TECHNICAL ASSISTANCE REPORT

REPUBLIC OF MOLDOVA

Strengthening Tax Compliance Management: Insights from Risk Analysis, Management Information Reporting, and Tax Gap Evaluation

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Abbreviations and Acronyms

AI	Artificial Intelligence
CGD	Compliance General Department
CIP	Compliance Improvement Plan
CIT	Corporate Income Tax
CITF	Center for Information Technologies in Finance
CRM	Compliance Risk Management
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
ISORA	International Survey of Revenue Administrations
LTO	Large Taxpayer Office
MDL	Moldovan lei
MOF	Ministry of Finance
OECD	Organization for Economic Cooperation and Development
PAYE	Pay-As-You-Earn
PIT	Personal Income Tax
RDF	Risk Differentiation Framework
STS	State Tax Service
TADAT	Tax Administration Diagnostic Assessment Tool
TC	Tax Code
VAT	Value-Added Tax

Preface

In response to a request for capacity development (CD) by Ms. Olga Golban, Director of the STS, an International Monetary Fund (IMF) Fiscal Affairs Department (FAD) team conducted a mission during the period December 1 - 12, 2025. The mission reviewed STS reform progress supported developing an STS-wide compliance program and assisted in developing analytical capacity in STS. The mission also proposed the development of longer-term reform strategies for revenue administration.

The mission team was led by Mr. Enriko Aav (FAD) and comprised Messrs. Soren Pedersen and Shan Zong (both FAD), and Mss. Telita Snyckers and Susan Betts (both FAD fiscal experts).

The mission team met Mr. Andrian Gavriliță, Minister of Finance, and Ms. Olga Golban, Director of STS.

During the mission, valuable meetings were held with Messrs. Petru Griciuc, Sergiu Chircu, Iuri Lichii, Sergiu Arhirii, Deputy Directors, Mr. Marcel Procopan, Deputy Chief Tax Audit General Department, Ms. Tatiana Botaniuc-Grosu, Head of Department, Organization and Monitoring of Policy Implementation Department, Ms. Lucia Potereanu, Head of Department, Compliance General Department, representatives from the analytical department.

A coordination meeting was held with representatives of development partners - the US Treasury OTA, the Swedish tax administration, and the EU.

The mission team expresses sincere appreciation for the excellent cooperation that it received from the authorities throughout its assignment. We would like to particularly acknowledge the contribution made by Ms. Irina Lupasco to the effective organization and smooth functioning of the mission.

Appreciation is also expressed to the IMF resident representative, Ms. Svetlana Cerovic and her office for support provided.

The report consists of an Executive Summary and the following five sections: (I) Introduction; II) Application of the CRM Approach; III) Management Information and Governance; IV) Building Analytical Capability; and (V) Capacity Development Support.

Executive Summary

The State Tax Service (STS) has made good progress in implementing Compliance Risk Management (CRM) and in calculating and updating its VAT gap analysis. Efforts are also progressing on modernizing the tax audit function to align with good practices.

The STS should consider developing its end state vision for a modern tax administration and implementing a more holistic approach to reform. A commitment has been made to implement an automated risk assessment system by 2027 as part of Moldova's path to EU accession. As CRM methodologies become more mature and automation occurs, the impacts to the way the STS operates will be widespread. This presents an opportunity to take a more strategic approach to managing the reforms, with a view to achieving the end state vision more quickly.

To prepare for the upcoming automation, the STS should prioritize enhancing its CRM practices and strengthening data management approaches. These are critical building blocks for a modernized tax administration and can be advanced in the short term.

Incremental improvements to the CRM process can be made. These include ensuring all workloads are risk assessed that the CRM process is strictly followed, starting with the identification of risks, and the existing risk indicators are improved. Until automation of the risk assessment process is achieved, the full benefits of CRM will not be realized. Capacity development of CRM staff will also be necessary to maximize the impact.

The audit reforms call for a compliance strategy to be developed, outlining the STS' approach to managing compliance using differentiated treatment strategies based on the nature of the risks. A sample strategy was developed during the visit, which can be tailored to the STS' circumstances. The mission recommends that this strategy, once finalized, would be publicized for transparency purposes and that it could replace the current legislative requirement that publicizes the names of taxpayers to be audited the following year. The latter practice goes against good practice in tax administration and should be discontinued.

Barriers to fully implementing the risk-based approach were identified and should be addressed. These include audit time devoted to non-tax functions, such as price controls of socially important goods and in other areas. There is also uncertainty around whether the Tax Code (TC) prevents a risk-based approach to tax audits, which promotes only reviewing issues that may represent compliance risk.

An indicative reporting dashboard was introduced that officials could use to support their decision making around efficiency and effectiveness. While significant amounts of performance data are available, a set of comprehensive indicators is required to provide management with the necessary information to make well-informed decisions.

The VAT compliance gap estimation process was completed for 2024, and highlighted a gap of 21.2 percent, up from 19.2 percent in 2023. Data preparation was discussed to prepare for the next gap estimation process, which will focus on either corporate income tax or employer withholdings. The mission recommends employer withholdings given the STS reports significant non-compliance associated with this important revenue stream.

Successful implementation of recommendations would benefit from CD support. The STS and MoF should communicate their interest in further CD support in priority areas and commitment to the more comprehensive reform that FAD CD could support to implement in coordination with other development partners.

Recommendations

CRM Processes and Methodology		
2.1	Adjust and implement STS's CRM methodologies to: ▪ reconsider turnover as an audit selection criterion, ▪ determine workloads based on risks rather than resources available, ▪ conduct an environmental scan annually, ▪ ensure that all workloads are risk-assessed, ▪ eliminate the concept of planned/unplanned audits, ▪ streamline the process for developing the compliance and audit plans, ▪ reconsider the four-year audit period, ▪ develop a Compliance Improvement Plan (CIP) for the wages in envelopes , and ▪ review and update the existing risk indicators.	December 2026
Barriers to Risk-Based Approach		
2.2	Evaluate whether a legislation change is required to implement the risk-based audit approach.	April 2026
2.3	Evaluate options to reduce or eliminate time dedicated to non-tax functions.	September 2026
Tax Audit		
2.4	Develop a draft of the STS compliance strategy.	July 2026
2.5	Publish the compliance strategy.	November 2026
2.6	Discontinue practice of publishing names of taxpayers to be audited.	December 2026
Management Information and Governance		
3.1	Adopt a management information dashboard for visual reporting; Adjust the data in the dashboard as new analysis becomes available.	March 2026
3.2	Use the dashboard to drive critical executive management conversations around impact, efficiency and effectiveness.	April 2026
3.3	Begin work on a broader modernization roadmap and blueprint.	June 2026
3.4	Develop a vision of a future state for a modernized tax administration.	October 2026
3.5	In the interim, as part of preparing for the automated CRM system, start work on data management and CRM as building blocks for the future state.	July 2026
Building Analytical Capacity		
4.1	In consultation with FAD, decide the scope of further FAD assistance to STS on tax compliance gap estimation.	March 2026

I. Introduction

1. **As the STS continues to strengthen its approach to managing compliance in preparation for European Union (EU) accession, some key priorities emerge.** This report presents a consolidated review of the tax administration's key pillars for strengthening tax compliance outcomes: Compliance Risk Management (CRM), the management information and reporting systems that support effective CRM decision-making, and the governance structures that ensure accountability and strategic alignment. It also examines current capabilities and future needs in calculating the VAT tax compliance gap—an essential diagnostic tool for understanding non-compliance patterns and prioritizing interventions. By bringing these elements together, the report highlights how a mature CRM framework, underpinned by robust data, sound governance, and strengthened analytical capacity, enables the administration to better identify risks, deploy the right mix of interventions, and ultimately improve voluntary compliance and revenue performance.

