

# IMPROVING TAX COMPLIANCE



6th IMF-Japan High-Level Tax Conference For  
Asian Countries

Tokyo; April 7, 2015

# Outline

- Measurement and trends
- Some key methods and issues
- Managing compliance
- Supporting compliance management

# MEASUREMENT AND TRENDS

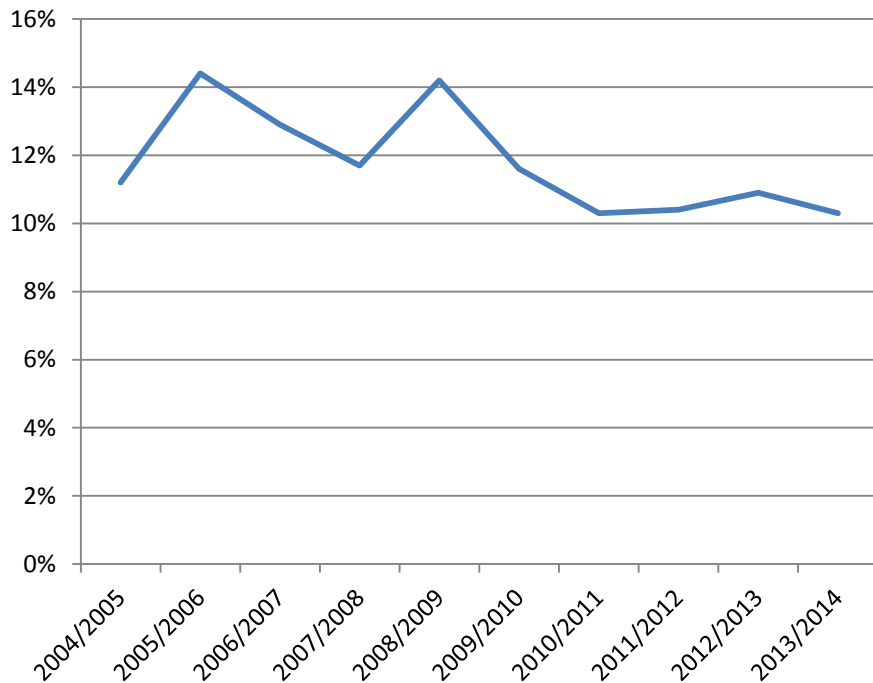
# Measuring noncompliance...

- Widely cited (MIMIC) estimates are ~~nonsense~~ to be used with caution
- Informative traces can be found
  - E.g. change in consumption/income
- ‘Informality’ is too loose
  - lumps together very different forms of noncompliance

