

**The 5th IMF-Japan High-Level Tax Conference for Asian Countries
April 21-23, 2014**

Tax Administration Diagnostic Assessment Tool

David Kloeden – Head of the TADAT Secretariat



Why TADAT?



- Tax collection is a central—even a defining—function of government
- Weak tax administration compromises development , growth, and basic trust in government
- Challenges faced remarkably similar across tax administrations at all levels of development
—Finding taxpayers, identifying and addressing risks ...
- **Meaning scope and need for an objective, standardized performance assessment of tax administrations**

What is TADAT?



A tool to provide an objective, standardized performance assessment of a country's tax administration

—Taking its cue from the PEFA* tool for Public Financial Management (PFM) to ensure close alignment.

PEFA: Public Expenditure and Financial Accountability

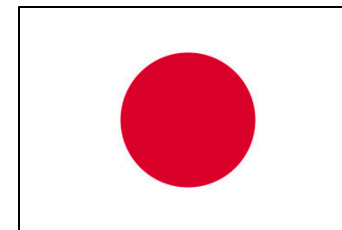
History of this initiative



The genesis for the project was the PEFA Steering Committee commissioning a feasibility study in 2011 that concluded:

- A PEFA-like diagnostic tool for tax administrations would be highly desirable to many stakeholders and technically feasible.
- The tool would have to meet several important criteria:
 - Comprehensive yet straight-forward
 - Able to be applied across different countries
 - Evidence based
- It's wide use would depend on acceptance as an international standard by the main international organizations, major donors and countries.
- Key challenges are to develop benchmarks and ensure simplicity.
- IMF has taken the lead on the development of the tool but has actively involved other stakeholders

The TADAT partners...



How does it work?



- The TADAT framework views the outcomes achieved *across 9 critical performance outcome areas (POAs)* of tax administration, that:
 - Comprises a Set of 27 high-level indicators critical to tax administration performance, that:
 - **Drills down to 60 measured and scored Dimensions** (on a scale of A to D).

Key Design Elements



- A framework that is designed to deliver objective assessments of the most critical outcomes of a tax administration
- A tool that allows for repeated measurement over time of the performance of a country's tax administration
- A tool that will allow for some level of country comparison when sufficient applications of the tool have been completed
- A tool that is aligned with the design of the PEFA PFM tool and can be used by any agency with trained and accredited assessors
- A tool that focuses on performance of major national taxes:
 - Corporate and personal income tax
 - VAT
 - Employer and other withholding taxes



- Better identification of the relative strengths and weaknesses in the tax administration
- Facilitating discussion towards a shared view among stakeholders
- Improvements in setting reform objectives, establishing priorities and implementation sequencing – and strengthening of design of tax administration reform initiatives
- Better coordination of external support for reforms – faster and more efficient implementation
- Provides a basis for monitoring and evaluating reform progress towards established targets through repeat assessments

Performance Outcome Area Structure



Desired End State - Performance Outcome Areas



- 1. Taxpayers are included in the taxpayer registration base and the information held about them is accurate**
- 2. The tax administration is clear about the risks to the tax system and is responding to them**
- 3. Taxpayers have the necessary information and encouragement to voluntarily comply**
- 4. Taxpayers file their tax returns as required by law**
- 5. Taxpayers meet their payment obligations**
- 6. The tax administration assesses the accuracy of reporting through verification**
- 7. The dispute resolution process is independent and effective**
- 8. The tax administrations operations are efficient and focus on the most important tax administration functions**
- 9. The tax administration is transparent in the conduct of its activities and accountable to the government and the community**

TADAT™ – Tax Administration Diagnostic Assessment Tool

Accountability & Transparency

The Tax Administration is transparent in the conduct of its activities & accountable to the Government & the community.

Indicators

- P9.24 External oversight of the Tax Administration
- P9.25 Level of internal controls
- P9.26 Public perception of integrity
- P9.27 Publication of activities, results and plans

Dimensions

- Extent of independent external oversight
- Investigation of wrongdoing or maladministration
- Adequacy of internal controls to protect from error or fraud
- Level of assurance provided by internal audit
- Staff integrity assurance mechanisms
- Level of public confidence in the Tax Administration
- Reporting on:
 - (i) financial performance
 - (ii) operational performance
- Extent of publication of Tax Administrations future plans

Efficiency of Tax Administration

The Tax Administrations operations are efficient and focus on the most important functions and outcomes.

