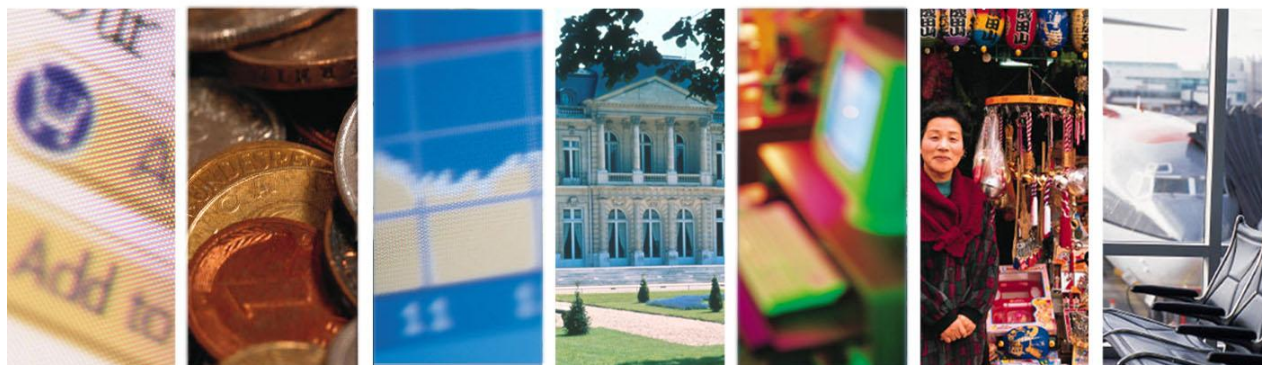




ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT



FORUM ON TAX ADMINISTRATION: COMPLIANCE SUB-GROUP

Information Note

Managing and Improving Compliance: Recent Developments in Compliance Risk Treatments

March 2009



CENTRE FOR TAX POLICY AND ADMINISTRATION

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ABOUT THIS DOCUMENT

Purpose

This information note describes recent progress by revenue bodies in the development of more innovative or unusual risk treatment approaches to address non-compliance in the small and medium enterprise (SME) sector and provides examples of evaluation approaches adopted by agencies to measure the impacts and outcomes of these new treatment methods. While commenting on a range of non-compliance risk areas, it gives particular focus to those approaches that target reporting non-compliance within this broad population group.

It has been prepared following extensive research by the Secretariat and with the assistance of revenue bodies participating in the Forum on Tax Administration's (FTA) Compliance Sub-group.

Background to the Forum on Tax Administration

Since its establishment in July 2002, the Forum on Tax Administration (FTA), a subsidiary body of the OECD's Committee on Fiscal Affairs (CFA), has operated with the broadly stated mandate

to develop effective responses to current administrative issues in a collaborative way, and engage in exploratory dialogue on the strategic issues that may emerge in the medium to long term.....

To carry out this mandate, the FTA's work is directly supported by two specialist Sub-groups—Compliance and Taxpayer Services—that each carry out a program of work agreed by member countries. The Compliance Sub-group exists to provide a forum for members to:

- periodically monitor and report on trends in compliance approaches, strategies and activities;
- consider and compare member compliance objectives, the strategies to achieve those objectives and the underlying behavioural compliance models and assumptions being used;
- consider and compare member compliance structures, systems and management, and staff skills and training; and
- develop and maintain papers describing good country practices as well as develop discussion papers on emerging trends and innovative approaches.

Caveats

National revenue bodies face a varied environment within which they administer their taxation system and jurisdictions differ in respect of their policy and legislative environment and their administrative practice and culture. Similarly, a standard approach to tax administration may be neither practical nor desirable in a particular instance.

The documents forming the OECD tax guidance series need to be interpreted with this in mind. Care should always be taken when considering a country's practices to fully appreciate the complex factors that have shaped a particular approach.

Inquiries and further information

Inquiries concerning any matters raised in this information note should be directed to Richard Highfield (CTPA Tax Administration and Consumption Taxes Division) at e-mail (Richard.highfield@oecd.org).

Summary

This information note describes developments across a large sample of member revenue bodies in their treatment of compliance risks within the small to medium business sector. In accordance with the objectives set when deciding to initiate this work, it focuses on the more innovative/ unusual treatment strategies observed for dealing with the risk type 'reporting non-compliance', and it provides some limited description of developments in a few countries to devise more systematic and comprehensive approaches for evaluating the outcomes of individual risk treatment strategies. Supporting this note is a companion publication – *Managing and Improving Compliance: Recent Developments in Risk Treatment – A Catalogue of Revenue Body Initiatives* - that contains an inventory of examples provided by members.

The Forum's guidance note '*Compliance Risk Management: Managing and Improving Tax Compliance*' published in 2004 provided a framework for the application of modern compliance risk management principles to the management of tax compliance risks. It also provided a step-by-step description of a systematic process for the identification and treatment of compliance risks, supported by a limited number of practical examples from revenue bodies that served to illustrate particular approaches and their impacts. In doing so, it identified and discussed general principles found in both the identification and treatment of compliance risks within a wide variety of jurisdictions and also provided information about the way in which treatment strategies influence the behaviour of small businesses in relation to their tax obligations.

This note elaborates on the guidance contained in that note by providing a broader array of examples of risk treatment strategies recently reported by members and analysis of the approaches and practices being applied in practice. The key observations are as follows:

- The range of new risk treatments employed by revenue bodies has expanded considerably over the period since the initial research for the 2004 guidance note.
- Taken as whole, the examples reflect that many revenue bodies are demonstrating increased sophistication in shaping and managing compliance programs in a more strategic way through developing multi-faceted treatment strategies that often have influence over several risk domains. It is also evident that in developing these risk treatment strategies, a more balanced suite of interventions is being applied across each of the 'educate, assist, deter and enforce' dimensions of the Compliance Model.
- Many of the new forms of treatment strategies commonly incorporate a proactive education and communication component that aims to prevent or deter future error or evasion.
- Many treatment strategies also reflect a focus on effecting changes in behaviour across broader (although targeted) population groups through greater use of co-operative relationships with 3rd parties, including tax practitioners, industry representatives and wider inter-agency collaboration.
- There is also increased use of external information and data matching to identify aggregated risks and more specifically define target populations in order to develop greater behavioural understanding and consider broader treatment options.
- There were only a small number of examples that included 'withholding' and/or 'third party reporting' type treatments; however, the examples provided were broad in their scope and in conjunction with other inquiries made suggest that Forum members could benefit from a deeper understanding of the use of such arrangements across member countries.
- The approach to evaluation, based on the examples provided, is much less advanced and few countries have a systematic approach.

Revenue bodies are encouraged to examine the note and accompanying catalogue to further inform their efforts to improve the effectiveness and efficiency of their compliance programs.

I. RECENT DEVELOPMENTS IN RISK TREATMENT STRATEGIES – INTRODUCTION

Background and context

- 1 In September 2004, the Committee on Fiscal Affairs approved release of the 2004 guidance note titled *Compliance Risk Management: Managing and Improving Tax Compliance* (the 2004 guidance note) which provided a framework for the application of modern compliance risk management principles to the management of tax compliance risks. The 2004 guidance note also provided a step by step description of a strategic process for the identification and treatment of compliance risks, supported by a number of practical examples drawn from revenue bodies that served to illustrate particular approaches and their impacts. In doing so it identified and discussed general principles found in both the identification and treatment of compliance risks within a wide variety of taxation jurisdictions and also provided information about the way in which treatment strategies influence the behaviour of small businesses in relation to their taxation obligations.
- 2 At the June 2007 meeting of the FTA Compliance Subgroup, the chair noted that the preliminary work program for 2007-08 (based on input from member countries) envisaged a more strategic focus for the Sub-group's work around compliance risk management while also having a more practical orientation. He also noted that whilst the risk management framework presented in the 2004 guidance note emphasised the importance of using a broad range of methods to reduce non-compliance, much of the practical work of the Subgroup to date had focused on aspects of tax audit activities. In addition, he noted that much of this work had been of a descriptive nature which, while valuable from a knowledge exchange viewpoint, meant that only limited attention had at this time been given to considering more innovative approaches for the treatment of non-compliance.
- 3 Arising from discussion at the meeting, there was general agreement that future work of the Subgroup, especially concerning 'risk treatments', should focus on the more innovative treatment approaches being used and, if feasible, identify and test new approaches to the treatment of compliance risks. It was decided that one task group should be established to progress the further work envisaged on both 'risk treatment' and 'evaluation'. Members generally thought that this work could not be carried out successfully using separate working groups, there being a strong nexus between the two activities. However, it was acknowledged that some of the people working on risk treatments may not have strong competencies in evaluation techniques and, likewise, those with solid methodological backgrounds may not be fully conversant in the area of risk treatments. It was therefore agreed that, although there will be only one task group, some flexibility might be exercised with its membership and activities to ensure that appropriate experts were available for both aspects. It was also agreed that the work on both matters should focus on reporting non-compliance and that strong emphasis should be given to the identification/development of innovative treatments and the evaluation of outcomes, not outputs. Concerning treatment strategies, it was noted that the Subgroup's prior work - which culminated in 2004, that the production of a catalogue of treatment strategies used by members might be a useful starting point for research on this topic.

Task participating countries

- 4 Seven countries agreed to assist with providing guidance and input to this work: Australia, Canada, Netherlands, New Zealand, Singapore, Sweden, and United Kingdom, with support as deemed necessary from the Secretariat. New Zealand agreed to take a leadership role. It was indicated that other member countries would be consulted at major milestones and kept informed of progress.

Scope assumptions

- 5 For the purpose of preparing the outputs envisaged, the following assumptions were made:

1) Risk treatment strategies: The work would update and expand on the methodological guidance provided in Chapter 5 of the Forum's 2004 guidance note. The primary focus should be on the identification of innovative/unusual risk treatment strategies, including those involving new technologies, with emphasis to be given to those strategies for the risk category 'reporting non-compliance'. The work output would present practical examples and available details of any evaluation undertaken of their impact.

2) Evaluation methods and approaches: The work would update and, where applicable, expand on the methodological guidance contained in Chapter 7 of the Forum's 2004 guidance note, utilising the recent knowledge and experiences gained from member countries. The work would include examples of particular country evaluation approaches.

Expected deliverables and anticipated content of output(s)

- 6 Based on preliminary input and comments from participating countries the expected deliverables from this work were described in the following terms:
- Methodological guidance on the formulation of risk treatment strategies (effectively an update and expansion of the guidance in the 2004 guidance note).
 - An inventory of country examples/ case studies, highlighting the more innovative and unusual treatment approaches.
 - Methodological guidance on evaluating the impact of treatment strategies, including examples of country approaches (effectively an update and expansion of the guidance in the 2004 guidance note).

Information gathering concerning innovative strategies

- 7 As noted in the project's terms of reference, a critical component would be the research and identification of innovative risk treatment strategies deployed by revenue bodies to deal with major compliance risks, primarily those intended to target non-reporting non compliance. In this regard, it was accepted that what constitutes an "innovative" risk treatment approach was likely to vary from country to country and within the context of its current administrative framework, tax laws and policies. As such, while there are some limitations to this, it was considered counter-productive to establish a constraint in calling for examples of risk treatment strategies.

Acknowledgments

- 8 The contribution by national revenue bodies in Australia, Austria, Belgium, Canada, Chile, Denmark, Ireland, Korea, Japan, Mexico, New Zealand, Netherlands, Norway, Singapore, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States of America to this document and the accompanying catalogue of risk treatment examples is both acknowledged and greatly appreciated, as is the support and guidance of the OECD Secretariat.

Other work on compliance risk management approaches

- 9 Further work in this domain will be finalised in 2009. This will include a study on the use of withholding and/ or reporting regimes in the SME sector and a literature review and analysis of recent research efforts concerning the factors that influence taxpayers' behaviour.

II. 2004 GUIDANCE NOTE – KEY THEMES

- 10 To provide a context for this document, it is useful to recap key themes from the Forum’s 2004 Guidance Note ‘*Compliance Risk Management: Managing and Improving Tax Compliance*’ prepared by the Forum on Tax Administration and released in October 2004.
- 11 Firstly, the 2004 Guidance Note described the primary goal of a revenue body as being to manage and improve overall compliance with the tax laws and, in doing so, also instil broad stakeholder confidence in the tax system and its administration. It also reflected that:
- In pursuit of this goal, the actions of taxpayers, whether due to ignorance, carelessness, recklessness, or deliberate evasion, as well as weaknesses in administration (e.g., the provision of inaccurate advice to taxpayers and overly complex administrative requirements which make it difficult for taxpayers to comply) mean that instances of failure to comply with the law are inevitable. Where failures occur, governments and communities are denied the tax revenues they need to provide services to citizens; and
 - In seeking to minimise these instances of failure, revenue bodies have a central role in ensuring that taxpayers and other parties understand their obligations under the revenue laws. There is also an expectation that taxpayers and others have an important role to play in meeting self managing their obligations.

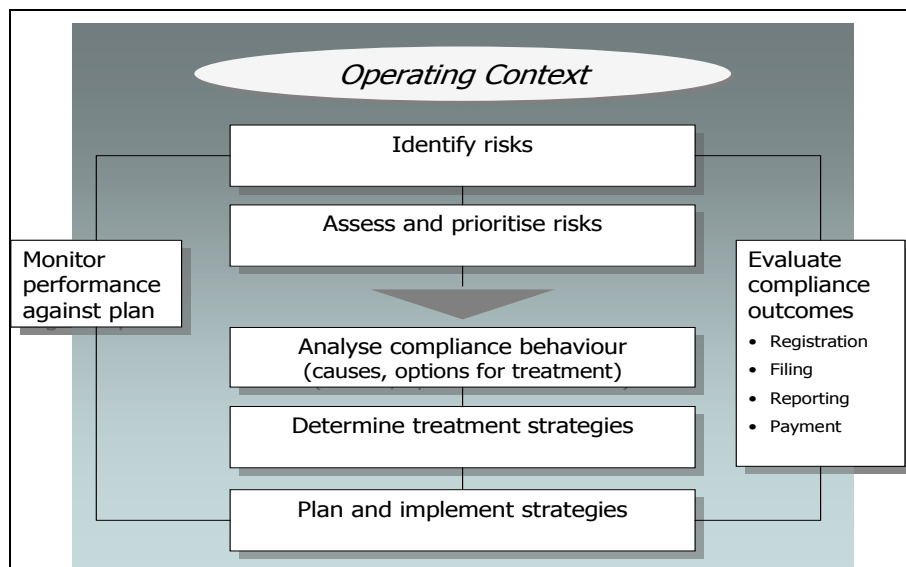
Domains of taxpayer obligation

- 12 The 2004 Guidance Note considered that while specific obligations of taxpayers will vary from one taxation role to another and from one jurisdiction to the next, four universal categories of obligation are likely to exist for almost all taxpayers. These broad categories of taxpayer obligation are:
- Registration in the system;
 - Timely filing or provision of requisite taxation information;
 - Reporting of complete and accurate information; and
 - Payment of taxation obligations on time.
- 13 It found that, irrespective of jurisdiction, “compliance” will relate to the extent to which a taxpayer meets these obligations. Where a taxpayer fails to meet any of the above obligations they may be considered to be “non-compliant”, although the reason for such non-compliance may fall along a continuum extending from unintentional error to intentional action.

Pursuing and adopting a risk management approach

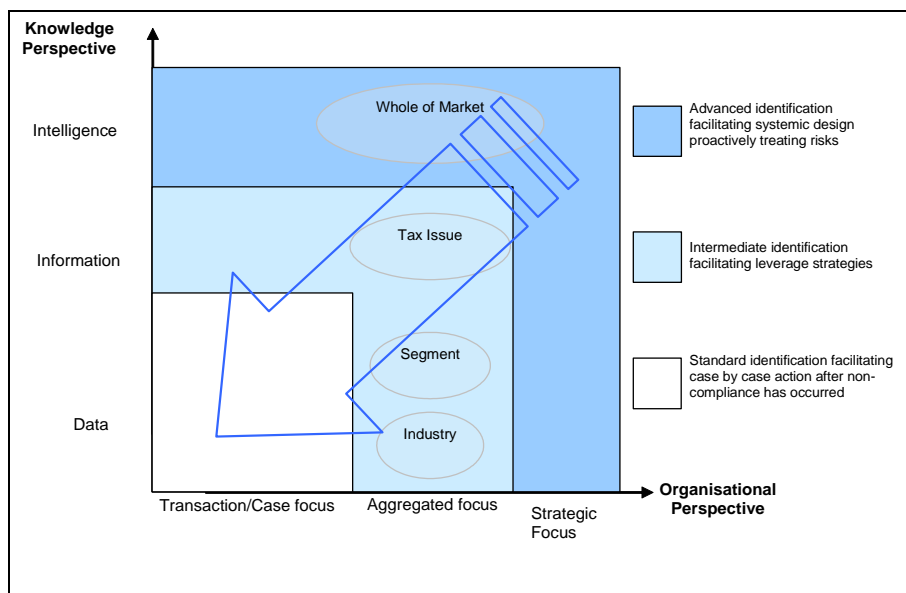
- 14 The 2004 Guidance Note acknowledged that revenue bodies operate within finite resources, and that effective tax administration needed to focus on optimising collections under the tax laws in ways that instilled confidence in the tax authority and ensured the tax system is operating and being seen to operate correctly. It promoted the idea that revenue bodies needed a structured and systematic process for deciding what is important in a tax compliance context, how major compliance risks will be addressed and how to determine the most effective allocation of their resources - the compliance risk management process.
- 15 The 2004 Guidance Note also outlined compliance risk management as a series of defined (yet iterative) steps for the systematic identification, assessment, ranking, and treatment of tax compliance risks to support improved decision-making. A model was presented of the compliance risk management process as it may be applied by a revenue body (Figure 1)

Figure 1. The Compliance Risk Management Process



- 16 Through greater understanding of the environmental context, this model would enable revenue bodies to assess and determine which risks it can or cannot influence, and to consider and prioritise which risk treatments were required.
- 17 In practice, compliance risks fall on a continuum and therefore an additional diagnostic model (Figure 2) was used to illustrate that as the level at which risks are managed increases, there is a need for a commensurate increase in the level of evidence and knowledge that both informs and substantiates the strategic risks identified for treatment.

Figure 2. The Compliance Risk Management Diagnostic Model



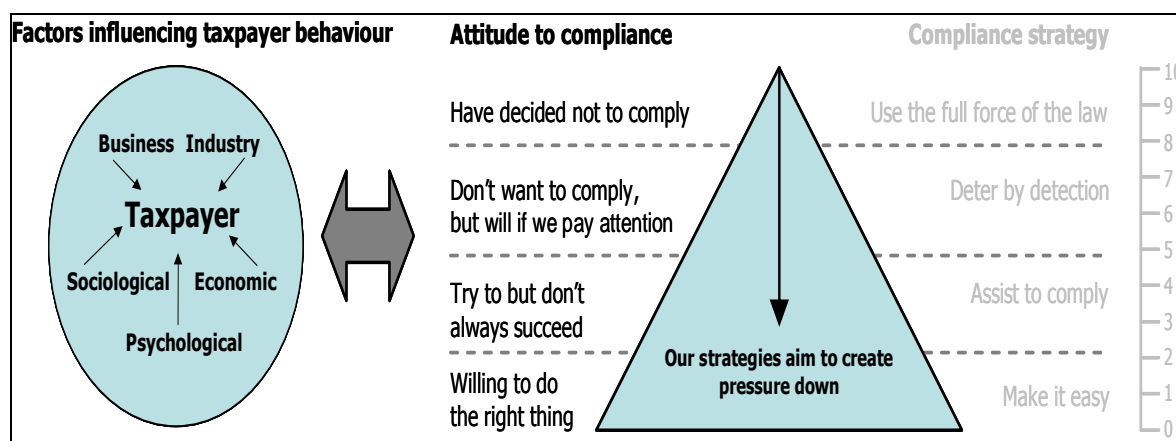
- 18 A key element of the recommended compliance risk management process was a compliance measurement framework that would provide revenue bodies with a range of compliance indicators that could be used to monitor and evaluate the impacts of their compliance activities. Such a framework would enable a continual cycle of review and refinement. The 2004 Guidance Note did not however provide detailed guidance on likely sets of compliance indicators. (This is an area that is

subsequently targeted by the recently published guidance note ‘Monitoring Taxpayers’ Compliance: A Practical Guide Based on Revenue Body Experience’.)