# 'Compliance gaps' are the way to go

Calculated by an increasing number of RAs  
—but very far from all

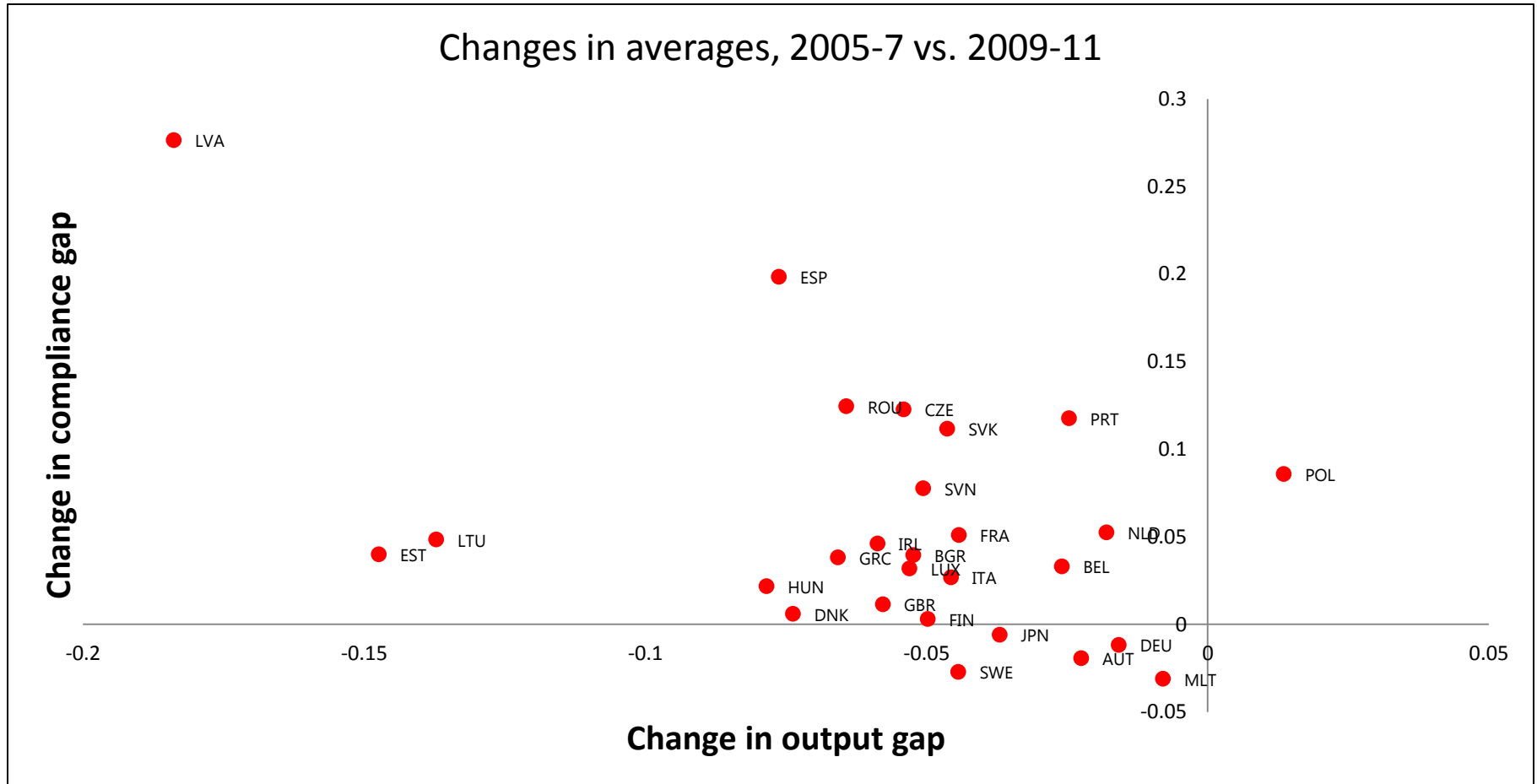
UK VAT Compliance Gap



- Do not necessarily indicate recoverable revenue
- Alone, do not indicate remedial action needed
- Various ways to calculate
- Actively promoted through RA-GAP program



