FISCAL AFFAIRS

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Postcrisis Revenue Generation for Tax Administrations

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This note provides guidance on how tax administrations can re-establish revenue collection as quickly as possible as the COVID-19 crisis eases to help meet government spending needs. A multidimensional approach, using the principles outlined in this note, should be used to develop an action plan specific to the country's administration. An indicative action plan is included in this note, which can be used by administrations to help prioritize actions to promote revenue collection. This special purpose guidance is designed for early recovery from the pandemic; it is not meant as a plan for overall domestic revenue mobilization for longer-term revenue sustainability.

The approach to revenue collection should carefully take into account taxpayers' circumstances. While tax liabilities are legally payable, consideration of COVID-19 impact on businesses and individuals will be necessary to demonstrate that the tax administration understands taxpayers' compliance situations and tailors its actions accordingly.

Please direct any questions and comments on this note to cdsupport-revenue@imf.org.

I. RESTORING REVENUE FROM COVID-19 – PRINCIPLES FOR A TAILORED APPROACH

Tax administrations[1] in many countries are or will be under intense pressure to resume normal tax collection approaches quickly to provide the resources necessary to fund COVID-19 responses and to help stimulate the economy. While revenue is a pressing need, administrations also need to be mindful of the economic impact that COVID-19 continues to have on some businesses and individuals, and the need for a fair and equitable system to be in place. Administrations and taxpayers need to work together more than ever to support a healthy

[1] Customs administration issues are addressed in COVID-19 Special Series Note "Priority Measures for Customs Administrations" https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes#fiscal.

economy by keeping as many viable businesses as possible operational, while promoting compliance with the country's tax laws for everyone.

It is important to consider carefully how the administration deals with taxpayers as the crisis moderates and in the postcrisis period. Using a heavy-handed approach could represent a serious reputational risk and negatively impact longer term taxpayer compliance. On the other hand, tax obligations are payable to the government and must be reported and collected at the earliest possible opportunity. Given the challenges of the pandemic, taxpayer compliance may also have decreased, whether intentionally or unintentionally. Balancing these realities will require a thoughtful, fair, and tailored approach and must consider the impact that COVID-19 has had on the country's economy and individual taxpayers. In addition, countries should take stock of what temporary measures were introduced and their status, to ensure that they do not inappropriately constrain the country's ability to re-establish revenue collection as quickly as possible as the crisis eases. In line with this review, countries should develop a plan for phasing out the temporary measures when conditions permit.

Phasing out the administration's early efforts requires a multifaceted approach. Existing compliance risk management (CRM) processes should continue to analyze all available data to identify emerging and priority risks across the taxpayer obligations of registration, filing, correct reporting, and payment. This note describes some measures within each of these obligations that could be implemented immediately in cases wherein well-established CRM processes are not in place, and as a supplement to that work in cases wherein these processes do exist.

Following the advice provided in the note "Revenue Administration: Reinvigorating Operations to Safeguard Collection and Compliance," [2] this note evaluates areas of potential revenue collection through various lenses. The combination of these views is then brought together into an indicative action plan. For example, dedicating efforts to those large taxpayers who typically contribute a large portion of government revenues is important, as is focusing on the compliance of taxpayers who were not affected by the crisis. New businesses may have emerged from the crisis and ensuring that these businesses comply is another source of tax collection, which expands the country's tax base. Some individuals have benefited from capital appreciation during the pandemic, potentially creating tax liabilities that should be closely monitored. Taxes for which monthly or quarterly payments are expected can generate early revenue streams to fund government operations. Another important source of revenue is collectible arrears. Box 1 outlines six principles to consider when developing a plan to restore revenue as the crisis moderates. These principles should be considered comprehensively to develop an action plan, similar to the one outlined in Box 2.

Note that the approach discussed in this note is a short-term plan to generate revenue quickly. Once the administration has re-established revenue flows as businesses resume more normal operations, the best practices from these short-term measures should be incorporated into the administration's standard practices related to managing taxpayer compliance. In this regard, administrations will need to evaluate their particular compliance risks to develop an overall domestic revenue mobilization plan for longer-term revenue sustainability.