Recognising the influences on taxpayers and a spectrum of compliance behaviour

- 19 Research supporting the 2004 Guidance Note noted two broad approaches to the problem of compliance, the first based on economic rationality and the second based on wider behavioural issues¹. It considered that these approaches were not necessarily competing and that each approach can be valuable in terms of understanding tax compliance.
- 20 In combination with the research of Australian academic Dr Valerie Braithwaite around the sets of values, beliefs and attitudes of individual taxpayers (persons or businesses), the 2004 Guidance Note offered a BISEP model for thinking about the combination of these factors and the attitudes of individuals in the way they may relate to a revenue body and the tax system it administers. This model (Figure 3) allows users to categorise the factors in a consistent manner and form to aid understanding and is also sufficiently robust to stand up to applied and practical application in a tax administration environment.

Figure 3. The BISEP Model and Spectrum of Taxpayer Attitudes to Compliance



- 21 It was highlighted that an individual taxpayer is capable of adopting any of the attitudes described at different times and may also adopt all of the attitudes simultaneously in relation to different issues. It noted that these attitudes are not fixed characteristics of a person or group, but reflect the interaction between the person or group and those that impose demands upon them.
- 22 The 2004 Guidance Note considered that the value of this model is in the contribution it makes in developing a deeper understanding of taxpayer behaviour and being able to lay the groundwork for the development of targeted strategies which encourage the motivation to do the right thing and constrain the motivation to resist or evade compliance.

Benefits of adopting this approach

- 23 The 2004 Guidance Note considered the key benefits that a revenue body would derive in adopting the compliance risk management approach included:
- a systematic and structured basis for strategic planning;

¹ James, Simon, Hasseldine, John, White, Peggy and Toumi, Marika (2001) ‘Developing a Tax Compliance Strategy for Revenue Services’, *Bulletin from International Bureau of Fiscal Documentation*, April 2001, pp. 158-164.

- a focus on the underlying drivers (not symptoms) of non-compliance with the flexibility to customise and tailor solutions to compliance risks, rather than adopt a ‘vanilla’ approach;
- better outcomes in terms of both effectiveness (increases in compliance with tax laws) and efficiency (cost to administer);
- increased organisational agility developed through evidence-based evaluation, continuous improvement and learning; and
- Transparency in its approach with the ability to withstand external scrutiny.

Continually changing environments and the demand for new treatment approaches and organisational flexibility

- 24 In proposing the compliance risk management model the 2004 Guidance Note also acknowledged the increasingly complex economic, social and legislative environments that influence compliance risks and with changing demographics and an overall greater sophistication of the population, there were increased expectations and demands being placed on revenue bodies. To meet these challenges, it encouraged revenue bodies to shift from the traditional ‘enforcement’ approach and to develop greater understanding of the underlying factors that shape taxpayers compliance behaviours so that a potentially more effective set of responses can be developed.
- 25 The 2004 Guidance Note highlighted that for compliance risk management to be effective, a compliance risk management methodology needed to be central to organisational reporting, governance and decision-making processes – a part of ‘the way we do business’. It also suggested that introducing a compliance risk management methodology would require new capabilities and was likely to place pressure on IT and business systems. This level of change required a high level of organisational commitment together with staff and management buy-in.

Focus on small business

- 26 The 2004 Guidance Note presented examples of current compliance risk strategies and treatments in practice contributed by a number of OECD member countries with a focus on Small and Medium sized Enterprises (SMEs) given they represent a high risk group in most countries, in particular the risk of their under-reporting income for either direct or indirect taxes. An accompanying Companion Note was also issued that served to case study a selected group of existing risk identification and risk response approaches.

III. RESEARCH OVERVIEW AND SUMMARY OBSERVATIONS

- 27 As noted in the terms of reference, a critical element of work was the identification of innovative or unusual risk treatment strategies that have been deployed by revenue bodies to deal with major compliance risks, primarily those intended to target non-reporting non-compliance.
- 28 It was accepted that what constitutes an “innovative or unusual” risk treatment approach may vary from country to country but, in the task group’s view, would likely entail a combination of a number of the following sorts of activities:
- New legislated information reporting requirements;
 - New sources of information obtained under normal information gathering powers;
 - Enhanced taxpayer education efforts;
 - New or expanded use of media/publicity;
 - New applications of technology;
 - Updated or enhanced voluntary disclosure policies (incl. amnesty-type arrangements);
 - New forms of taxpayer interventions (e.g. letters, record-keeping reviews);
 - Revised risk assessment procedures;
 - Leverage based activities through stakeholder bodies (e.g. tax professionals, industry bodies); and
 - Use of incentives or changes to sanctions.

Approach

- 29 To assist gathering of the requisite information, a template questionnaire was prepared and following pre-testing and agreement among task group countries, was issued to all revenue bodies (along with a practical example) that participate in the activities of the Compliance Subgroup in early November 2007 with responses sought early in 2008. Countries were asked to contribute at least one innovative or unusual response and were given scope to determine what constitutes ‘innovative’ as this would be based on members’ own prior experiences in this field and within their administrations’ operational context. Where able, revenue bodies were encouraged to provide multiple examples.
- 30 The research template sought background information that gave rise to the development of the risk treatment as well as an outline of the:
- Objectives or desired outcomes
 - Target groups for the risk treatment
 - Key elements of the risk treatment
 - The approach to measurement and evaluation
 - Observed impacts and where able, over what time periods
 - Lessons learned either in development, implementation or operation.
- 31 Revenue bodies were also asked to indicate the primary focus of the risk treatment against one of the 4 risk domains: 1) registration; 2) filing; 3) reporting; and 4) payment, and to indicate where the risk treatment may also have secondary influences on other compliance risks. This approach would enable further analysis of responses by targeted risk area.

- 32 The templates were initially catalogued and grouped by compliance risk area (Appendix 1) and then analysed for component detail (Appendix 2) to allow common themes, points of difference and other observations to be drawn. No alterations were made to the risk areas indicated by countries.
- 33 This report has been structured to present findings and observations based around the four individual risk areas.

Boundaries to approach

- 34 The research approach was not intended to be a comprehensive collection and analysis of all risk treatment strategies that may be employed by revenue bodies, such an approach would place a significant imposition on revenue bodies and would require both a highly structured research approach and significant analytical resource. Rather, the approach was intended to provide a point in time snapshot of recent developments and innovations that reflected application of the compliance risk management approach or components of this to specific existing or emerging compliance risks.
- 35 Similarly, the approach did not seek to obtain detailed measurement or evaluation methodologies from countries (this being the scope of the parallel work occurring in this area during the period of the research). Instead it sought insight to practical examples that had been adopted or were considered in the measurement of specific risk treatments.

Responses to research

- 36 There was a high response to the research request with over 90 examples received from 19 member countries, of which, 91 primarily target risks in relation to SME compliance. Within the submissions, some examples were given for large enterprises and therefore fell outside the scope of this study. These examples were useful in comparing experiences in the measurement and evaluation of risk treatments. All responses are collated in an accompanying catalogue which contains over 270 pages of information at varying levels of detail for revenue bodies to use as a future reference source. In this respect, given the volume of information, analysis is to a degree constrained to summary observations and common trends.

Responses by risk category

- 37 The number of targeted risk treatments against the 4 categories of taxpayer obligations (as indicated by revenue bodies) shows:
- 22 examples primarily targeting risks associated with Failure to Register
 - 4 examples primarily targeting risks associated with Failure to File
 - 62 examples primarily targeting risks associated with Failure to accurately Report
 - 7 examples primarily targeting risks associated with Failure to Pay
- 38 In addition to the examples of specific risk treatments, countries also indicated over 30 additional areas where: 1) new risks have been identified for which treatments are either under consideration, in the initial stages of development or highlighted for future analysis as resources become available; or 2) existing risk treatments are being considered for further development, expansion or deployment across wider target groups.

General observations and emerging themes

- 39 Firstly, and based simply on the volume of examples submitted, it is evident that the range of new risk treatments employed by revenue bodies has expanded considerably over the period since the initial research for the 2004 guidance note. While there may be many reasons for this, an important

contributing factor is considered to be directly related to the broad changes occurring in the relationships and contracted performance expectations between revenue bodies and their central agencies.

- 40 In this regard, while central agencies are likely to routinely seek increased cost efficiency in the operation of revenue bodies, they are increasingly focused on the ongoing effectiveness of tax administration systems and achieving broader and sustainable longer term outcomes to fund wider community initiatives and policies. This is in-turn increasing pressures on revenue bodies to look beyond traditional singular back-end risk treatments, such as increased one to one audit programmes, and to develop broader systemic strategies and solutions that incorporate a diversity of cost effective interventions. Equally, with increasing pressure to minimise the administrative burden on taxpayers, revenue bodies must seek new and innovative solutions that enable increased compliance across broader population groups.
- 41 Given the level of participation and number of examples provided within the context of this initial study, countries represented at the April 2008 Subgroup meeting considered there was interest across revenue bodies in continuing to periodically share examples of treatments and experiences in the future. In doing so, countries saw value in periodically gaining insight to the approaches by other revenue bodies and informally comparing and benchmarking their own approaches to these, and to use these as a stimulus for future development and local innovation.
- 42 Second, also as a general comment, the examples reflect that revenue bodies are demonstrating increased sophistication in shaping and managing compliance programmes in a more strategic way through developing multi-faceted treatment strategies that simultaneously have influence over several risk domains. It is also evident that in developing these risk strategies and treatments, a more balanced suite of interventions are being applied across each of the Educate, Assist, Deter and Enforce dimensions of the Compliance Model. (Annex 1 presents a breakdown of key components to illustrate the multi-dimensional approach being taken in many examples.) This development of multi-faceted treatments also indicates revenue bodies are increasingly seeking deeper understanding of wider influences on taxpayers' behaviour which, in turn, is providing the groundwork for the development of strategy sets that both that encourage the motivation to do the right thing and constrain the motivation to resist or evade compliance.
- 43 These multi-faceted treatments are also increasingly being tailor-made for specific compliance problems. In this sense the treatments have tended away from a one-size-fits-all approach and instead are being designed for a special problem in a special context. By definition, this requires a broader and more comprehensive understanding of the problem and its underlying causes in order to develop a more effective and focused suite of responses.
- 44 Similarly, this approach is also reflected by many of the new forms of treatment strategies commonly incorporating a proactive education and/or communication component that aims to prevent or deter future error or evasion.
- 45 Many treatment strategies also reflect a focus on effecting changes in behaviour across broader (although targeted) population groups through greater use of co-operative relationships with 3rd parties, including tax practitioners, industry representatives and wider inter-agency collaboration. In many cases treatment strategies include cooperation with at least one and more commonly several external bodies.
- 46 There is also increased use of external information and data matching to identify aggregated risks and more specifically define target populations in order to develop greater behavioural understanding and consider broader treatment options.
- 47 Another general observation is that it is now more common for revenue bodies to be persistent in seeking compliance. Special forms of treatment are being designed for those cases that continue to be non-compliant and single interventions are now being replaced with a number of different and

sequential interventions until an actual change in compliance behaviour has occurred. This is not only being done on an individual level, i.e. the behaviour is monitored and the revenue body is persistent in its efforts to change an undesired behaviour, but is also evident in higher aggregated programmes of activity across targeted industries or larger population groups.

- 48 There were only a small number of examples that included “withholding” type treatments or additional reporting or disclosure regimes. While tax laws vary across countries, and acknowledging that treatments of this type are subject to due consultative and legislative process, it was anticipated that given the focus on accurate reporting, a greater number of examples would have emerged in relation to these approaches. However, the examples provided (e.g. Canada and Ireland) are broad in their scope and in conjunction with other inquiries made suggest that the Sub-group could benefit from a deeper understanding of the use of such arrangements across member countries.
- 49 Similarly, there were only limited examples that indicated a strengthening in international tax laws or reporting of international transactions. Whilst these types of treatments have previously tended toward application to larger enterprises, responses from countries have commented on increasing revenue risks relating to: 1) further growth in international trade; 2) E-commerce developments; 3) changes in employment patterns and growth in numbers of contractors; 4) innovations in business structures and financial products; and 5) the commoditisation and portability of tax schemes.
- 50 This suggests that these risks are becoming increasingly prevalent within this broad SME taxpayer group and may require further consideration. While it is known that several countries do have a range of withholding and/or reporting regimes, this may be an area where other countries may benefit from future targeted research and guidance.
- 51 Incentive based risk treatments are also still less common. However, a small number of examples were provided of risk treatments that seek to either provide more tangible incentives for SMEs to comply or actively promote the deterrent effects or sanctions for non-compliance. This was an area commented on in the 2004 Guidance Note requiring further exploration and development by revenue bodies and based on the limited examples potentially remains an under-developed area.
- 52 There were also limited treatment examples targeting non-compliant filing and payment behaviours. While the research request was primarily focused on under reporting by SMEs, in light of the number of examples provided in relation to registration risks, the limited treatments in these other risk areas is comparatively low. This may reflect several factors including:
- Reduced scope for variations or complexity in risk behaviours;
 - Collection treatments are already well established;
 - There is less space for innovation in this area,;
 - There has been limited development in this area at this time, or
 - The boundary of the research request.
- 53 There appears to be much greater use of external communication and publication of information by revenue bodies. To go public with what the revenue body plans to do or has done has become a more widely adopted strategy in itself. Associated with this increased level of communication, is that communication aspects are increasingly being taken into account at the time the treatment strategies are being designed and a number of examples indicate the use of structured ‘campaign’ type communication approaches.
- 54 The approach to measurement and evaluation however, appears much less advanced. While some examples reflect that countries are turning their mind to how to evaluate the compliance impacts of new risk treatments at the time of developing treatment strategies, this is more commonly being left until after the treatment has been established and enabled – often a consequence of the more immediate need to establish and deploy activities. This belated attention to evaluation can have a

number of downsides, for example, a failure to gather critical or a sufficient range of measurement data or information during treatment implementation that is needed for effective evaluation.

- 55 Traditionally revenue bodies have tended to measure ‘outputs’ at an activity level. Increasingly, in line with changes to performance agreements with central agencies, there is greater need and focus being directed to the measurement of broader impacts and outcomes. Thus the measurement of higher level outcomes i.e. the change in a taxpayers’ knowledge of compliance obligations through education becomes more problematic and often is not necessarily observable at the time of the initial activity. Likewise, revenue bodies are finding it difficult to clearly measure or evaluate the impacts of more innovative treatment approaches. This can be attributed to one or more factors including:
- There may be issues relating to the integrity of source data;
 - The nature of information to enable measurement and evaluation may not be routinely collected or is in a different form to what is already established;
 - Individual measurements taken in isolation may not necessarily provide an accurate indicator of the summary effect of a multi-faceted treatment approach;
 - Where a treatment involves different components, determining the relative weighting of each component in evaluating its success can be problematic;
 - The treatment may have a future impact focus and more immediate assessments are only reasonably able to measure input and deployment activities;
 - Lack of experience in, and knowledge of, formal evaluation techniques (an area where it is suggested the Compliance Sub-group seeks to further explore and develop).
- 56 A number of countries commented on the challenges they are facing in responding to the pace of economic development including the increased speed at which new industries are emerging and the increased mobility of taxpayers. These challenges are generating greater pressures on revenue bodies to become increasingly agile in both identifying activities to service these and responding to new risks at the earliest opportunity.
- 57 Similarly, there appears to be increasing expectations of revenue bodies by taxpayers in relation to the immediacy of access to services, having a wider understanding of their individual circumstances and the environmental context their business takes place within, and providing certainty in responses and rulings. As a general comment, these challenges are equally likely to push revenue bodies to seek more innovative and different treatment approaches, expanded service channels, products and interactions and the research has identified an expanded range of examples where this is occurring.

Limitations of the research approach

- 58 While the research approach allowed countries to self determine “innovative risk treatments”, the variety of responses reflects that countries are at varying stages of maturity in both the application of the Compliance Risk Management Model and the development of targeted risk treatments. As such, some countries may have only submitted examples that, within their own context, they regarded as “innovative” however, may also have a number of existing “business as usual” treatment strategies that other members may consider innovative in comparison with their own existing approaches.
- 59 Given, this potential variation in interpretation, it is emphasised that the examples provided here should not be taken as being a comprehensive list of all available treatment strategies and are intended to present a broad cross section of the many types of risk treatments that have been more recently developed.

IV. CLASSIFYING RISK TREATMENTS AND DEVELOPING A SUITE OF RESPONSES

Analytical approach

- 60 This section focuses on a more detailed analysis of the risk treatment examples provided, in particular, the key features of these treatments to determine if there was a common grouping of themes or approaches. It also acts as a lead into further discussion on enhancing the design of future risk treatments covered later in this document.
- 61 An initial catalogue of the risk treatments was created by country following preliminary grouping of the risk treatments using the primary risk domain/area the treatment sought to address, i.e. failure to register, file, accurately report or make payment - as indicated by revenue bodies. From this, analysis then focused on the component features of the risk treatments again as described within the examples. As a wide number of risk treatment examples were multi-faceted, some interpretive judgment was necessary where the primary feature was unclear and not necessarily all features may have been fully identified.

Emergence of common treatment sets

- 62 This approach enabled the development of an additional framework based on the strategic intent of the risk treatments and results suggest reasonably definable and discreet groups of risk treatments exist (refer Figure 4).
- 63 Following analysis of the individual risk treatments across revenue bodies, it was found that an initial 12 risk treatment groups had emerged, which were subsequently refined at the Sydney 2008 workshop down to 8 discernable treatment sets where the treatment sets have broadly similar intent and characteristics namely:

1. **Legislative, policy or revenue body process change treatments**

This set of treatments encompasses activities involving changes to existing tax laws, tax authority policies and practice statements or the introduction of new laws, policies or practices. It can also include changes to registration or payment obligations and prescribed forms.

2. **Interactive assistance and decision support treatments**

This set of treatments encompasses activities involving new technology based customer self-service tools and will commonly include initiatives such as downloadable software developed by revenue bodies, enhanced internet or other online services including electronic filing, online help and account access and maintenance.

3. **Education-based treatments**

This set of treatments encompasses targeted education programmes aimed primarily at selected customer groups and/or the development and distribution of specific educational booklets and guides. These initiatives are typically delivered via a range of advisory services, seminars and presentations, publications or other media.

4. **Encouragement and support based treatments**

This set of treatments encompasses primary front-line contact and enquiry services and may commonly include public counters and service bureaus, contact centres, help lines and technical services. These strategies may also include reviews of books and records where these focus on assisting taxpayers.

5. **Co-operative arrangement treatments**

This set of treatments encompasses formal engagement and structured relationships with third parties including industry representative groups, banks or other financial

institutes, tax agents and other government agencies. It may include the development of protocols, heads of agreement, memoranda of understanding, partnering for product development or co-ordinated services with other government organisations, e.g. customs, police, or educational ministries and institutes.

6. Pre-obligation contact treatments

This set of treatments encompasses those activities involving pro-active contact with taxpayers prior to the filing of a tax return or declaration or payment and will commonly include contacts by telephone, letter, visit, text or e-mail.

7. Reporting and withholding treatments

This set of treatments encompasses reporting requirements and withholding tax regulations. Initiatives within this set are most likely to include minimum reporting or disclosure requirements, together with 3rd party withholding tax deductions and payments and may also include treatments that seek to simply or reduce these.