# ...but then



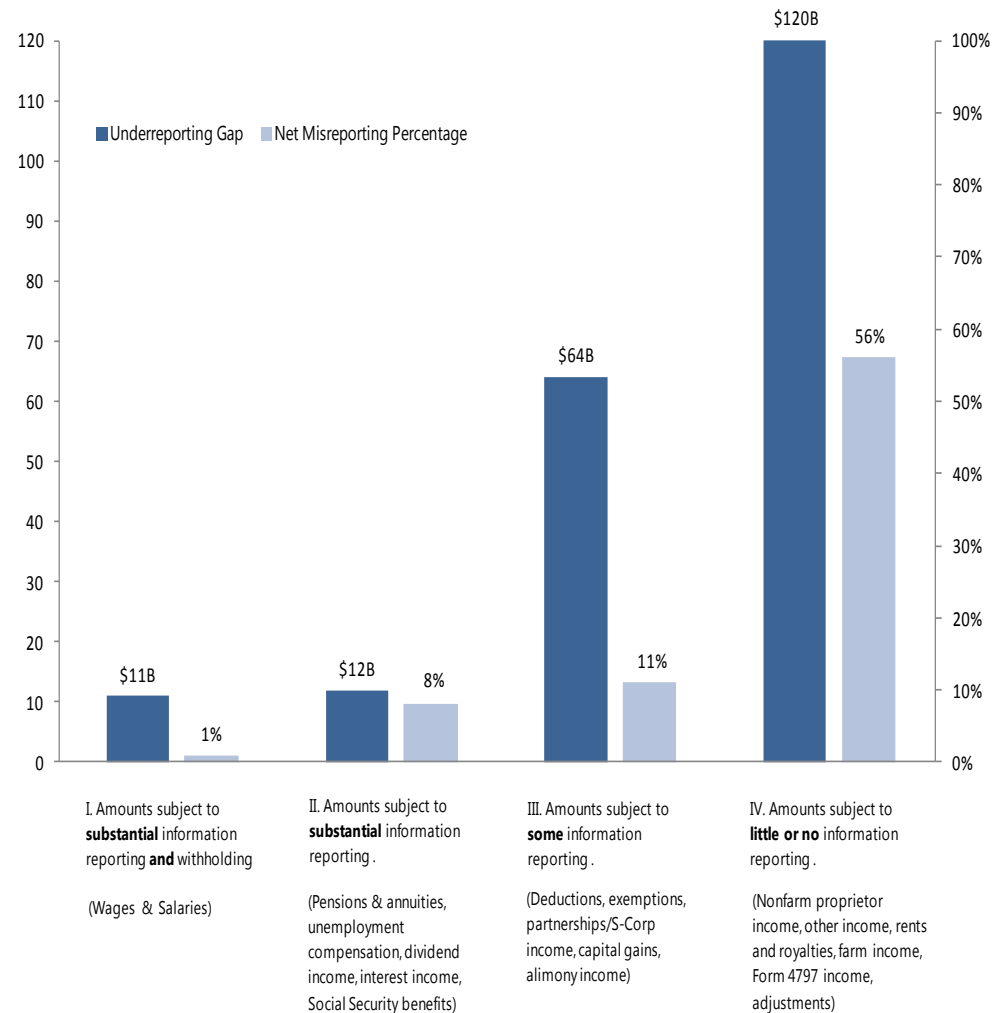
Weaknesses of many RAs exposed

# SOME KEY METHODS AND ISSUES



# Fundamentals of RA

- Sticks and carrots
- Key roles for:
  - Withholding
  - Third party information
  - Segmentation
- Links with policy
- Behavioral aspects

