



Topical issues in VAT administration

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Compliance management
Refunds and credits
Fraud management
Digital business model
Customs tax cooperation

Evolution of VAT compliance management

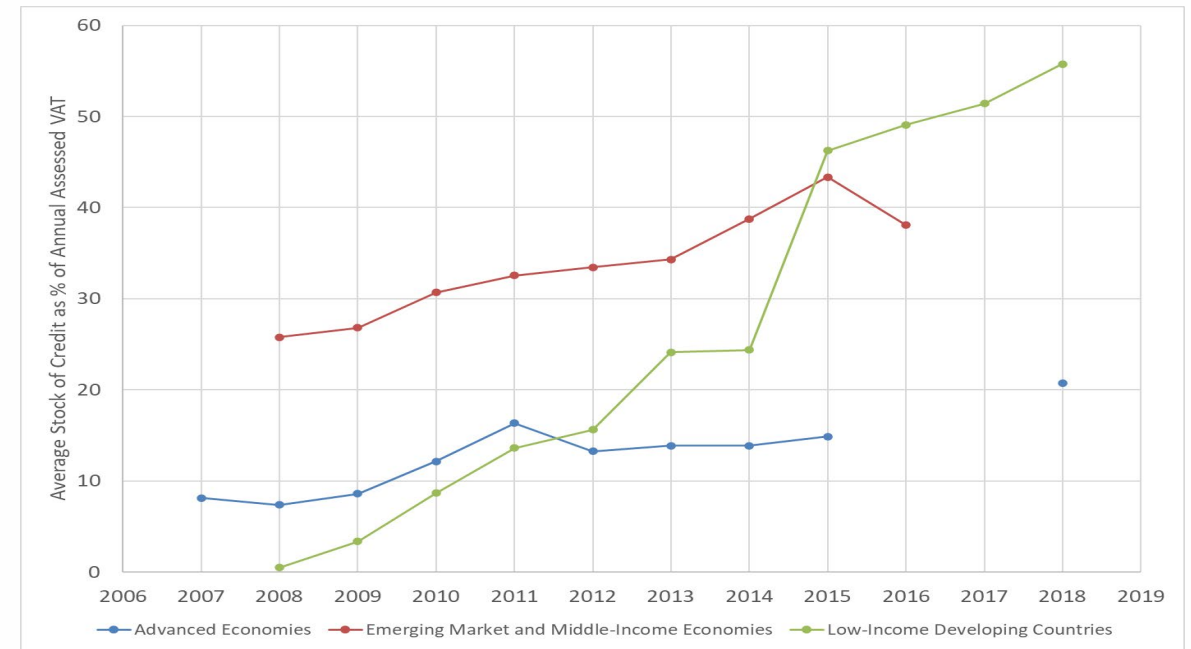
Theme	1999	2024
Philosophy	Audits (enforced compliance)	Enforced and voluntary compliance
Leadership	Focus technical proficiency in audits.	Compliance outcomes and innovation
Policy	Numerous exemptions and rates	Fewer exemptions and different rates
Risk	Audit case selection using historical data	Tailored and proactive using real time data
Performance	Monitoring audit coverage and revenue	Outcomes & sophisticated gap assessments.
Technology	Electronic register, paper forms and data matching	E-invoices, e-filing, e-payment. Analytics and machine learning. Emerging AI
Services	Filing instructions, taxpayer self-interpretation	Online guides & assistance, pre-filled returns
Insights	Either compliant or non-compliant	Understand and influence taxpayer behavior
Penalties	Ad hoc, fixed, maybe counter-productive	Codified, and reflect culpability
International	Limited cooperation comparing techniques	Enhanced cross border cooperation in Customs

Refunds and credits

VAT: excess credits and refunds – exposure is increasing

- Government exposure to excess VAT credits is increasing.
 - ▶ affects debt level
 - ▶ accuracy of accounts
 - ▶ liquidity
 - ▶ trust in the state
- Excess VAT credits can be legitimate or reflect design weakness
- Good practice for excess credits:
 - ▶ Prompt refund
 - ▶ Carry forward and offset future VAT liabilities
 - ▶ Offset against other tax liabilities