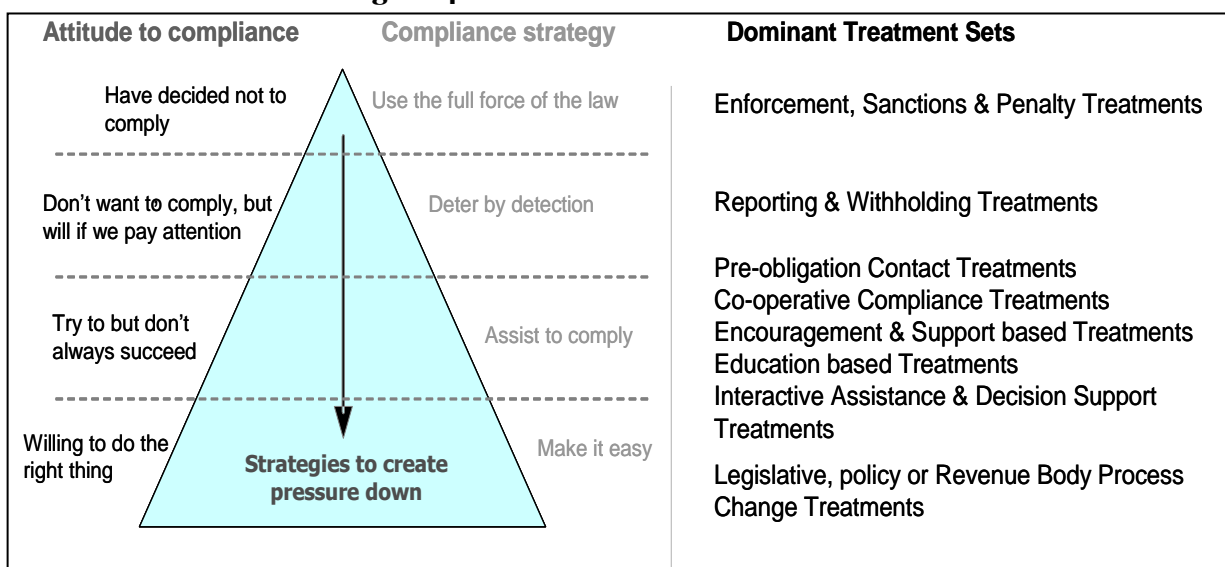
8. Intelligence gathering, enforcement, sanctions and penalty treatments

This set of treatments encompass those activities that result in changes to the level, focus or form of traditional intelligence, audit or collection processes or methods, together with activities resulting in new or changed powers of enquiry, penalty provisions, voluntary disclosure provisions, suspensions, revocations or de-registrations. Further this treatment set may include enhanced data set exchange provisions with other agencies or 3rd parties to allow matching with information held by the revenue body, and may also include development of compliance incentives eg, certifications, amnesties, exemptions, discounts, grants or subsidies.

64 It should be noted that this collective group of treatment sets does not include a dedicated grouping for media and other similar communication strategies. While there is clearly increased proactive use of various media within the risk treatment examples, it was considered that the use of media is an enabling tool that facilitates the communication and deployment of risk treatments within each of these groups of initiatives. In this sense, media can be used to broadcast a new area of focus, provide detailed information on a particular activity or inform of the observations, results and outcomes of risk treatments already deployed.

65 These treatment sets were then applied to the Compliance Model to provide an indicative view of where the respective treatment sets may be more effective in their application to the prevalent compliance attitudes of taxpayer groups and the broad strategic intent. This is shown in Figure 4.

Figure 4. Risk Treatment Sets



- 66 In reflecting on this alignment, it was evident that nearly one half of the individual treatments were more specifically focused at providing increased assistance and making it easier for SMEs in their efforts to comply. This is in line with the overall goal of achieving voluntary compliance and recognises there are fairly constant obstacles of complex laws and, often, onerous compliance obligations. This concentration of initiatives in this area also reflects a maturity in revenue body approaches to securing longer term improvements in taxpayer compliance.
- 67 While at an individual level a risk treatment may be designed with a primary strategic feature, and therefore be classified by this, this does not prevent the risk treatment also having a number of other secondary features that may fall within other treatment classifications. As earlier noted, it was found that a wide number of risk treatment examples are multi-faceted and that as the level of sophistication in their design increases, so too will the likelihood that they will contain several components.
- 68 Revenue bodies routinely engage a range of design and development processes during the selection and development of new risk treatments that consider various approaches when developing risk treatments. This treatment classification does not seek to replicate or invalidate these existing processes, rather it provides an alternative framework that can allow revenue bodies to assess where existing treatment approaches may be concentrated and assist in the identification of potential gaps or areas for development within their existing suite of treatments.
- 69 In this sense, these treatment sets can also be applied in conjunction with the BISEP model at progressive levels of detail, for example by tax type or by targeted population groups. By way of illustration, in considering filing non-compliance, a revenue body may already have existing risk treatments targeting general education of filing obligations together with a range of sanction based treatments when non-compliance occurs, however it may not yet have any form of decision support treatment to encourage taxpayer self management or any targeted pre-filing contact treatments for at risk customer groups.
- 70 Further, this framework may also provide opportunities for revenue bodies to assess the priority and sequencing of the design of risk treatments as well as the application of a time dimension over which the respective building of strategy components can be considered.
- 71 There are also challenges for revenue bodies in being able to determine the key focus of risk treatments and being able to reasonably predict the influences a particular risk treatment may have on compliance itself and, equally as important, taxpayer attitudes to compliance. Section XII later in this report further discusses need for greater understanding in the purpose and design of risk treatments.
- 72 Detailed results of this analysis are contained in the Annexes to this report. Annex 1 presents a simple glossary of the risk treatments by country (alpha a-z) and indicates the primary risk area the treatment targets. Annex 2 groups the risk treatments by the primary compliance risk they are intended to target and also indicates the dominant treatment activity and other supporting components using the strategy set classifications.

V. RISK TREATMENTS – FAILURE TO REGISTER

General observations

- 73 Failure to Register is often a result of lack of awareness or misunderstanding by taxpayers of their obligations, particularly where registration requirements may be based on the definition of ‘business versus hobby’, revenue turnover thresholds or more complex employee versus contractor rules. Non-compliance through these types of factors is often at the lesser end of the continuum as distinct from deliberate attempts to evade registration or falsely register in order to obtain future refunds or entitlements.
- 74 The research provided over 20 examples from revenue bodies of risk treatments targeting risks associated with Failure to Register with these risk treatments commonly containing a high education component ranging from broad education programmes (low understanding) or targeted programmes in specific industries (attempts to evade).
- 75 Education or assistance programmes also commonly feature as a proactive component of other risk responses that may more specifically target non-reporting. In the later, there is an evident increase in the use of co-operative relationships and formal protocols with industry groups to assist leveraging, visibility and understanding of particular industry or taxpayer group concerns and issues. These approaches are being aimed at both reducing deliberate non registration and through this, limiting the likelihood or quantum of future non-reporting within targeted populations.
- 76 Where such industry relationships have been initiated, reactions have appeared to be considerably positive and are assisting revenue bodies being perceived as more approachable, proactive in assisting with compliance issues and willing to customise information products and more specifically tailor interventions in areas of more deliberate non-compliance.
- 77 Many agencies have increasingly adopted broader education programmes and these appear best matched to unintentional non compliance. One of the challenges for revenue bodies, particularly in relation to information products to support these programmes, has been the need to blend traditional information styles and formal requirements with new “customer service” messaging to encourage approachability and engagement.
- 78 It was observed that a feature of many of these broader programmes was the underlying use of “good citizen” messages to not only encourage personal tax responsibility but to also engender wider community understanding of what these responsibilities contribute to.
- 79 A small number of revenue bodies commented on initiatives to co-locate services with other agencies in conjunction with wider “whole of government” service approaches. Similarly, some agencies have explored use of alternative registration points with other government agencies and trusted private entities to facilitate easier access to information by taxpayers.
- 80 There is also considerable focus being given by agencies to the development of useful “self-management tools” that are intended to enable taxpayers to self identify requirements without the need for direct “face to face” service requirements. In those instances where these initiatives has been reviewed, general taxpayer responses have been highly favourable and are contributing to enhanced general perceptions of the agency.
- 81 On a cautionary note, some revenue bodies have commented that while increased ease of access, primarily through e-channels, is both increasingly being sought by taxpayers and can be a cost effective approach for administrations, these initiatives can also present additional risks. In this sense agencies have recognised there is a delicate balance between facilitating increased access to services and the need to ensure identities and access are verified at the various entry points to prevent potential false registrations and limit the potential for fraudulent refund or entitlement claims.

Early education programmes

- 82 Several revenue bodies are developing tax awareness programmes at schools as a means of providing an early initial understanding of the tax system with a longer term outcome of instilling future complaint behaviours during formative learning periods. Of particular interest is the increasingly earlier life cycle point that these risk treatments are being targeted and the following examples are used to illustrate this.

Box 1: Austria – Education at Schools Programme

Austria has developed an education at schools programme based on an expected outcome that compliance behaviour can be better established at school level when less external influences exist. Under this programme, schools across Austria will receive educational visits by tax officials focusing on providing core awareness of future responsibilities for tax and customs compliance.

Box 2: Canada – Web-based Online Education Programme

Canada has developed an online course to help individuals to understand the fundamentals of the Canadian tax system and to show them how to file a basic tax return. Through this course, individuals are introduced to Canada's tax system, its history and how it works. The course also includes information on completing tax returns. The course is free taking between 1-2 hrs to complete. The use of a web-based design is also enabling timely and cost efficient amendment and management of educational material.

Box 3: Canada – Tax Learning Programme for Schools

Canada also identified a gap in the education curriculum at secondary school level. In conjunction with educational agencies in several provinces, a structured tax learning programme was developed supported by a website to house resource materials for both students and teachers. To date, the new tax curriculum has been delivered to 10,368 students by 393 teachers in 251 schools across Canada.

Box 4: Chile – Early Years Tax Education Programme at Schools

Chile is also engaging in early education at schools. With collaboration of educational ministries and other government agencies, the Chilean tax education programme targets children at various school levels from age 6 years and up. Commencement at this age is intended to provide basic understanding during the early cognitive period. Key steps in this strategy also include development of a web portal for use by children, teachers and parents and use of alternate mediums such as plays and teacher education.

- 83 A common feature of these examples is that they are clearly future based initiatives with the expectation that the large majority of new generations of taxpayers will increasingly be self-managing and compliant. The effects of early awareness programmes on compliance are however more difficult to measure over a defined time scale and in the short term more qualitative methods are being applied in a number of examples.

Targeting new entrants

- 84 Similarly, there is also expansion of education and assistance programmes targeting new business entrants under broader over-arching assistance strategies. These programmes are aimed at informing taxpayers of their obligations together with available assistance and self support programmes at early engagement points within respective tax systems including registration and initial filing or payment activities.

Box 5: Australia – Small Business Assistance Programme

Australia has conducted research that consistently indicates those entering business for the first time, or facing a significant change in their business (such as taking on employees for the first time) are at greater risk of non-compliance with a range of taxation obligations. In response, it has developed a broad Small Business Assistance Program consisting of a number of component strategies to ensure small businesses have the capability to meet their obligations or claim their entitlements, voluntarily comply and thereby maintain community confidence. These strategies include proactive use of outbound education calls made at key lifecycle stages of a business or other key triggers including; at initial registration (particularly targeting those genuinely new to business and self preparing Activity Statements); registration as a new employer and where late lodgement of an Activity Statement or payment of GST liabilities has occurred. These approaches reflect both early detection of potential risks together with proactive compliance based services.

Box 6: New Zealand – Community Relationship Advisory Programme

New Zealand along with several other countries has operated dedicated advisory roles that provide tax education and assistance to both individuals and those new to business. Recently with changes to the New Zealand Inland Revenue's Operating Model, the focus of these advisory services has been expanded to: ensure the voice of the customer is clearly heard within the tax office; maintain a dedicated focus on customer groups; understand what influences the different customer groups to voluntarily comply, and proactively meet the changing and increasing expectations of government and society, by acting as a touchstone/champion for customer issues. These advisory roles are also complemented by the use of account relationship managers for key industries focusing on relationships at a broader level to identify areas where new or tailored services may be required and consider how wider industry compliance issues can be addressed.

Box 7: New Zealand – Online Tax Registration with NZ Registrar of Companies and Agency Arrangement with NZ Automobile Association for IRD Number Applications

New Zealand has also recently launched a new service in conjunction with the Register of Companies that enables business taxpayers at the time of completing a new company registration to also apply online and receive an Inland Revenue (Account) Number within minutes of registration. While online application had been previously available, issue of the IR number was still largely a manual process with an 8 to 10 day turnaround time and often caused tax practitioners to use an alternative 24-hour fax service for IR number applications. The use of technology in this example is reducing the risk of non-registration, manual processes and is providing increased services to taxpayers.

New Zealand has also recently extended the ability for taxpayers to apply for tax identification (IRD) numbers at the time of applying for a drivers licence. While IRD numbers can be applied for via telephone and online, in an agency arrangement with the approved licence issuer New Zealand Automobile Association, this additional registration point seeks to remind and encourage registration at an alternative but common "life cycle" event.

- 85 A number of revenue bodies have also developed protocols with other government agencies including co-location of tax administration staff with staff of other agencies to provide a common contact point for taxpayers to complete registration requirements for a number of government agencies or services.

Box 8: Norway – Joint Agency Service Centre for Foreign Workers

Norway recognised a compliance risk arising from the considerable growth in foreign workers and the various residency, work permit and tax registration requirements for this taxpayer group. Working with other government agencies, in 2007 a Service Centre for Foreign Workers was established to enable immigration, employment and initial tax system registration obligations to be completed at a single point of contact with reduced waiting periods.

The approach has involved staff from several agencies (covering several languages) working simultaneously at the contact centre to ensure that respective agency requirements are completed. While still in its implementation phase, initial indications are that requests for work permits and tax registrations has increased and there has been positive taxpayer feedback on the co-ordinated approach. Also relevant was the short 5-month period from development to implementation as an example of the use of more rapid design approaches and the need to increasingly develop and apply treatment approaches with increased speed.

General education programmes

- 86 Several agencies commented on the use of “broadcast” communication programmes to target a range of general compliance obligations including correction of common misconceptions within both the SME and general taxpayer populations. These programmes are being applied both at a singular risk area such as failure to register and also simultaneously at a combination of risk areas such as failure to register in conjunction with failure to accurately report. In some instances, such campaigns have been used to present the revenue body’s perspective in response to heightened media activity that tends to occur in relation to the introduction of tax law amendments or new regimes.

Box 9: Korea – “Getting in Tune With Your Taxes” Public Awareness Campaign

In response to growing media comment and speculation leading up to the 2005 introduction of a new “Comprehensive Real Estate Holding Tax” the Korean National Tax Service by embarking on a broad tax awareness campaign “Getting in Tune with Your Taxes” to assist taxpayers develop a wider and more positive understanding on taxes and to address misinformation.

With a broad objective of creating a longer term culture of compliance based on informed understanding, the education campaign has progressively targeted both the general public and opinion leaders within a range of key social sectors and taxpayer groups.

The campaign has included extensive proactive use of publicity and media and has included individual components such as the publication of tax guidance booklets, promotional visits, tax classes for students and an annual literary contest whereby students are encouraged to submit writings on the importance of paying taxes with winning submissions publicly recognised.

A 2007 independent public opinion poll indicated an over 90% approval rating, with over 150,000 copies sold of one publication “Truths and Myths on Taxes” – becoming the first government publication to make the bestseller list at major stationers.

While recognising the success of the campaign, the National Tax Service is also aware that such broad based efforts may not always have such immediate impact and a continual range of activities are necessary to ensure changes in attitudes to compliance are achieved.

- 87 Other initiatives across revenue bodies have included the progressive review and updating of information materials using simple and clear language to both enhance understanding of registration requirements and to convey information in a style that encourages voluntary interaction and seeks to positively influence community perceptions of the tax administration.
- 88 Similarly, many revenue bodies are progressively increasing the range of information held on agency websites. This is seen a cost effective option through both reduced print requirements and greater speed in providing updated information. The use of website subscription functions are enabling revenue bodies to generate messages when new updates are made potentially reaching much broader taxpayer groups at low cost. While web-based information sites allow large amounts of information to be made available, effective site design that enables easy access to this information is critical. Similarly, maintaining the currency of web-based information is essential and periodic reviews to remove redundant material must be undertaken.

Box 10: New Zealand Website and Information Service Design Awards

Along with a number of revenue bodies, the New Zealand Inland Revenue has made a significant investment in redesigning its Internet site and services. This has resulted in the agency winning several national awards for best Government Department/Agency website.

- 89 Other new approaches also include increased dissemination and display of information through other agencies and 3rd parties, e.g. other government ministries, banks etc together with increased visibility of revenue officials at wider community venues and events such as promotional displays within shopping malls and small business expos.

VI. RISK TREATMENTS – FAILURE TO FILE

General observations

- 90 The research provided only a small number of examples of relatively new approaches to target risks associated with ‘failure to file’. These typically used various forms of pre-filing contact with taxpayers ahead of compliance obligation dates. Revenue bodies also provided other examples where targeted pre-filing contacts were being utilized in respect of risks to reporting accuracy and these are commented on later.
- 91 It is evident the use of alternate technologies and enhanced online services is an area revenue bodies are seeking to pursue in order to leverage the high use of technology based tools by SMEs. Technologies such as web-based portals are seen as offering increased cost effectiveness over traditional contact and response methods however, they also require considerable investment not only in application development but also in the infrastructure required to support them, particularly where the requirements may be subject to regular change.
- 92 The use of alternate contact channels such as (SMS) Short Message Text and email, again while having potentially significant cost benefits, is dependent on high levels of data integrity and requires careful consideration of how such contact details are to be initially captured and maintained. While agencies have commented that the use of 3rd party data matching assists in ensuring contact accuracy, it can be imprecise and time consuming.
- 93 A number of agencies also commented on the intent to pursue enhanced forms of pre-filing of returns to increase the level of on time filing using 3rd party data from banks and other such financial institutions. While examples of pre-filing targeting salary and wage earners are already operated by some European countries, pre-filing for SME’s can be more problematic dependent on requirements to submit financial statements

Increased use of technology to assist filing

- 94 While only limited new risk treatments were identified, each used a different form of technology and was unique in its intended focus, including:
- Online submission of standard audit files and returns to both increase filing performance and also assign compliance ratings for future service strategies
 - Proactive pre-filing contacts via SMS text to habitual late filers
 - Use of 3rd party data and data matching to more accurately identify non-filers.
 - Development of self-management tool for access and use by taxpayers.

Box 11: Austria – Standard Audit tax File and Compliance Indicator

In Austria, the voluntary use of an electronic Standard Audit Tax File submitted annually is being promoted to approximately 2 million company taxpayers. Where this file is submitted, a standard examination of the data is completed that generates a compliance indicator. This indicator will be used to determine different service and measurement strategies for compliant and non-compliant groups with enhanced service levels for compliant taxpayers and increased monitoring for non compliant groups. The compliance indicator can be adjusted with each annual submission.

Box 12: United States – Importer Tax Registration Data Matching

In the United States, a congressionally mandated study revealed a large number of importers (taken from Customs data) without Taxpayer Identification Numbers. A current project is underway to identify US based businesses who may have complied with registration requirements by matching IRS and Customs data.

Box 13: Australia – Personalised Tax Calendar for SMEs

In Australia, the development of a personalised electronic tax calendar (e-Calendar) is currently underway and was expected to be available for use by SMEs shortly after 1 July 2008. The intention of the e-Calendar is to encourage and support voluntary compliance by equipping small businesses with a tool which will actively remind them of their taxation and superannuation obligations.

The Personalised Electronic Tax Calendar can be automatically uploaded to the Microsoft Outlook calendar. Where a business uses alternate software, the e-calendar operates using the internal clock for most personal computers. It is intended to be accessible and downloadable from the ATO website at no cost. On completing simple profile information, the calendar generates the due dates for tax obligations tailored to the business for a whole financial year and can be updated if there are changes in the business structure. Multiple calendars can be generated where more than one business is operated. Initial customer testing using a paper-based model was positive and a high take-up rate of the e-calendar is anticipated.

Box 14: Australia – SME Text Message Reminders for Filing of Business Activity Statement

Australia has also had previous success in using new technology and contact channels with its SMS (short message system) text reminder messages to targeted taxpayer groups in relation to pending filing obligations. An example of a typical SMS message (in relation to Business Activity Statements) is: "A reminder from the Australian Tax Office! Quarter 3 BAS due 28th April. Questions? Please call 13 28 66."

The Australian Tax Office's (ATO) use of SMS messaging complies with Australian laws in relation to clear identification of the message sender, contact detail and the generic nature of the message also ensures that privacy and secrecy provisions are not compromised. Results from a series of pilots undertaken from 2006 targeting habitual late filers showed considerable improvements in both overall filing performance and filing by due dates. An independent customer survey of target groups found the SMS message was sent to the right person with a majority of recipients recalling receiving the reminder. It also found that SMS messaging was an acceptable form of contact.

Although the ATO found the use of SMS text communications requires considerable planning and accuracy in customer data integrity, timing, message content and post contact response services, it also found SMS text contacts to be a highly cost effective compliance activity in comparison to traditional letter based reminders. SMS text messaging is now a component of the ATO's return filing program.

