



Special Series on Fiscal Policies to Respond to COVID-19

This is one of a series of notes produced by the Fiscal Affairs Department to help members address the COVID emergency. The views expressed in this note are those of IMF staff and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

Revenue Administration: Reinvigorating Operations to Safeguard Collection and Compliance

The far-reaching lockdown of private and public sectors implemented in many countries to contain the spread of COVID-19 is significantly impacting revenue administrations' operations, refocusing them mainly on implementing governments' measures, maintaining essential operations of the revenue and trade systems, and protecting the health of officials and the wider population. When COVID-19 is contained and lockdown measures are loosened, revenue agencies will have to be ready to reinvigorate their operations, restore the normal functioning of the revenue and trade systems, safeguard tax collection and recover compliance to pre-crisis levels. This will be crucial to secure revenue needs by governments—notably in low-income countries with weak fiscal capacity, and also in countries with large social protection programs.

This note provides guidance on how revenue agencies can address these priorities and start recovering operations, recognizing that countries will be at different stages of how they are affected by the crisis.¹ This will be a demanding task, in the context of a potentially slow and uneven recovery, with many businesses negatively impacted while others have benefitted. Inevitably, taxpayer compliance levels will have deteriorated from the economic downturn, exacerbated by administrations' inability to maintain compliance and payment enforcement. Restoring revenue streams and taxpayers' compliance to pre-crisis levels will demand timely and effective preparation to ensure a successful reinvigoration of operations.

The recovery phase commences when revenue agencies can begin to scale up their operations, and taxpayers resume their business activities; though many may continue under economic stress, others will have to cease operations, and new business may emerge. This can be expected to be a staged process, over a long period of time, as restrictive measures will most likely only be gradually phased out.

The planning of the recovery phase should start early, to allow sufficient time to put in place all necessary arrangements. It should carefully consider implementation capabilities and local conditions and how significantly the level of operations and taxpayers' compliance have been impacted by the crisis. The pace of recovery will also depend on other external factors; including any post crisis relief measures implemented by governments to further stimulate the economy.

Please direct any questions and comments on this note to cdsupport-revenue@imf.org.

¹ This note complements previous IMF Special Series notes: *Tax and Customs Administration Responses*, April 6, 2020; *Business Continuity for Revenue Administrations*, April 20, 2020; and *Priority Measures for Customs Administrations*, April 20, 2020—all published at: <https://www.imf.org/en/Publications/SPROLLS/covid19-special-notes>.

The note draws on revenue administrations' current responses to the COVID-19 crisis and previous IMF guidance—adapted to the special circumstances of the current crisis. It addresses both tax and customs processes. Although both have distinct characteristics, with emphasis on revenue collection for tax and on safety and trade facilitation for Customs, the general approach is similar.² Specific measures are provided under six broad headings: (I) Key Risks to Address During the Recovery Phase; (II) Organizing the Management of the Recovery Phase; (III) Recovering Taxpayers' Compliance and Payment Levels; (IV) Managing the Recovery of Revenue Administration Core Business Processes; (V) Priorities for Revenue Administration Support Functions; and (VI) Some Key Lessons: Business Continuity, Digitalization, and Risk-based Compliance Management.

I. KEY RISKS TO ADDRESS DURING THE RECOVERY PHASE

In restoring the revenue administration's operations and reinvigorating their attention to revenue streams and taxpayer compliance (or trader where it concerns customs), the administration will be confronted with specific challenges that must be addressed.

- Restrictions on availability of staff may still apply, e.g. due to ongoing social distancing measures. In addition, employees and their relatives may have also been affected by the COVID-19 virus, and continued measures to protect staff and taxpayers must remain a first priority. This will imply maintaining part of the business continuity measures, as described in the IMF Special Series note on this topic.³
- Taxpayers, and traders, will need to get back to normal routines for filing of tax returns and customs declarations, and payment, while they may still be recovering from the economic downturn and the impact on health and wellbeing of their staff. This will require administrations to continue (and in some cases intensify) taxpayer communication and undertake careful monitoring of taxpayers' filing and payment behavior, to identify emerging trends and compliance risks.
- New risks will need to be identified and considered, e.g. taxpayers exploiting crisis relief/stimulus measures, and taxpayers and traders in specific business sectors that are highly affected by the crisis—specifically for large and medium-size taxpayers, substantial revenues will be at risk. The use of relief and stimulus provisions may require stringent scrutiny, to prevent or detect possible abuse.
- Phasing out temporary government measures, including deferred filing or payment dates, and temporary exemptions, will require specific attention, as many taxpayers may remain in a fragile financial position. Ongoing temporary relief measures, including installment plans, may still be needed.⁴
- Revenue administrations will be confronted with backlogs that need to be carefully prioritized and managed: e.g. outstanding tax arrears, audit cases, unanswered requests (e.g. appeals or advance ruling requests). This will require an informed and detailed planning complemented with dedicated task forces in the respective operational areas to address the backlogs.