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[2] See [Special Series on COVID-19 (imf.org)](), April 29, 2020

Box 1. Six Principles to Consider to Restore and Protect Revenue in Recovery Phase

Revenue Collection

1. Focus on **industries** that were less significantly impacted by COVID-19 and **new businesses** that have emerged or grown due to the pandemic
   - ✓ Segmenting the approach based on how seriously the business was affected by COVID-19 demonstrates the administration's fairness by allowing some flexibility in meeting tax obligations depending on their circumstances, while recognizing that less impacted businesses should have continued complying with their tax obligations during the crisis.
   - ✓ Concentrate initially on the large- and then medium-sized taxpayers within these industries as smaller taxpayers likely do not contribute substantially to government revenues.
   - ✓ Some industries have seen their economic activity increase due to the pandemic. Examples include delivery services and online sales of products. Ensuring these businesses are registered and meet their filing, reporting, and payment obligations from the outset is a critical priority and increases the country's tax base.
2. Identify **key revenue streams** and work with taxpayers to ensure their obligations remain up to date, for example:
   - ✓ Industry-based or taxpayer size (that is, large taxpayers and high-wealth individuals).
   - ✓ Across the compliance continuum (registration, filing, correct reporting, payment compliance).
   - ✓ Emerging areas of wealth taxation, such as capital, inheritance tax, property tax.
3. Focus on **taxes** where frequent remittances are required, for example:
   - ✓ Value-added tax/goods and services tax
   - ✓ Pay-as-you-earn tax
4. Make it **easier for taxpayers to comply**
   - ✓ Move to electronic payment and filing for all major tax types if not already in place.
   - ✓ Issue payment and filing reminders before the due date.
   - ✓ Increase services to promote voluntary compliance (call centers, guidance on how to comply).
   - ✓ Restoring registration, on-time filing, and payment compliance to precrisis levels is important for generating revenue. A proactive, service-oriented approach to get taxpayers to file their returns will provide early results:
     - i. If taxpayers are behind in filing and paying, those obligations need to be brought up to date quickly to enable future compliance in filing and payment obligations and to provide data for risk profiling purposes or for eligibility for government support measures.
     - ii. Where the government has extended filing deadlines, filing compliance actions should be discontinued, the IT system should be updated to reflect the new filing deadlines and reminders sent to taxpayers in advance of the new deadline to promote on-time filing and payment.
5. Use **a tailored approach to managing arrears**
   - ✓ Risk assess the arrears accounts, identifying large debtors, industries less affected by COVID-19, and high-value new debts, which are easier to collect than older debts.
     - i. Use available collection powers and an in-person approach to address these arrears accounts on a priority basis.
   - ✓ For affected industries and other taxpayers who cannot pay in full, use payment plans that promote regular payments and only require staff follow-up if the agreed plan is off track. A condition of the installment plan should be that all filings are up to date.
   - ✓ Consider the introduction of self-serve options for lower-value arrears where the taxpayer can establish their own instalment plan electronically through the administration's IT system without the personal

intervention of tax administration staff. This would provide flexibility for taxpayers and a no-intervention approach to collecting smaller debts for the administration.

Protecting the Tax Base

6. Ensure **compliance with relief measure eligibility** criteria
   - ✓ Where the government has issued social benefits payments or provided crisis relief/stimulation measures to reduce the impact of COVID-19, a compliance review mechanism should be put in place to ensure only those who are eligible have received the payment or accessed the relief measures. Temporary resources will be needed to staff the compliance activities until the high-risk claims have been addressed.
   - ✓ Where these benefits are claimed by ineligible recipients, the administration needs to quickly address these fraudulent claims and recover the funds paid, to maintain the integrity of the tax system and ensure government revenues are not negatively impacted.

II. ACTION PLAN TO RE-ESTABLISH REVENUE FLOW

With these principles in mind, taking steps to actively manage taxpayers' compliance, notably reporting and paying obligations, will help restore revenues more quickly than relying on taxpayers to automatically comply. To this end, a well-designed and resourced plan of compliance activities needs to be developed and effectively implemented by tax administrations. The IMF note on reinvigorating operations of revenue administration[3] recommended the development of such a plan and advised on how to do so—see Box 1 on Steps to Develop a Postcrisis Revenue Collection Action Plan (RCAP) in the cited IMF note.

Building on the advice provided in that note, Box 2 provides an indicative RCAP organized by function, including recommended actions to be undertaken as soon as practical as the crisis eases. Each country must evaluate, based on their circumstances, when it would be appropriate to begin activities in the proposed RCAP. When businesses begin reopening is a key indicator, as well as considering the country's specific circumstances related to duration of the lockdown and the ability of the administration to operate remotely. Further advice on implementing the RCAP is outlined in section III of this note.