Indicators

- P8.20 Tax revenue outcomes
- P8.21 Use of efficient collection & reporting systems
- P8.22 Efficiency of processing & accounting systems
- P8.23 Core tax administration focus

Dimensions

- Extent to which tax revenue targets are met
- Extent of withholding & 3rd party reporting
- Efficiency of filing and payment design
- Extent of electronic filing
- Extent of electronic payment
- Accuracy & timeliness of taxpayer ledger postings
- Efficiency of VAT refund claim processing
- Efficiency of Income Tax return processing
- Proportion of staff used in non-core functions

Tax Dispute Resolution

The dispute resolution process is independent and effective.

Indicators

- P7.16 Independent, workable, & graduated process
- P7.17 Stock & flow of dispute cases
- P7.18 Time taken to resolve dispute cases
- P7.19 Dispute outcomes acted on

Dimensions

- Objection mechanisms independence from audit
- Graduated process of administrative & judicial review is available, appropriate and is used
- Dispute process is published & taxpayers made explicitly aware of it
- Value tax disputed as percent of total tax revenue collections
- Number of dispute cases at FY end relative to cases at the start of the year
- Average time to determine an objection
- Average time to determine a judicial appeal
- Administration responds to dispute outcomes

Accuracy of Reporting

The Tax Administration assesses the level of accuracy of reporting through intelligence gathering, research studies and active verification.

Indicators

- P6.13 Knowledge of the level of accurate reporting
- P6.14 Strength of taxpaying culture
- P6.15 Compliance strategy alignment & verification activity revenue results

Dimensions

- Extent of intelligence gathering & research studies into reporting accuracy
- Individuals (Non-business)
- Individuals (Self-employed)
- Corporates (Small / Medium)
- Corporates (Large)
- Alignment of the compliance strategy to the assessed taxpaying culture
- Value of audit actions as percent of total tax revenue collections



Integrity of the Registered Taxpayer Base

Taxpayers are included in the taxpayer registration base and the information held about them is accurate.

Indicators

- P1.1 Accurate & reliable information
- P1.2 Knowledge of the potential taxpayer base

Dimensions

- Information adequacy and the extent the database supports effective compliance management
- Accuracy of information held in the registration database
- Extent of initiatives to identify those who are required to register but fail to do so

Assessment of Risk

The Tax Administration is clear about the risks to the system of tax administration and is responding to them.

Indicators

- P2.3 Identification, assessment, ranking & quantification of compliance risks
- P2.4 Identification, assessment and ranking of institutional risks
- P2.5 Designing, implementing, monitoring & evaluating risk mitigation activities

Dimensions

- Process to identify, assess & prioritize taxpayer compliance risks
- Process to estimate scale of tax revenue leakage
- Process to identify, assess & prioritize institutional risks
- Actions taken and resources applied to highest risks
- Process used to monitor & evaluate impact of risk mitigation activities

Supporting Voluntary Compliance

Taxpayers have the necessary information and encouragement to voluntarily comply.

Indicators

- P3.6 Scope, currency & accessibility of information
- P3.7 Time taken to respond to taxpayer information requests
- P3.8 Monitoring taxpayer perceptions of service

Dimensions

- Range of information available clearly explaining obligations & entitlements for each core tax
- Degree to which information is current in terms of the law & administrative policy
- Ease with which taxpayers obtain information & advice
- Response times for information or advice
- Quality and frequency of methods used to obtain performance feedback from taxpayers
- Extent to which taxpayer input is used to improve taxpayer service programs & products

Filing of Returns

Taxpayers file their tax returns as required by law.

Indicators

- P4.9 Tax return filing rate
- P4.10 On-time filing rate

Dimensions

- Number of returns filed (for each core tax) relative to those returns required
- Proportion of filed returns (for each core tax) received by the due date

Payment of Obligations

Taxpayers meet their payment obligations.

Indicators

- P5.11 Timeliness of payments
- P5.12 Stock & flow of tax arrears

Dimensions

- Number of payments paid by the due date (VAT only)
- Value of payments paid by the due date (VAT only)
- Value of total tax arrears at FY end as percent of total tax revenue collections
- Value of collectable arrears at FY end as percent of total tax revenue collections
- Value of arrears > 12 months old as percent of total arrears
- Number of arrears cases at FY end relative to cases at start of the year

Performance Outcome Areas – Indicators – Dimensions



Integrity of the Registered Taxpayer Base

- ❑ Tax administrations must compile and maintain a complete database of citizens and businesses that are required by law to register.
- ❑ Without complete and accurate information on registered taxpayers, and an understanding of the profile of those who fail to register, a tax administration cannot provide effective services to support voluntary compliance and take action against non-compliance.
- ❑ Two performance indicators (with 3 measurement dimensions) are used to assess POA 1.