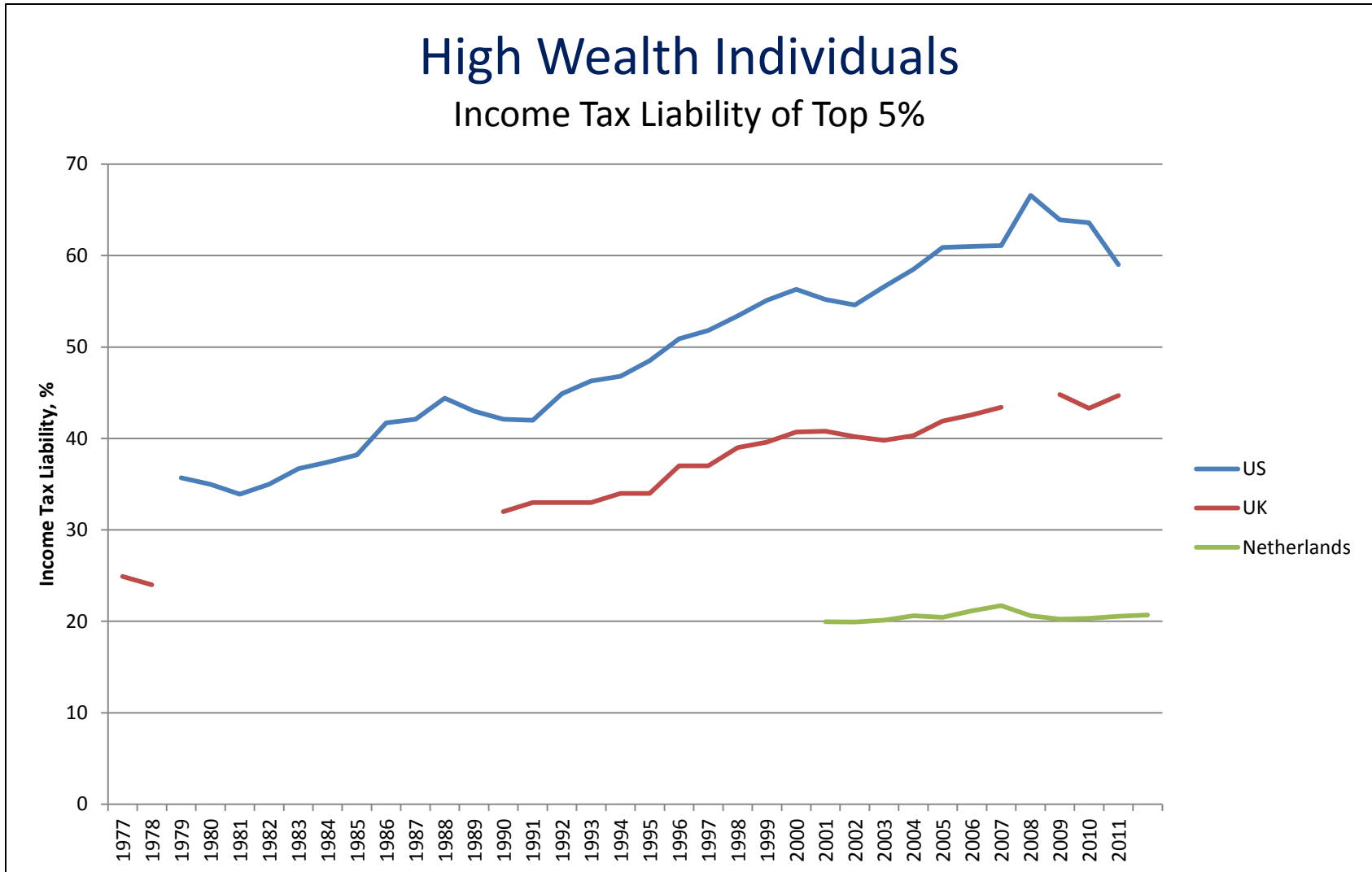


# And some empirics on compliance

For panel of VAT compliance gaps, 26 EU plus Japan, 2000–2011:

- Output declines significantly worsen compliance...
- ...but the effect seems fairly short-lived
- Spending on tax administration has a significant long run effect in improving compliance

# The hard to tax—Emerging issues

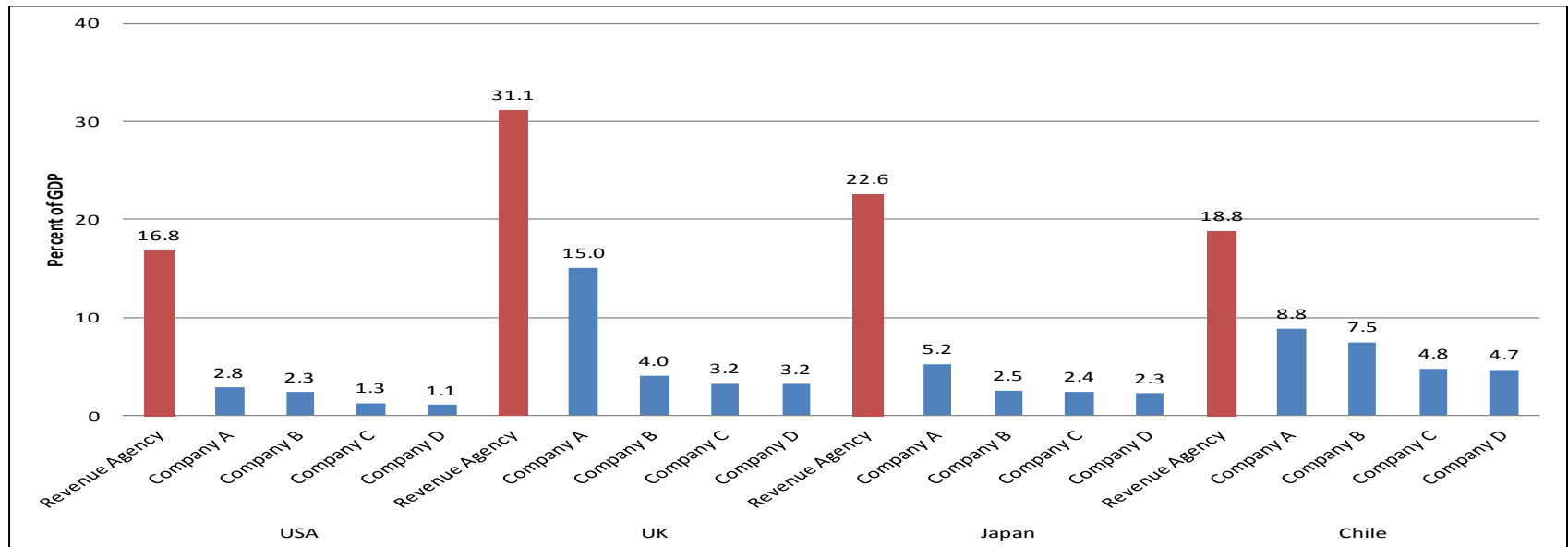


# MANAGING COMPLIANCE

# Revenue administrations

Key for assuring compliance and wider state-building  
...and are large complex organizations