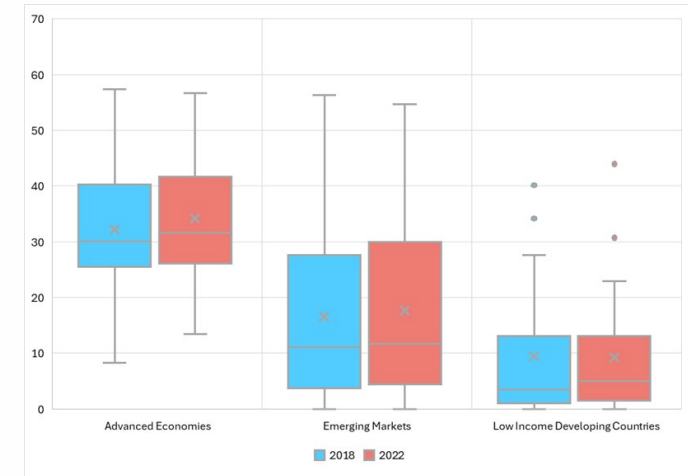
Increasing accumulation of excess VAT credits (selected countries by income level)



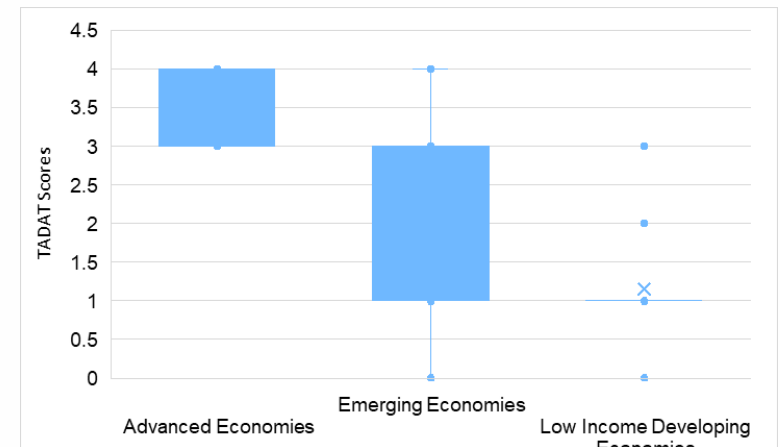
VAT credits and refunds

- ISORA data – International Survey on Revenue Administration www.isora.org
 - ▶ Advanced economies: refunds average 32% of gross VAT
 - ▶ Low-income countries: refunds average 5%
- TADAT results 2015-2024: VAT refund systems fail to meet international standards in 67 percent of the countries assessed
 - ▶ [Tax Administration Diagnostic Assessment Tool - www.TADAT.org](http://www.TADAT.org) Performance outcome area 8.
- Failing to pay genuine refunds promptly undermines the VAT system credibility
 - ▶ Fast-track treatment to lower-risk claimants (e.g., regular exporters with a sound compliance history),
 - ▶ Document-based reviews for medium-risk claimants
 - ▶ Audits for higher-risk claimants.

VAT refunds to gross VAT revenue, percentage



Adequacy of the VAT refund system (median and inter-quartile range)