² More specific guidance on Customs is included in the IMF Special Series note *Priority Measures for Customs Administrations* (Ibid).

³ See IMF Special Series note *Business Continuity for Revenue Administrations* (Ibid).

⁴ These measures must be carefully balanced against the effect that they will have on the government budget. Massive use of relief measures, including regular options for deferral and installment plans, will pose a substantial risk to the revenue stream. While some taxpayers will need ongoing payment arrangements, specifically for debts accrued before and during the crisis, it is important that taxpayers are transitioned back to regular payment cycles to the extent possible.

II. ORGANIZING THE MANAGEMENT OF THE RECOVERY PHASE

Typically, crisis management makes a clear distinction between the crisis and a post-crisis period—but for the COVID-19 crisis, such a distinction will be difficult to make. As emphasized earlier, restoring operations after the crisis will be a step-by-step process and preparations need to start early. When preparing recovery measures, revenue administrations should prioritize: (i) the safety and health of staff, and taxpayers; (ii) actions to safeguard revenues; and, (iii) ensuring the availability of taxpayer services, all while securing taxpayers' compliance. For this, administrations will need to set up temporary management arrangements for the recovery phase and a clear planning process.

Setting up Special Management Arrangements

The challenges in the recovery phase will be similar to those during the crisis, and essential processes and procedures need to be prepared early:

- Assign formal responsibility for preparing the recovery process, so that preparation will start early.
- Set up a recovery coordination team (RCT). An RCT would typically be largely the same group as the Crisis Management Group (CMG), however it would have a specific post-crisis focus.⁵
- Ensure that a specific responsibility within the RCT is assigned for a post-crisis revenue collection action plan (RCAP), as further discussed under section III.
- Task the RCT with the development of recovery plans, to be approved by management, coordination of activities based on frequent reports from organizational units, and escalation of decision-making, as needed.
- Ensure a specific focus is given to HR management in protecting the health, safety and wellbeing of staff and taxpayers, and to prepare the workforce for increased flexibility to deal with new business priorities (see section V).
- Engage with the Ministry of Finance (or equivalent oversight body) and other government institutions to analyze the impact of the crisis on economic activity, coordinate activities and ensure support and funding for the recovery process.
- Engage and coordinate with other stakeholders, including representatives of the business community.

Launching Timely Planning

Early planning will help the administration's organizational units prepare for the resumption of operations. With remaining restrictions and backlogs, 'business-as-usual' will not likely be achieved for some time. Careful planning and prioritizing will be needed, during the impact phase, to align all activities during the recovery:

- Start the preparation for recovery early: the (core) RCT should develop a Recovery Plan, that includes: (i) restoring core and support processes and addressing backlogs—including measures for the health and safety of staff; and, (ii) a post-crisis revenue collection action plan (see under section III).
- Develop specific plans for each organizational unit and adapt as needed.

⁵ Though the RCT and CMG have different responsibilities, activities may partly overlap during the recovery planning stage.

- Align the Recovery Plan with the government actions for economic recovery and with the recovery plans of other government agencies, including by pro-actively providing recommendations to facilitate a “whole of government” approach.
- Align the broader planning cycle on both the strategic and operational levels with the priorities identified in the Recovery Plan.
- Ensure that budget consequences are identified early, and decisions are taken in a timely manner.
- Recommend necessary changes to legislation and other regulations and prepare necessary actions expeditiously.
- Be innovative (e.g. in setting-up work-arounds) if current procedures are inappropriate to expedite necessary actions.

III. RECOVERING TAXPAYERS’ COMPLIANCE AND PAYMENT LEVELS

Securing revenue streams and bringing taxpayers’ compliance behavior back to pre-crisis levels, and ready for further improving, will be a key priority for revenue administrations. During the crisis, filing, declaration and payment compliance may have deteriorated due to extended deadlines, limited availability of staff and taxpayers weakened financial positions. In addition, revenue administrations may face a surge in workload from taxpayer requests for assistance and support. This may cause a substantial risk to the revenue stream if not adequately managed. When preparing for the recovery phase, revenue administrations should consider adopting the following measures.