II. Application of Compliance Risk Management Approach

2. CRM is a core discipline underpinning modern tax administration, alongside sound governance, effective performance management, and strong data and analytical capabilities. It enables authorities to systematically identify, assess, and treat the risks that threaten revenue collection and the integrity of the tax system**.** By shifting from reactive enforcement to a strategic, evidence-based approach, CRM helps tax administrations allocate resources where they will have the greatest impact, apply the right interventions to different taxpayer behaviors, and promote voluntary compliance. It supports fairness by ensuring that compliant taxpayers are not disadvantaged, and it strengthens trust by making the administration's actions transparent, proportionate, and targeted. Ultimately, effective CRM enhances revenue, improves service delivery, and contributes to a more resilient credible tax system and predictable business environment.

A. Recent Developments in Compliance Risk Management and Tax Audit

CRM

3. Officials have made good progress in implementing risk-based approaches in the STS given their system constraints. Risk assessment is conducted using Excel spreadsheets, which is cumbersome and time consuming. The data is held by the Center for Information Technologies in Finance (CITF[1]), which makes timely analysis difficult. The current mission represents an opportune time to evaluate the status of CRM implementation and refocus efforts as required.

4. The STS has the Compliance General Department (CGD), whose responsibility is to assess risks, determine treatments, and evaluate performance. The department comprises five divisions with a staff budget of 47 employees. Currently there are 35 staff in the CGD.

Audit

5. Following a diagnostic of the audit program, an action plan has been developed to bring STS approaches in line with international good practice. The diagnostic identified gaps in good practice and officials are implementing the recommendations through detailed action plans.

6. An introduction to the risk-based audit approach and its critical role in the overall CRM approach to managing compliance was presented during the workshops with officials. This approach to managing compliance incorporates not only the identification of the most serious risks to the tax base, but selecting the right treatment, and conducting audits of those who are deliberately non-compliant. This combination of selecting the highest relative risks, in addition to a quality risk-based audit will provide the best results in terms of ensuring taxpayers pay the correct amount of tax.

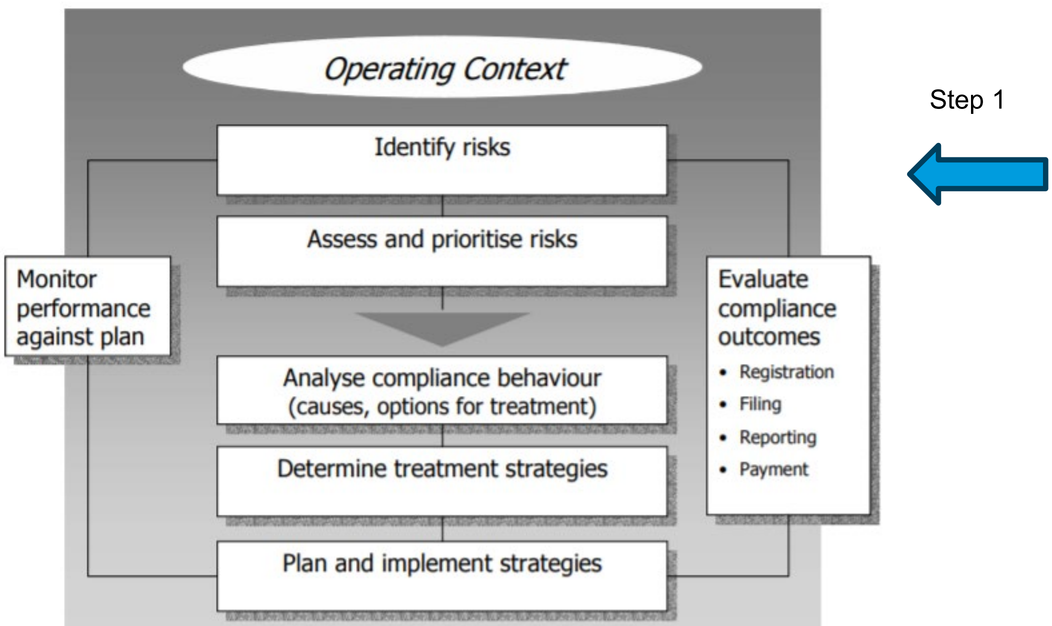
[1] CITF maintains the Information and Communication Technology systems for the Moldova Ministry of Finance and its subordinated administrative bodies. It holds financial data related to the STS's tax administration activities.

B. Evaluation of Current Compliance Risk Management Practices

Workshop Approach

7. **A workshop approach was used to reinforce good practices related to CRM, and to discuss the STS' current practices**. The CRM framework[2] was introduced and emphasis placed on how CRM affects the entire organization as it drives the operational activities of the administration. To highlight the practical application of CRM, the Organisation for Economic Cooperation and Development (OECD) CRM process was discussed. See Figure 1. for a diagram of the steps in the CRM process. CRM is a systematic, repeatable process that requires discipline in following the step-by-step process for all activities related to managing compliance. Discussions focused on how the STS undertakes each step in the process. Where potential gaps were identified, suggestions were offered on how to address the gaps. The next section of the report will describe the gaps identified in the STS's CRM processes and methodologies.

Figure 1. Compliance Risk Management Process, OECD



Source: OECD.

CRM Processes and Methodology

8. **The STS should reconsider its use of turnover as a secondary audit selection criterion.** The STS uses the Risk Differentiation Framework (RDF) to determine treatments for the large taxpayer population. The current definition of the large taxpayer segment includes 550 taxpayers, with turnover between 15B MDL and 16M MDL. Taxpayers are placed in quadrant 1 (high risk) of the RDF based on

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[2] See CRM: Overarching Framework to Drive Revenue Performance, Technical Note 2022, IMF https://www.imf.org/en/publications/tnm/issues/2022/08/26/revenue-administration-compliance-risk-management-overarching-framework-to-drive-revenue-520479

their risk score, followed by turnover criteria which is applied to determine who will be audited. Given the taxpayers have already been segmented based on turnover to be included in the large taxpayer population, applying the turnover criteria again after the risk assessment process has determined a risk rating is unnecessary and overrides the risk scoring process. This secondary prioritization should be discontinued.