Tax Receipts Compared to Revenues of Largest National Companies

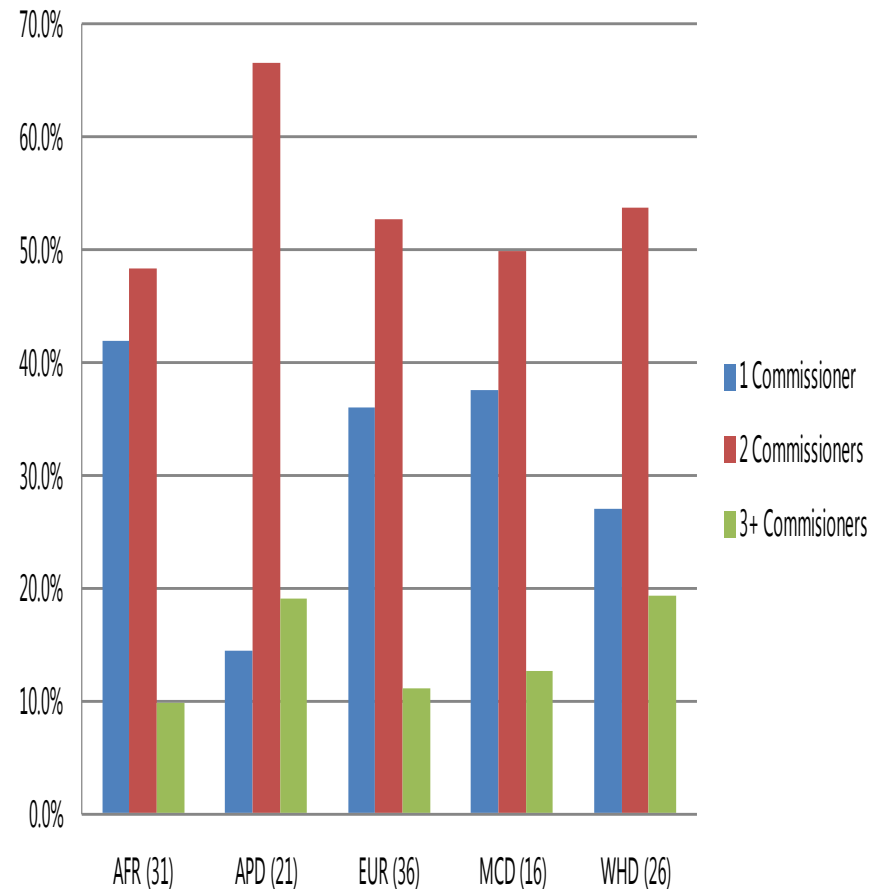


That have been through turbulent times and face rapidly changing environment ahead

# Organizational management requires....

- Strong and empowered HQs
- Streamlined office network
- Sufficient Autonomy
- Assuring Integrity
- Adequate, stable financing...