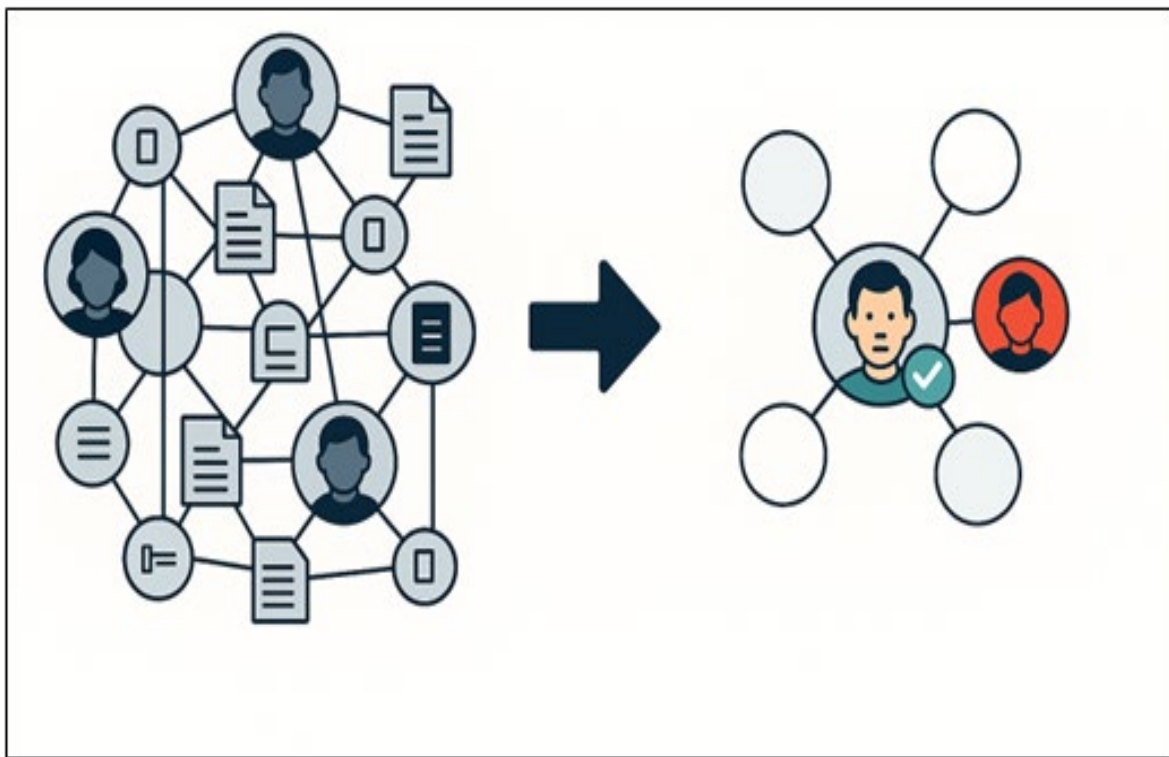


VAT: excess credits and refunds – exposure is increasing

- Low-capacity tax administrations:
 - ▶ wait until a refund is claimed to verify the accuracy
 - ▶ manually monitor output and input reconciliations – often inaccurate
 - ▶ increasing use of e-invoicing
- Advanced administrations
 - ▶ monitor trends and predict behavior
 - ▶ using technology to automatically reconcile output and input VAT giving a 360-degree view excess credits
- Large-scale third-party data matching helps identify discrepancies and inconsistencies in self-assessed VAT credits.

Fraud Management

VAT Fraud - Detection and Mitigation Strategies



Identity Resolution Software supports detection of VAT fraud.

- 2018: estimated loss in Europe about 5.7% of total VAT revenues.

- Robust detection methods needed:
 - Anomaly detection identifies unusual transaction patterns
 - Comparative analysis evaluates business performance against industry norms
 - Identity resolution software detects patterns in fraudulent schemes often by organized groups (clear link to registration database).
- Entity examination is prioritized over individual declaration scrutiny, allowing a more holistic assessment of potential fraud risk
- Mitigation strategies:
 - dedicated personnel focusing on fraud prevention
 - risk-based audits targeting high-risk areas
 - balancing timely refunds with risk ranking
 - raising public awareness about VAT laws and the consequences of fraudulent behavior.