- 95 Measurement of the effect of several of the strategies in this area is still ongoing and includes a combination of filing rate performance together with uptake rates where new technologies are used. Where new online filing tools are used, subsequent measurements can also be undertaken across user/non user groups. Cost effectiveness can also be measured through comparison of the costs of manual and automated contact processes.
- 96 Revenue bodies need to consider whether developing new technology-based solutions will by themselves be enough to drive taxpayers to utilise them. Some experiences to date suggest that while SME taxpayers are early adopters of technologies and may be comfortable with accessing and downloading useful information and tools, this may not necessarily extend to engagement in real-time interactions with revenue bodies.
- 97 While new technologies may be acceptable to many taxpayers in their private lives, when considering new technologies for direct contacts with taxpayers, the social acceptability and general perception of such approaches being made by government agencies may not be embraced to the same degree. The use of concept, market and social perception testing can be used to inform of the likelihood of acceptability. Revenue bodies also need to extensively consider the implications or restrictions of privacy and security laws together with new laws that may exist in relation to SPAM and unsolicited contacts when considering contacts in electronic forms.
- 98 Similarly, where using technology based contact systems, indirect processes that contribute to the validity of core data often require review to ensure that processes are in established and consistently

applied to routinely capture and verify taxpayer contact information at both points of registration or at other general contact events.

- 99 Revenue bodies may also need to obtain an independent view whether contact by electronic channels is able to meet evidence admissibility rules in the event that non-compliance is subsequently escalated to an administrative sanction or judiciary offence.

VII. RISK TREATMENTS – FAILURE TO ACCURATELY REPORT

General observations

- 100 The research provided over 60 examples of risk treatments targeting reporting non-compliance and included a wide range of specific compliance projects, together with initiatives that have identified new broader approaches that can be used in a more generic sense or tailored to suit individual issues.
- 101 Based on the responses received, audits and investigations are generally viewed by all countries as constituting the key means of detecting non-compliance. However, many revenue bodies no longer regard audit as the immediate response. Most audits are of an administrative nature but may also extend to criminal investigations where fraud or other serious wrong doing is identified. Several revenue bodies indicated that, in combination with increasing access to and use of third party information and improved risk assessment techniques, more targeted audit activity on priority risk is occurring. In many instances, audit activity is concentrated on selected cash based industries or other high risks sectors with the intent to generate leverage through wider publicity and word of mouth throughout target groups. This targeted activity is often done with the co-operation of key industry representatives.
- 102 A small number of countries have established additional reporting rules, or have enhanced existing reporting requirements. Developments in this area, however, appear less common. Where these approaches have been employed, they are proving useful in both the wider detection of non-reporting and also in acting as deterrents to dissuade new or repeated non-compliance.
- 103 Similarly, incentive-based treatment strategies remain under-represented, although examples were observed of initiatives that provide either a more direct incentive (e.g. the ability to claim a tax credit together with more indirect incentives such as reduced record-keeping requirements, the ability to file or even hold accounting records online). Each of these incentives is focused primarily on increasing the accuracy of taxpayers' records. There was also evidence of initiatives to assist taxpayers understand and improve their record-keeping for tax purposes and where details of these types of programmes were provided, they appear to be both successful and popular with SMEs.
- 104 Also of interest was the use of revisit programmes that represent deliberate efforts by revenue bodies to demonstrate they will be persistent in addressing non-complaint behaviours.

Making it easy to comply

- 105 Central to many responses on reporting were initiatives premised on making taxpayer obligations clear through enhanced, yet simplified, information products. Historically, many revenue bodies have been guilty of either developing products that are overly technical (with a strong internal use technical influence) or developing generic products that only provided part of the information needed by certain taxpayers. Research in many countries has found that most SME taxpayers want information presented in simple terms that is easy to read and to be able to access this information at a time and place that suits their needs.

Box 15: Australia – Capital Gains Tax Investor Information Pathway

Using market research, Australia found that many property owners had a very low understanding of Capital Gains Tax (CGT). To improve understanding, increased focus was given to how to more effectively disseminate information through key property intermediaries. This resulted in the development of a 'property customer pathway' that describes a taxpayers likely experience and potential 'touch points' with government departments and service providers and the type of information required at these contacts. This pathway indicated that the tax office would benefit from greater relationships with 3rd parties involved in the property process such as Real Estate Institutes, Housing Authorities and Financial Planners. As a result, a wider range of more targeted agency products – pre tested with taxpayers, were developed and distribution leveraged through these 3rd party networks.

Box16: Chile - Simplified accounting system for qualifying SMEs

Chile has sought to increase registration, filing and reporting compliance across an estimated 200k SMEs through an alternate simplified accounting system for qualifying taxpayers (SMEs under \$180k turnover pa). The regime commenced in 2007 and is elective. Users also have the ability to return to the main regime if necessary.

Key features include simplified rules for assessing income using a cash system requiring only incomings and outgoings to be declared. Investment and stock payments can be deducted immediately. Another feature of the Simplified Accounting System is the provisional monthly payment of 0.25% of the gross monthly sales. The simplified system also seeks to simply record keeping requirements and a supporting web-based application allows taxpayers to keep their accounting records and determine their taxable income online.

Box 17: Denmark – 3rd party data matching and return pre-filing “eDec system”

Denmark has sought to improve the accuracy of reporting by harnessing 3rd party data and matching this with the taxpayer declaration at the time of filing through pre-filing tax return information.

The Danish tax system is based on registration, source deduction and third party reporting by employers, banks, insurance companies, foundations, trade unions and public institutions on wages, earnings, benefits, grants, savings, debts and deductible expenses.

In 2006, Denmark introduced a new ‘e-dec’ system to enable taxpayers to view 3rd party income and deduction data online via a personal “Tax Folder”. Taxpayers can either accept the pre-printed return or make corrections and add supporting data. Where alterations are made, taxpayers are alerted by pop-up window if their alterations contrast with third party data held by the tax office. The taxpayer is alerted of the matching error and the data held in the Tax Folder or offered links to legislation. Individuals wishing to maintain their claim are offered the possibility of providing an explanation that will be looked at in the event of an assessment.

Box 18: Mexico – Risk Model for Tax Refunds

Over the period 2001 to 2007, Mexico had observed continual trends in the volume and value of tax refunds claimed by SMEs and subsequent analysis indicated both misunderstanding of tax exemptions and potential fraudulent abuse by some taxpayers.

To address this risk, a new risk scoring model has been developed to profile and score tax refund claims based on a statistical analysis, data matching with other tax types and past compliance history. In recognising the importance of tax refunds to SME cash flows, the use of a new integrated IT system has allowed appropriate matching and risk scoring to occur without any significant decrease in processing turnaround.

Based on a wide range of variables, the system assigns a risk rating to refund claims indicating those that should be scheduled for release and those that should be further screened by an experienced revenue officer, and where necessary additional information sought to validate the claim. While the new system only commenced in 2006, in its initial period of operation, refunds estimated at over \$40m USD were declined based on ineligibility or incomplete or unsubstantiated data.

Acting with transparency and integrity

- 106 Actively promoting programmes of enforcement activity not only informs non-compliant taxpayers that they may be selected for review but also enhances community perceptions that effective actions are being taken by the agency, particularly when combined with publication of examples of serious non-compliance.

Box 19: Australia – High Wealth Individuals Information Publications

Australia have also developed an information booklet targeted at High Wealth Individuals which not only outlines general tax obligations, but also provides information on what issues or practices may draw the attention of the tax office. The booklet includes a series of questions that these individual can use with their tax advisors to determine whether their tax affairs are in order. In conjunction with this, and to demonstrate increased goodwill and transparency, prominent tax advisors to this taxpayer group were also provided with in-depth information on the risk assessment and audit practices used by the Australian Tax Office.

In conjunction with this, the supplementary information requirements from these taxpayers (used for risk assessment) had become cumbersome (covering all possible risk areas) and were regarded as onerous to complete. As a result, new reporting information requirements are being developed that may include using a selection of smaller targeted schedules, dependent on the taxpayers activities. This approach also has the potential of making these schedules able to be used for taxpayers under the high wealth threshold where additional information is required

Box 20: Canada – Enhanced online services “My Business Account”

Canada has expanded its suite of e-services to provide business owners with convenient and secure on-line access to their personalised business account information through a new on-line service called My Business Account. This allows businesses to access their CRA accounts securely and conveniently, while facilitating use of numerous agency transactions.

My Business Account is a way for business owners (including partners, directors, and officers) to access GST/HST, payroll, corporation income taxes, excise taxes, excise duties and other levies accounts online. (At the 2007 Government Technology Exhibition and Conference (GTEC) Distinction Awards the My Business Account project was awarded a bronze medal in the category of Service Delivery to Citizens and Businesses.)

Incentives and sanctions

- 107 Incentive based approaches need to contain a component that is of value to the taxpayer so that they are encouraged to comply (the carrot), or include a sanction that deters the taxpayer from not complying (the stick), or a combination of both.
- 108 From the research 3 different examples provided incentive based components ranging from enhanced disclosure provisions, enhanced tax credits and reward lottery to software grants to encourage improved record keeping.

Box 21: United Kingdom Offshore Disclosure Incentive Scheme

In 2007, the United Kingdom, informed by a similar incentive scheme run by the Irish Revenue Commission in 2005, established Offshore Disclosure Arrangements as a ‘one time’ event in to encourage UK-based offshore account holders with unpaid taxes to put their tax affairs in order under an arrangement with HMRC. Identification of potential non-complaint taxpayers was undertaken using information from previous HRMA compliance activity focused on offshore account holders, analysis of external data on UK deposits offshore and information on individual account holders from banks. HMRC sought to recover tax lost by encouraging offshore account holders to come forward and pay any outstanding tax owed and to bring non-compliant taxpayers into the system.

In addition, high profile publicity sought to alter public perception on the risks vs. rewards in the use of offshore accounts. While the scheme used advantageous terms to encourage participation the arrangements were not an amnesty as tax, interest and a 10% reduced flat rate penalty were all payable.

Around 62,000 investors notified HMRC of their intention to disclose, with around 45,000 coming forward to disclose and pay in November. The expected additional tax collected is expected to be in excess of £400m.

Box 22: Korea - Cash Receipt System for Cash Transactions and Cash Receipt Lottery

Intensified efforts by the Korean National Tax Service to increase reporting of cash transactions by SME's has seen the introduction of a Cash Receipt System that provides incentives for SME's and the general taxpayer population where receipts are issued to record cash transactions.

Implemented in 2004, the Cash Receipts System encourages taxpayers to request receipts for transactions and enables them to register these online with the National Tax Agency. A tax credit (capped) is available to taxpayers proportional to the value of the receipts requested. Similar tax credit incentives are available to businesses registered and complying with the cash receipt system. This approach also saw changes to qualify tax deductions, whereby previously deductions that could be claimed without a receipt are no longer accepted unless a cash receipt has been submitted.

Further, each receipt registered is entered into a unique Cash Receipt Lottery with prize rewards of up to \$10,000 USD each month issued.

While the approach is broad-based applying to all direct customer-facing businesses with higher than \$US24,000 per annum, a number of specialist sectors, including lawyers and doctors, were also targeted where the potential for high value cash transactions posed additional risks. In addition, an informant programme offers rewards to members of the public who advise the tax agency of businesses who have refused to issue receipts for cash transactions.

In the lead in to the introduction of this new system, promotional events included contests run through colleges, street campaigns by NTS staff distributing over 630,000 flyers and SMS text messages sent to over 1.3 million people.

Box 23: Singapore – GST Assistance Scheme for Accounting Software & Training

In Singapore under a GST Assistance Scheme designed to improve business record keeping, taxpayers who voluntarily register for GST may apply for accounting software grants. These grants, of up to S\$5,000 provide for accounting software and related training costs.

- 109 The most common form of sanctions are monetary penalties that may take the form of additional taxes, administrative penalties for late filing or payment, interest, penalties on tax shortfalls, or criminal penalties imposed by the courts. In many countries have developed approaches whereby penalties may be reduced under statutory provisions where disclosure of non-compliance is made prior to or during an audit.

Box 24: Australia – Aggressive Tax Planning New Promoter Penalties

The use of complex tax structures and tax havens to promote tax exploitation schemes is on the increase. In an effort to mitigate the risks posed by the promoters of tax exploitation schemes, Australia has introduced a new civil penalty regime (promoter penalty laws). These new penalties are designed to deter the promotion of tax avoidance and evasion schemes by placing promoters of unsustainable schemes at risk of a significant monetary penalty when they expose their clients to scheme penalties. The promoter penalty laws provide the Tax Office with new tools to deter and treat the promotion of aggressive arrangements. These new tools include Enforceable Voluntary Undertakings; Federal Court imposed injunction or pecuniary penalty.

Other countries including the United Kingdom and New Zealand have also introduced additional provisions in relation to disclosures and penalties for avoidance arrangements.

Box 25: Canada – Charities Regulatory Reform

The Canadian Charities Regulatory Reform initiative is targeted at improving voluntary compliance and increase public and voluntary sector confidence in the regulation of charities. This is being implemented through reforms in five key areas one of which is monitoring of charities and includes a revised sanctions regime for non-compliance. Prior to these reforms, de-registration or revocation was the primary penalty however in practice was only applied in limited occasions. While this sanction remains, the introduction of intermediate sanctions - including suspension and publication - are providing greater flexibility as deterrent tools where non-compliance is identified.

Box 26: Canada – Contract Payment Reporting System

The Contract Payment Reporting System (CPRS) was also introduced in Canada to address activity in the underground economy in the construction and home renovation sectors by promoting voluntary compliance and providing a basis for strengthening the administration's enforcement programs. Under CPRS, individuals, partnerships, and corporations whose primary activity is construction, are required to report annually their payments to sub-contractors for construction services to the CRA. The information received is matched against data maintained by CRA to identify those who have not filed tax returns or have under-reported their income.

A related initiative also requires the reporting of contract payments made by federal departments, agencies, and crown corporations for services supplied to these bodies.

- 110 General reporting rules can serve two roles in both deterring non-complaint behaviour and helping to detect non-complaint behaviour. Disclosure or reporting obligations make it clear that the tax authority will know about their tax affairs, transactions or arrangements. In this sense the taxpayer is increasingly likely to expect some form of follow up activity. In this regard, it is important that agencies have a suitable follow up programme that reviews disclosures and informs the taxpayer whether further action is planned. Failing to do this may lead to a dilution of the deterrent effect of specific disclosure requirements.
- 111 Similarly, it is difficult for a taxpayer who has not complied with disclosure or reporting requirements to argue that they intended to stay within the law. Disclosure provisions and the associated rules that apply to these can also be onerous to a taxpayer, this in itself acting as a disincentive for entering into arrangements governed by these provisions.

Seeking additional leverage and building partnerships

- 112 A number of countries provided examples where industry based activities are being undertaken under formal protocols and agreements established with key industry representatives.

Box 27: Belgium - Industry Protocols with Targeted Industry Sectors

In Belgium, compliance efforts are increasingly focused on more equal distribution of paying taxes among all operators. With this outcome in mind, industry protocols are developed that seek the following objectives:

1. To promote and develop the cooperation between the sector and the administration in the framework of the fight against the tax evasion in the sector.
2. To create stable and foreseeable rules which will be generally applicable in the sector.
3. To inform all operators of the rules set down by this protocol and of the limitations it imposes.

Box 28: The Netherlands - Horizontal Monitoring Protocol with Tax Intermediaries

In a different approach to industry type partnerships, the Netherlands have commenced development of Horizontal Monitoring protocols/agreements with tax intermediaries. The emphasis is on building an 'enhanced relationship' with these intermediaries. The Netherlands Tax and Customs Administration (NTCA) and the tax intermediary state in this agreement that they want to structure their relationship based on trust, understanding and transparency.

This later protocol seeks to align the working processes of the NTCA and the intermediary to assure high quality tax declarations and to ensure that the NTCA can accept and process these declarations without corrections being required ('green lane'). In this way, more certainty on the tax position is provided to the clients of the tax intermediaries under this protocol.

Tax intermediaries are responsible for setting up an adequate internal quality assurance system so that the NTCA can rely on their processes. The NTCA monitors the performance of the intermediary on a 'meta-level'. The first agreements with tax intermediaries were recently signed. The NTCA will undertake random sample audits to evaluate the overall quality of tax returns.

Box 29: Spain – Inter-Agency Co-operation on VAT Avoidance

VAT intra-community fraud is an area of risk common to many European Tax Administrations particularly in relation to cross border activities. In response to risks associated with the importation of new motor vehicles and avoiding payment of VAT and car registration taxes in Spain a co-operative arrangement with the Spanish Traffic Administration is targeting the non-payment of new car registration tax. The treatment targets elements of both reporting and payment risks and requires that when a new vehicle is licensed, payment must be made by internet and the Traffic Administration verifies this with the Revenue Authority. Where information is held by the Revenue Authority that the taxpayer may be involved in car importation/vat fraud, licensing can be withheld and pending investigation.

This co-operation between agencies is both increasing compliance with car registration tax obligations and allowing the identification of taxpayers who potentially may have imported cars and avoided VAT obligations.

Box 30: Singapore – GST Payments on Property Transactions

Singapore identified a risk in relation to the GST traders failing to charge, account and pay GST on high value non-residential properties sales, often through low understanding of the law. By the time non-compliance is uncovered, these traders no longer had the means to pay, despite attempts at recovery action.

An initial pilot focused on educating GST traders owning non-residential property (EST 10% of GST traders) highlighted the lack of understanding of requirements to both charge and account for GST at the time of sale. Engagement and education, including direct letter issue was also undertaken with conveyance lawyers in order to leverage both education on payment compliance through this group at the point of sale (under Singapore tax laws the tax agency is able to appoint the lawyer as an agent for making GST payments on properties).

This approach has resulted in increased sale information to the tax authority and measurements during the pilot reflected a 28% increase in GST payments on property transactions with average amounts recovered of \$41,000 per case.

Promoting effective record keeping

- 113 Poor record keeping is a recognised compliance risk for many SMEs and improvements in this area are central to accurate reporting. Not only is this sound business practice for taxpayers, it also provides an audit trail of cash and other financial transactions. As such, there is an incentive for revenue bodies to provide support in this area and a number of countries have programmes in place.

Box 31: Canada – Books and Records Review Programme

In 2000, Canada implemented a Books and Records Review Program (BRRP) programme primarily focusing on SMEs in traditional high cash based industries - construction, restaurant and food services, and retail businesses. The approach involves limited reviews of business' books and records by audit staff in relation to the ability to meet Income tax and Excise Tax reporting requirements. A books and records review is a limited review, not an audit and no assessment is raised as a result of a review. The reviews require considerably less time and are less adversarial and intrusive to the taxpayer.

An evaluation of this programme has found that it is highly regarded by taxpayers and while a compliance instrument, has a strong high service emphasis. Subsequent audit activities on taxpayers who have previously received a books and record review were found to have lower adjustments. It was also found there were significant cost savings in using a books and records review in comparison to a full audit.

Box 32: Australia – Record Keeping Assessment Tool

Australia has also developed a record keeping strategy that incorporates education, supporting products and a graduated approach to enforcement to encourage compliance behaviours particularly for new businesses. An

electronic Record Keeping Assessment Tool (RKAT) is used by the tax officer that provides an overall assessment of the SMEs records with a copy provided to the taxpayer. Where record keeping practices are found to be deficient, advice for improvement is provided, including advice on ATO record keeping products such as the free electronic record keeping software (e-Record) and the Record Keeping Evaluation Tool (RKET).

The record keeping strategy also includes a revisit program for those taxpayers who 'fail' the initial record keeping assessment. Taxpayers are advised of this revisit program and the penalty regime under the new tax system that may apply to those who choose not to take corrective action after being given advice and opportunity to do so.

Box 33: Singapore – Accounting Software Developer Presentations to New Businesses

In Singapore, in addition to the availability of grants for accounting software, in efforts to increase the use of accounting systems within the SME sector, the tax agency has established arrangements with a number of accounting software vendors to present and showcase their products at GST education classes run for taxpayers.

Audit revisit programmes

- 114 A number of countries have established or are establishing audit “re-visit” programmes. These programmes generally establish a timeframe for a follow up compliance check where an earlier audit has identified material reporting discrepancies. Taxpayers may be identified for a revisit audit at the time the original audit is concluded or identified based on risk profiling or random selection. These types of review commonly revisit previously identified areas of concern to identify whether these have been addressed in subsequent reporting periods. They also signal persistence by the revenue body to ensure repeat non-compliance does not occur.
- 115 This type of programme can also be used to measure changes in compliance levels over time and the effectiveness of audit activity.