Box 2: Indicative Revenue Collection Action Plan (RCAP)	
Preparatory Work	*A few key actions are necessary to plan the revenue collection effort in a coordinated manner. Closely monitoring which activities are most successful will allow the administration to adjust the plan quickly and maximize revenue collection.* • Establish a Recovery Coordination Team (RCT)[4] that will oversee the implementation of the RCAP. • Develop a list of industries and individuals less negatively affected by COVID-19 keeping in mind the impacts may be different in different regions of the country. • Develop a list of industries and individuals that were more negatively affected by COVID-19. • Develop a list of industries and individuals whose businesses benefited from the pandemic.

[3] See IMF Special Series on COVID-19 note *Revenue Administration: Reinvigorating Operations to Safeguard Collection and Compliance*, April 2020.
[4] Ibid.

	• Identify and staff a specialist team for each function: registration, filing compliance, audit, and payment compliance. • Provide training to new staff who may be temporarily assigned to new job functions. • Evaluate the current environment to identify potential new compliance risks that have arisen since the beginning of the pandemic and consider these risk areas in undertaking the action plan. Compliance attitudes may have been affected by the pandemic and this should be considered in the development of the action plan.
Taxpayer Services	*Most taxpayers want to comply, and tax administrations can positively impact voluntary compliance and revenue collection by providing education, support, and assistance.* • Encourage taxpayers to contact the administration if they are experiencing difficulty in meeting tax obligations. • Provide tips on how to comply to increase voluntary compliance. • Ensure call centers are staffed to meet demand. • Increase efforts to remind taxpayers of deadlines through existing and new communication channels.
Registration and Filing Compliance	*Ensuring all taxpayers that should be in the tax system are registering and filing as required is a critical first step in managing compliance and maximizing revenue collection under the law.* • Adjust number of staff based on expected workload volumes as the action plan is implemented. • Consider electronic solutions to make the registration process easier to promote compliance. • Consider mandatory electronic filing and payment for major tax types. *All taxes* • Where filing deadlines have been extended, issue reminders when new deadlines are established. Conduct the necessary follow-up according to existing policies. • Identify new businesses that may need to be registered and ensure on-time filing *VAT/GST* • Review VAT population to identify a list of taxpayers with outstanding returns. • Segment the list of outstanding returns by taxpayer size (turnover): large/medium/small. • Contact large taxpayers to request filing and payment for outstanding returns by a specified date. • Develop a tailored plan to bring compliance up to date based on the taxpayer's situation. • Monitor and follow-up based on identified deadlines. • Resources permitting, undertake the same steps for the medium taxpayer segment. • For taxpayers in the small segment, send reminder notices to file outstanding returns. *Pay As You Earn (PAYE)*

	• Review PAYE remittances to identify outstanding remittances. • Segment the list by size of average remittance: large/medium/small. • Contact taxpayers in the large segment (highest remittances) to bring filings current. • Develop a tailored plan to bring compliance up to date. • Monitor and follow-up based on identified deadlines. • As resources permit, contact taxpayers in the medium segment to bring their filings current. • For taxpayers in the small segment, send reminder notices to file outstanding returns.

Audit (Correct Reporting)	*Reserved for the highest-risk taxpayers, audits are used to enforce compliance with the country's tax laws and should use risk-based approaches to identify and address non-compliance.*
	Large Taxpayers (all taxes)
	• Focusing on large taxpayers, and for those industries that were less impacted by COVID-19:
	    o Identify taxpayers whose income/tax reported has decreased significantly.
	    o Review for high VAT credit returns.
	• With the identified files, undertake a risk assessment by reviewing all available data to determine if there is a significant risk of noncompliance.
	• Based on this review, identify the highest risk files for audit.
	• Assign audits to staff for immediate action.
	VAT
	• Review VAT returns to identify refund claims either representing a high value or where the amount of a credit claim is unusually high. Where possible, use industry risk analysis of VAT trends to identify further areas of noncompliance.
	• Determine approach to manage risk:
	    o Desk review.
	    o In person audit.
	• Undertake audits according to the approach identified.
	• Evaluate audit results to identify patterns of noncompliance and review taxpayer population for other taxpayers who may have similar noncompliance in their returns.
	Income Tax
	• Identify businesses or high-wealth individuals who benefited from the pandemic and risk assess their compliance.
	• Determine approach to manage risk:
	    o Desk review.