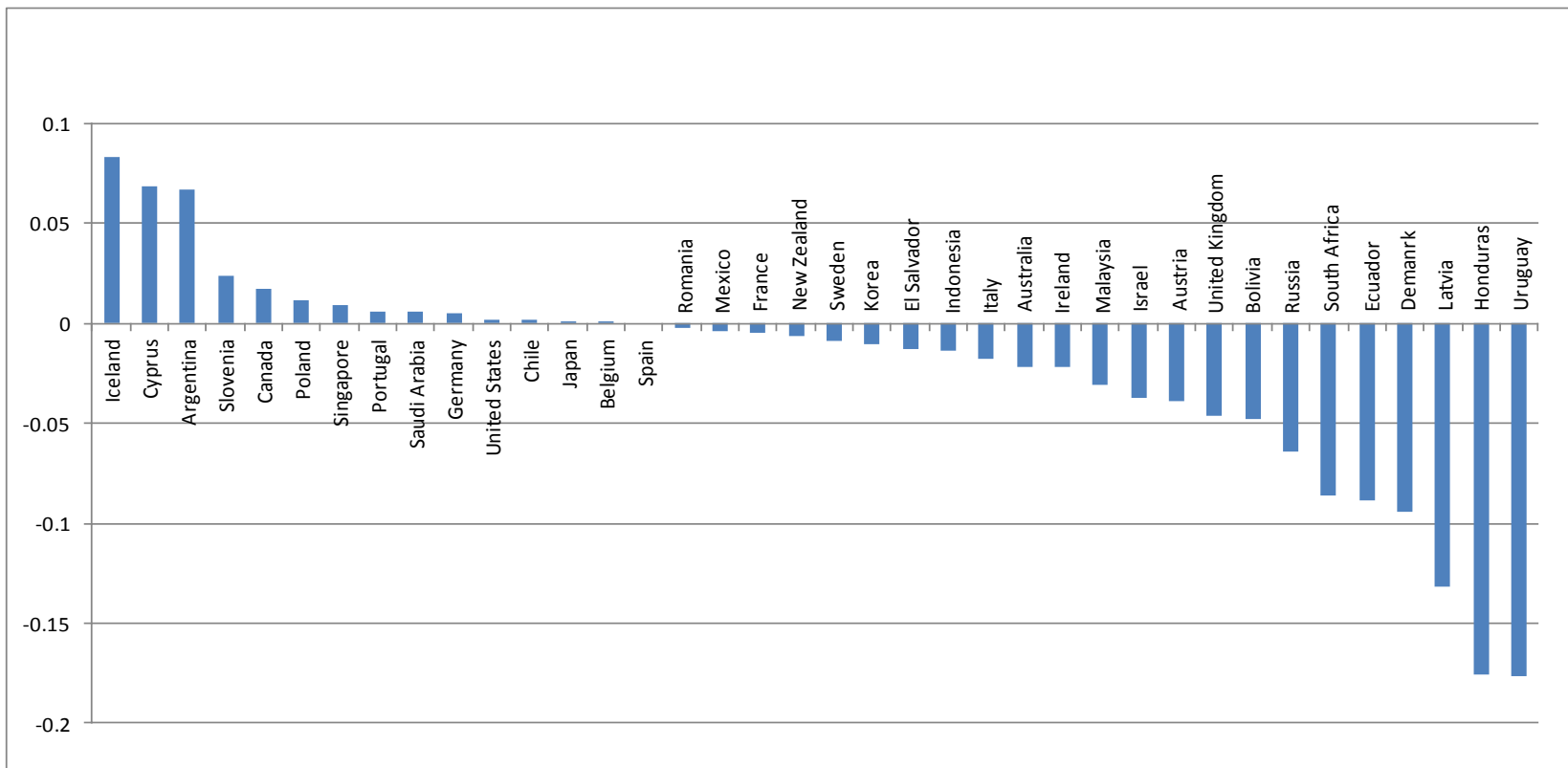
Turnover of Commissioners by Region 2009–2013



# ...as was an issue during the crisis,

## Changes in Tax Administration Spending, 2008-2011

*In percent of GDP*



Source: CIAT, RA-FIT, OECD

# And squaring up to challenges, such as

- Pressure to take major expenditure functions...  
...with a quite different set of clients and needs
- Change management
  - reform while maintaining revenue performance