- Develop a post-crisis revenue collection action plan (RCAP) that sets out the necessary actions to restore compliance and secure revenue streams. Key steps for developing such a plan are summarized in Box 1.
- Prioritize a risk-based approach in developing the RCAP, which will require: identifying industries have been impacted by the crisis, and those which may have benefitted. An assessment of new and emerging risks related to the crisis will be needed.
- Strengthen monitoring capabilities, with a focus on key industries and the largest taxpayers and contributors to the budget. Changes in compliance behavior need to be detected early, and timely addressed.
- Ensure a focus on taxpayers who face financial difficulties providing support (e.g. payment plans) for them as they gradually return to full compliance levels. In addition, maintain a level of collection enforcement activity and on those that have been less affected—ensuring that they continue to meet their tax liabilities, notably paying on time.
- Maintain some measures taken during the crisis, e.g. deferred payment arrangements, which may still be needed. When considering a post-crisis extension, ensure that the relief measures are targeted, including to industries that have been specifically affected by the crisis, to secure the revenue streams to the extent possible. For large businesses, an individual approach should be followed, based on clear internal guidelines that ensure even-handed treatment.
- Evaluate trade facilitation measures implemented for the crisis (e.g. electronic documents, e-signatures, simplified declarations, etc.) and identify those that have improved customs procedures to preserve them; phase out those that have created compliance risks.

Box 1. Steps to Develop a Post-crisis Revenue Collection Action Plan (RCAP)

The RCAP should be developed as early as possible during the crisis period ideally before a country has been fully affected by the crisis. The administration's business continuity plan (BCP), if available, can provide a strong basis for key measures to be implemented.

- Assign responsibility for post-crisis revenue collection measures to an existing risk management committee, or to a specific team, as needed. Identify key issues and risks to address; assess for which groups of taxpayers (segments, industries) these risks apply and what their impact may be.
- Ensure that the plan provides for updated: (i) segmentation of taxpayers/traders/debtors; (ii) targeted recovery procedures based on the characteristics for the various groups and industries; (iii) identification of opportunities coming out of the crisis, such as more innovative approaches in service delivery and compliance approaches; and (iv) targeted interventions for priority compliance risks.
- Develop targeted actions for taxpayer segments, with a focus on promoting compliance, securing collection and addressing any major compliance risks.
- Maintain engagement with and visibility to taxpayers and other stakeholders, via pro-active communication.
- Where possible, recognize the need to support business liquidity through fast track of VAT refunds and informing taxpayers of tax deferrals.
- Initiate and devise necessary changes to regulations and internal procedures, communication procedures, taxpayer services, and enforcement interventions, such as audits and collection measures, in line with the phasing out of temporary (relief) measures.
- Make sure the agreed actions are included in the action plans for each organizational unit.
- Consider establishing a dedicated central collection team to direct field office operations and deal with the largest debtors on an individual basis.
- Assign staff capacity based on the agreed priority actions.
- Monitor progress and results of the action plan and adjust as needed.
- Communicate the RCAP and its priorities to all staff as well as to external stakeholders, including taxpayers.

IV. MANAGING THE RECOVERY OF REVENUE ADMINISTRATION CORE BUSINESS PROCESSES

Once restrictions are lifted, and substantial numbers of staff can work from the office again (or are able to operate effectively via working-from-home arrangements), operations can slowly be resumed, in accordance with the Recovery Plan, and the priorities set out in the RCAP.

Table 1 below provides key recovery measures for resuming core revenue administration processes, namely, (a) tax return filing, customs declaration, and payment; (b) compliance enforcement; (c) taxpayer communication and services; and (d) engaging taxpayers, traders and their agents. Within compliance enforcement priority measures are recommended on risk analysis, management of large taxpayers/trades, and audit. All these measures will need to be considered in the context of specific circumstances for each country and administration.

