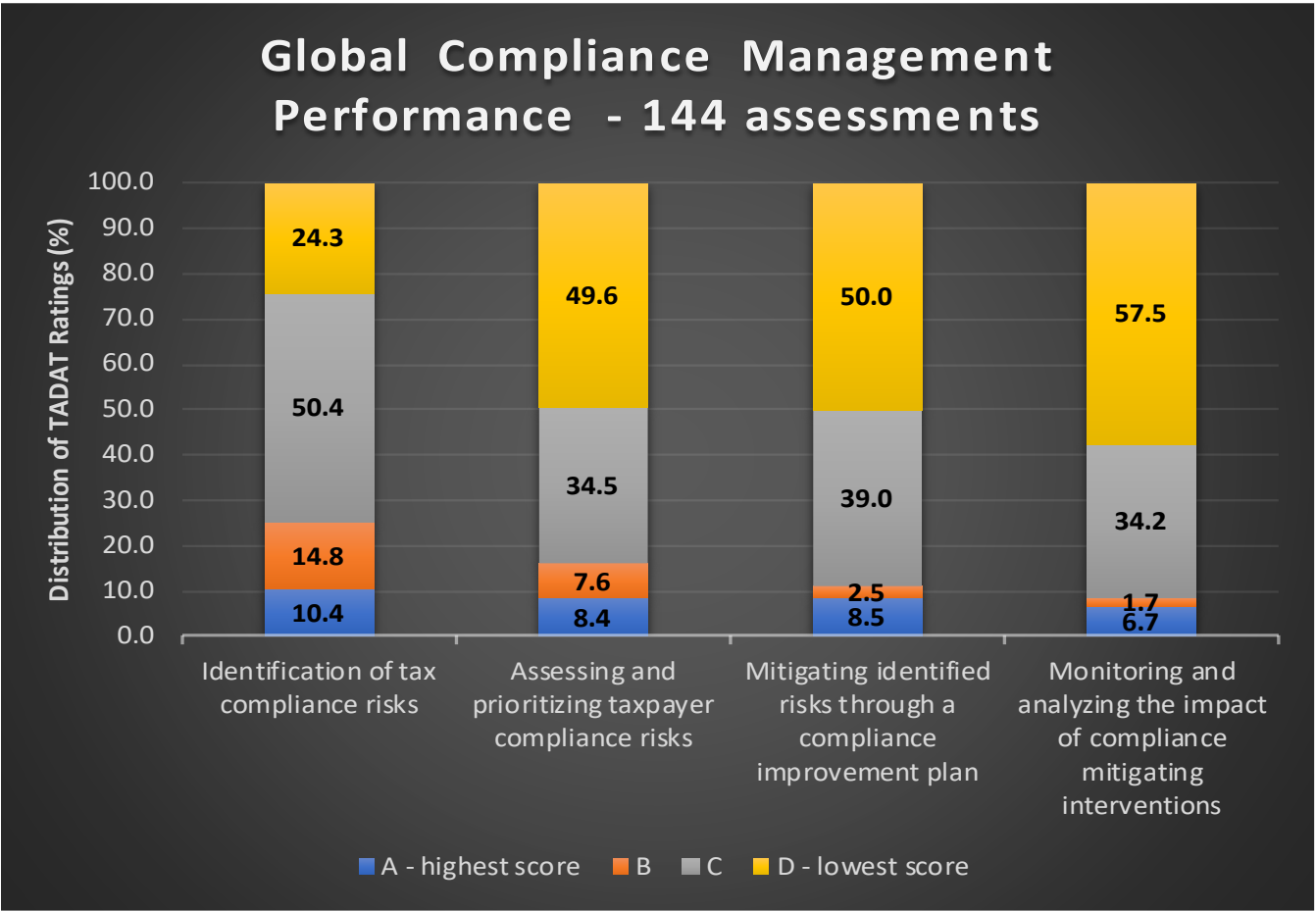
5. Risk differentiation – an approach

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">The ultimate compliance risk management outcome?</p>	Higher	<p>Quadrant 2. Key Taxpayers</p> <p>Strategy: Engage and support <i>Continuous monitoring</i> of the very largest taxpayers (excluding those considered most aggressive—who are in Quadrant 1).</p> <p>Treatment/intervention types can include: Annual compliance reviews – pre- or post-return filing; governance visits; specific reviews; targeted audits on industry/sector, specific issues or risks; direct targeted communications to increase awareness and visibility—increase the likelihood of detection and consequences of being caught; increasing certainty through, for example, Advance Pricing Agreements (APAs); issuing binding rulings; and use of alternative dispute resolution (ADR) mechanisms</p>	<p>Quadrant 1. Higher Risk Taxpayers</p> <p>Strategy: Detect and deter in real time <i>Continuous review</i> of the relatively few taxpayers who are most aggressive in their tax planning and non-compliance. The aim is to transform the relationship so that they comply voluntarily.</p> <p>Treatment/intervention type can include: Risk reviews that include extensive use of third party information and increasing information sharing with other tax administrations; comprehensive audits; and investigations and prosecutions;</p>
	Consequence of non-compliance	<p>Number of taxpayers:</p> <p>Estimated total turnover (in [currency]):</p> <p>Percentage share of total collections (%):</p>	<p>Number of taxpayers:</p> <p>Estimated total turnover (in [currency]):</p> <p>Percentage share of total collections (%):</p>