9. Workload determination for compliance activities and audits should commence with the identification of risks rather than available resources. The CRM process must be systematically applied, beginning with risk assessment, which informs the selection of appropriate treatment activities to address identified risks. Subsequently, resource requirements are established based on the scope and nature of these treatments. Allocating resources prior to conducting a risk analysis is inconsistent with CRM principles. Given that risk profiles may vary annually, resource distribution between compliance activities and audits may need adjustment each year accordingly.

10. The STS should supplement its current CRM process by conducting an annual environmental scan to identify new or emerging risks. Good CRM relies on an ongoing environmental scan to identify potential compliance risks. If the economic and social environment changes, it could impact compliance. The legislative framework within which the tax administration operates can also impact taxpayer compliance. Certain provisions of the law could be prone to abuse, and these provisions should be identified and monitored to ensure taxpayers are complying. Some examples of legislative provisions which could be prone to abuse include tax concessions, VAT registration thresholds, simplified tax regime, and reduced tax rates for IT parks.

11. All workloads conducted by the compliance and audit departments should be risk-based. Only 30 percent of audits are planned and itemized in the annual audit plan. The remaining 70 percent consist of personal income tax refund audits, VAT refund audits, and insolvency audits. Regardless of the source of the workload, effective CRM requires that all potential workloads be processed through the CRM process to allow management to make informed decisions on the most serious risks to be treated, as well as the necessary resources to be applied to each risk.

12. The STS should eliminate the concept of planned/unplanned audits. Unplanned audits consist of refund claims, insolvencies, and referrals from other government departments. Using audits to pursue objectives beyond their intended purpose—such as deterring taxpayers from requesting refunds—is considered poor practice. In a risk-based environment, all potential workloads should be risk assessed and only those cases representing the highest relative risk should be audited. Lower risk cases may be subject to other treatments. Where all workloads are risk assessed, there is no need to differentiate between planned and unplanned as the key criteria is that the workload has been risk assessed. As shown in the CRM Framework (Figure 2), the selected treatments in each Compliance Improvement Plan (CIP) are then operationalized into workplans for the regional offices.

Figure 2. Compliance Risk Management Framework

Source: IMF

13. The process for developing the workload for the following year should be streamlined. The current process is fragmented as the compliance plan is developed in isolation in June/July, while the audit plan is developed later in the year. There should be one planning process that results in a consolidated compliance and audit plan. The mission highlighted the cyclical process of CRM during the workshops and suggested a possible timeline for developing the operational plans. See Annex 1 for further details.

14. The current four-year audit policy should be reconsidered. The legislation allows for a four-year statute-barred period. The purpose of this provision is to provide certainty to taxpayers that after this timeframe, the tax administration no longer has the right to adjust their returns, with certain exceptions. This provides certainty to the taxpayer that his/her tax obligations have been finalized. The STS has chosen to use this same period as their audit period. Article 214(4) of the Tax Code (TC) indicates that a taxpayer can be "subject to a fiscal control for a period not exceeding the limitation period established in Article 264" which refers to the statute-barred period. For every taxpayer audited, the review covers all four years that are not statute-barred. The mission recommends that the STS review the results of a sample of audits to determine when the additional tax assessed occurs. Good practice suggests that the audit period be no longer than two years, unless potential fraud is found. A four-year audit period is likely inefficient, particularly given the requirement that all income and expenses be reviewed. Many administrations suggest that the audit of two years is completed using risk-based approaches, and that if major adjustments are found and an earlier year is audited, then the scope of audit would be restricted to only those areas of material risk. This approach avoids time being dedicated to auditing transactions with minimal or no risk.

15. **A CIP should be developed to reinforce the CRM process**. The STS has no formal CIPs in operation currently. After workshop discussions, officials noted that they do address most if not all of the elements contained in a CIP, but they do so in a fragmented way. The process of analysis, obtaining approvals and moving to the next step occur throughout the year, with approvals being obtained at each stage in the process. Officials agreed that there was value in having all the information in a single document that would outline the risk, determine the treatments, evaluate the results of the treatments and provide feedback to the CRM process. It was agreed that the wages in envelopes[3] issue would be a good issue for CIP development, given the STS's concern that this is a high-risk issue. Once that CIP is completed, a CIP should be developed for each priority risk.

16. **Risk Indicators would benefit from a detailed review and enhancement.** There are nine categories of risks: (i) general risks; (ii) income tax risks; (iii) income tax at source risks; (iv) VAT risks; (v) specific risks; (vi) VAT refund risks; (vii) Large Taxpayer Individuals; (viii) high income individuals; and (ix) Natural Persons. Categories I through V have risk indicators for both large taxpayers and other taxpayers. Across the nine categories, there are approximately 119 risk indicators in place, and each risk is assigned a score between 0 (no risk) and five (high risk). The last update to the risk indicators was completed in 2024.

17. **Some indicators are not likely to result in identifying the highest risks of non-compliance.** There is an indicator associated with the time since the last audit, and a risk score being allocated if there has been no audit in recent history. Another indicator relates to how long the business has been in operation, with a score of 5 being attributed to a business with less than 12 months in existence. While it is acknowledged that these are part of an overall assessment, assigning risk scores for these types of criteria likely does not align with serious compliance risk and may result in a taxpayer being selected for audit unnecessarily. It would be timely to undertake a review of the risk indicators, keeping in mind the serious risks that have been approved for treatment. Consideration will also need to be given to whether the data is available to identify the risk.

18. **Some possible risk indicators were discussed, although a deeper analysis is necessary to determine if the STS has access to the necessary data to populate the risk indicator.** Some possible indicators for large taxpayers as well as the entire population are outlined in Annex 3. For large taxpayers there is a concerted focus on understanding the taxpayer's business as a means of identifying compliance risks. Consideration will need to be given to whether the STS has the available data to populate these risk indicators. The STS may benefit from assistance in undertaking this review.

Recommendations

- The STS should adjust its CRM methodologies by December 2026 to:
  - reconsider turnover as an audit selection method,
  - determine workloads based on risks rather than resources available,
  - conduct an environmental scan annually,
  - ensure that all workloads are risk-assessed,

[3] The wages in envelopes issue relates to a practice in Moldova where employers pay staff the minimum legislated salary and supplement each employee's pay with "cash in an envelope'. This portion of the pay does not attract salary withholdings and therefore does not result in tax for the government.

- eliminate the concept of planned/unplanned audits,
- streamline the process for developing the compliance and audit plans,
- reconsider the four-year audit period,
- develop a CIP for the wages in envelopes compliance risk, and
- review and update the existing risk indicators.

Barriers to Risk-Based Approach

19. Officials report that the TC does not allow them to use a risk-based approach when auditing. The wording of the legislation leaves some uncertainty regarding whether the STS does have the authority to use the risk-based approach in their audits. There are general provisions in Article 215 of the TC that provide for a review of “certain period or several fiscal periods”. The specific provision related to comprehensive audits in Article 219 states “The total verification is applied in the case of on-site fiscal control on all acts and operations for determining the taxable objects (base) and for extinguishing fiscal obligations in the period after the last fiscal control.” It would be advisable for the STS to consult internally, and with the Ministry of Finance (MOF) if necessary to ascertain the correct interpretation of these provisions and its impact on the risk-based audit approach. If it is determined that a legislation change would be necessary, the STS should begin discussions with MOF with a view to submitting a proposal for a law change to allow the audit to focus on material compliance risks rather than all income and expenses.

