RISK MANAGEMENT

RECOMMENDED LESSONS FOR TAX ADMINISTRATIONS

BACKGROUND

Tax administrations face complex web of risks arising from internal and external influences that make it uncertain as to whether or when objectives will be achieved.

The actions of taxpayers — whether due to ignorance, carelessness, recklessness, or deliberate evasion as well as weaknesses in the tax administration mean that instances of failure to comply with the tax laws are inevitable.

Internal and external influences on tax administrations pose uncertainty which has potential consequences on the achievement of objectives.

BACKGROUND

Revenue authorities receive finite resources compared to what is needed to effectively administer tax legislations in ways that sustain confidence in the administration of the tax system.

They must allocate finite resources in the most efficient way to optimize results in the midst of all the internal and external influences.

Tax administrations must assess and treat risks to the achievement of objectives using a systematic and disciplined approach.

Risk management helps management make informed decisions and provides assurance that objectives are being achieved.

RECOMMENDED LESSONS FOR TAX ADMINISTRATIONS

❑ Revenue authorities must establish risk management system which provides reasonable assurance that objectives are being achieved.

❑ Risk management provides a structured basis for strategic thinking with a focus on key drivers of performance.

❑ Revenue authorities must understand the reasons for non-compliance behavior and promote diversity in the treatments of compliance risks.

RECOMMENDED LESSONS FOR TAX ADMINISTRATIONS

❑ Risk management provides better outcomes and improves compliance with tax laws, leading to increased tax collections and improved taxpayer service.

❑ Risk management provides a stronger foundation for evidence-based evaluation of taxpayers compliance with tax legislations.

❑ Tax authorities must have clear documented risk management policies, processes and procedures.

❑ Tax authorities must use appropriate tools, techniques and protocols that are necessary for effective risk management.

RECOMMENDED LESSONS FOR TAX ADMINISTRATIONS

❑ Tax authorities must maintain a register all risks and have clear treatment strategy for each risk and update the register as changes occur in the internal and external environment.

❑ Successful revenue authorities are those with the greatest proportion of voluntary compliance.

❑ Tax authorities must have clear description of roles and responsibilities in their risk management process.

RECOMMENDED LESSONS FOR TAX ADMINISTRATIONS

❑ Revenue authorities must understand economic and psychological drivers of taxpayers' compliance behavior.

❑ Tax laws must be clear and unambiguous in regards to their intent and interpretation.

❑ Tax authorities must be perceived as being fair in administering the laws to sustain confidence in the tax system and its administration.

RECOMMENDED LESSONS FOR TAX ADMINISTRATIONS

❑ Embedding risk management in tax administration and the use of intelligence framework provide new opportunities for tax authorities to increase compliance with tax legislations.

❑ Tax administrations must establish data warehouse that seamlessly interfaces all data across the organization and use appropriate data extraction, analysis and matching tools and techniques to understand and make effective use of data.

RECOMMENDED LESSONS FOR TAX ADMINISTRATIONS

❑ Tax administrations must hire and retain appropriate human resource capacity with the appropriate competencies, expertise, knowledge, skills and risk-awareness culture to effectively manage risks to objectives.

❑ Risk and control information must be communicated to appropriate persons or group of persons to help them make informed decision in carrying out their responsibilities.

❑ Risk management should be inclusive and involve the participation of everyone in a revenue authority.

RECOMMENDED LESSONS FOR TAX ADMINISTRATIONS

❑ Staff at all levels of a revenue authority must have periodic risk management training. Important risk management tips and massages must be communicated to all staff within the organization on a regular basis.

❑ The board and executive management must form and promote a system of shared beliefs, vision and attitudes that characterize how risks and risk management are viewed in a revenue authority.