	Lower	<p>Quadrant 4. Lower Risk Taxpayers</p> <p>Strategy: Simplify and make compliance easy <i>Periodic monitoring</i> of all other taxpayers not in Quadrants 1, 2 and 3.</p> <p>Treatment/intervention types can include: Risk engine reports; advisory visits; extensive use of guides, brochures and electronic apps; governance checks; record keeping checks; targeted education and sensitization activities; broad communications approaches including media campaigns and multi-channel taxpayer service approaches; .</p>	<p>Quadrant 3. Medium Risk Taxpayers</p> <p>Strategy: Assist and encourage <i>Periodic review</i> of those taxpayers with certain large transactions or declining trend in effective tax performance. Thematic project based reviews. Often transactions specific.</p> <p>Treatment/intervention types can include: Specific risk reviews and audits; priority technical issues and rulings; advisory visits; outreach programs including seminars, workshops and targeted communications around identified issues; outbound calling</p>
		<p>Number of taxpayers:</p> <p>Estimated total turnover (in [currency]):</p> <p>Percentage share of total collections (%):</p>	<p>Number of taxpayers:</p> <p>Estimated total turnover (in [currency]):</p> <p>Percentage share of total collections (%):</p>
		Lower (compliant)	Higher (non-compliant)
		Likelihood of non-compliance	

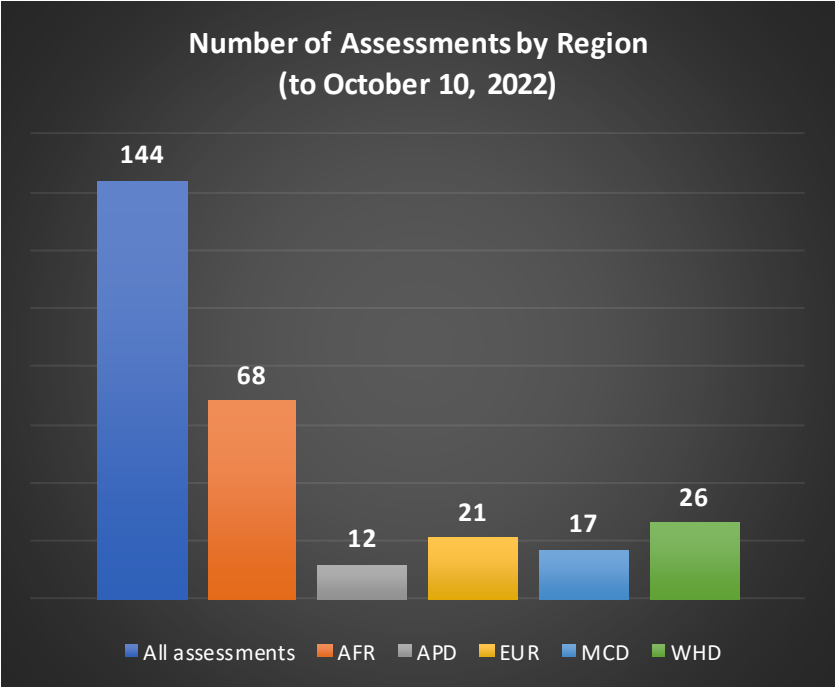
6. Evidence on risk compliance management performance from 144 TADAT assessments