Digital Business Model

VAT Digital Business Model – Key Benefits

06 - Risk-Based Compliance Management

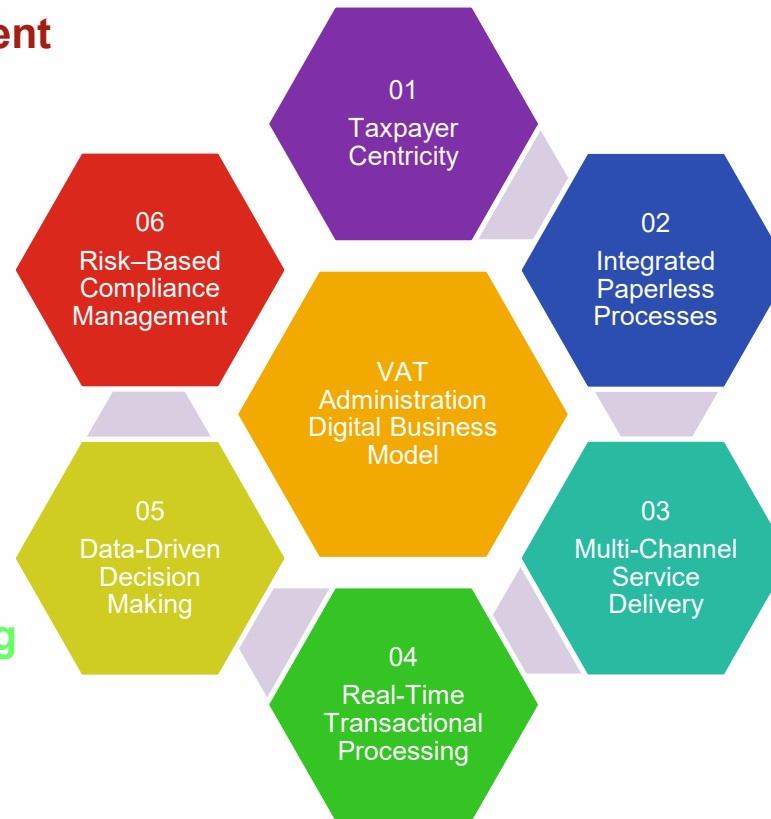
- Gap identification
- Taxpayer differentiation for better resource allocation and compliance strategies
- Targeted compliance interventions
- Reduced risk to revenue and increase reputational risk and trust to tax system

05 - Data-Driven Decision Making

- Informed strategy development
- Improved resource allocation
- Informed decision making
- Adaptive policy

04 - Real-Time Transactional Processing

- Immediate data processing and validation
- Reduced manual intervention
- Event-driven processing
- Robust data protection
- Early fraud detection
- Cross-border tax cooperation



01 - Taxpayer Centricity

- Enhanced data accuracy
- Improved taxpayer experience
- Efficient compliance management

02 - Paperless Fully Automated and Integrated Processes

- Reduced environmental impact
- Long-term resilience
- Cost efficiency
- Seamless integration
- Invisible services
- Simplified compliance
- Standardization