20. Non-tax functions occupy a significant portion of available audit time. Activities related to verifying price controls in socially important goods, rent, vineyards, among others take available time away from the tax audit function, which negatively impacts revenue results. An evaluation should be done to quantify the time for these activities. This will allow a calculation of the opportunity cost of dedicating resources to these non-tax functions compared to risk-based tax audit work. The STS should consider options to minimize or eliminate this workload.

21. The STS is reliant on CITF to obtain data. Not having access to the data needed to undertake CRM is a barrier to efficiency. An EU program commitment calls for an automated risk management system to be operational by 2027. In the meantime, officials are using the existing tools as efficiently as possible.

Recommendations

- Evaluate whether a legislation change is required to implement the risk-based audit approach, by April 2026.
- Evaluate options to reduce or eliminate time dedicated to non-tax functions by September 2026.

C. Tax Audit

22. Work continues on implementing the tax audit reform plan. Two of the initiatives in the audit reform plan were addressed during the current mission; namely, taxpayer segmentation and developing a compliance strategy. Both are discussed below.

23. A review of how the STS segments its taxpayer base is underway. Officials are working on analyzing taxpayer population data using various scenarios to determine if the current segments remain appropriate or should be adjusted. Currently, there are two taxpayer segments – large taxpayers and the remainder of the population. The STS is awaiting data from the CITF before analysis can begin.

24. Given the importance of taxpayer segmentation for CRM, it is critical that this work advance as quicky as possible. The analysis of risks often centers around taxpayer segments as similar-type businesses are grouped together, allowing variations in filing patterns to be discovered. These variations could represent compliance risk. The STS's work on segmentation should improve the process for identifying compliance risks, resulting in higher-risk files being selected for audit.

25. A related, but separate issue, is how the STS organizes itself to manage the various taxpayer segments. Importantly, the ongoing advice advocates that the STS have a single Large Taxpayer Office (LTO) to manage this important taxpayer population. The STS does not consider that a single LTO is necessary. Further discussions are warranted to resolve this difference in approach. The benefits of a single LTO have been discussed, and include:

- Better revenue protection as large taxpayers represent a high proportion of the tax collected.
- Better CRM as it allows dedicated risk assessment for large corporate groups.
- Higher quality audits and technical decisions, as auditors can become specialized in various topics that are representative in the large taxpayer segment.
- Improved taxpayer service through faster rulings and interpretations and certainty on how transactions will be interpreted by the STS.
- More efficient use of resources as it avoids duplication across the regional offices.
- Stronger governance and integrity controls as sensitive cases can be managed closely.
- Better management information and identification of risk trends which can feed into future compliance strategies and policy development.

26. The audit action plan includes an initiative to develop a compliance strategy to outline the STS' approach to managing compliance. Discussions were held during the workshop on potential content for the compliance strategy. This strategy will align with the overall STS strategy and provide the context within which the individual compliance improvement plans will be developed. Box 1 outlines the recommended outline for the compliance strategy. Annex 3 contains a draft compliance strategy, which the STS can use as a starting point to develop a strategy tailored to the risk-based approach in Moldova.

Box 1. Suggested Topics to be Included in the Compliance Strategy

- Strategic Objectives
- Core Principles
- Scope of Compliance Obligations
- Compliance Spectrum and Interventions
- Education: Building Capacity and Awareness
- Facilitated Compliance: Making it Easy to Comply
- Enforced Compliance: Targeting Non-Compliance
- Integrated Risk Management Framework
- Performance Measurement

If desired, the tax administration could also document which industry sectors they will focus on in the coming year, although it should be clear that there may be activity in any sector, depending on the seriousness of the compliance risks. Some administrations also indicate how many of each type of treatment they expect to conduct.

27. **Publishing the compliance strategy is recommended to promote transparency.** Communicating with taxpayers regarding the STS' differentiated approach to managing compliance will build trust and confidence in the tax system. The risk-based approach is efficient; it minimizes compliance burden for compliant taxpayers and reinforces the message that the STS is using the "right intervention for the risk." For taxpayers who want to comply, education and facilitated compliance measures will help improve voluntary compliance, while audits and other enforcement measures will be used, when appropriate, to address deliberate non-compliance.

28. **Publishing the strategy could replace the current practice of publishing the names of taxpayers to be audited in the following year.** This practice of publicizing who will be audited in the following year does not conform to good practice and should be discontinued. STS indicated that once the list of auditees is published, about 90 percent of taxpayers amend their returns to report additional taxable income, resulting in additional tax of 13.7M MDL. This reinforces the concern that taxpayers are non-compliant until they know they will be audited, at which time, they take steps to correct the errors. Without the list of auditees being published, taxpayers' behaviors are more likely to be more compliant in their original tax filings since there is uncertainty about whether they will be audited. This proposal would require a legislative change. The data showing negative taxpayer behavior as a result of publishing names of auditees, supports the recommendation that a change in policy is warranted.

Recommendations

- Develop a draft of the STS compliance strategy based on feedback from the mission, by July 2026.
- Publish the compliance strategy by November 2026.
- Discontinue practice of publishing names of taxpayers to be audited, by December 2026.

D. Way Forward

CRM and Tax Audit

29. **A number of actions have been identified to assist the STS in maturing its approach to risk-based compliance management.** The first priority is to continue working on taxpayer segmentation,

which is an important prerequisite to enhancing the CRM process. Officials should now be able to draft a compliance strategy outlining their approach to managing compliance. Officials can begin development of a CIP related to wages in envelopes. A plan of action to address the barriers to full implementation of the risk-based approach should also be developed. An evaluation of the current risk indicators should also be undertaken, with a view to updating them before the next year's audit plan is developed.

III. Management Information and Compliance Risk Management Governance

30. Data-driven decision-making is at the heart of ensuring an efficient and effective tax administration. Administrations need to ensure that taxpayers comply with all their obligations (e.g., registration, on-time filing, accurate reporting, and on-time payment). But beyond that, they need to ensure that they do so by making the best possible use of their resources, by focusing more extensively on the areas with a higher degree of risk, and by using the most cost-effective treatment options considering the degree of risk posed. The STS is indeed mandated to do just this in article 6 of the TC. This requires an assessment of the impact the administration is having from its various activities.

A. Evaluation of Current Data Management Practices

31. The STS's broad range of management reports are extensive, but do not fully facilitate strategic decision-making. While detailed, the write-ups are wordy, with key insights often hidden amongst layers of text. The reports provide a fragmented view of elements of activities, rather than a holistic view of risk and impact. In some cases, a substantial amount of data and analysis is being done but is not presented in a way that allows for comparative, prioritized, contextual decision-making at an executive level.