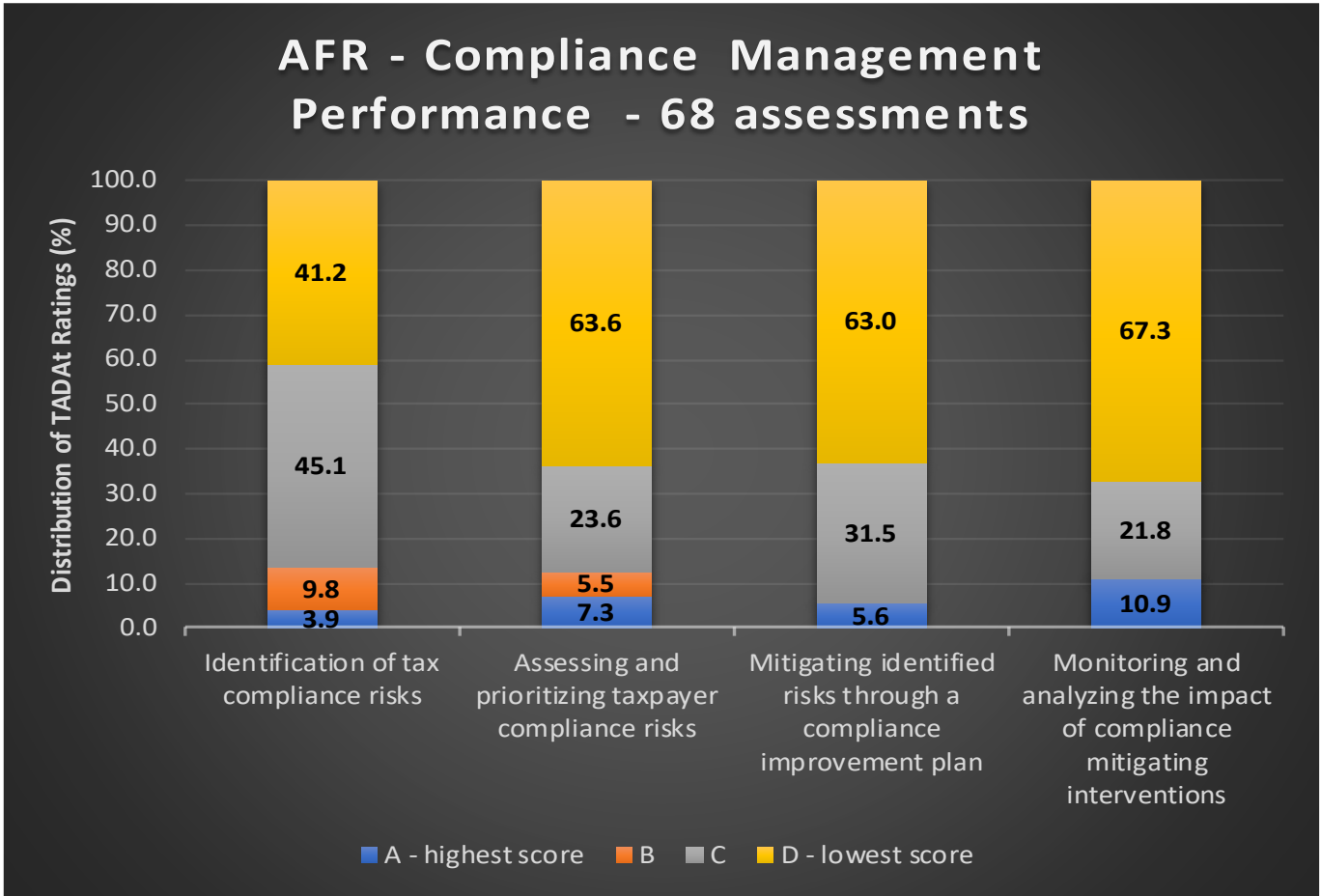
- AFR = Sub-Saharan Africa
- APD = Asia-Pacific Region
- EUR = Europe
- MCD = Middle East & Central Asia
- WHD = Americas and the Caribbean Region



6(a) Evidence on compliance management performance from AFR – 68 assessments



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7. Reflection issues: Service delivery and digitalization

