WORKING GROUP DISCUSSION

TOPIC 2
Confronting taxpayer non-compliance

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Working Group Final Report

1. INTRODUCTION

1.1. The key role of tax administrators is to collect the fair share of taxes from their respective taxpayers. Given that there will always be taxpayers who do not comply with their tax obligations, whether due to ignorance, negligence or deliberate fraud, tax administrators have in place various strategies and programs to confront non-compliance.

1.2. This report presents an overview of the key points from the discussion of the working group on confronting non-compliance. It also highlights the main learning points.

2. LEGAL FRAMEWORK ON TAXPAYER COMPLIANCE

2.1. The tax legislation of members provides penalties for non-compliance with various tax obligations. The legislation also empowers members to obtain information and make adjustments to taxpayers' tax assessments. The common provisions are set out in the following paragraphs:

2.2. Penalties for non-compliance

2.2.1. While some members have self-assessment tax systems and others have official assessment regimes, the tax legislation generally provides penalties for non-compliance in the following areas:

- Failure to register
- Failure to file or late filing of tax returns
- Failure to pay or late payment of taxes

- Submission of incorrect returns or under-reporting of tax liabilities
- Failure to issue invoices or receipts
- Failure to comply with tax administrators' request for information or for obstructing the information collection process
- Fraud, tax evasion or abusive tax positions

2.3. Powers of tax administrators as provided for by legislation

2.3.1. Members are legally empowered to obtain information from taxpayers and make adjustments to tax assessments where necessary.

- Powers to obtain information – Most members have wide powers to gather information whether from the taxpayer directly or third parties. The law also provides most members with full and free access to all buildings, places, documents and computer programs.
- Powers to make adjustments to tax assessments – Members are empowered to raise additional assessments on taxpayers where it appears that tax liabilities are understated. The raising of additional assessment may be subject to time limits. For some members, this would be shorter for individuals and smaller entities compared to larger ones. In addition, there is no time limit to raise additional assessments for fraud cases for some members, but others face specific time limitations.

3. FRAMEWORK FOR TAX COMPLIANCE

3.1. All members seek to promote and encourage voluntary compliance in their taxpayer base. To this end, members recognize that compliance initiatives should not be confined to audit and investigation. An important part of ensuring compliance is taxpayer education. All members work to educate taxpayers on their tax obligations, and provide advice on the correct tax treatment. The streamlining of processes and simplification of rules to make voluntary compliance easy and low cost is another important strategy.

3.2. In addition, members also undertake audit and other verification activities to detect and deter non-compliance. A strong compliance presence is important to provide confidence to compliant taxpayers that there is fairness in the tax system, thereby reinforcing compliant behavior. It also deters non-compliance as taxpayers perceive a real risk of being caught if they do not comply.

3.3. Some strategies and practices adopted by members are highlighted in the following paragraphs.

3.4. Risk management approach

3.4.1. As resources are limited, many members adopt a risk management approach to identify, prioritize and ensure that resources are applied to treat the non-compliance areas that are of the highest risks. In this respect, some members risk profile their tax base to identify characteristics of non-compliance and also to aid in selecting cases for review and audit.

3.4.2. Some members also put in place a compliance management process to ensure a structured and consistent approach in planning and implementation of compliance activities.

3.5. Differentiated response based on root cause of non-compliance

3.5.1. Many members seek to understand the underlying reasons for non-compliance, and tailor their responses to address these root causes.

Responses are also differentiated based on the attitude of the taxpayers towards tax compliance.

3.5.2. Where taxpayers are willing to comply but are unable to do so due to a lack of understanding of their tax obligations, members will seek to aid their voluntary compliance by providing education, advice and prompt service. At the other end of the spectrum where taxpayers intentionally do not comply, members seek to detect this group and penalize them by applying the full force of law.

3.5.3. Some members also manage tax compliance by market segments, for example individuals, small and medium enterprises, micro enterprises etc. This enables better understanding of the compliance behavior of the different segments, and facilitates the customization of initiatives to increase compliance in each sector.

3.6. Focus on new taxpayers so that they can get it right from the start

3.6.1. Some members put in place programs to help taxpayers get their tax affairs right from the very beginning. For example, some members seek to educate new businesses about their tax obligations through briefings conducted at the point of business registration. Others prepared books and pamphlets for this purpose.

3.6.2. Some members also seek to inculcate the right attitude towards paying taxes by reaching out to the young through special programs and competitions to introduce taxes to school children.

3.7. Transparency about compliance activities

3.7.1. Many members believe that taking an open and transparent approach towards compliance activities will encourage voluntary compliance. Hence, they regularly publish their compliance programs, describing the highest priority risks and the various programs that will be implemented to address those risks. Some members also publish rankings of industries where tax compliance is particularly low.

3.7.2. Other members launch marketing campaigns targeted at specific groups of taxpayers to encourage voluntary compliance or leverage on the mass media to disseminate information about major events or changes to the tax system that affect a large group of taxpayers.

3.8. Treatment Dictionary

3.8.1. To better manage compliance knowledge, one member is developing a tool called the “Treatment Dictionary” to assist in the designing and delivery of treatments to address compliance risks effectively and efficiently in a consistent and logical way. The dictionary provides treatment options and outcome measurement indicators grouped with broadly similar intent and characteristics. This tool is intended to build a suite of repeatable treatments to address similar problems while enabling innovative approaches.