	○ In-person audit. • Undertake audits according to the approach identified. • Evaluate audit results to identify patterns of noncompliance and review taxpayer population for other taxpayers who may have similar noncompliance in their returns. *PAYE* • Review PAYE remittances and compare to pre-COVID-19 remittance amounts and against list of industries that were less impacted by COVID-19 to identify possible instances of noncompliance (variance in remittance expected according to normal pattern versus actual remittance). • Select taxpayers with highest variance for follow-up action. • Select method of review: desk review or comprehensive audit based on level of risk. *Benefits paid or crisis relief/stimulation provided to reduce impact of COVID-19* • Review a sample of benefits recipients' claims and validate against tax administration records to determine if the taxpayer was eligible to receive the benefit. • Evaluate the level of noncompliance from the sample undertaken and determine whether to review more claims if the noncompliance rate is high. • For ineligible claims, determine method to recover amount and begin recovery process. • For other tax measures, implement a system to identify material noncompliance using a risk-based approach (For example, losses are allowed to be carried back to previous taxation years. If the loss claimed is overstated, an ineligible refund of tax could be issued. Risk assessing based on the size of the loss claimed will dictate the approach.) • Undertake desk/comprehensive reviews of potential high-risk claims to evaluate eligibility. Take action to correct filing if required.
Arrears Management (Payment Compliance)	*Collecting existing arrears will contribute early revenue collection results, but care must be taken to use a thoughtful and tailored approach, based on the taxpayer's situation and the impact of the pandemic.* • Adjust number of staff based on workload volumes as the action plan is delivered. • Consider whether new policies are required to approve payment plans. If necessary, provide administrative authority for approval of the plans. • Consider the cost of possible interventions compared with the amount to be recovered in determining what actions to take. For example, for a small debt, sending automatic reminders to pay would be preferable to dedicating significant staff time to collect the debt. • Consider implementing an automated process to allow taxpayers to submit payment plans within certain conditions. For example, duration of the plan not to exceed 9–12 months, return filing obligations remain up to date, etc. When the

	proposed plan meets the established criteria, the IT system would automatically approve the plan and follow-up would only be required if the payment terms are not respected.
	
	Taxpayers Adversely Impacted by COVID-19
	• Identify approach to collect arrears based on arrears categories: high/medium/low:
	    o Consider face-to-face approach for taxpayers with high value of arrears.
	    o Telephone calls can be used for taxpayers in the medium category.
	    o Letters or electronic reminders can be used for low amounts.
	• Document a policy on installment plans. Full payment is the objective, however, where the taxpayer can show that full payment is not possible, keep in mind that collecting some part of the arrears is better than collecting none:
	    o Negotiate a payment plan if needed.
	    o Monitor terms of agreement and contact taxpayer if payments discontinue.
	    o Conduct an "ability to pay" and "viability" assessment on the accounts in the high-arrears category.
	    o Focus initially on high-value debts, then medium-size debts, corresponding to the number of staff available to carry out this workload.
	
	Other arrears accounts
	• Implement a collection plan that provides:
	i. segmentation of debtors (size of debt, age).
	ii. targeted recovery procedures based on the characteristics for the various groups of debtors. Small- and medium-sized debtors should be divided by debt size into different tiers with required minimal recovery actions for every tier (increasing degree of intervention based on size of debt). Priority should be given to new and large arrears.
	iii. Deploy new debt collection measures (for example, third-party liability provisions, strategies for influencing tax debtors' behavior, automated number plate recognition, etc.).
	iv. Tailored installment plans;
	    • Conduct an "ability to pay" assessment on the accounts only in the large and medium arrears' category
	    • When evaluating the appropriateness of granting a payment plan for large- and medium-size businesses, the viability of the business, the capacity to meet the terms of a payment plan, and ongoing compliance in relation to future tax liabilities are key considerations.
	v. Adopt simple procedures to move arrears that are not recoverable to inactive status.
	• Monitor collection activity and payment plans to ensure the terms are being adhered to.
	• Adjust the collection plan based on results and considering the current level of arrears.

III. IMPLEMENTATION CONSIDERATIONS

As the administration develops its tailored RCAP, it is important to consider a number of practical issues relating to the launch of the RCAP, including resource requirements, governance, and communication of the plan.