Assessment of Risk

- ❑ Understanding the risks in the tax system is critical to managing taxpayer compliance, including how tax administration resources are allocated to achieve the widest possible impact on voluntary compliance across the taxpayer population.
- ❑ Institutional risks, such as IT system failure, must also be managed.
- ❑ Three performance indicators (with 5 measurement dimensions) are used to assess POA 2.

POA 3: Supporting voluntary compliance



- ❑ Tax administrations must adopt a service-oriented approach toward taxpayers, ensuring that taxpayers have the information and support they need to meet their tax obligations and claim their entitlements.
- ❑ Three performance indicators (with 6 measurement dimensions) are used to assess POA 3.



Filing of tax returns

- ❑ Filing of tax returns is a principal means by which a taxpayer's tax liability is established and becomes due and payable under the law. Filing performance has a direct impact on collections.
- ❑ Two performance indicators (with 8 measurement dimensions) are used to assess POA 4.

POA 5: Payment of obligations



- Government fiscal outcomes are affected if taxpayers fail to pay taxes on time. The aim of tax administration is to achieve a high level of voluntary on-time payment and low incidence of tax arrears (arrears collection is costly and time consuming).
- Two performance indicators (with 6 measurement dimensions) are used to assess POA 5.

POA 6: Accuracy of reporting



- ❑ Tax systems rely heavily on taxpayers accurately declaring their tax obligations.
- ❑ A major source of revenue underperformance is due to inaccurate reporting by taxpayers in tax returns, especially under-reporting of business income by SMEs/ self-employed.
- ❑ Three performance indicators (with 7 measurement dimensions) are used to assess POA 6.

POA 7: Tax dispute resolution



- ❑ Resolution of tax disputes in a way that is seen as independent, speedy, and fair is critical to public perceptions of the integrity of tax administration.
- ❑ Four performance indicators (with 8 measurement dimensions) are used to assess POA 7.

POA 8: Efficiency of tax administration



- Governments expect operational efficiency, and citizens and businesses increasingly demand quality services from tax administrations.
- Operational performance is enhanced by use of efficient collection mechanisms (such as withholding at source) and processing systems that exploit modern technologies. Also crucial is the allocation of resources to the most important tax revenue streams.
- Four performance indicators (9 measurement dimensions) are used to assess POA 8.

POA 9: Accountability and transparency



- Accountability and transparency are two of the central pillars of good governance. The extent to which the tax administration is transparent in the conduct of its activities and accountable for the way it uses public resources and exercises authority contributes directly to public perceptions of integrity of the tax system.
- Four performance indicators (with 8 measurement dimensions) are used to assess POA 9.



- Indicators
 - All have between 1 to 4 dimensions
- Each dimension is separately assessed
- Overall score for an indicator is based on the assessment of the dimensions related to that indicator:
 - Method 1 – Single dimension indicators
 - Method 2 – Multiple dimension indicators
- Scores A B C D
 - 'A' is set as "internationally accepted good practice", with the lower grades increasing deviations from this
- Also a 'No score' category



- Assessment will be undertaken by accredited assessors
- Assessors will use the indicator-led analysis and be supported by:
 - Initial training
 - Performance measurement framework
 - Comprehensive field guidelines
- **A Performance Assessment Report will be prepared to formalize the findings.**

Governance Arrangements



■ Steering Committee

- Officially formed February 2014
- Composition – Donors (including the EC), IMF and World Bank
- Functions - Strategic guidance

■ Secretariat

- IMF Hosted, Comprising: Unit Head +3 Professionals +1 Support
- Functions
 - Design & maintenance of the tool
 - Program delivery
 - Results management
 - Accountability
 - Quality control
 - Financial arrangements
 - Evaluation

- Technical Advisory Group

- Composition – International tax administrations and organizations
- Functions - Technical support to the Secretariat

Proof of Concept Testing



- Pilot Assessment Missions across a wide-range of situations:
 - Level of Economic Development
 - Region, Language, and Heritage
 - Economic and Governance Characteristics
- November 2013 - First Pilot in Zambia
- December 2013 - Second Pilot in Norway
- June 2014 - Proposed Pilot in South Africa
- July – Nov 2014 - 3 further pilot assessments possibly in:
 - Latin America, possibly in Spanish
 - Middle East, possibly fragile state
 - Asia Pacific
- Deliver Collaboratively with Regional Tax Admin Organizations

Timetable



- Current priorities
 - Finalizing the detailed technical design
 - Finalizing operational guidance (Field Guide)
 - Further piloting (further 4 pilots in 2014)
 - Developing an Accreditation & Training Strategy & Program

- June 2014 - Next Steering Committee and Technical Advisory Group meetings

- January-June 2015 - Implementation in controlled roll out phase

- **Mid-2015 - Full production mode**