Table 1. Recovery Measures for Revenue Administration Core Business Processes

Core Business Process	Measures
<p>Tax Return Filing, Customs Declaration, and Payment</p>	<ul style="list-style-type: none"> • Communicate filing obligations in a timely fashion, after these obligations were suspended or not enforced. • Reinforce standard customs declaration requirements. • Develop and expand online processes for filing and payment, as needed, to reduce face-to-face contact and improve efficiency. • Deploy strategies in line with the RCAP priorities, oriented to the different types of behavior of non-filing or non-payment. For example: <ul style="list-style-type: none"> ◦ Use mass emails, continue to engage with taxpayers, reminding them of their filing and payment obligations; make phone calls to important cases; and use visits in more complex cases. • When considering continuing deferral of payments, target relief measures to specific industries and businesses most affected by the crisis, while continuing a more case-based approach to other businesses, to balance workload and administrative burden on the taxpayer with the potential impact that such measures have on the revenue collection. • Set out a policy for installment plan requests, adopting a generic approach for smaller debts, focusing attention on the larger debts. • Ensure early detection of new arrears and prompt follow-up. • Leverage the call center to place outgoing debt collection calls. • Assign high priority to recover arrears involving large and new debt cases, with a specific focus on withholding taxes (where taxpayers have collected revenue and are holding it “in trust”). • Temporarily assign staff from other organizational units where necessary and appropriate. • Only follow-up on debt cases with a prospect of recovery, prioritizing the largest debts and write-off arrears deemed irrecoverable.
<p>Compliance Enforcement</p> <ul style="list-style-type: none"> • <i>Risk analysis and assessment</i> • <i>Management of large taxpayers (including large traders)</i> • <i>Audit program</i> 	<ul style="list-style-type: none"> • Re-run the taxpayer segmentation models (or for administrations that have not used them, develop and apply them), as risk profiles may have significantly changed. • Identify new risks (particularly any that relate to the relief measures) and adjust risk models and treatment strategies, also addressing risks of potential fraudulent use of relief measures. • Include entitlement of importers and exporters to additional trade facilitation measures, using the HS code, in the risk assessment process, to help target verification and audit activities. • Identify new sources of information that may be needed for cross-checking processes (e.g. bankruptcy cases, relief subsidies). For Customs, this could include information of land and sea carriers, or port authorities. • Shift the focus of the large taxpayer audit program toward industries most affected by the crisis ('losers' and 'winners'). • Where a Large Taxpayer Office (LTO) is not in place, consider setting up a central team to deal with largest taxpayers, • Strengthen cooperative engagement with large taxpayers to monitor progress in restoring business operations and revenue flows. • Continue or expand assignment of additional staff to LTO so that priority initiatives can be actioned. • Consider streamlining desk-based queries and audits and field audit visits to focus on single compliance issues, to maintain visibility in enforcement activities • Ensure withholding tax mechanisms are restored as soon as possible. • Preserve pre-refund audits only for high-risk claims. • Set up a post-clearance compliance audit plan for Customs to focus on the risks of abuse of benefits provided during emergency.
<p>Taxpayer Communication and Services</p>	<ul style="list-style-type: none"> • Actively communicate the administration's commitment to helping taxpayers meet their tax obligations as they restore their businesses (e.g. via letters, newspapers, social media). • Consider messages on discouraging fraudulent relief claims where appropriate. • Inform taxpayers on the phasing out of any relief measures. • Give specific attention to registration and deregistration of businesses, as the crisis may lead to a high number of businesses closures and new startups. • Ensure capacity is in place to respond to questions from taxpayers (call center, social media), extend service hours as needed. • Encourage use of online services, as face-to-face services may remain restricted for a longer period. Consider adopting an appointment-only approach.
<p>Engaging taxpayers, traders and their agents</p>	<ul style="list-style-type: none"> • Have frequent meetings with representative bodies of taxpayers, traders and (tax) agents to inform them of response strategies and seek feedback.

V. PRIORITIES FOR REVENUE ADMINISTRATION KEY SUPPORT FUNCTIONS

Human resources and Information and Communication Technology are two critical support functions in any crisis that involves disruption of operations. The COVID-19 crisis has had a particular impact in disrupting revenue administration operations, notably in countries that have adopted lockdown measures to contain the spread of corona virus. Thus, during the crisis managing well these functions helps better cope with the crisis, as discussed in the IMF Special Series note on business continuity, and they are also critically important for the recovery phase.

The role of the human resources (HR) function during and after a crisis is critical in ensuring staff preparedness to respond to crisis demands. It includes continuing with measures implemented during the crisis supporting the health, safety, and welfare of employees. HR management must also prepare to support the operational need for agility and flexibility of its workforce.