32. The significant amount of time spent on manually tracking performance and management reporting detracts from more productive activities. Data analysis (see the proposed management dashboard in Annex IV highlights the impact: auditors only spend 53 percent of their time on actual audits; 47 percent of time spent on proactive compliance functions is used on reporting activities; and inspectors working on the compliance program are required to manually track 16 performance measures for each affected taxpayer (per month for VAT payers and quarterly for non-VAT payers). This imposes a substantial administrative burden on staff. While the anticipated automated CRM system will alleviate some of the manual burden, it will not compensate for all these inefficiencies.

33. A number of critical operational performance indicators – like on-time filing and on-time payment - are not tracked or reported on. Data for these two core obligations has consistently been challenging to obtain (partly due to complex rules of the Corporate Income Tax (CIT) regime. These are core indicators of the health of the tax administration system and should be rigorously tracked. The analytics stream of this mission has assisted the STS in better analyzing on-time filing rates.

34. The burden and impact of some operational activities are not immediately evident from the reports reviewed. This includes activities that the STS performs on behalf of other agencies, but which are not a part of its core tax administration mandate.

35. Some insights are embedded in layers of text and do not appear to be actively driving a change in strategy or tactics. This includes analysis that suggests that only 41.5 percent of audits are risk-based; that audit hit rates are a poor 40 percent; and that there is a general decline in the return on investment from audit activity (from a score of 7 in 2023, to 5.92 in 2024). A useful analysis of the return on investment on proactive compliance activities notes the amount of time spent on drafting letters to taxpayers and non-productive time spent compiling reports. These are all excellent insights, but it is unclear how they drive decision making at a management level.

36. **Analysis and reporting is further hampered by the use of nomenclature and audit types that differ from those more commonly used**. For instance, STS audit types include comprehensive audits; specific issue audits; factual audits; partial verification; operative controls; cross-checking; and insolvency audits. The OECD, IMF, and EC,[4] by contrast, tend to differentiate between the following types of audits: i) comprehensive audits vs. targeted issue audits; with audit cases being selected either on the basis of risk or random case selection criteria; and with audit approaches used including e.g. indirect audits, computer-assisted audits etc. The STS should review the nomenclature and audit types used, to allow for easier comparative analysis to be done against the more commonly used audit good practice guides.

37. **Analysis and reporting do not yet in a real way change the nature of treatment options selected as part of the compliance program.** There is no systematic analysis or review process that directs which treatment options would be best suited for different types of risks. Instead, under the current compliance program, the same generic treatment options are selected for all sectors (sending a letter; making two phone calls; having an hour-long meeting; and paying a four-hour fiscal visit). Next steps should start using data analysis to drive further differentiation of the treatment options selected for specific industries and taxpayers.

38. **While there is extensive tracking of operational activity, there is virtually no tracking or reporting on outcomes or impact measures.** There is no impact analysis or continuous review process that results in an actual change in the selection of focus industries, or changing the approach over time by using different treatment options. Key impact and outcomes measures like return on investment, the cost of collection, tax revenue collections to Gross Domestic Product (GDP), hit rates, compliance rates for key taxpayer obligations, and changes in the tax gap are not assessed with a view to changing the broader compliance strategy.

B. Way Forward

Management Information Dashboard

39. **A sample management information dashboard was developed for STS use.** The Excel-based template provides a structured framework against which to track the key data points that are

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[4] OECD Forum on Tax Administration. *Compliance Risk Management: Audit Case Selection*. Paris: OECD, 2006.

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European Commission, Directorate-General for Taxation and Customs Union. *Fiscal Blueprints: A Path to a Robust, Modern and Efficient Tax Administration*. Luxembourg: Office for Official Publications of the European Communities, 2007 necessary for effective data-driven decision-making (see Annex 4). In this first iteration, it consists of several static fields against which data can be updated as new analysis becomes available. It translates a large number of text-heavy, wordy reports into a single, holistic view of STS activities and impact. This includes data points on the broader context (like the VAT compliance gap and cost of collection); register management; filing and debt management; proactive compliance measures; audit; criminal investigations; and a section on industry insights. Key characteristics of the dashboard are briefly listed in box 2. Maintenance requires the updating of data fields as new analysis becomes available.

Box 2. Key Characteristics of the Management Information Dashboard

- Based on a simple Excel file, to make it accessible.
- Pre-populated with available data (including STS data, data collected during previous IMF assignments, data from the current tax compliance gap assessment, International Survey of Revenue Administrations (ISORA) and earlier data from Tax Administration Diagnostic Assessment Tool (TADAT).
- It includes both output measures (number of activities) and outcome measures (impact of activities).
- Where appropriate, performance against TADAT indicators are flagged.
- Conditional formatting allows for a color-coded approach that flags where performance is below par.
- Data bars and charts allow for visual representation of data.
- Where appropriate, formulas and calculations automatically update output cells, as new data is entered.
- Each functional area includes data and analysis, and a separate section for commentary.
- The resulting report can be viewed in either Excel or as a PDF file (in which case page breaks ensure a neater flow between the topics).

40. **Over time, further enhancements will be required to the dashboard**. This initial version has been simplified to focus largely on information that is already available. To allow for even more effective decision making, more granular analysis will be required, including a specific focus in respect of the different tax types, different audit types, and revenue yield performance. It should also be further tailored to include STS-specific commitments or targets (e.g., on turnaround times.)

41. **The dashboard is only effective if it is used as part of regular and critical management conversations**. Under each functional area, the dashboard includes space for commentary. Reflecting the data in a way that is easier to digest is only one part of the challenge – critically examining the data and assessing its relevance in the broader context is the other.

Governance Framework

42. **The CRM Committee needs to drive strategic conversations around efficiency, effectiveness, and impact.** A robust governance structure enables an administration to have a holistic view of the compliance climate and trends; to focus on strategically important issues; to flag emerging or critical issues early on; to develop a coordinated approach to treatments and responses; and to continuously assess the impact on compliance. In the simplest terms, the Committee should focus on the right issues and taxpayers; and maximizing impact on compliance. Examples of key questions the CRM Committee should discuss are detailed in box 3.

Box 3. Examples of Key Questions for the Compliance Risk Management Committee

- Where are the biggest revenue leakages and non-compliance? (In respect of different tax types, taxpayer obligations, industries, segments, and geographically)
- Compliance behaviors: What trends are observed? What is the root cause of those behaviors?
- What activities are being undertaken in response? Is a graduated, tailored approach being used?
- What is the impact? Is taxpayer behavior actually changing?
- Are activities efficient? How does the return on investment of different activities compare? Does the mix of activities need to change to get better return on investment? Is the most cost-effective tool being used for the identified risk?
- Is there a change in the landscape over time?
- What is the performance against macro indicators like cost of collection and tax revenue to GDP, and good practice benchmarks like those in TADAT?
- How does performance compare to regional, European and international standards?
- Is the mix of staffing appropriate for the risks being mitigated? (in terms of percentage of staff allocated per function, and level of skills)

43. **Stronger governance is required to ensure better alignment across the organization.** Pockets of organizational excellence exist in respect of risk identification, analysis, and operationalizing responses. However, they need to be better aligned as part of an organization wide compliance improvement strategy that:

- incorporates both voluntary compliance measures and enforcement measured such as audit;
- uses environmental scans and risk analysis as explicit inputs into the strategic planning process;
- reviews impact and adjusts course in response; and
- selects a broader range of possible treatment options in response to risk, from across the organization.