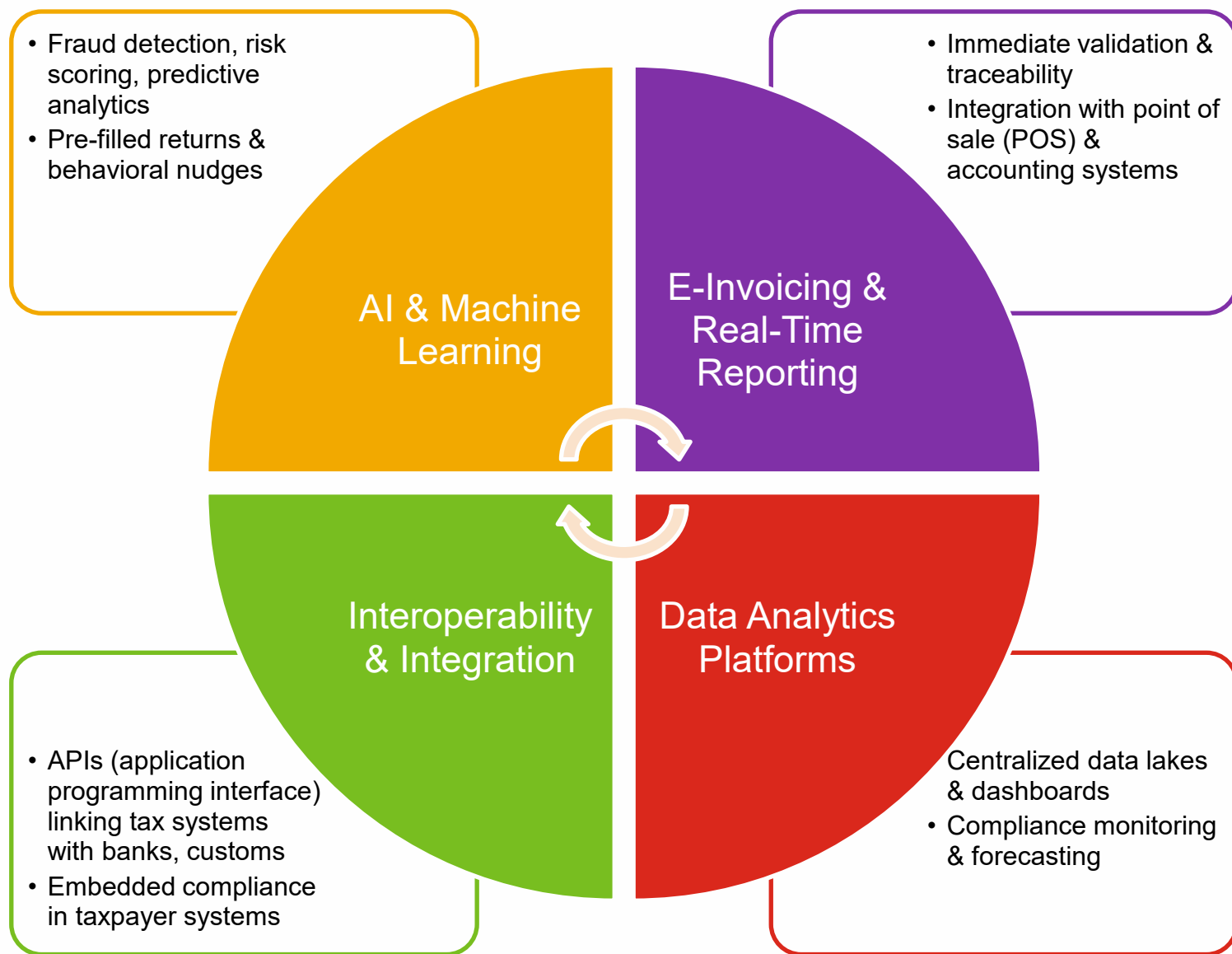
03 - Multi-Channel Service Delivery

- Convenience
- Personalized Services
- Increased Accessibility
- Enhanced Interoperability
- Transparency
- Trust

These principles collectively aim to modernize VAT administrations, making them more efficient, responsive, and effective in their operations. By embracing digital transformation, tax administrations can achieve optimal tax collection, enhance taxpayer satisfaction, and foster voluntary compliance.

Digital Tools Driving VAT Efficiency & Compliance

Modern VAT administration emphasizes a sophisticated, digital-first approach aimed at enhancing efficiency, taxpayer satisfaction, and compliance

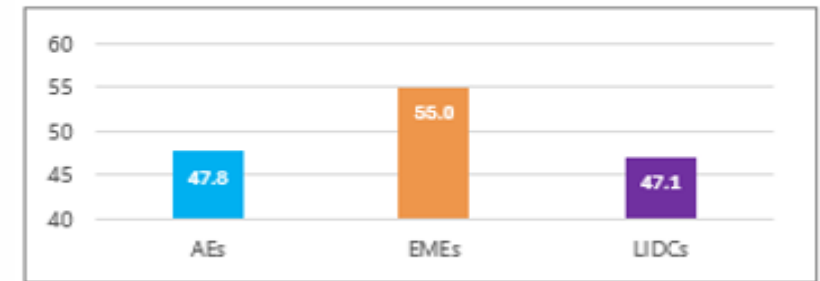


Customs Tax Cooperation

Customs: an important collector of VAT

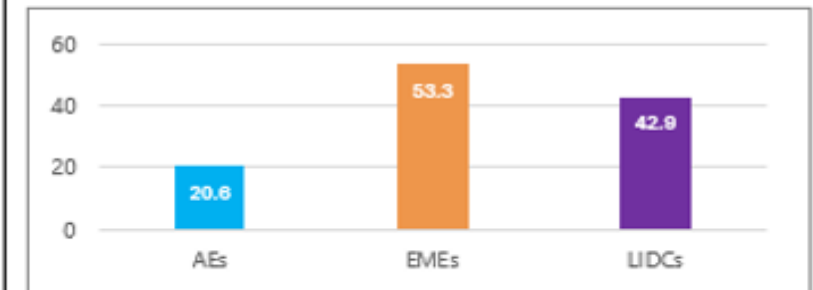
- Collects around 37% of total revenue (3-6% of GDP)
- Remains operational in fragile states and pandemics
- Tax & Customs cooperation is important
 - alignment between taxpayer/trader identification numbers, industry codes and commodity classifications
 - timely and efficient electronic cross-validation between customs declarations and basic tax reporting
 - complementary strategies to monitor and control exemptions and special regimes, imports and exports in risk industries
 - coordinated VAT and excise compliance programs

VAT Collected on Imports (Percent of Total Customs Revenue)



Source: IMF staff calculation (Pérez Azcárraga and others 2022).