4. ESTABLISHMENT OF A SPECIAL UNIT FOR NON-COMPLIANCE

4.1. Members do not adopt a standardized organization structure for their compliance function.

4.2. Many members have centralized units to handle fraud and other serious non-compliance, including illegal activities, offshore tax evasion etc. Others do not have a dedicated unit focused on monitoring non-compliance and the various revenue offices nationwide are responsible in monitoring compliance.

4.3. A few members have set up centralized units to take charge of intelligence and strategic compliance needs. These units exist to drive organization wide compliance strategy and policy, ensure that systems in place to identify risk across the organization, and that appropriate resources are applied to high risk areas. They also have a role to play to enhancing compliance capabilities of tax officers through knowledge sharing.

5. TAX INFORMATION MANAGEMENT

5.1. Most members manage their tax data using computerized systems. The data captured electronically includes internal data such as information reported in tax returns as well as external data such as details on tax invoices filed and data from third parties, for example, the Customs and Excise department.

5.2. Many members also leverage on technology to support their compliance activities. For example, auditors may perform linkage analysis using various analysis programs, or case selection may be aided with analysis using data-warehouse, Statistical Analysis Software Query Tool or other electronic means.

6. HOW TO DETECT NON-FILER AND UNDECLARATED INCOME / ASSETS

6.1. In detecting non-filer and undeclared income / assets, members rely on extensive analysis of information and data. Hence, the availability of good, reliable and comprehensive data, both internal and external, is of utmost importance. The following are some common methods members used to identify non-compliant taxpayers.

6.2. Matching of data from third party

6.2.1. The matching of taxpayers' tax reporting data with independent third party information is a commonly used tool to detect persons who fail to lodge returns or who under report income / assets.

6.2.2. Members use data from a wide range of third parties. One example will be banks and other finance providers. Here, the data matching will identify taxpayers who have gaps in the income declared in tax returns vis-à-vis that provided to the finance providers. Another example will be the matching of rental income reported in tax returns with the tenancy agreements filed with the Stamp Office. A third example will be matching of data from suppliers and customers in the supply chain. This will involve the matching of income and / or expenses claim of a taxpayer with the purchases information of downstream customers and /or sales record of upstream suppliers to verify accuracy of tax reporting.

6.2.3. To facilitate the collection of information, one member has in place legislation mandating the submission of various third party information, including foreign exchange transactions exceeding a specific amount, suspicious financial transactions and currency transaction reports relating to tax evasion, patents registered etc.

6.3. Benchmarking ratios and industry norms

6.3.1. The use of industry benchmarks and industry norms serves as a useful tool to identify cases for audit / verification activities. A taxpayer who does not report within its benchmarking range may possibly be under-declaring its income. Loss making taxpayers may warrant selection for audit if they are operating in an industry that is generally profitable.

6.3.2. One member publishes benchmarks for a broad range of small businesses on its website to help businesses compare their performance against others and to provide taxpayers with guidance on what the tax administrator would normally expect to see in their reporting.

6.4. Whistle-blowing or informant program

6.4.1. Informants or whistle blowers are a useful source of information for selecting cases to audit or investigate. Some members provide monetary rewards to informants to encourage whistle blowing.

6.5. Encouraging consumers to ask for invoices and receipts

6.5.1. Another way to encourage proper reporting of cash transactions is through measures that ensure invoices are issued for cash receipts. Some members encourage consumers to report instances of non-issuance of invoices for cash receipts by providing monetary rewards. Others offer consumers a chance to win instant prizes via SMS for every official receipt received.

6.5.2. One member implemented an electronic tax invoice regime to detect tax evasion using fake tax invoices. Under this regime, businesses are required to issue electronic invoices instead of paper tax invoices, and transmit issuance statements to the tax administrator on a real time basis.

6.6. Other methods

6.6.1. Various members also utilized other innovative methods to detect non-compliance. An example is web analysis. Web analysis is useful in helping to understand the attitudes of taxpayers. The free and open dialogues on the internet have revealed ways to minimise tax obligations. There are also discussions of people outside the tax system and some taxpayers advertise for cash jobs online.

6.6.2. Increasingly, members are relying on technology to identify undeclared income / assets. Some members use analytics or predictive modeling software to select high risk cases for compliance review. Others built a computerized case selection model which utilized statistical analysis to process data from tax filing and other sources to select cases.

6.6.3. Some members also use technology to compare taxpayers' declared income with their respective estimated increases in asset values and consumption expenditures over a certain period to identify potential under-declarations. Similar comparisons of changes in asset values and living standards (including overseas holidays taken and credit card usage) are also performed for company owners and their family members.

7. CONCLUSION

7.1. There is general consensus that voluntary compliance is the long term desired outcome for tax administration.

7.2. To help taxpayers comply voluntarily, compliance initiatives should not be limited to audit / verification activities. It should encompass a whole series of measures, including simplification of tax rules, streamlining of processes as well as programs to educate and provide prompt advice to taxpayers.

7.3. However, to safeguard the integrity of the tax system and assure our compliant taxpayers that dishonest ones are identified and dealt with promptly and appropriately, members agree that it is imperative for us to build strong capabilities to detect and address non-compliance. In many ways, this SGATAR meeting has facilitated the sharing of various members' experience in combating non-compliance. The learning points that we are taking back will prove to be invaluable when we are designing new initiatives to confront non-compliance.