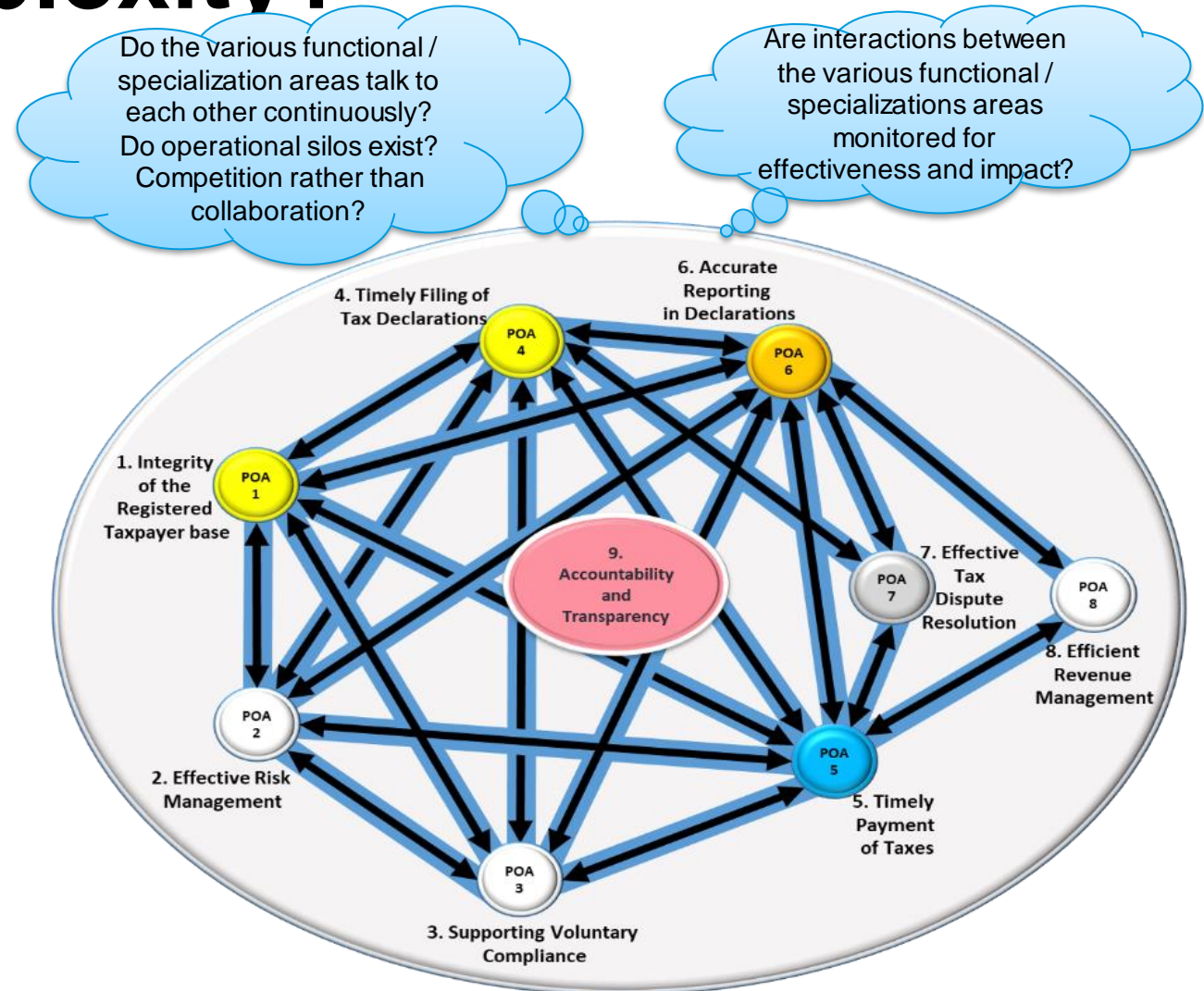
- To what extent does the quality-of-service delivery from tax administrations enhance risk-based taxpayer compliance?
 - To whom is risk-based compliance being directed – staff or taxpayers?
 - Integrated with service delivery approaches, for example, Customer Relationship Management staff and taxpayers?
 - Service delivery enhancement cannot be an after-thought – intra-organization and externally
- Is digitalization enough – what complements it?
 - Very important with many benefits including:
 - Increased efficiency and productivity
 - Better communication and taxpayer experience
 - Stronger decision support – hopefully faster and more qualitative decisions
 - But insufficient on its own – impacted negatively by silo-based (rather than holistic) management approaches

8. Prospects and next steps dealing with organizational complexity?

Dooley on organizational complexity

“...as the amount of differentiation that exists within different elements constituting the organization. This is often operationalized as the number of different professional specializations that exist within the organization... Organizational complexity can also be observed via differentiation in structure, authority and locus of control, and attributes of personnel, products, and technologies.”