Informant leads programmes

- 116 A number of revenue bodies also indicated the use of an informant or anonymous information programme by which members of the public can provide reports to the revenue body of suspected or observed non-compliance with tax laws. In many cases revenue bodies have actively promoted such programmes to create a sense of self regulation by the wider community. In some countries these programmes provide incentives through monetary rewards for validated information about non-complying businesses.
- 117 While countries with these types of back-end programmes in place have commented that they are actively used and can result in significant examples individual non-compliance, they are also prone to the lodgement of misleading or vexatious claims driven by incomplete information, business competition or relationship breakdowns. The use of these types of programmes however can be enhanced by short and targeted promotion of informant programme in support of the commencement of a new and broader risk treatment.

VIII. RISK TREATMENTS – FAILURE TO PAY

General observations

- 118 While not the primary focus of this research, the submissions received included a number of examples of new risk treatments targeting risks associated with Failure to Pay and a number of these are illustrated in this section.
- 119 Of these examples 3 strategies primarily targeted improved front-end risk analysis and profiling with the intended outcomes of both improved reporting and payment, including improved risk analysis of tax refunds as a preventative tool in identifying and deterring the likelihood of inaccurate or fraudulent returns. Other strategies included targeted use of deduction notices to recover overdue amounts, co-operation and referrals with other agencies and public disclosures of persistent defaulters with high value tax debts.
- 120 That a taxpayer has met the initial 3 compliance obligations of registration, filing and reporting, does not necessarily mean payment compliance is assured and payment compliance risks are in most cases not necessarily identifiable until after a due date has lapsed and no payment has been made.
- 121 Payment non-compliance is also likely to fall at opposite ends of the compliance continuum. At one end of this continuum, taxpayers may have full intent to comply (and in many cases may have been fully compliant in other aspects); yet financial difficulty at the time of payment has prevented them from fulfilling the final obligation. While many agencies have a range of penalty sanctions that can be applied to unpaid tax debts, in these instances, the addition of late filing penalties or interest charges may only serve to further compound the issue.
- 122 At the other end of the compliance continuum, non-payment can be a more deliberate strategy adopted by the taxpayer sometimes with the intent that the longer collection attempts can be avoided the less persistent the tax agency may become, particularly where debts are at lower levels and may be less likely to be followed up ahead of higher value cases.
- 123 Common to treatments in this risk area was the focus on continual education of payment obligations and for the revenue body to demonstrate greater persistence in pursuing collection. In most examples messaging targeted early contact by potentially defaulting taxpayers to avoid penalties or other collection actions. In respect of persistence in collection activities, agencies commented that as with many functions they perform broad based education efforts must be supported by appropriate targeting of key and persistent defaulters to ensure ongoing non-compliant behaviours are minimised. Agencies have also noted that this requires increasing investment in more sophisticated and automated case management and monitoring tools.
- 124 Some agencies have also commented that under-reporting or failure to make payment is sometimes regarded by some taxpayers as victimless non-compliance and that despite the greater use of broad based social responsibility campaigns levels of unpaid taxes continue to grow. In response to this risk, a small number of agencies have developed disclosure initiatives whereby the details of persistent large tax debtors are made public to discourage such behaviour and increase collection levels.

Box 34: Korea – High Value Debtor Public Disclosure Programme

Korea has initiated a disclosure process whereby taxpayers who have persistently held large tax debts over \$1m USD for more than 2 years are submitted to a committee established to consider public disclosure of such cases.

The 11 person Committee for the Review of disclosure of National Tax Information comprises both representatives of the tax agency together with independent members and is empowered to authorise cases for disclosure. Where a disclosure is approved, taxpayers are given 6 months advanced notification of the pending publication and are given a final opportunity to make cash payment or provide substantive explanation for the

continued default.

Where disclosure results, information published includes the taxpayer's name (or business name), age, occupation, address, type of tax in default, payment due date and a summary discretion of the debt. Prior to the first disclosure an independent public opinion survey reflected over 90% of respondents supported the disclosure initiative. Since the first publication in 2004, some 735 taxpayers identified for disclosure have made combined payments of over \$170m USD toward these debts. Most noticeable is that the number of new taxpayers referred for disclosure has steadily decreased from an initial 1,101 taxpayers (in 2004) to 661 taxpayers in 2007.

The initiative is also further supported by an informant programme whereby citizens may provide information in relation to these taxpayers on hidden assets. While informants may be eligible for a monetary reward, to avoid vexatious claims, informants must properly identify themselves and provide substantive information to the tax agency. Under this informant programme, over 180 reports of hidden assets were recorded leading to the additional collection of over \$US 40m.

- 125 Many countries have collection powers enabling deductions to be sought from 3rd parties associated with the taxpayer. Compliance with these orders is however sometimes problematical in that the 3rd party may often have an closer and ongoing client or trade relationship with the taxpayer and is unwilling to be seen to breach this.
- 126 Likewise, most revenue bodies can also utilise the general civil recovery remedies for such cases however there is often a delicate balance between the revenue body being seen to take appropriate collection action and being perceived by the general public and potentially the judiciary as being unreasonable or unduly aggressive.

Box35: Singapore – Deduction Notices to Large Employers

While outside of the SME sector, Singapore has also had success in other recent recovery initiatives for salaried taxpayers utilising Employer Deduction Schedules issued to the largest employers, including a pilot from December 2007 where deduction schedules were issued to Singapore's 7 largest employers. Use of this approach resulted in the effective recovery of over \$S100,000 in the first month of operation.

Box 36: New Zealand – Co-operative Arrangement 3rd Party Information Requests

New Zealand were experiencing difficulties in relation to the response to formal notices under New Zealand laws issued to banks for financial information and the action of formal notices to deduct and pay moneys held by customers who may be in default. Similarly banks were experiencing frustration at the number and sometimes short notice and extensiveness of these requests.

To improve co-operation and compliance a Memorandum of Understanding was formally agreed with the NZ Bankers Association that provides for agreed receipt points, prioritisation of requests and response timeframes. Aside from the agreed protocols and streamlined processes, this approach is also expected to reduce administration costs for banks responding to these requests by being able to more effectively plan for this activity.

- 127 As with many of the treatments in other compliance risk areas maintaining this delicate balance that has also contributed to revenue bodies being compelled to focus on wider broadcast type education approaches in respect of payment compliance.
- 128 Of note is that several agencies are seeking to bolster and increasingly leverage the role of audit in the collection process, particularly at the time a new liability is created in order to demonstrate that full compliance is required. In this sense, the role of audit may be considered (where a new liability has arisen through an audit) as an initial point from which individual collection treatments can be developed, particularly where the liability is of large value or is a result of evasion type behaviours.

These responsibilities should also be considered in relation to audit being able to provide up to date information of taxpayer bank accounts or other assets to collections staff.

- 129 Similarly early engagement between audit and collection staff before an audit is completed can improve cases hand over and also clearly demonstrate that the revenue body will be persistent in ensuring that payment compliance is also required.
- 130 While not the subject of this research, countries like Norway, The Netherlands, USA, Canada and Australia are making progress in the development of debt specific risk profiling and predictive models. These capabilities, together with decision models may allow these revenue bodies to determine in advance the ability and inclination of taxpayers to pay to develop tailored collection strategies based on characteristics and history.

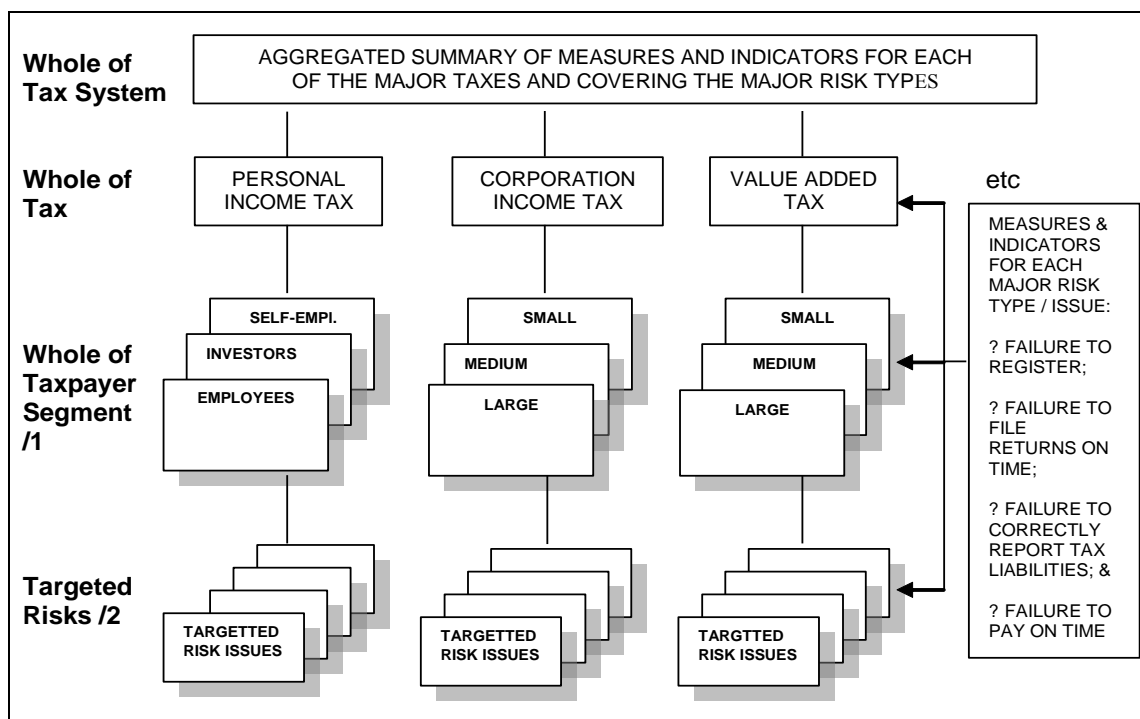
IX. MEASURING AND EVALUATING RISK TREATMENT STRATEGIES

- 131 The initial terms of reference agreed by the Compliance Subgroup provided for the presentation of practical examples of the evaluation of risk treatment strategies together with expanded practical guidance in evaluation approaches.
- 132 Through the research it was evident that there were many examples where varying forms of activity monitoring were occurring, however there were only a relatively limited number of risk treatment examples where more comprehensive evaluation methodologies were being applied and where practical evaluation outcomes had been completed. To this extent and with the benefit of hindsight, the terms of reference may have been ambitious given many of the risk treatment examples provided are still at early stages of deployment and more structured evaluations have not yet been undertaken.

Relationship to recent additional OECD guidance

- 133 Given these limitations and in light of the development of the new Guidance Note: *Monitoring Taxpayers' Compliance: A Practical Guide Based on Revenue Body Experience*, discussion at the Sydney 2008 workshop (later endorsed at the FTA Subgroup meeting in Antalya) agreed that this document would therefore only be able to present a relatively simplistic analysis of the evaluation methodologies being engaged across revenue bodies and instead, this report should give greater concentration to the presentation of examples from selected revenue bodies where measurement evaluation had either occurred or was being contemplated, and provide a more descriptive nature of the individual approaches being used.
- 134 It is noted that the Guidance Note: *Monitoring Taxpayers' Compliance: A Practical Guide Based on Revenue Body Experience* provides a more comprehensive section on the main measures and indicators commonly used by revenue bodies for each of the four areas of compliance obligation identified earlier in the note (i.e. registration, filing, reporting, and payment). These measures are however largely focused at an aggregated level that will commonly include a combination of strategies and individual risk treatments. That note also provides comments concerning the value, priority, and reliability of these measures as part of a broad compliance monitoring framework.
- 135 That guidance note also commented that “revenue bodies can benefit from having multiple perspectives (e.g. whole of tax, taxpayer segment, etc.) on taxpayers’ compliance ... “ and this would “require a comprehensive and robust set of outcome-related measures and indicators reflecting the results of their programs and strategies to achieve improved compliance with the tax laws.”
- 136 Further, that note also suggested that based on the research undertaken, it is clear that while there is some difference of opinion as to the nature of the approaches to be taken for monitoring compliance (at the aggregate level) , there is wide support for the view that revenue bodies ideally require a comprehensive framework that should: 1) encompass the major taxes administered at the aggregate level; 2) explicitly report on the main compliance risk types; 3) report on compliance impacts at the program and ‘targeted risk’ level; and 4) include a comprehensive set of measures and indicators, all of which have a multi-year focus (i.e. at least 3 years but preferably 5). In doing so it presented the structure of a compliance monitoring framework in a conceptual way (Figure 5).
- 137 It should however be noted that this model is primarily focused at compliance measurement at an aggregated level. While the measurement principles can be adopted for assessing the impacts of a particular risk treatment, there remains a gap in respect of guidance on practical measurement and evaluation approaches that can be applied at the individual treatment level.

Figure 5. Conceptual View of a Comprehensive Compliance Monitoring Framework²



1. The segments indicated are illustrative only and are likely to vary from country to country.
2. "Targetted risk issues" will vary from country to country, as identified by the revenue body's risk management processes.

General observations

- 138 As a general comment, all revenue bodies routinely undertake various forms of measurement and reporting of service delivery and performance, most commonly in the form of activity or output monitoring against a pre-defined set of targets. While reporting requirements may vary between revenue bodies, this is a core governance responsibility in accordance with agreed performance contracts with central governments or their representative agencies.
- 139 The measurement of direct results from compliance initiatives appears to also be regularly undertaken across countries using a generally universal range of activity based indicators across audit, debt and return collection functions. In most examples of new risk treatments provided, many traditional output based measures were frequently prevalent. Equally, input type measures such as direct and indirect cost and time were also prevalent although to a lesser degree. This is not surprising given there is often a more direct relationship with higher level organisational performance indices and funding methods with central governments or other agencies. For many revenue bodies the nature of these agreements are however undergoing significant change with a move toward aggregated reporting of the broader outcomes and impacts of respective programmes of activities, which by definition also represents a shift away from traditional output-based reporting.
- 140 While this shift is an influential driver for revenue bodies to develop more innovative approaches to managing compliance risks that provide both systemic solutions and sustainable increases in

² OECD Forum on Tax Administration Guidance Note 'Monitoring Taxpayer's Compliance: A Practical Guide Based on Revenue Body Experience', 2008.

compliance, it is equally a driver requiring revenue bodies to develop a broader set of measurements and indicators that are able to track the impacts of these new treatment approaches.

- 141 In contrast, there were only limited examples where the development and use of more indirect and complex measures to gauge the overall effectiveness and outcomes of these new risk treatments had occurred. While it was evident revenue bodies are seeking to develop outcome measures for new risk treatments, identifying and being clear about the nature of the desired outcome to be achieved and, how to measure achievements over a much longer time frame than is required for traditional output measures is more problematical.
- 142 As a generalisation, outcome measurement appears to be an area where revenue bodies have not yet developed comprehensive measurement frameworks or evaluation methodologies. Anecdotal comment also suggests that the 2004 Guidance Note, while outlining a number of key principles is perhaps less comprehensive in guidance in this area.
- 143 While a number of risk treatment examples reflected the use of a generally universal range of input and output measures, particularly in relation to audit, debt collection and return lodgement activities, many examples commented that measurements and indicators were still under consideration or not yet developed. Similar comments also reflected that the use of existing output based indicators was difficult and attempts to retro-fit these to new treatment approaches did not provide an accurate gauge of the success or otherwise of the strategies, particularly where existing measures only provided a limited dimension of the impact of treatment.
- 144 These comments in themselves highlight that measurement and evaluation is a challenging and complex subject arguably representing a blend of both art and science. It is also an evolving discipline and an area where most revenue bodies, at this time, appear to have only limited capabilities and experience in developing sufficiently comprehensive or robust measurement frameworks to support the risk treatments being deployed.
- 145 Given these general comments, measurement and evaluation is an area where further attention by the Compliance Sub-group is proposed in early 2009.

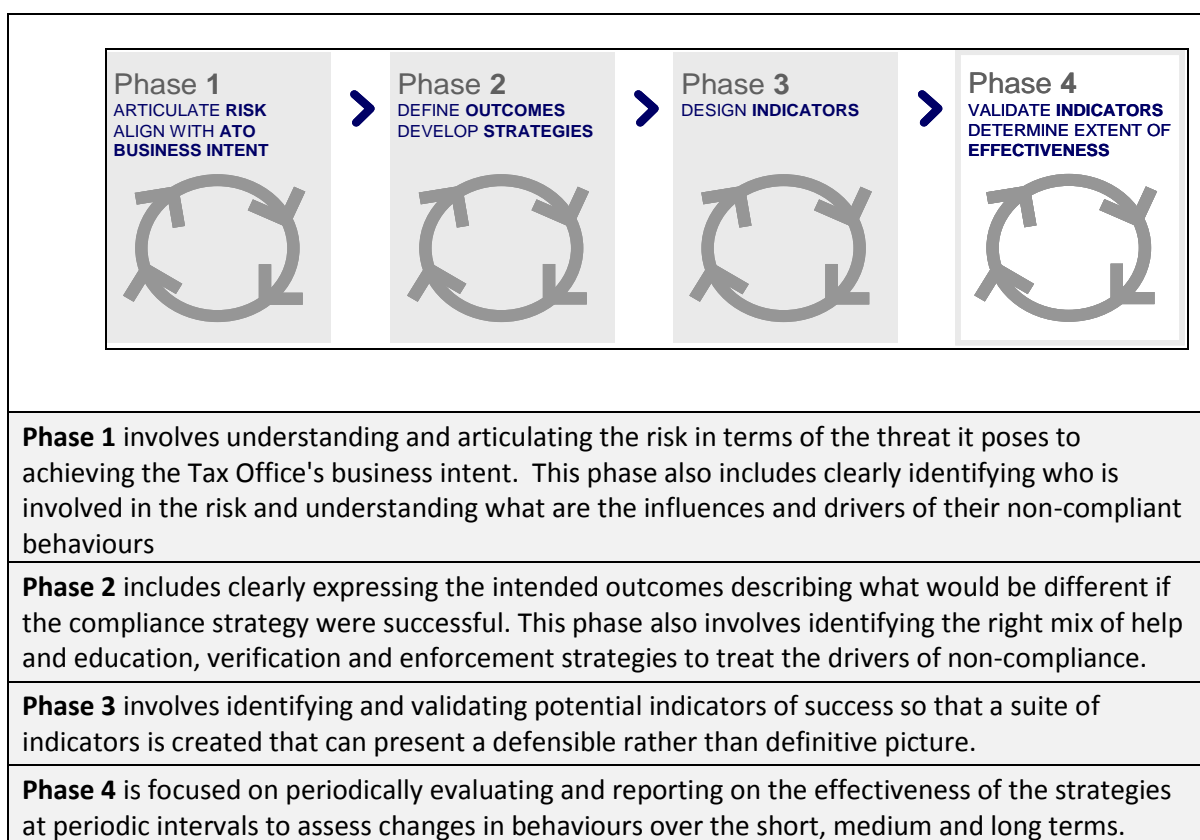
Developing an evaluation capability

- 146 While most revenue bodies are still developing measurement and evaluation capabilities, a small number of revenue bodies appear to have or are in the process of developing more established evaluation methodologies, in particular, in Australia, Canada, and New Zealand.
- 147 In late 2006, the Australian Tax Office established a project team to design a methodology to evaluate the effectiveness of range of existing compliance strategies. The first phase in this project, principally a research and design phase, included: 1) a stock-take of the indicators used in the Tax Office; 2) an extensive review of the literature on measuring effectiveness from organisations both within Australia and internationally; 3) development of a conceptual framework for evaluating compliance; 4) co-designing the methodology and support products using people experienced in evaluation methodologies; and 5) conducting a modelling exercise and pilot studies where the proposed methodology was applied to several risk areas.
- 148 During this phase, the project team made a number of significant findings including the need to:
- Conduct a stock take of the indicators used in the Tax Office;
 - Clearly understand the difference between effectiveness and efficiency. In this respect the ATO elected to use the 'program logic model' which provides a clear explanation of this difference as the basis for their compliance effectiveness methodology.

- Develop measures that are relevant to the key strategic goal of “optimising voluntary compliance and making payments under the law in a way that builds community confidence” and underpin these to the methodology;
- Plan for effectiveness upfront including establishing clearly articulated expected outcomes in order to avoid the development of inappropriate measurement strategies and unproductive resource use;
- Consider the 'ripple effect', sustainability and unintended consequences of compliance strategies and interventions on the associated groups and the broader taxpayer population and to anticipate these; and
- Develop a clear hypothesis to support the methodology.