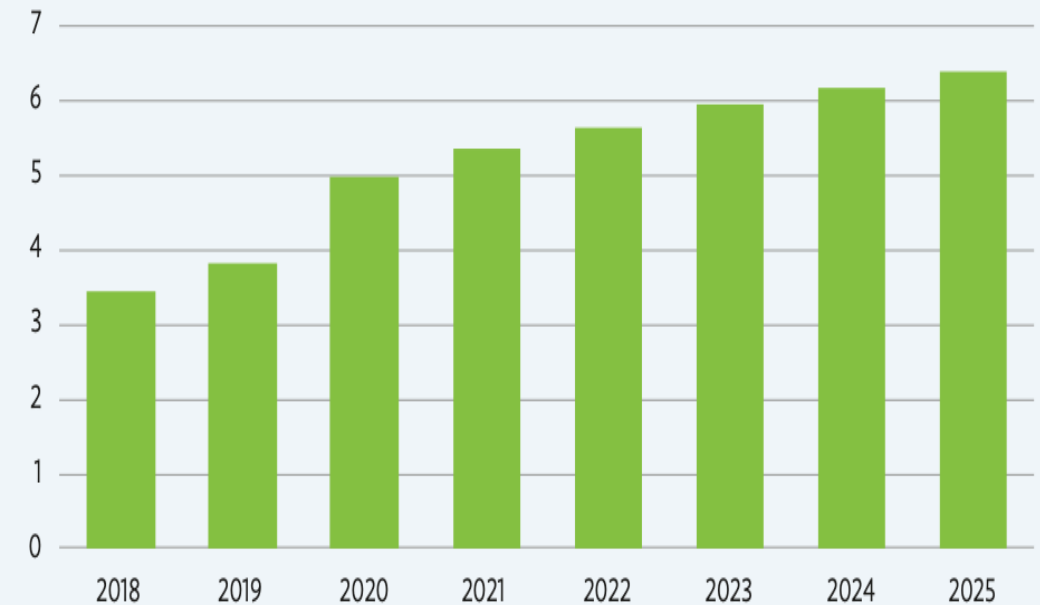
VAT Collected on Imports (Percent of Total VAT)



Customs and e-Commerce Challenges

- rapid increase in shipment volumes
- complexities of valuing and classifying goods
- increasing low-value, high-frequency shipments complicates compliance enforcement and increases the risk of fraud and misdeclaration
- lack of technology and infrastructure to manage the challenges
- inconsistencies in international regulations can hinder effective cooperation.

Figure 1.1: Global Retail E-commerce Sales
(% GDP)



GDP = gross domestic product

Source: ADB calculations using data from Statista. Key Figures of E-Commerce. <https://www.statista.com/statistics/379046/worldwide-retail-e-commerce-sales/>; and International Monetary Fund. World Economic Outlook Database. <https://www.imf.org/en/Publications/WEO/weo-database/2021/October> (both accessed 1 June 2022).

Tax and customs co-operation between is important

- Large, high-volume traders are typically large, high-value taxpayers
- Their customs' risk profile likely mirrors their tax risk profile:
- To manage compliance:
 - ◆ establish coordinated objectives & initiatives
 - ◆ support data matching (align taxpayer/trader identification numbers, industry and commodity classifications)
 - ◆ electronic cross-validation between customs declarations and basic tax obligations
 - ◆ complementary strategies to monitor and control exemptions and special regimes
 - ◆ coordinated VAT and excise management and compliance programs
 - ◆ complementary strategies to monitor and control imports and exports within certain industries, e.g. extractives, cross-border-low-value-supplies, exporters

Questions and open discussion

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