44. **The governance framework should also incorporate an evaluation of additional ways to enhance both efficiency and effectiveness.** Business process reengineering can significantly improve the efficiency and effectiveness of a tax administration by redesigning core processes around simplification, standardization, centralization, and automation. Opportunities in respect of centralization and automation exist around the generation of letters to taxpayers; data extraction and reporting as part of proactive compliance activities; obtaining auditor feedback on the effectiveness of risk rules; and reducing the administrative burden on inspectors who are required to regularly monitor a range of indicators for taxpayers as part of the compliance program.

Modernization Directions

45. **The anticipated automated CRM system – and its associated data warehouse - is crucial but is not a panacea**. While it should dramatically improve efficiencies and turn-around times, and allow for more refined analysis, a risk system on its own cannot improve efficiencies. In that space of waiting for a new system to be developed, there is an inherent tension between holding off on systems developments on the one hand, and the need to introduce shorter-term efficiency improvements on the other. Although much of the effort should be directed towards building the new automated risk system, other efforts should continue, including the cleansing of data; ensuring accuracy of the taxpayer register; reviewing opportunities for centralization and automation; developing a workflow that explicitly

incorporates an environmental scan into a risk assessment process; identifying the key metrics against which success is measured; specifying the analysis and reporting required at an executive level; and procuring a server for data analysis.

46. The STS should begin work on a broader modernization plan, to make the leap from the current incremental, iterative changes. A continuous improvement philosophy has led to gradual improvements over time, which have contributed to positioning the STS well. The STS should consider developing a modernization roadmap and blueprint, explicitly exploring what a future state could look like in terms of organizational design, footprint, segmentation, IT solutions, service delivery, compliance by design, proactive compliance, enforced compliance, one-stop-shop design, and whole-of-government solutions (and aligned with the MOF's focus on optimizing tax policy). A holistic view of an ideal future state is important, not only because it crafts a common goal to work towards, but also because it ensures that new improvements and changes aren't added organically and haphazardly, but in a structured way that moves the organization in the desired direction.

Recommendations

- Adopt a management information dashboard for visual reporting, by March 2026.
- Adjust the data in the dashboard as new analysis becomes available, by March 2026.
- Use the dashboard to drive critical executive management conversations around impact, efficiency and effectiveness, by April 2026.
- Develop a vision of a future state for modernized tax administration, by October 2026.
- In the interim, as part of preparing for the automated CRM system, start work on data management and CRM as building blocks for the future state, by July 2026.
- Begin work on a broader modernization roadmap and blueprint, by June 2026.

IV. Building Analytical Capacity

47. The objectives of the work of data analytical workstream were fourfold: (1) run a hands-on workshop to build the STS's internal capacity for VAT gap estimation; (2) guide STS in extending VAT gap estimation to 2024; (3) prepare data for a subsequent CIT or Personal Income Tax (PIT) gap estimation; and (4) support the CRM workstream with quantitative analysis.

48. Guided by the mission objectives, participants were able to replicate the VAT gap estimation previously conducted during the July 2025 mission.[5] The workshop covered a theoretical overview of the bottom-up VAT gap methodology, an introduction to R - the analytical platform employed in the exercise - and practical sessions on data preparation and modeling. Common challenges in data cleaning were addressed through discussion and demonstration. All participants successfully achieved results consistent with those obtained in the July mission covering 2018-2023.

49. Utilizing the expertise acquired during the workshop, the local analytical team, with support from IMF experts, successfully refined the previous VAT gap estimation and extended to 2024. Both tax data and the GDP deflator from national accounts for 2024 have been collected, cleaned and incorporated in the modeling process to refine the previous model and estimate the new year. Additionally, the GDP deflator adjustment was tailored from a fixed base year to a previous year approach, reflecting local circumstances. With these refinements, the $\boldsymbol{R}^2$ - the indicator of model fit – has improved from 0.17 in previous mission to 0.19.

50. During the mission, analysts were introduced to generative Artificial Intelligence (AI) tools to assist in understanding R code. These tools were used to resolve errors in R scripts. Leveraging generative AI proved highly effective during the mission and is expected to significantly support analysts in further developing their R programming skills.

51. After successfully estimating the VAT gap, there was discussion about conducting a follow-up mission to estimate the gaps for CIT or PIT. The team discussed the data requirements for a bottom-up gap analysis. In terms of revenue, according to STS information, PIT withheld from salaries constitutes 21.4 percent of total revenue collections - Given this, focusing first on PIT gap estimation, particularly for the withholding tax, appears to be the preferred approach.

52. Utilizing the micro-level tax data gathered during the mission, both VAT audit hit rates and on-time filing rates were computed together with STS analysts to inform the CRM. Aggregate audit hit rates – defined as the proportion of audit cases resulting in positive VAT corrections[6] - and their breakdowns were determined using audit data obtained during the gap estimation process. Additionally, VAT on-time filing rates for the relevant period and taxpayer segments were calculated based on VAT return submissions.

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[5] "Republic of Moldova. Value Added Tax Gap Estimation Based on Operational Audits".

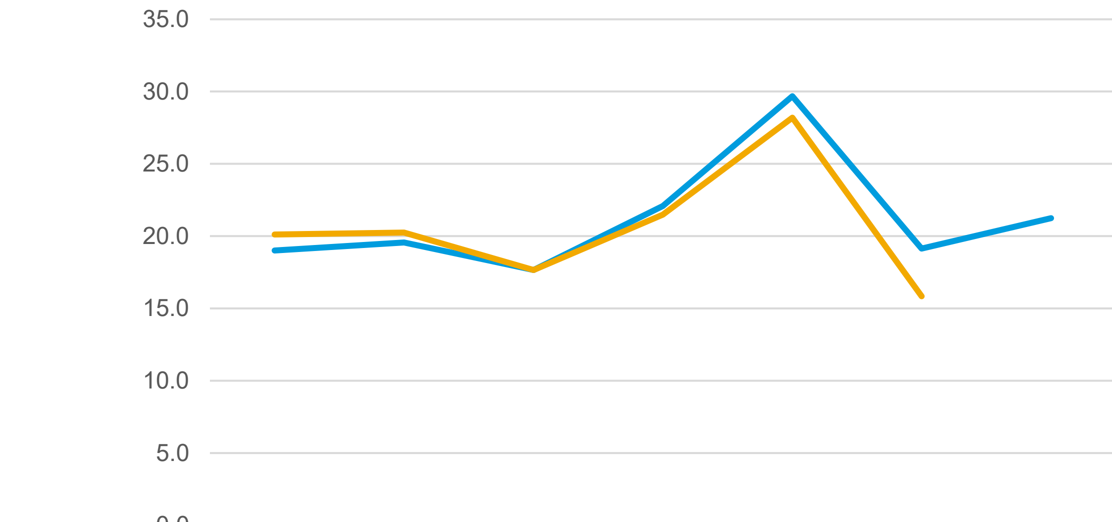
[6] Include only audit corrections related to VAT principles, excluding any penalties or sanctions.