Workloads and Resources

- ✓ Given the financial impact of COVID-19, the number and value of cases in arrears could increase significantly. There may also be a backlog of workloads, including registrations, return filings, and payment processing as a result of administrations being closed or having reduced operations during the pandemic. Additional resources may temporarily be required to manage workloads. These staff can be reallocated from lower-priority work until the backlogs have been addressed. In managing these workloads, administrations should prioritize the work according to the principles discussed in this note to ensure staff are working on the highest-priority workloads.
- ✓ Calculating the resources needed to implement the RCAP starts with identifying the current workforce complement of each function. An estimation of the incremental workload related to the actions noted in the RCAP will allow senior management to calculate the number of additional staff to be placed in each function. This can be done by estimating the increase in workload for each function and then using that percentage to multiply by existing resources to determine the additional resources needed. As each tax administration is different in its allocation of resources among workloads, this calculation will be an estimate and the resource levels can be adjusted as the administration implements the RCAP and as actual workloads are better understood.
- ✓ In all cases, administrations should assess the cost/benefit of any action being considered. This means evaluating the administration's cost of undertaking an action (staff time, other administration costs, and compliance costs for taxpayers) compared to the potential revenue that will be collected as a result of the action. Priority for more intensive efforts should be given to collecting larger amounts of revenue. One-to-many approaches, such as electronic reminders, are better options to manage small revenue amounts.

Governance

- ✓ The Recovery Coordination Team (RCT) membership should include the heads of the functional areas, including taxpayer service, registration, filing, audit, and payment compliance. Initially meetings should be held regularly as the RCAP is developed and implementation begins. Meetings can then be monthly to assess progress in achieving the revenue collection goals and to adjust the action plan as needed.
- ✓ Each functional head should be responsible for developing an action plan for their area of responsibility based on the principles in this note and the consolidated plan should be approved by the RCT.
- ✓ It will be important to track revenue collection from the various functions to evaluate the success of the workplan. Reporting of results by the functions should be done weekly in the beginning to allow adjustments to the action plan based on results. As the administration addresses workload backlogs and revenue flows begin to increase, the frequency of reporting can be adjusted.

Communication

- ✓ The plan should be communicated internally and externally. Staff need to know how the administration plans to generate revenue postcrisis and how they may be called on to change jobs temporarily to support the effort. Externally, advising taxpayers of how the administration will make efforts to bring compliance levels back to precrisis levels demonstrates transparency and supports voluntary compliance.
- ✓ The administration should promote the tax administration's willingness to work with and support taxpayers who cannot afford to pay as a means of preventing further noncompliance. Some taxpayers tend to not file if they cannot pay, which creates a pattern that is difficult to break.

IV. MOVING FORWARD

Implementing the action plan should have an immediate positive tax revenue impact. It is important to keep in mind that due to the impact of COVID-19, many businesses may have losses for some time that legitimately result in reduced revenue collection for government.

When considering the return to more normalized operations, an opportunity exists to improve the efficiency of tax administration operations on a permanent basis. As an example, the pandemic has hastened the implementation of electronic solutions that minimize in-person contact, which lowers the cost of compliance for taxpayers and facilitates voluntary compliance. Electronic solutions are also often less expensive for the administration in the long term and preferred by many taxpayers. Where these solutions have been effective, along with any other new processes identified through the pandemic period, the tax administration should incorporate these into how they operate on a go-forward basis as these could represent important efficiency measures that will generate more revenue for government.

As the crisis moderates and the revenues are stabilizing, an evaluation of actions taken during the pandemic and in the postcrisis revenue generation phase should be undertaken and decisions made regarding which new processes and systems capability should form part of regular operations. As part of this review, administrations should also develop or update their Business Continuity Plans[5] to ensure plans are in place in case of a future event that could disrupt business operations.

During this evaluation of what worked well during the pandemic and considering how to operate differently, administrations need to capitalize on opportunities to leverage data, including third-party data and by using compliance risk management principles to systemically shift the administration's focus and attention to a risk-based approach. This will improve revenue outcomes by dedicating resources to the areas of highest relative compliance risk, and will allow emerging risk issues, including of future crises, to be addressed more easily through well-established principles and processes.

IMF Fiscal Affairs Department revenue administration assistance can provide advice specific to a particular country's situation.

[5] See IMF Technical Note "Tax Administration: Designing a Business Continuity Plan for an Epidemic" https://www.imf.org/en/Publications/TNM/Issues/2020/11/10/Tax-Administration-Designing-a-Business-Continuity-Plan-for-an-Epidemic-49838.