Information and Communication Technology (ICT) systems are critical infrastructure for revenue administrations and the crisis will put extra demands on it. Managing competing business demands for system changes for stimulus and relief measures, increased internal demand to support remote working arrangements, and improved e-services for taxpayers and traders will require rigorous planning and prioritization. Measures for supporting processes are outlined in Table 2.

Support Process	Measures
Human Resource Management	<ul style="list-style-type: none"> • Continue to assess health, safety, and welfare risks of employees and taxpayers, seek expert medical advice and implement response measures, as needed. • Monitor staff availability, identify gaps in workforce and facilitate temporary re-assignment (or hiring) of employees to priority tasks in the post-crisis period. • Continue to support increased working from home (WFH) arrangements, e.g. for acquiring necessary equipment and flexible working hours arrangements. • Arrange for overtime or shift arrangements (or extend WFH) as needed, but also create some relief for staff that has had extra workloads during the crisis. • Ensure funding for additional costs related to specific arrangements. • Reassess staffing needs based on new taxpayer risks and begin recruitment or reassignment of staff.
Information and Communication Technology	<ul style="list-style-type: none"> • Ensure that relevant ICT systems changes are made when relief and stimulus measures are introduced or expire. • Improve internal service delivery for employees to support increased level of remote working arrangements. • Estimate if ICT system capacity needs to be increased to accommodate increased demand after the crisis period. • Stress test ICT security arrangements (including firewalls) to ensure protection of data from vulnerability, particularly if temporary IT changes were made to facilitate remote access for staff and/or taxpayers.

VI. SOME KEY LESSONS—BUSINESS CONTINUITY, DIGITALIZATION, AND RISK-BASED COMPLIANCE MANAGEMENT

COVID-19 crisis has impacted revenue administrations significantly, directly and indirectly. Considerable demands have been placed on them to implement governments' responses to the crisis. Lockdown measures have limited their operations and possibilities for engage with taxpayers. Economic downturn is impacting significantly the ability of many taxpayers negatively affected to meet their obligations. Experience is showing that administrations which have been better prepared, and able to make progress, in three key dimensions—business continuity, digitalization, and risk-based compliance management—have been better positioned to cope with the crisis and respond to the demands placed on them.

Business continuity—Having a plan to manage the continuity of revenue administration operations when events disrupt their operations, including by affecting availability of staff and/or destroying administrations' assets (e.g. ICT systems or physical infrastructure), has proved to be critical. It enables the organization of work under emergency and distressing conditions. In turn, this will make administrations more resilient and help prepare for the next crisis.⁶

Digitalized revenue administrations and taxpayers' compliance—Administrations that have progressed on digitalizing their internal processes and taxpayer's compliance cycle have been able to sustain operations while practicing the social distancing to contain the spread of corona virus. Thus, it has been possible to maintain regular compliance by taxpayers (beyond the relief measures). Those administrations affected by lockdown measures, without substantive digitalization, have struggled to maintain tax and trade system operations. In the future, these administrations should consider speeding up their digitalization agendas.

Risk-based compliance management—Being able to direct scarce resources in a targeted manner is always a priority for revenue administrations. In a crisis, when resources are even more restricted, the ability to direct them to critical areas becomes a must. Thus, administrations that have progressed in risk management have been able to better understand taxpayers' compliance issues in the crisis and provide mitigation actions—notably in an environment of resource restrictions in the case of administrations impacted by lockdowns.

The COVID-19 crisis has stressed revenue administrations and will continue to do so. In this regard, the lessons learned, and experiences so far, provide valuable insights for all administrations, and an opportunity to improve and reprioritize areas that have not progressed sufficiently. In this regard, it is recommended that, in due course, administrations undertake a formal exercise to draw lessons from the COVID-19 crisis. To capture these, administrations should consider:

- Putting arrangements in place to document the crisis management committee's risk assessments, decisions, and mitigation response outcomes.
- Undertaking crisis management “debriefing” sessions—including by engaging external stakeholders—to analyze what worked well, what could have been improved, and what did not work.
- Updating the administration's business continuity plan (and review on a regular basis).
- For those administrations that do not have BCPs, immediately start developing one.⁷

⁶ As discussed in the IMF Special Series note *Business Continuity for Revenue Administrations*, not all administrations have BCPs, this crisis has certainly demonstrated how important it is to develop one. The note provides critical continuity measures to consider during the crisis and in developing BCPs in the future.

⁷ Should revenue administrations require assistance with developing BCPs or responding to the COVID-19 pandemic, the IMF FAD is prepared to assist through consultations and recommendations based on each administration's needs.