At a high level, the methodology developed incorporates 4 key phases that are depicted in Figure 6. Boxes 38 and 39 describe the approaches being used in Canada and New Zealand.

Figure 6. Overview of ATO Evaluation Methodology



Box 38: Canada – Outcome Measurement Methodology

In pursuit of an understanding the influences of its treatment initiatives on compliance behaviours, Canada has developed a comprehensive suite of indicators to complement its more traditional direct measures. It describes these measures in the following terms:

- *Macro indicators:* These indicators illustrate a relationship between an aspect of compliance and an external statistic, benchmark, or similar point of reference that can be used for tracking macro-trends. This category of indicators use the CRA operational data in conjunction with broad macro-economic, fiscal or socio-economic data produced externally by other organisations such as Statistics Canada. An example is the tracking of trends in GST/VAT receipts and personal consumption expenditures.
- *Public opinion indicators:* These indicators draw information from client surveys and other public opinion research and are used to understand compliance behaviour and contributing influences. Included are indicators that deal with 1) public awareness of compliance requirements; 2) perceptions, attitudes and motivations that can affect the public's compliance behaviour; and 3) personal experiences in meeting compliance obligations. These indicators provide insight to the behavioural aspects of compliance and public views on tax programs.

Originally published in September 2003, this framework is currently undergoing review to integrate updated practices in this area.

Box 39: New Zealand – Outcome Measurement Framework for Taxpayer Audit

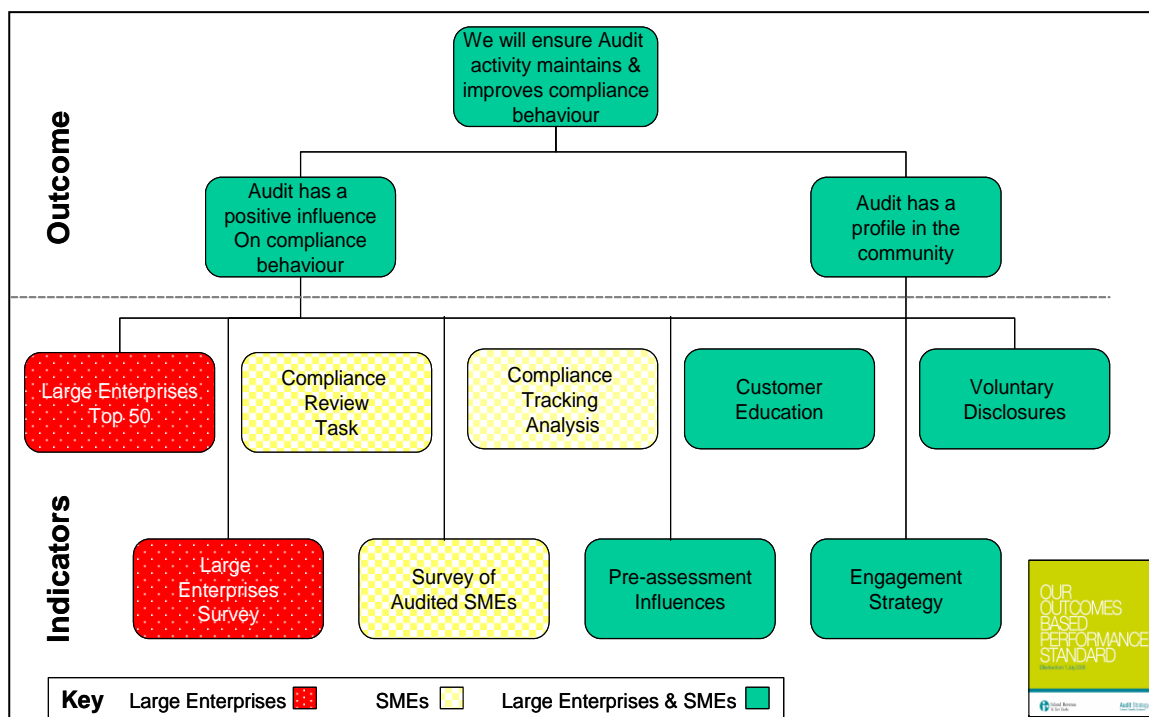
As part of a strategic review of its taxpayer audit activities in 2006, New Zealand has developed a new outcome measurement Framework to assess the impacts of a revised risk based audit activity.

The new outcome measurement framework combines a range of traditional measurement indicators such as new tax adjustments, timeliness and strike rates however also has a number of additional new measurement elements including changes in compliance measured by an audit revisit programme and compliance tracking of audited taxpayers over an extended timeframe, together with measurement of voluntary disclosures and an assessment of environmental events and media activity.

Complementing this is an independent survey of taxpayers where an audit had been completed within the preceding 12 months (using a statistically valid selection of cases that both required adjustment and cases without adjustment) that covers not only the taxpayer's perception of the audit experience and process, but also the likelihood the audit would result in a change in future compliance behaviour.

The measurement framework covers both large enterprises and SME taxpayer groups and the component measurement elements are reflected in Figure 7 and is directly linked the strategic outcomes established for the taxpayer audit programme of activity.

Figure 7. New Zealand Outcome Measurement Model for Taxpayer Audit



Success criteria in evaluation

- 149 While Australia’s methodology is still in its early stages of maturity, considerable progress appears to have been made, in large measure as a result of the investment and clear support by provided senior ATO officials.
- 150 As highlighted in the 2004 Guidance Note, if a revenue body is to improve the effectiveness of its compliance programme, it needs to be able to state the compliance benefits that have been achieved through the application of its compliance treatment strategies. Revenue bodies that fail to measure the effectiveness of their compliance strategies run the risk of continuing to sub-optimize their strategy selection and potentially may inhibit their ability to secure additional investment necessary for the continuous improvement of treatment strategies. An evaluation framework provides the proper foundation to avoid this and to draw success from evaluation efforts, establishing an evaluation programme requires clear and visible senior management support. This should be established early in the process.
- 151 Similarly, impact evaluation often is a time and resource intensive activity, and without an understanding of its merits it can be subject to relegated priority in favour of greater short-term monitoring activities. Closely associated with this is the need for support from Central Agencies, who need to be informed on as well as understand the benefits of working towards improved outcomes. In this regard, the progressive movement occurring in contracted expectations with central governments and agencies toward wider outcome and impact based agreements is enabling wider dialogue to be engaged in relation to investments in this area.
- 152 Similarly, establishing an appropriate timeframe over which to evaluate changes in compliance behaviour, and therefore the effectiveness of longer term strategies, can in itself create difficulties and requires the scheduling of a series of “repeat evaluations” at future periods. This presents a constant tension for revenue bodies in being under more immediate pressures to deliver future

compliance improvements through new risk treatments, yet not necessarily having fully evaluated and quantified the effective of previous treatments.

- 153 Outcome/Impact evaluation is not only a time and resource intensive activity and one which requires sustained investment overtime. An established evaluation however also add wider value by challenging existing measurements and approaches, the nature of data and information collected and required and the way this can be assembled in order to draw deeper understanding and insight.
- 154 It is however important that revenue bodies carefully consider which broader activities and risk treatment strategies should be included within an evaluation program. A general rule is therefore to select the activity/ies that are of the most strategic importance to the revenue bodies' overall success criteria. There is risk however that as a revenue bodies suite of risk strategies grows, so too does the pressure and limitations on being able to effectively and periodically evaluate these unless a comparative investment is made in the evaluation capability.
- 155 While the development of new measures and evaluating these is important, it is equally important that a clear understanding of the current situation is formed before the deployment of new risk treatments. Without this, it is difficult to determine the initial impacts and outcomes of these approaches until successive measurements are undertaken. This stresses the importance of planning for future evaluation measures at the time the risk treatments and strategies are also being developed.
- 156 Similarly, planning for outcome/impact evaluations should include clear direction and responses to several key questions:
- What do we need to know?
 - How should we use the information?
 - Which techniques must we use to find out?
 - How should feedback processes be designed to make sure information reaches decision makers within the organisation?
- 157 Similarly, there need to be considered a communication strategy to implement evaluation results across the organisation.
- 158 Where a revenue body is setting performance targets linked to behavioural or attitudinal change, it is important to consider how this can be measured. Measuring output can help answering the question: Are we doing things right? However, measuring outcomes helps answering the question: Are we doing the right things?
- 159 There is however also a word of caution in that performance targets expressed in a numerical sense need to be used with utmost care, given they can distort the very performance they intend to measure, sometimes resulting in goal displacement when staff look at ways to “make the numbers”.

Completed evaluations

- 160 A small number of countries provided a summary of evaluations undertaken on specific initiatives that had been in operation for an extended period.

Box 40: Ireland – National Construction Sector Project

The importance of the construction sector the national economy of Ireland is significant with 2006 estimates indicating the value of this industry at over \$35b Euros and accounting for nearly 25% of gross national product and is responsible for an estimated 12% of employment of over 160,000 self-employed principals and sub-contractors and a further 280,000 employees. These estimates also indicate sustained significant growth within this sector over several years. The industry however also has a high volume of cash based payments and the workforce is highly mobile making detection and payment compliance challenging. A form of withholding

tax, the Relevant Contracts Tax was introduced in 1970 to assist management of compliance in this sector.

Following a risk evaluation of the administration of the RTC regime, Ireland Revenue have adopted a concerted nationwide focus on improving taxation understanding and compliance, and customer service across the construction sector including the integration of RTC with other income tax reporting requirements. Initial analysis reflected that non-compliance levels within this sector commonly featured in the top tier of all compliance risks.

Using a national industry approach, around 25% of Ireland Revenue's compliance resource was re-directed to focus on a range of risk initiatives in this sector including:

- Legislative reforms to establish new reporting requirements and clarify existing definitions to close existing areas of exploitation
- Formal relationship protocols with the over arching industry body
- Co-operative arrangements with other government agencies
- A focus on VAT registrations, reporting and payment non compliance through a combination of enhanced risk analysis, data matching and targeting and increased field visibility
- Major public and sector awareness campaign using publications, media releases and interviews, direct mail issues, advisory services and a dedicated internet information site.

In addition, a number of internal initiatives resulted in:

- Establishment of a formal senior level governance group to oversee programme development and deployment.
- The development of an enhanced range of information products and practice guidelines for internal staff
- New internal information technology systems including new data capture and interrogation processes and system based risk identification rules
- Redesign of internal operating units to support the new compliance initiatives
- Increased monitoring systems to measure key compliance indicators and track the progress and impact of targeted interventions including new registrations arising from direct and indirect contacts, changes in filing performance, audit volume activity and adjustment yield, website and call volume enquiries.

While evaluation at this point is preliminary and has largely focused on changes in the key compliance indicators, Ireland Revenue have reported significant compliance movements over the period since targeted initiatives commenced in 2005. These have included:

- A 25% increase in filing rates of annual RCT returns by due dates with over 85% of required returns filed either by due date or within 6 months of the due date
- An average 20% increase in payments being made on time, with no discernible difference across small medium and large enterprises.
- An increase of almost 40% of website hits between 2005 and 2007 with an average of 20,000 website hits per month
- Positive trade union involvement to assist in clarifying employment status issues within the industry
- Largely positive public reactions to the increased awareness campaigns, although there were some differences in the suitability of approaches expressed by different political bodies.

While the range of initiatives are regarded as being highly successful to date, periodic reviews have noted that it has resulted in a redirection of some of the highest skilled revenue staff to deliver these initiatives, particularly given the extensiveness of the field visibility components.

Box 41: United Kingdom – Random Audit Programme Evaluation Outcomes

The United Kingdom has undertaken a detailed econometric analysis of its Random Audit Programme over the 2000 and 2001 years to determine the ongoing compliance effect across three target groups including: 1) Individual non-complex taxpayers; 2) Small sized businesses (annual turnover < £15,000); 3) Medium sized businesses (annual turnover between £15,000- 250,000).

The analysis was undertaken on random enquiries of self assessment taxpayers in 2000 and 2001. The 'differences in differences' methodology was applied and involved identifying a suitable treatment group (those subject to a random enquiry in the 2000 year) and comparing the changes in tax declared over a period of time (three years prior to and following the enquiry). Changes were observed in a suitable control group (those not selected for an enquiry).

To ensure that the effects of a previous enquiry were not picked up in this control group, taxpayers who had been selected for an enquiry in the three years prior to 2000 were excluded from the analysis. This analysis was extended (using enquiries carried out in 2000 and 2001) to examine the effects on declared tax liability once the enquiry had closed and the outcome was known to taxpayer.

The initial analysis indicated that while there was a significant positive compliance impact as a result of a random audit for small and medium sized businesses, the likelihood of this increased compliance level being sustained reduced as the time period post audit increased and has suggested that a complimentary re-audit programme may be necessary to ensure ongoing compliance increases.

Box 42: Canada – Books and Records Review Programme Evaluation Outcomes

Canada has also undertaken a formal evaluation of its books and Record Keeping Program using a combination of statistical analysis, benchmarking against agreed indicators and internal and external focus groups.

This use of a broad range of measurement methods not only provided clear delivery based achievement information, but also enabled greater insight to the perceptions of how the programme was operating, potential areas in need of enhancement or review as well as customer attitudes toward the programme.

The evaluation outcomes indicated this particular initiative was well received by customers; was influential in enhancing perceptions of the agency; and was also generating a positive impact on the quality of record keeping practices adopted by SME taxpayers enabling greater accuracy in return preparation.

The evaluation review also identified that the change in focus for audit staff away from identifying an adjustment required a high level of internal promotion to ensure the intent of the programme was well understood.

- 161 Each of these examples illustrates that there are a range of evaluation approaches that can be applied to ascertain the effectiveness of individual risks treatments, however are dependent on establishing a range of key criteria at the outset that are observable and aligned to the areas of designed impact.

X. ORGANISATIONAL CAPABILITIES

Shaping internal capability

- 162 The 2004 Guidance Note highlighted a number of key internal capabilities also impact upon risks associated with the administration of a taxation system. These included organisational culture, structure, information technology, business systems and staff and business capabilities.
- 163 The following general observations in relation to the capability impacts on administrations are drawn from the examples provided. Only a small number of examples have been selected to illustrate some of the more innovative approaches that some countries have adopted in looking to develop overall capabilities.
- 164 Several countries commented that the development and adoption of a more structured compliance risk management process has challenged revenue bodies to review a wide number of existing, and sometimes core business processes and operations. Using the concepts of the BISEP model to identify the influences on taxpayers has generated considerable effort in reviewing the design of existing service approaches including the development of new customer centric based models to increase understanding of how targeted customer groups view their obligations under the tax system and the nature and frequency of interactions with the revenue body itself.
- 165 This is resulting in a strong push to deliver services and products in a manner that more fluidly aligns with the routines of taxpayers and countries have noted this can extend to the format and content of information products and standard notices, the use of online services and tools and expansion of other contact channels. While the nature of this work can be time consuming, several countries strongly indicated that it is providing the revenue body with greater insight to the wider compliance requirements of SMEs in their relationships with other central and local authorities and the opportunities for alignment and simplification at a whole of government level.

Culture

- 166 Similarly, where this is occurring, a number of countries also indicated that new compliance risk management thinking and processes is generating increasing consideration of non traditional risk responses and greater collaboration across business units and the boundaries between traditional service and enforcement is now increasingly merging.
- 167 In this regard, wider ownership for the treatment of non-compliance was being generated across business areas and was no longer singularly being categorised as the responsibility of audit or collection groups.
- 168 Responses also indicated that creating this change in culture is a significant challenge and requires determined and ongoing commitment. Front-line staff sometimes found changes resulting from new risk priorities and approaches difficult.
- 169 While compliance has been a central purpose to traditional enforcement functions, these groups are not immune to the flow on impacts. The example of case selection and risk rating – which has often tended to rely on individual investigator judgment, is now becoming increasingly centralised and determined based on more sophisticated data modelling and analysis – serves to illustrate that changes can significantly affect day to day activities at an individual level.
- 170 Similarly, compliance or enforcement activities were often regarded as being the responsibility of audit and collection areas however, new multi-faceted approaches now more widely distribute this role and responsibility to front line ‘service’ and ‘contact’ areas.

- 171 Where this type of organisation transformation was occurring, revenue bodies commented that extensive communication was a key element to increase understanding and engagement and needed to be delivered in new and more innovative ways. Such communications also needed to ensure front line staff are able to establish a line of sight between key strategic goals, aggregated/priority risks and day to day activities. Equally, some emphasised that periodic measurement and reporting against these, at various levels in a way that reinforces this line of sight is important.

Box 43: New Zealand - Compliance Risk Management Internal Promotion

New Zealand is currently in the process of enhancing its infrastructure and processes to support a more integrated compliance risk management process. To support the changes being made, one of several messaging strategies included the use of common situations in a comic strip style to reinforce that a collaborative approach to compliance was central to all work areas. The approach, issued across the organisation, ran over several weeks using different examples. Reaction was largely positive – a key change message delivered using a softer approach and less traditional way.

Figure 8 Promoting Compliance Thinking (example)



Structure

- 172 A number of revenue bodies commented on the increasing use of multi-disciplined teams to ensure a joined up approach to manage compliance risks. While such concepts are not new in themselves, it is pushing agencies to consider increasingly matrix based and more fluid organisational structures.

Box 44: Canada – Multi-functional Work Teams

In Canada, in a targeted effort to improve compliance of high risk taxpayers operating predominantly cash based industry sectors, multi-functional work teams of staff specialising in registration/filing, enquiry services, audit and collections have been set up in several provinces. These teams are experiencing increased responsibility for the end to end compliance of assigned customer groups. An earlier example highlighted Denmark’s approach to increase the registration of foreign workers by co-locating tax officials with other government agencies to provide a single contact point covering a range of government services.

IT and business systems & tools

- 173 Equally, there are large challenges in the need to expand IT capability to develop more complex risk models and automated scoring mechanisms, together with an associated need for greater analytics capability and data matching tools.

- 174 While there is increased use of distributed software tools, particularly across intelligence and audit functions to enable improved interrogation of public records or internet/e-commerce activities, these new tools do not come with the skills needed to effectively utilise them and extensive training is required.
- 175 A number of experiences indicate that increased ability to access information can also be of limited value if aggregation and extraction of the essential meaning is not synthesized and elevated to a meaningful strategic level to inform future choices. Many revenue bodies appear to be at initial stages of developing both the resource capacity and capability required to enable this.
- 176 Consistent with the benefits offered by adoption of a structured compliance risk process, identifying underlying causes of behaviours and developing a strategy to address these using a variety of responses is likely to result in outcomes in the long-term and sustainable compliance. This does not imply all revenue bodies have established fully developed compliance risk management methodologies yet does indicate revenue bodies are progressively applying the principles and guidance set out in the 2004 Guidance Note.

XI. EMERGING AREAS FOR DEVELOPMENT OF NEW RISK TREATMENTS

General observations

- 177 As part of the research request, countries were also asked to indicate new areas where either new risks were emerging or existing risks existed and for which new risk treatments were being considered or in development. A number of countries also indicated risk areas where they are seeking to consider guidance and innovations by other revenue bodies identified from this research in the development of risk treatments.
- 178 These areas can more appropriately be termed as a combination of both current work in progress and future areas to be considered. As these initiatives are largely at initial stages only summary observations can be made, which are set out hereunder:
- In a number of areas, revenue bodies, presumably on the basis of the initial successes of more recent 'innovative' risk treatments, are seeking to extend similar treatments to wider target groups.
 - There is continued focus in developing new or extending collaborative relationships with 3rd parties particularly within high-risk cash based industries or sectors. Of note is that the building and real estate sectors regularly feature across several countries either as an existing or new risk area.
 - Most indicative approaches include a high proactive education component as part of a targeted campaign approach that also include assistance and enforcement elements in campaign type approaches to target broader population groups. In support of these, a number of revenue bodies intend to increase the use of technology to provide a wider range of self-help based education products.
 - Several revenue bodies are considering the publication of common risk areas and risk criteria as proactive prevention.
 - A number of approaches also propose to include re-visit programmes, again emphasising the more persistent approach to ensuring compliance is achieved.
 - There appears to be only limited consideration of new/ expanded withholding regimes, although a small number revenue bodies are considering additional reporting requirements, particularly in relation to international/electronic transactions.
 - There appears to be limited focus on treatments that incorporate incentives.