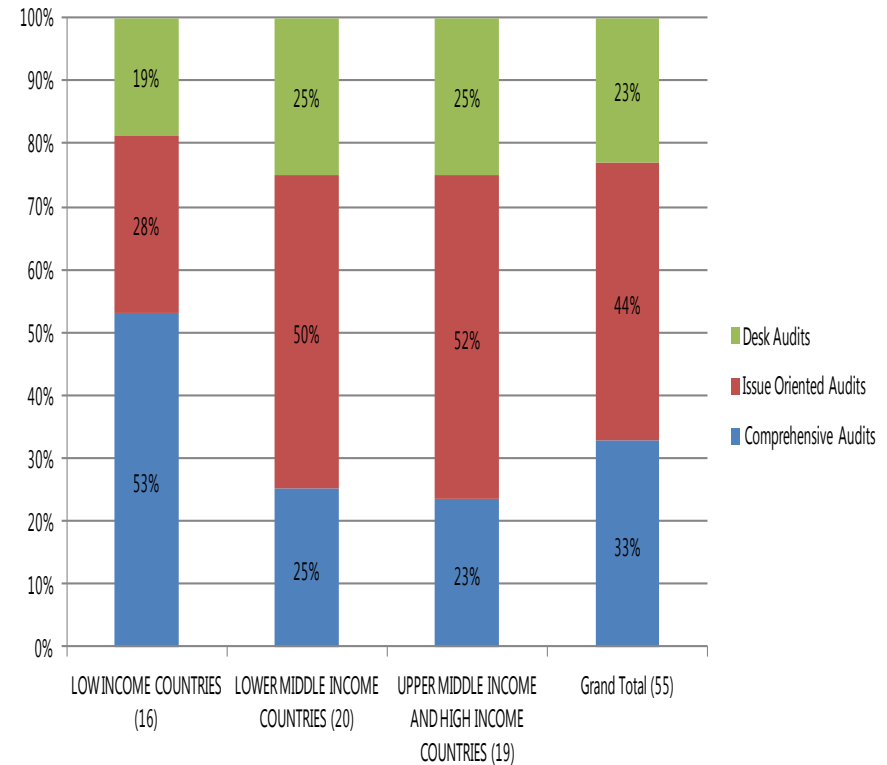


# To do lists: 1. Operational management

- Better focus, especially in DCs, on main compliance risks
  - Identify compliance gaps and sources
  - Better segmentation of taxpayers to tailor responses
  - More effective audit and collection of tax debts
  - Strengthened taxpayer services
- Legal changes may be needed

Over-reliance on comprehensive audits...

**Audit Mix, 2010**



## 2. Information management

- Back to basics—key for reliable data
- Enhance RA capacity to monitor compliance
  - Front- and back-ends
- New frontiers—and new risks
  - Pre-populated tax return
  - e-invoicing, e-accounting, etc.
  - Extending digital services to banking, accounting sites

# 3. Stakeholder relations

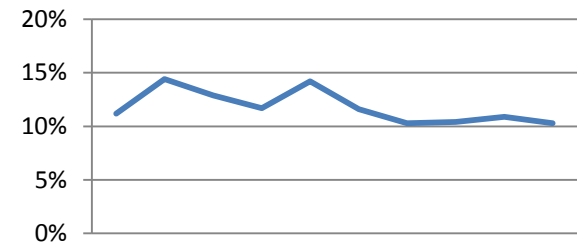
(Accountants, industry associations, etc.)

- Still largely ad-hoc
- Need for proactive relationship with taxpaying community in developing countries
  - Variety of channels, formal and informal
- Fairly recent approach of ‘enhanced relationship’
  - Risky for countries with weak enforcement capacity

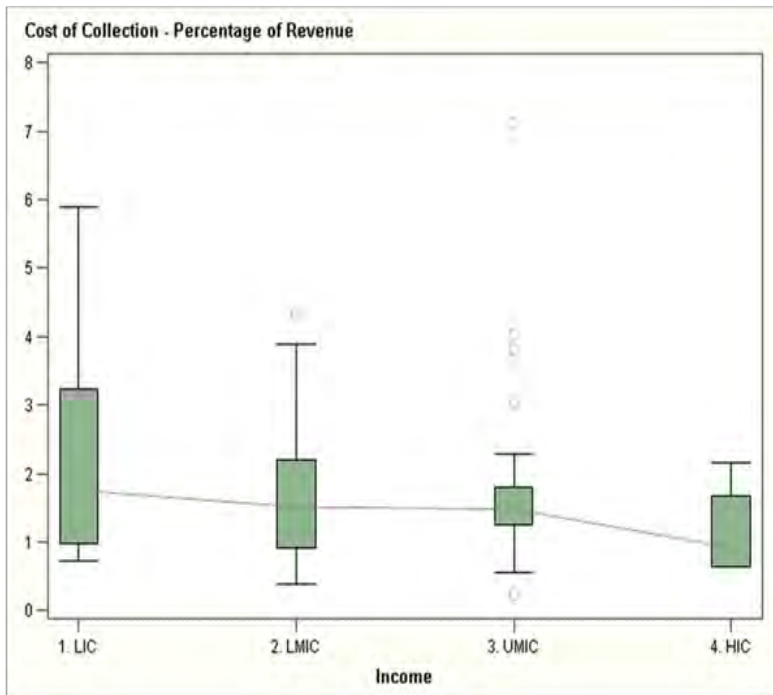
# SUPPORTING COMPLIANCE MANAGEMENT

# ...with new analytical tools

**RA-GAP:** Actual vs full compliance



**RA-FIT:** Collects RA data and establish baselines/benchmarks



**TADAT:** Assessment tool