A. Key Findings

The VAT Compliance Gap Estimation

53. The updated gap estimates, while consistent with prior trends, have been adjusted upwards in recent years and suggest a rebound in 2024. The VAT gap, measured as a percentage of potential collection, was revised higher for the years 2021 through 2023. Importantly, the latest data reveals that although the gap declined in 2023 following a peak in 2022, this reduction was not sustained, and a rebound was recorded in 2024, reaching 21.2 percent of full potential collection. See Figure 3.

Figure 3. VAT Compliance Gap in Percent of Full Potential over 2018-2024



	2018	2019	2020	2021	2022	2023	2024
Dec Mission	19.0	19.6	17.7	22.1	29.7	19.2	21.2
July Mission	20.1	20.2	17.7	21.5	28.2	15.8	

Source: IMF calculations based on data from STS.

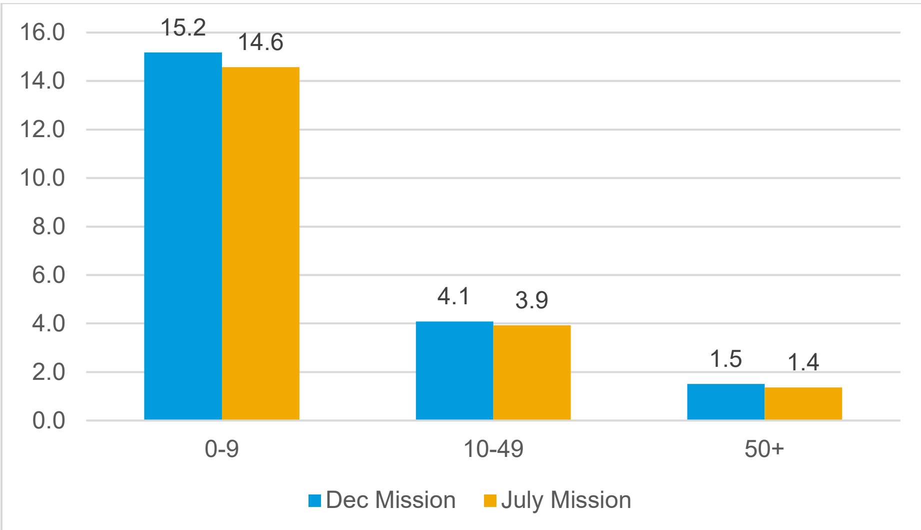
54. The granular results detailed in the July mission report were further refined using the updated model and new data, resulting in consistent conclusions. As illustrated in Figure 4, average VAT compliance gaps as a percentage of potential collection across all groups were only marginally adjusted, with overall findings remaining aligned with previous estimates.[7] Analysis by number of employees indicates that corporations with fewer employees exhibit a larger VAT compliance gap. When categorized by turnover quantiles, the gap remains approximately four percent for businesses within the first four turnover segments. Sectoral analysis reveals that wholesale and retail trade, construction, and manufacturing together contribute about two-thirds of the total VAT compliance gap. In terms of geographic distribution, the highest gap is observed in Chișinău, the capital, reflecting its economic prominence. Regarding years in operation, the data - excluding businesses under ten years old - show that the longer a business has been established, the lower its compliance gap tends to be. Among

[7] Please refer to the July 2025 VAT gap estimation report for more details (“Republic of Moldova. Value Added Tax Gap Estimation Based on Operational Audits”).

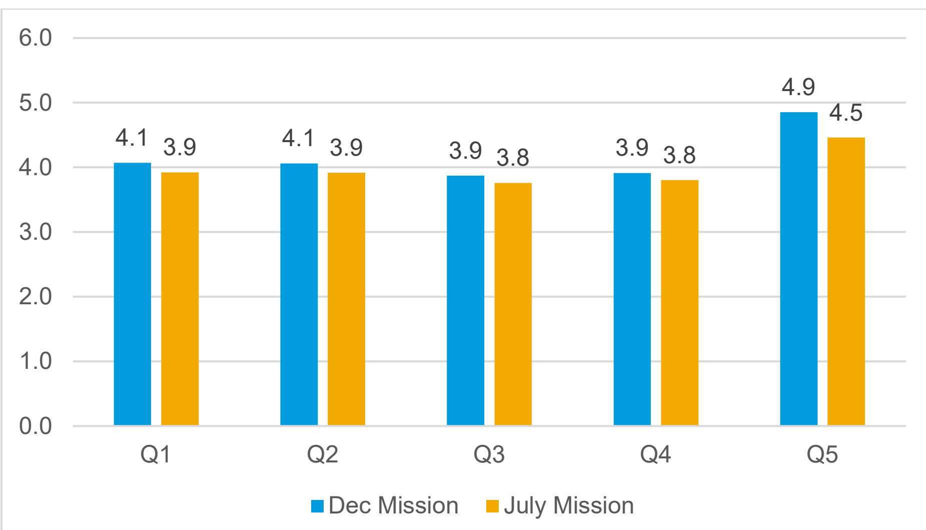
taxpayer segments, large taxpayers demonstrate greater resilience to external shocks, with their VAT compliance gap showing an overall downward trend.