Areas of exploration and development of new risk treatments

- 179 The table hereunder provides a short summary of the risk areas being explored by countries in relation to SME taxpayers.
- 180 The research conducted for the preparation of this report has revealed valuable information across a range of new and more innovative or unusual risk treatments either in use or being considered by revenue bodies across various domains of taxpayer compliance. The analysis and summary observations drawn from this research should therefore be considered as being a point in time of recent progress by revenue bodies in developing.

Table 2. SME risks—Areas of exploration and development of new risk treatments

<p>Australia</p>	<p>Return Lodgement behaviour when in financial difficulty</p> <ul style="list-style-type: none"> • This initiative is seeking to explore risk treatments in relation to taxpayers not meeting filing obligations as a direct correlation of their immediate inability to pay the resultant liability as opposed to inaccurate reporting. • Some taxpayers mistakenly believe tax agencies will not accept lodgement of a return without payment, while others believe that by not lodging a return they will avoid drawing attention to themselves. Where delays occur in requests for the return, the risk that the taxpayer’s financial circumstances have further deteriorated is increased. <p>Re-contact Programme for previously audited taxpayers</p> <ul style="list-style-type: none"> • We are proposing to initiate re-contact with our audited taxpayers (by phone) before they show repeated non-compliance to check how things are going and offer assistance if needed, but also to convey the message that we are still interested and aware of their compliance even though the audit has been completed.
<p>Belgium</p>	<p>Cash economy activities within additional selected industries</p> <ul style="list-style-type: none"> • Similar to existing protocols with already selected cash economy industries, Belgium is seeking to develop further protocols with new industries including the hotels, restaurant and café sectors and motor vehicle repairers.
<p>Canada</p>	<p>Education programs</p> <ul style="list-style-type: none"> • A similar project to the MUSH sector education program is being considered for Charities and Non-profit organizations (NPOs) since non-compliance exists within these sectors due to a lack of technical knowledge, inadequate internal controls applicable to tax transactions, and low profile accorded to the GST/HST as a business management issue. <p>Future enhancements to COMPASS</p> <ul style="list-style-type: none"> • Canada has undertaken and completed two studies to enhance the effectiveness and efficiency of COMPASS. The objective of the first study was to address the technical issues affecting COMPASS that were identified by the users. The purpose of the second study was to provide a review of the current COMPASS training process and identify training needs and requirements associated with the maintenance and development of this program. The findings and recommendations of these studies are currently being implemented. <p>Growth in Internet transactions</p> <ul style="list-style-type: none"> • With the use of the Internet and the exponential growth in e-commerce activities and increasing international trade via this channel, Canada is seeking to explore additional controls and measures that assist the reporting and subsequent detection and auditing of these transactions. <p>Not for profit sector – extension of charities outreach programme</p> <ul style="list-style-type: none"> • Canada is extending its Charities outreach programme through consultations with small and rural charities in order to better understand their unique service needs and compliance challenges.

<p>Chile</p>	<p>Extension of early education programme at schools</p> <ul style="list-style-type: none"> • In extending the focus on early education of tax awareness, this project is designed to be developed in 4 successive stages based around Chilean school education levels. <ol style="list-style-type: none"> 1. Elementary school: First level (developed step) 2. Elementary school: Second level (step in process) 3. Secondary school (pending step) 4. Technician school: (pending step) <p>The programme also envisages;</p> <ul style="list-style-type: none"> ▪ Tax Education Portal on Internet, directed to children, teachers and families. ▪ Diffusion in schools through plays and lectures ▪ Teachers training (very important agents in the Chilean education system) ▪ Collaboration agreements with educational entities (ministries, governmental organisations). <p>Extension of work programme with Small Enterprise Associations</p> <ul style="list-style-type: none"> • Given the success of initial efforts commenced in 2005 to establish closer relationships between the Tax Authority and the small enterprises in specific sectors, particularly in the Transport sector of some 50,000 businesses, Chile are seeking to progressively extend this programme to a wider number of industry sectors and groups. • Core components of the programme will continue to include: • Key national and regional presentations, • Exchange of economic information with the targeted sectors • Inclusion of tax articles within specific sector publications.
<p>Ireland</p>	<p>eStamping</p> <ul style="list-style-type: none"> • Use of electronic risk analysis to support electronic stamping of documents. <p>Publication of Risk Rules</p> <ul style="list-style-type: none"> • Ireland is currently exploring opportunities in relation to the potential publication (in a general sense) of certain risk analysis “rules” to advise customers of areas of income and return information that are routinely reviewed.
<p>Mexico</p>	<p>Enhanced reporting requirements – government employees</p> <ul style="list-style-type: none"> • Under Mexican tax laws, government employees from federal, state and municipal governments must annually inform the revenue body of their Individual Goods and Earnings Statement. Mexico is working with these various levels of government to raise understanding of compliance risks within this taxpayer segment and to include within this statement, information of the annual income tax. This specific action will be complemented with a training process and a communication campaign targeted at these taxpayers. <p>Collaboration & education programme with Insurance Institutions</p> <ul style="list-style-type: none"> • Mexico is also currently further developing a tributary collaboration program with insurance institutions, to promote tax compliance of their employees, particularly insurance agents. Similarly, this strategy is likely to include an education and training process together with a communication campaign targeting these taxpayers.

<p>New Zealand</p>	<p>GST refund review processes</p> <ul style="list-style-type: none"> • New Zealand is currently reviewing its GST refund processes and refund risk profiling system to improve early identification of high-risk refund claims and simultaneously reduce processing timeframes for low or no risk refunds. <p>Publication of common GST errors</p> <ul style="list-style-type: none"> • New Zealand is also looking to periodically develop and publish expanded information on common GST return filing errors that are detected. <p>Extended publication of Revenue Alerts within formal Tax Information Bulletins</p> <ul style="list-style-type: none"> • As an extension to its new Revenue Alerts publications, consideration is being given to formally include these within the Tax Information Bulletins as additional communication channel. These Bulletins are specific tax orientated publications frequently used by tax practitioners. <p>Working for Families Tax Credit, In Work Tax Payments and other entitlements</p> <ul style="list-style-type: none"> • New Zealand is currently assessing risks to reporting obligations in respect of entitlements available to individuals under wider social assistance programmes where these are leveraged through SMEs. <p>Relationship managers for selected industries</p> <ul style="list-style-type: none"> • New Zealand is also establishing relationship management protocols with a wider range of industry groups to identify and enhance service and information channels and promote awareness of tax obligations using dedicated relationship managers.
<p>Norway</p>	<p>OECD Cape Town Communiqué - Intermediaries</p> <ul style="list-style-type: none"> • Norway is currently evaluating opportunities to advance the ideas presented in the OECD tax intermediaries study as the outcomes from the FTA Cape Town meeting.
<p>Singapore</p>	<p>Register of tax agents and accounting firms</p> <ul style="list-style-type: none"> • Singapore is seeking to develop a register of tax agents, accounting firms and freelance accountants who have helped prepare GST returns for traders where these returns were subsequently found to contain errors. It is intended that this approach will result in the delivery of GST training targeting tax practitioners.
<p>Sweden</p>	<p>Education campaign – Virtual worlds as Second Life, Other technologies as contact channels</p> <ul style="list-style-type: none"> • Sweden is looking to utilise the internet and other technologies as new and alternative contact channels to reach and educate taxpayer groups. It is expected developments in this area will also provide a positive impact on perceptions of the revenue body as a modern authority seeking out new ways to interact with the taxpayers. <p>Use of selected 3rd parties to provide targeted data sets –</p> <ul style="list-style-type: none"> • Sweden is also exploring opportunities to change the source of income information from taxpayers to other 3rd party sources such as banks, real estate agencies etc. It is anticipated that this will result in greater reporting accuracy and will also assist in reducing taxpayer compliance costs. Initial targeted areas are those taxpayers who sell shares, real estate and tenements where research has indicated a higher degree of

	<p>unintentional errors in relation to declaring income.</p> <p>Enhanced Internet facilities for SMEs</p> <ul style="list-style-type: none"> Sweden is also considering a special web-site for small employers where they can seek online help for tax calculation and declaration of taxes and social contributions. It is proposed this site will contain interactive functions to adjust income and other tax information for their employees. <p>Plain language for outbound correspondence</p> <ul style="list-style-type: none"> Sweden is actively looking to review a wide range of existing communications to simplify the language used when corresponding with taxpayers. This review will also look at developing a more informal style to enhance public engagement, perception and confidence of a modern and approachable revenue body.
<p>Switzer-land</p>	<p>Non-payment and risk analysis of new taxpayers</p> <ul style="list-style-type: none"> Switzerland is seeking to develop new strategies in relation to non payment, together with development of a risk analysis methodology and practices for new taxpayers <p>Enhanced industry relationships</p> <ul style="list-style-type: none"> Switzerland is also seeking to develop a range of co-operative relationships with industry groups particularly in relation to VAT practises and compliance. <p>Inter-agency co-operation – black economy</p> <ul style="list-style-type: none"> A separate government agency - the Federal Social Insurance Office - has recently launched a social messaging advertising campaign against black work. The revenue body is looking at how this campaign can be leveraged to also generate similar awareness in relation to compliance with tax laws.
<p>Nether-lands</p>	<p>Extension of horizontal monitoring protocols other sectors (refer horizontal monitoring templates)</p> <ul style="list-style-type: none"> The Netherlands is seeking to further develop Horizontal Monitoring protocols (Small & Medium Accounting Firms and Newspaper and Leaflet Distributors) with other industry and targeted community groups.
<p>Turkey</p>	<p>Use of selected 3rd parties to provide targeted data sets – construction and real estate sectors</p> <ul style="list-style-type: none"> Turkey is experiencing a number of risks in relation to compliance across the building construction and real estate sectors. Key risks include house prices being valued below real market price. Currently, individuals use housing loans to buy a house with banks granting credit based on expert market valuations. These often are at variance with values reported by developers and real estate agents. The Turkish revenue body is looking to obtain and utilise 3rd party information from banks to determine the accurate sale prices of house and identify under-reported income in the construction sector.
<p>United Kingdom</p>	<p>New Compliance Checking Powers</p> <ul style="list-style-type: none"> The United Kingdom has found that research of random self assessment enquiries identified the top 3 errors made by businesses as being: <ul style="list-style-type: none"> Understated sales

	<ul style="list-style-type: none"> ▪ Overstated expenses ▪ Incorrectly claimed private expenditure. <p>These risks clearly impacted across the taxes handled by the two former departments (HM Customs and HM Revenue). While transitioning to a new combined organisation is progressing, the expertise held by each former body and the independent processes undertaken will take time to be integrated and assimilated within the new organisation.</p> <p>HRMC is looking at ways in which a single relationship with taxpayers covering all tax responsibilities (rather than specific taxes) can be effectively developed to reduce the administrative burden on the taxpayer and enable HMRC to improve efficiency. This is also likely to necessitate changes to the enquiry powers required under these broader responsibilities.</p> <p>A “campaign approach” to reducing non compliance</p> <ul style="list-style-type: none"> • The United Kingdom is starting to develop a more project based approach to the prevention and tackling of non compliance within each of the risk types across several specific risk issues or targeted groups. This is likely to include focused efforts in several or all of the following areas: <ul style="list-style-type: none"> ▪ A continuation of the offshore bank accounts campaign ▪ Income tax repayment frauds ▪ Illicit markets in Excise commodities ▪ A continuation of efforts to combat “Carousel” fraud in VAT ▪ Supporting start up businesses in dealing with their new obligations ▪ Hidden and cash economy activities ▪ Potential compliance issues associated with the 2012 Olympics.
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- 181 The research reflects that revenue bodies have invested (and are continuing to invest) considerable effort in applying a number of the key areas of guidance set out in the 2004 Guidance Note and the development of a range of innovative risk treatments and strategies.
- 182 While there are areas where only limited examples of new risk treatments were identified, this in itself presents opportunities for the development of future research. An example of this is in relation to reporting requirements and withholding regimes where the OECD has commenced an initial research study.
- 183 This report also introduces a number of additional frameworks which may lend themselves to the development of supplementary guidance to complement the 2004 Guidance Note and indicates opportunities for further targeted research, more specifically in relation to the strategy set groupings and additional considerations in designing future risk treatments.
- 184 Of note is that measurement and evaluation of risk treatments, particularly in relation to the development of appropriate outcome measurements, represents an area of considerable challenge for revenue bodies and is still largely under-developed. It is noted the recent publication of a guidance note focusing on compliance measurement will assist revenue bodies in this area, evaluation methods focused at an individual risk treatment level would benefit from further attention.
- 185 Greater emphasis may also be required in the use of the BISEP model by revenue bodies to develop greater understanding in the influences on taxpayers and their attitudes to compliance and understanding the primary and cumulative impacts of both individual and multiple risk treatment strategies.

- 186 An important consideration for the Subgroup is how future and wider value can be leveraged through the risk treatment examples obtained by this research and potentially by further periodic research of a similar nature. These examples provide valuable insights and their use can be potentially enhanced by integration within a more structured inventory accessible by member countries. Similarly such an approach may facilitate subsequent additions as well as providing a reference point for future evaluation of selected strategies over time.
- 187 While the research has identified over 90 risk treatment examples this does not represent a comprehensive library of all responses in current use across revenue bodies. It is however also recognised that such an undertaking would represent a significant investment and may not be practicable at this time.
- 188 An equally important consideration for the Subgroup is the limitations identified by this research and the comparatively broad focus of the original terms of reference and expected outputs from this work. In this regard, the research, analysis and reporting of observations has been scaled down to meet the timeframes agreed.

XII. ENHANCING THE DESIGN OF FUTURE RISK TREATMENTS

189 Section V of this report identified an indicative framework and strategy set that can be used to both classify risk treatments by their primary intent and also consider the design of treatment components. Following workshop discussions, it was felt that additional guidance could be provided in respect of the design of future risk treatments, particularly given that the area of measurement and evaluation is at this time considered less well understood and developed. This section draws a number of additional summary observations that, should the Subgroup consider them appropriate, may lend themselves for development as supplementary guidance to the 2004 Guidance Note. The intent of these observations is to provide additional areas for thinking and consideration by revenue bodies when developing further new and innovative risk treatments.

The purpose of the treatments

190 The 2004 Guidance Note suggested that before the planning of any response risks need to be assessed in terms of their potential impacts—the likely cost to revenue, in the short term and the long term, the potential impact on other government programmes, the risk to the reputation of the authority and community confidence in its administration. It also emphasised that the different factors which influence the attitudes and behaviours of small businesses together with the economic factors relating to the taxpayer must also be understood and recognised if a risk treatment is to be successfully designed and deployed – the BISEP Model.

191 While different treatment strategies can be categorised based on their strategic intent, i.e. their strategy characteristics and component activities in order to assess the available options, in choosing the most appropriate forms of treatment it is also useful for revenue bodies to think about the core purpose of the treatment. In this sense different forms of treatment can have the same purpose and the same forms of treatment can have different purposes depending on the context in which they are deployed. Understanding and being clear about the purpose of the risk treatment also provides greater clarity in planning how the periodic measurement and evaluation of the outcomes and impacts of the risk treatment should be carried out. In this sense, while the evaluation is commonly conducted after a lapsed period of deployment, often several years, it will often start with the question “why are we doing this?”

An additional matrix for treatment design thinking

192 The example risk treatments received through this research reflect a number of different treatment strategies with different purposes. The matrix in Figure 9 provides an alternative framework that could be used to plot these treatments using the key purposes identified.

Figure 9: A Possible Compliance Strategy Matrix

The purpose of the treatment strategy	Prevention		Reduce the consequence
	Right from the start "What should we do to make sure it won't happen?"	Persistence "What should we do to make sure it won't happen again?"	
Make it easy to comply			
Limit opportunities to be non-compliant			
Influencing taxpayers experience and perception			

- 193 While the purpose of a strategy will always be what its designers decide it should be, individual risk treatments can have more than one purpose and it is important to be clear about the primary purpose. The matrix should be considered with this in mind.
- 194 In elaborating this matrix, the horizontal axis shows two major purposes, i.e. prevention and reducing the consequence. Prevention is divided into “Right from the start” and “Persistence”. For example while many strategies ultimately focus on preventing error and evasion, audit activities can have as a main purpose to work as deterrent (i.e. prevention). This however, requires that the focus of audit activities are communicated and known by the target group in advance. If not, then the purpose could more correctly be categorised as reducing the consequence of the errors and evasion which can be reduced by securing some of the (otherwise) lost revenue.
- 195 The earlier analysis indicated that while it is possible that a risk treatment will have several component strategies, it will most commonly have one core strategy element. Similarly, while a risk treatment may serve several purposes, often one purpose is the most dominant.
- 196 As earlier mentioned, the purpose must be directly connected to how the evaluation is carried out. If the success of an audit activity is only measured by the extra revenue collected, then the purpose is mostly about reducing consequences. If the success of an audit activity is however to be measured by the impact on future compliance behaviour, then the purpose is mostly about prevention.
- 197 The essence of prevention based approaches is to enable taxpayers to correctly meet their obligations from the start, i.e. to make sure that errors and evasion do not occur in the first place, eg a books and records treatment. But if they occur anyway, then supporting strategies and treatments are also required to reduce the likelihood that non compliance will re-occur. These strategies are also a form of prevention and may be in different forms for selected target groups, eg a targeted audit treatment or re-education treatment.
- 198 The vertical axis consists of three different types of strategies in order to influence the behaviour of the taxpayers. The first two, “Make it easy to comply” and “Limit opportunities to be non-compliant” are mostly about changes in the system or the environment in which the taxpayers operate. The last one, “Influencing taxpayers experience and perception” is more about direct activities towards the taxpayer. This means that we should make it easy to do the right thing and difficult to do the wrong thing and at the same time encourage the taxpayer’s willingness to do the right thing (e.g. communication about audit activities). While these different aspects can have an impact on each other, it is the purpose of the treatments that should be considered. All of these are about prevention and not reducing the consequence.
- 199 Set out below is the matrix shown with examples of the types of treatment plotted.

Figure 10. Illustration of Updated Compliance Strategy Matrix

The purpose of the treatment strategy	Prevention		Reduce the consequence
	Right from the start "What should we do to make sure it won't happen?"	Persistence "What should we do to make sure it won't happen again?"	
Make it easy to comply	<i>Simplifications Assistance</i>	<i>Special assistance to selected target groups</i>	
Limit opportunities to be non-compliant	<i>Third party reporting</i>	<i>Special surveillance</i>	
Influencing taxpayers experience and perception	<i>Media alerts Campaigns</i>	<i>Re-visits</i>	

- 200 The matrix can be used in order to help clarify what the purpose of a treatment strategy actually is and in turn make it easier to develop an appropriate multi-faceted strategy for a specific compliance problem, and can also make it easier to identify new and innovative treatment approaches. In addition, the matrix also provides a useful starting point for the subsequent evaluation of the treatment strategy.

Beware about the dynamics of the treatments

- 201 Individual treatment strategies or components should not only be selected and designed based on their strengths and weaknesses in isolation. The combined effect of all treatments that target a particular risk must be considered collectively. Different treatments are likely to have an impact on each other in either a positive or negative way and can also have an impact on areas outside the scope of the treatment. In this sense a holistic view is necessary at the time of design and also at the time of evaluation.
- 202 The purpose of one treatment strategy can be to influence another group of taxpayers other than the group directly treated, e.g. the use of co-operative arrangements at an industry level to generate leverage within broader industry members.
- 203 The purpose of addressing serious non-compliance can also, in some cases, be best undertaken by developing 'reverse' strategies that serve to more actively reward and enhance the willingness to comply amongst the compliant taxpayers and in doing so exert influence on others to adopt this approach. This is an example where the varying dynamics of treatments needs to be examined and explored for greatest advantage.

Consider general strategies as well

- 204 While many of the treatment strategies obtained through this research have a specific purpose and target a specific risk and specific groups of taxpayer, there are also a smaller number of strategies that appear to be targeted at a more general level and can have a more fundamental effect on how the tax administration may operate in a broader sense. Reviewing and re-writing publications in simple terms using or adopting a less formal and engaging style are examples of process strategies that primarily serve to increase trust in the tax administration and engender a sense of approachability and support. Increased trust in the tax administration will in its own right contribute to improved compliance and it is not increased only by specific measures but instead by how and what a tax administration does in all aspects. These types of general strategies need to always be considered when other specific treatment strategies are designed.