Dooley, K. (2002), “Organizational Complexity,” International Encyclopedia of Business and Management, M. Warner (ed.), London: Thompson Learning, p. 5013-5022.



8(a) Prospects and next steps – TADAT linkages model (2)

Presence of POA dimensions within each POA									
Dimension and description	POA1	POA2	POA3	POA4	POA5	POA6	POA7	POA8	POA9
POA1 Integrity of the registered taxpayer base	2	6	6	5	2	5	-	-	1
POA2 Effective risk management	6	14	10	1	-	10	4	1	2
POA3 Supporting voluntary compliance	6	10	32	5	-	10	7	-	3
POA4 Timely filing of tax declarations	5	1	5	22	7	8	2	2	1
POA5 Timely payment of taxes	2	-	-	7	6	2	-	-	-
POA6 Accurate reporting of declarations	5	10	10	8	2	4	2	3	1
POA7 Effective tax dispute resolution	-	4	7	2	-	2	4	-	-
POA8 Efficient revenue management	-	1	-	2	-	3	-	-	-
POA9 Accountability and transparency	1	2	3	1	-	1	-	-	-

8 (b) Prospects and next steps – TADAT linkages model (2)

Cross-referencing a Logical Relationship Between Two TADAT Dimensions		
A	<p>P1-1-2</p> <p>Accuracy of the taxpayers register</p> <p>P2-3-1. Identification of tax compliance risks.</p>	<p>P2-3-1</p> <p>Identification of tax compliance risks</p> <p>P1-1-2. Accuracy of the taxpayers register.</p>
	<p>P4-12-1</p> <p>On-time filing of corporate income tax or equivalent for subnationals</p> <p>P5-17-1. Number of on-time value added tax payments or equivalent for subnationals.</p>	<p>P5-17-1</p> <p>Number of on-time value added tax payments or equivalent for subnationals</p> <p>P4-12-1. On-time filing of corporate income tax or equivalent for subnationals.</p>

Visuals of the 'Linkages' model are at:

https://connect.tadat.co.za/PowerBI/public/Tadat_dimension_linkages.html

8(c) Prospects and next steps – TADAT linkages model – POA2 snapshot (3)

POA 2: Effective Risk Management								
Description	P2-3-1	P2-3-2	P2-4	P2-5	P2-6-1	P2-6-2	P2-7-1	P2-7-2
	Identification of tax compliance risks	Assessing and prioritizing taxpayer compliance risks	Mitigating identified risks through a compliance improvement plan	Monitoring and analyzing the impact of compliance mitigating interventions	Management of operational risks	Testing, monitoring and evaluating the business continuity program	Existence of capacity and structures to manage human capital risks	Effective evaluation of human capital risks and related mitigation interventions
Direct associations between TADAT dimensions	P1-1-2 , Accuracy of the taxpayers register.	P1-2 , Detection of unregistered taxpayers.	P1-1-2 , Accuracy of the taxpayers register.	P2-3-2 , Assessing and prioritizing taxpayer compliance risks.	P1-1-1 , Adequacy of information held in the taxpayers register.	P2-6-1 , Management of operational risks.	P7-25 , Response to taxpayer dispute outcomes.	P2-6-2 , Testing, monitoring and evaluating the business continuity program.
	P1-2 , Detection of unregistered taxpayers.	P2-3-1 , Identification of tax compliance risks.	P1-2 , Detection of unregistered taxpayers.	P2-4 , Mitigating identified risks through a compliance improvement plan.	P2-6-2 , Testing, monitoring and evaluating the business continuity program.	P2-7-2 , Effective evaluation of human capital risks and related mitigation interventions.	P9-29-2 , Staff integrity assurance mechanisms.	

9. In summary

- Activities of a tax administration are interrelated and should be looked at holistically – enhancing risk-based compliance management tools should interact and support/is supported by other functional areas both intra-agency and externally
- A tax administration that focuses reform efforts mainly on specialist/functional areas may not deliver a positive rounded experience for:
 - the taxpayer
 - the tax administration itself
 - other stakeholders
 - domestic revenue mobilization in general
- Digitalization on its own may not enhance compliance responses from taxpayers – other functional areas must be invoked to make the experience (intra-organizational and taxpayer-wise) successful
- Success and value to all stakeholders should be measured multi-dimensionally – pulse or other surveys internally and externally
- Co-creation by intra-agency and external stakeholders yields better compliance

Thank you
Asanteni sana