



# COMPLIANCE RISK MANAGEMENT FOR TAX ADMINISTRATION LEADERS<sup>1</sup>

Recognizing the importance of compliance risk management (CRM) in modern tax administration

## What is Compliance Risk Management?

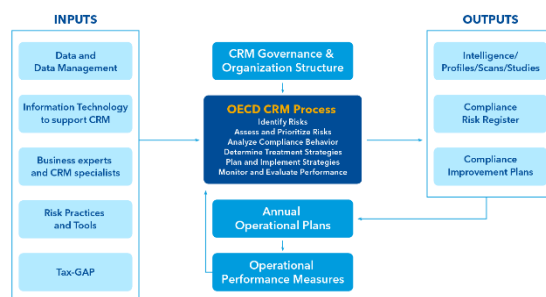
Taxes are a critical domestic revenue source that provides governments with the funds needed to support social development and inclusive growth. Tax administration leaders implement CRM to ensure that their tax administration optimizes revenue collections by improving taxpayer compliance across the four basic tax obligations: registration, timely filing, timely payment, and correct reporting. It is a methodology used to systematically identify compliance risks within the taxpayer population and determine how to mitigate and treat them in the most effective and efficient way.

## Why is it important?

Tax leaders are responsible for collecting revenue that taxpayers are legally required to pay and administering it in ways that ensure community support and confidence in the tax system and administration. The goal is to promote voluntary compliance and willing participation in the tax system. Having a strong CRM system provides tax administrators with a strategic view of where, in the tax system, the main risks to revenue are prevalent. It also ensures a focus on the most significant issues and makes best use of available (often scarce) resources across competing functions. Importantly, a strong CRM system provides a transparent record of how a tax administration's compliance strategy and operational plans have been formulated and why resources have been devoted to particular risks in preference to others. Overall, identifying the largest relative risks to the tax base allows tax administration leaders to make informed decisions on how to address the non-compliance and promote higher rates of voluntary compliance over the long-term.

## What is the IMF CRM Framework?

The IMF CRM Framework illustrates how CRM affects virtually every part of tax administration and how the results from the CRM process drive the operational workloads of the administration. It is based on international risk management good practice and the Organisation for Economic Cooperation and Development's (OECD) CRM Process. The CRM framework has two dimensions: the horizontal dimension shows the necessary inputs to, and the resulting outputs from, the CRM process while the vertical dimension shows the governance, CRM processes, planning, and performance evaluation.



## What do you need to do?

As a tax leader you need to ensure that you have a CRM system, such as the one the IMF recommends, in place. You also need to drive the CRM approach across the tax administration, including chairing a CRM Committee, providing clarity with respect to organizational roles and responsibilities, and ensuring collaboration across the organizational units. Undertaking tax gap studies that measure the difference between the true tax liability for a given period and the amount that is paid as part of CRM would also offer better insights into the drivers of non-compliance. You do not need to have all the inputs in place to get started with your CRM approach.

## Where do I get more information?

The IMF has developed a CRM Framework Series, which contains various products discussing CRM, including a Technical Note (TN), *CRM: Overarching Framework to Drive Revenue Performance*, which is tailored for senior leaders and a TN on Compliance Improvement Plans. There is also a VITARA online learning module on CRM. VITARA is a joint project of the IMF and its partners, the Inter-American Center of Tax Administrations, Intra-European Organisation of Tax Administrations, and OECD. You may be able to request capacity development assistance to support the implementation of CRM, a tax gap study, or other priority revenue reforms. For more information and the TN's go to the IMF's [Revenue Portal](https://revenueportal.imf.org) or contact the IMF's Fiscal Affairs Department for further information at [revenueportal@imf.org](mailto:revenueportal@imf.org).

<sup>1</sup> The views expressed in this note are those of the authors and do not necessarily represent the views of the IMF, its Executive Board, or IMF management. It is intended to be used as a quick reference document to help promote understanding of this topic.