XIII. CONCLUDING COMMENTS AND FUTURE DEVELOPMENTS

- 205 The research conducted for the preparation of this report has revealed valuable information across a range of innovative or unusual risk treatments either in use or being considered by revenue bodies across various domains of taxpayer compliance. The analysis and summary observations drawn from this research should therefore be considered as being a point in time of recent progress by revenue bodies in developing. The research reflects that revenue bodies have invested (and are continuing to invest) considerable effort in applying a number of the key areas of guidance set out in the 2004 Guidance Note and the development of a range of innovative risk treatments and strategies.
- 206 While there are areas where only limited examples of new risk treatments were identified, this in itself presents opportunities for the development of future research. An example of this is in relation to reporting requirements and withholding regimes where the OECD has commenced an initial research study.
- 207 This report also introduces a number of additional frameworks which may lend themselves to the development of supplementary guidance to complement the 2004 Guidance Note and indicates opportunities for further targeted research, more specifically in relation to the strategy set groupings and additional considerations in designing future risk treatments. Of note is that measurement and evaluation of risk treatments, particularly in relation to the development of appropriate outcome measurements, represents an area of considerable challenge for revenue bodies and is still largely under-developed. It is noted the recent publication of a guidance note focusing on compliance measurement will assist revenue bodies in this area however, revenue bodies would benefit from the development of greater guidance in evaluation methods focused at an individual risk treatment level.
- 208 It is suggested that the Compliance Sub-group identify a small selected range of risk treatment examples and in conjunction and agreement with the owning revenue body case study the development of suitable evaluation frameworks that may subsequently be shared across member countries.
- 209 Greater emphasis and guidance may also be appropriate in the use of the BISEP model and/or other modelling techniques by revenue bodies to assist in developing greater understanding in the influences on taxpayers and their attitudes to compliance and to enhance the design of new risk treatments and the primary and cumulative impacts of both individual and multiple risk treatment approaches.
- 210 An important consideration for the Subgroup is how future and wider value can be leveraged through the risk treatment examples obtained by this research and potentially by further periodic research of a similar nature. These examples provide valuable insights and their use can be potentially enhanced by integration within a more structured inventory accessible by member countries. Similarly such an approach may facilitate subsequent additions as well as providing a reference point for future evaluation of selected strategies over time.
- 211 While the research has identified over 90 risk treatment examples this does not represent a comprehensive library of all responses in current use across revenue bodies. It is however also recognised that such an undertaking would represent a significant investment and may not be practicable at this time.
- 212 An equally important consideration for the Sub-group is the limitations identified by this research and the comparatively broad focus of the original terms of reference and expected outputs from this work. In this regard, the research, analysis and reporting of observations has been scaled down to meet the timeframes agreed.

Risk Treatment Initiatives: All Countries - Small & Medium Enterprises

◆ Primary Compliance Risk Targeted

◆ Primary Feature

◆ Secondary Features

Country	Response Title
1	Australia Aggressive Tax Planning Promoter Penalties, Risk Identification and Assessment
2	Australia Compliance of Wealthy Individuals Booklet
3	Australia GST Free Supplies - Data Project
4	Australia Legislated Information Reporting Requirements - Dynamic Forms for High Risk Taxpayers
5	Australia Micro Enterprises and Individuals - Business Self Evaluation Tool
6	Australia Micro Enterprises and Individuals - Capital Gains Tax: Pre-Lodgment Awareness Letters
7	Australia Micro Enterprises and Individuals - Capital Gains Tax: Property Investor Pathway
8	Australia Micro Enterprises and Individuals - Employer Obligations Longitudinal Monitoring & Revisit Programme
9	Australia Micro Enterprises and Individuals - Personal Electronic Tax Calculator
10	Australia Micro Enterprises and Individuals - Profiling Tool
11	Australia Micro Enterprises and Individuals - Record Keeping Strategy
12	Australia Micro Enterprises and Individuals - Using Incentives to optimise vol compliance in Franchise Industry
13	Australia Publication of Taxpayer Alerts
14	Australia Schedule 25a (international tax disclosures) – Interactive Product
15	Australia Small Business Assistance Programme
16	Australia SMS - Short Message System as Outbound Communication
17	Austria Implementation of Standard Audit Files
18	Austria Tax Compliance Education at Schools
19	Belgium Protocol of Co-operation against Tax Evasion – Hotels, Restaurants & Cafes
20	Canada Application & Publication of Charities Suspensions, Revocations and penalties
21	Canada Audit and Education Programme for MUSH Sector
22	Canada Books & Records Keeping Programme & Reviews
23	Canada CRA Compliance Communications Strategy
24	Canada CRA Tax Alerts & News Canada Articles
25	Canada Canadian Business Software Stds
26	Canada Cash Economy Outreach Activities
27	Canada Charities Partnership & Outreach Programme
28	Canada Citizenship & Canada's Tax System Learning Unit
29	Canada Compliance Research Laboratory
30	Canada Contract Payment Reporting System

Risk Area			
Failure to Register	Failure to File	Failure to Accurately Report	Failure to Pay
	3	◆	2
	2	◆	
◆		2	
	3	◆	2
4	3	◆	2
	2	◆	3
	3	◆	2
	2	◆	
	◆	3	2
		◆	2
4	2	◆	3
4	2	◆	3
		◆	
◆		2	
4	2	◆	3
	◆		2
	◆	3	2
4	2	◆	3
◆		2	3
	2	◆	4
	2	◆	3
	2	◆	3
		◆	
	2	◆	3
	2	◆	3
	2	◆	3
		◆	
2	3	◆	4

Strategy Components								
Legislative, Policy or Process Changes, New Data Sources	Education Based Strategies	Encouragement & Incentive Strategies	Reporting or Withholding Strategies	Co-operative Arrangement Strategies	Pre-Filing Obligation Strategies	Enforcement, Penalties or Sanctions	Interactive Assistance & Decision Support Strategies	Media Campaigns or Targeted Releases
◆						◆		◆
◆	◆	◆					◆	
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	◆					◆		
					◆			
	◆							
						◆		
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	◆	◆				◆	◆	
			◆	◆		◆		◆
	◆							
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	◆	◆		◆				◆
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	◆							
	◆							
◆	◆		◆	◆		◆		◆
◆	◆			◆		◆		◆
◆						◆		
◆			◆	◆		◆		

Risk Treatment Initiatives: All Countries - Small & Medium Enterprises

◆ Primary Compliance Risk Targeted

◆ Primary Feature

◆ Secondary Features

Country

Response Title

31	Canada	Electronic Sales Suppression (ESS)
32	Canada	Enhancement of COMPASS (Compliance, Measurement, Profiling and Assessment System)
33	Canada	Get It In Writing - Customer Awareness Campaign
34	Canada	Gifting Tax Shelters – Audit, Education & Legislative Response
35	Canada	GST/Harmonised Sales Tax - Enhanced Registration Review (GERR)
36	Canada	High Risk Analysis Teams (HRAT)
37	Canada	Informant Leads Programme
38	Canada	Integrated Enforcement Teams (IETs)
39	Canada	Learning about Taxes
40	Canada	My Business Account
41	Canada	Outreach Framework & NOCC
42	Canada	Partnership Strategy
43	Canada	SRED – Account Executive Service
44	Canada	SRED – Pre-claim Review
45	Canada	SRED – Process Review
46	Canada	Trust Pilot Project
47	Chile	Simplified Accounting System for Micro, Small, Medium Businesses
48	Chile	Tax Education Portal for Children
49	Chile	Tax Portal for Electronic Invoicing
50	Chile	VAT Annual Control
51	Chile	Working closely with Small Enterprise Associations
52	Denmark	Intelligent e-Service
53	Ireland	Electronic Screening and Risk Ranking of Other Non-Declared Income
54	Ireland	National Construction Project
55	Mexico	Comprehensive Programme against Tax Evasion (PICE)
56	Mexico	Income Tax return for Individuals – Preventative Education
57	Mexico	Informative Return of 3 rd Party Transactions - VAT
58	Mexico	New Model for Periodic Payment & Return Reporting Obligations
59	Mexico	Risk Model for Tax Refunds
60	NZ	Cash Economy - Industry Partnerships

Risk Area			
Failure to Register	Failure to File	Failure to Accurately Report	Failure to Pay
4	3	◆	2
2		◆	3
◆		2	
◆	2	3	4
◆	2	4	3
2	2	◆	
◆	2	3	4
◆	3	2	4
◆	2	3	4
◆		2	
3	4	◆	2
	2	◆	
	2	◆	
	2	◆	
◆	2	◆	3
◆		2	
	2	◆	
◆	2	3	4
◆	2	4	3
	2	◆	
	4	3	2
	4	3	2
4	3	2	◆
◆	2	3	
3		2	◆
2	3	◆	4

Strategy Components								
Legislative, Policy or Process Changes, New Data Sources	Education Based Strategies	Encouragement & Incentive Strategies	Reporting or Withholding Strategies	Co-operative Arrangement Strategies	Pre-Filing Obligation Strategies	Enforcement, Penalties or Sanctions	Interactive Assistance & Decision Support Strategies	Media Campaigns or Targeted Releases
						◆		
						◆	◆	
	◆							◆
◆					◆	◆		◆
◆						◆		◆
◆				◆		◆		
	◆	◆		◆		◆		◆
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	◆						◆	◆
	◆							◆
	◆							◆
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	◆							◆
	◆						◆	
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◆	◆			◆	◆	◆		◆
◆	◆			◆	◆	◆		◆

Country	Response Title
3	Australia GST Free Supplies - Data Project
14	Australia Schedule 25a (international tax disclosures) – Interactive Product
19	Belgium Protocol of Co-operation against Tax Evasion – Hotels, Restaurants & Cafes
26	Canada Cash Economy Outreach Activities
33	Canada Get It In Writing - Customer Awareness Campaign
35	Canada GST/Harmonised Sales Tax - Enhanced Registration Review (GERR)
36	Canada High Risk Analysis Teams (HRAT)
38	Canada Integrated Enforcement Teams (IETs)
39	Canada Learning about Taxes
40	Canada My Business Account
41	Canada Outreach Framework & NOCC
47	Chile Simplified Accounting System for Micro, Small, Medium Businesses
48	Chile Tax Education Portal for Children
50	Chile VAT Annual Control
51	Chile Working closely with Small Enterprise Associations
58	Mexico New Model for Periodic Payment & Return Reporting Obligations
65	Norway Co-operation with Junior Achievement-Young Enterprise Norway & Students
66	Norway Service Centre for Foreign Workers
70	Republic of Korea Getting In Tune With Your Taxes Campaign
78	Sweden Cash Economy - Short Visit Programme to Restaurants and Hairdressers
81	The Netherlands Horizontal Monitoring Programme - Newspaper & Leaflet Distributors
86	United Kingdom Hotline & Helpline

Risk Area			
Failure to Register	Failure to File	Failure to Accurately Report	Failure to Pay
◆		2	
◆		2	
◆		2	3
◆	2	3	4
◆		2	
◆	2	3	4
◆	2	4	3
◆	2	3	4
◆	3	2	4
◆	2	3	4
◆		2	
◆	3	2	
◆		2	
◆	2	3	4
◆	2	4	3
◆	2	3	4
◆	2		
◆		2	
◆	2	3	4
◆	2		
◆		2	3
◆	2	3	
◆	4	2	3

Strategy Components								
Legislative, Policy or Process Changes, New Data Sources	Education Based Strategies	Encouragement & Incentive Strategies	Reporting or Withholding Strategies	Co-operative Arrangement Strategies	Pre-Filing Obligation Strategies	Enforcement, Penalties or Sanctions	Interactive Assistance & Decision Support Strategies	Media Campaigns or Targeted Releases
◆				◆		◆		
◆			◆				◆	
				◆		◆		
	◆		◆					◆
◆	◆					◆		◆
◆				◆		◆		
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	◆					◆	◆	
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◆	◆		◆				◆	
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◆	◆					◆	◆	
◆	◆					◆		◆

Risk Treatment Initiatives Primarily Targeted at Filing Compliance

Country	Response Title
9 Australia	Micro Enterprises and Individuals - Personal Electronic Tax Calculator
16 Australia	SMS - Short Message System as Outbound Communication
17 Austria	Implementation of Standard Audit Files
91 USA	Importer Non-Filer Identification & Measurement

◆ Primary Compliance Risk Targeted ◆ Primary Feature ♦ Secondary Features

Risk Area			
Failure to Register	Failure to File	Failure to Accurately Report	Failure to Pay
	◆	3	2
	◆		2
	◆	3	2
	◆	2	3

Strategy Components								
Legislative, Policy or Process Changes, New Data Sources	Education Based Strategies	Encouragement & Incentive Strategies	Reporting or Withholding Strategies	Co-operative Arrangement Strategies	Pre-Filing Obligation Strategies	Enforcement, Penalties or Sanctions	Interactive Assistance & Decision Support Strategies	Media Campaigns or Targeted Releases
					♦		◆	
					◆	•		
			♦				◆	
♦				♦	♦	◆		

Risk Treatment Initiatives Primarily Targeted at Reporting Accuracy

◆ Primary Compliance Risk Targeted

◆ Primary Feature

◆ Secondary Features

Country	Response Title
1	Australia Aggressive Tax Planning Promoter Penalties, Risk Identification and Assessment
2	Australia Compliance of Wealthy Individuals Booklet
4	Australia Legislated Information Reporting Requirements - Dynamic Forms for High Risk Taxpayers
5	Australia Micro Enterprises and Individuals - Business Self Evaluation Tool
6	Australia Micro Enterprises and Individuals - Capital Gains Tax: Pre-Lodgment Awareness Letters
7	Australia Micro Enterprises and Individuals - Capital Gains Tax: Property Investor Pathway
8	Australia Micro Enterprises and Individuals - Employer Obligations Longitudinal Monitoring & Revisit Programme
10	Australia Micro Enterprises and Individuals - Profiling Tool
11	Australia Micro Enterprises and Individuals - Record Keeping Strategy
12	Australia Micro Enterprises and Individuals - Using Incentives to optimise vol compliance in Franchise Industry
13	Australia Publication of Taxpayer Alerts
15	Australia Small Business Assistance Programme
18	Austria Tax Compliance Education at Schools
20	Canada Application & Publication of Charities Suspensions, Revocations and penalties
21	Canada Audit and Education Programme for MUSH Sector
22	Canada Books & Records Keeping Programme & Reviews
25	Canada Canadian Business Software Stds
27	Canada Charities Partnership & Outreach Programme
28	Canada Citizenship & Canada's Tax System Learning Unit
30	Canada Contract Payment Reporting System
23	Canada CRA Compliance Communications Strategy
24	Canada CRA Tax Alerts & News Canada Articles
31	Canada Electronic Sales Suppression (ESS)
32	Canada Enhancement of COMPASS (Compliance, Measurement, Profiling and Assessment System)
34	Canada Gifting Tax Shelters – Audit, Education & Legislative Response
37	Canada Informant Leads Programme
42	Canada Partnership Strategy
43	Canada SRED – Account Executive Service
44	Canada SRED – Pre-claim Review
45	Canada SRED – Process Review
46	Canada Trust Pilot Project
49	Chile Tax Portal for Electronic Invoicing

Risk Area			
Failure to Register	Failure to File	Failure to Accurately Report	Failure to Pay
	3	◆	2
	2	◆	
	3	◆	2
4	3	◆	2
	2	◆	3
	3	◆	2
	2	◆	
	◆		2
4	2	◆	3
4	2	◆	3
	◆		
4	2	◆	3
4	2	◆	3
	2	◆	
2	3	◆	4
	◆		
	2	◆	3
	2	◆	3
2	3	◆	4
2	3	◆	4
4	3	◆	2
4	3	◆	2
2	3	◆	3
	◆		2
2	2	◆	
3	4	◆	2
	2	◆	
	2	◆	
	2	◆	
	2	◆	3
	◆		

Strategy Components									
Legislative, Policy or Process Changes, New Data Sources	Education Based Strategies	Encouragement & Incentive Strategies	Reporting or Withholding Strategies	Co-operative Arrangement Strategies	Pre-Filing Obligation Strategies	Enforcement, Penalties or Sanctions	Interactive Assistance & Decision Support Strategies	Media Campaigns or Targeted Releases	
◆						◆		◆	
◆	◆	◆					◆		
			◆			◆			
	◆				◆		◆		
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	◆				◆				
			◆			◆		◆	

Risk Treatment Initiatives Primarily Targeted at Reporting Accuracy

◆ Primary Compliance Risk Targeted

◆ Primary Feature

◆ Secondary Features

Country	Response Title
52 Denmark	Intelligent e-Service
53 Ireland	Electronic Screening and Risk Ranking of Other Non-Declared Income
54 Ireland	National Construction Project
56 Mexico	Income Tax return for Individuals – Preventative Education
60 NZ	Cash Economy - Industry Partnerships
61 NZ	Internet Search Tool - Info logistics
62 NZ	Memorandum of Understanding NZ Bankers Association - 3rd Party Information Requests
63 NZ	National Property Compliance Programme
64 NZ	Publication of Revenue (Taxpayer) Alerts
67 Republic of Korea	Business Purpose Bank Accounts
68 Republic of Korea	Cash Receipt System
73 Singapore	Programmes for New and Existing GST Traders
75 Spain	Car registration Tax - Inter-Agency Co-ordination with Traffic Administration
76 Spain	Segmentation – Construction & Real Estate
77 Spain	Word Searches
79 Sweden	Undeclared Income - Private Sales of Antiquities via Auction Houses
80 Switzerland	VAT Reconciliation – using electronic ‘e-Dec’
82 The Netherlands	Horizontal Monitoring Protocol - Small & Medium Accounting Firms
83 Turkey	Corporate Tax, Income Tax, VAT – Enhanced Reporting Obligations
84 United Kingdom	Disclosure Tax Avoidance Schemes
85 United Kingdom	Evaluation Study of Random Enquiry Programme
87 United Kingdom	Offshore Disclosure Arrangements
88 United Kingdom	Sharing Workflow Processes - Tax Agents
89 United Kingdom	Web Robot
90 USA	Disguised & Hidden Ownership of Income
92 USA	Internet Income Probes

Risk Area			
Failure to Register	Failure to File	Failure to Accurately Report	Failure to Pay
	2	◆	
	2	◆	3
2	4	◆	3
	3	◆	2
2	3	◆	4
2		◆	
		◆	2
2	3	◆	4
		◆	
2	4	◆	3
	2	◆	3
3	4	◆	2
2	4	◆	3
2	4	◆	3
		◆	2
2	3	◆	4
		◆	
		◆	
		◆	
		◆	
2		◆	
	3	◆	2
		◆	2

Strategy Components								
Legislative, Policy or Process Changes, New Data Sources	Education Based Strategies	Encouragement & Incentive Strategies	Reporting or Withholding Strategies	Co-operative Arrangement Strategies	Pre-Filing Obligation Strategies	Enforcement, Penalties or Sanctions	Interactive Assistance & Decision Support Strategies	Media Campaigns or Targeted Releases
◆						◆	◆	
◆	◆		◆	◆		◆	◆	◆
	◆			◆	◆		◆	◆
◆	◆			◆		◆		◆
◆				◆		◆		
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Risk Treatment Initiatives Primarily Targeted at Payment Compliance

◆ Primary Compliance Risk Targeted ◆ Primary Feature ◆ Secondary Features

Country	Response Title
55 Mexico	Comprehensive Programme against Tax Evasion (PICE)
57 Mexico	Informative Return of 3 rd Party Transactions - VAT
59 Mexico	Risk Model for Tax Refunds
69 Republic of Korea	Disclosure of the List of Taxpayers with Large Tax Debts
71 Singapore	Charge on Government Special Payouts where Default on Income Tax
72 Singapore	Employer Deduction Schedule – Deduct Employee Tax Debt from Salary & Wages
74 Singapore	Use of 3rd Party Data to Identify GST Liabilities on Property Sales

Risk Area			
Failure to Register	Failure to File	Failure to Accurately Report	Failure to Pay
4	3	2	◆
4	3	2	◆
3		2	◆
4	3	2	◆
			◆
			◆
	3	2	◆

Strategy Components								
Legislative, Policy or Process Changes, New Data Sources	Education Based Strategies	Encouragement & Incentive Strategies	Reporting or Withholding Strategies	Co-operative Arrangement Strategies	Pre-Filing Obligation Strategies	Enforcement, Penalties or Sanctions	Interactive Assistance & Decision Support Strategies	Media Campaigns or Targeted Releases
•						◆		
•			◆		•	•		
•	•		◆			•		
•						◆		•
•				•		◆		•
•	•				•	◆		•