Figure 4. Average VAT Compliance Gap, Segmented by Groups

(1) VAT gap by number of employees in percent of full potential

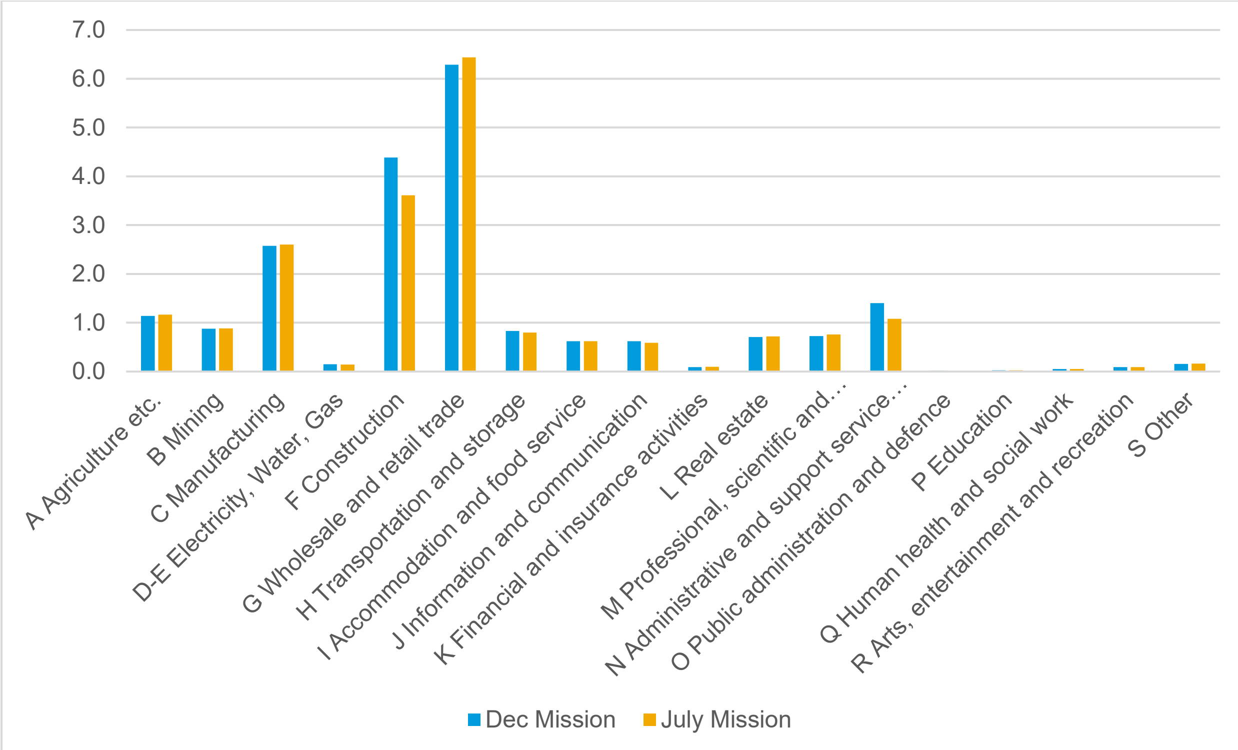


(2) VAT compliance gap by turnover quantiles in percent of full potential[8]

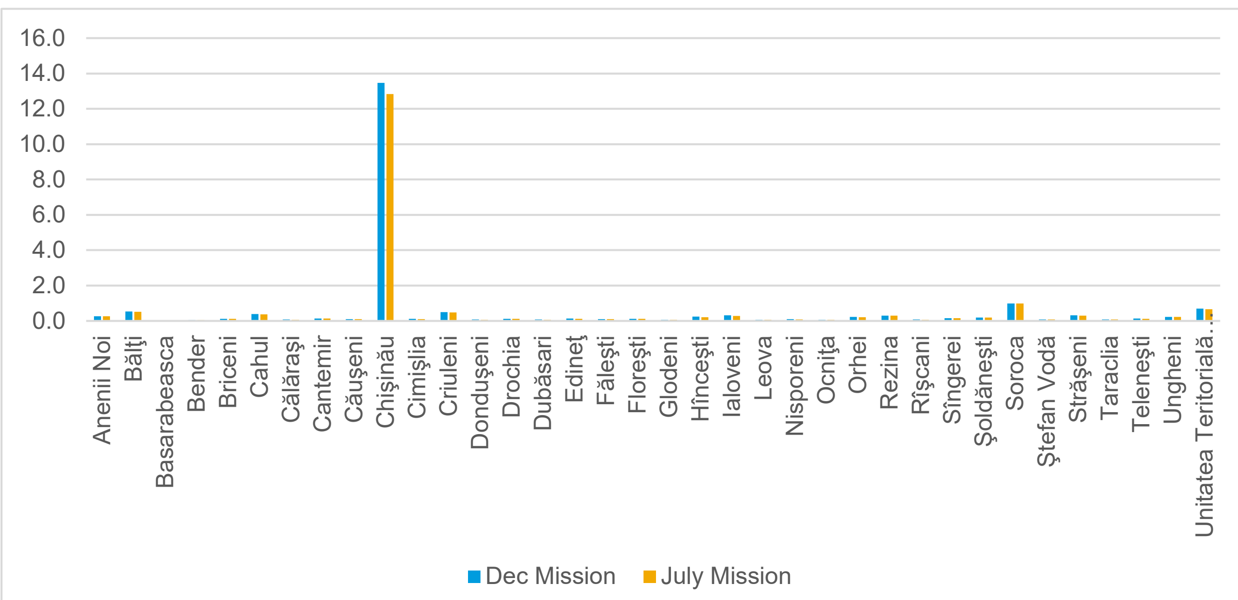


[8] Q1, Q2, Q3, Q4, and Q5 correspond to the ranges 0–118,728; 118,729–869,557; 869,558–2,311,591; 2,311,592–7,524,130; and 7,524,130 and above (Leu), respectively.

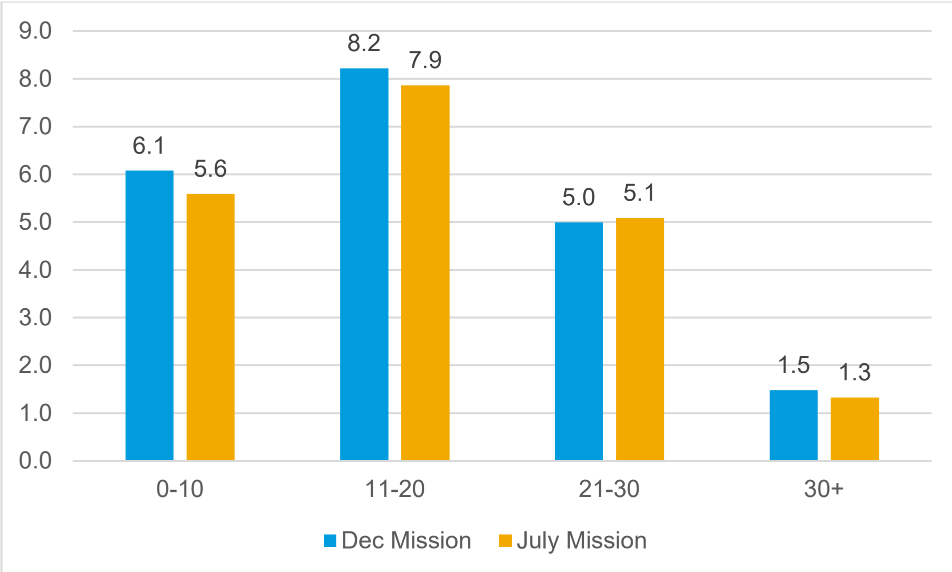
(3) VAT compliance gap by sectors in percent of full potential



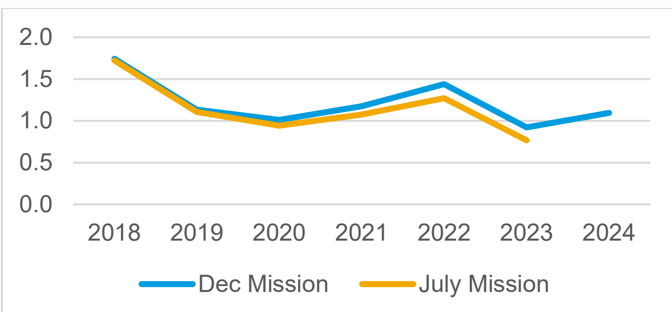
(4) VAT compliance gap by districts in percent of full potential

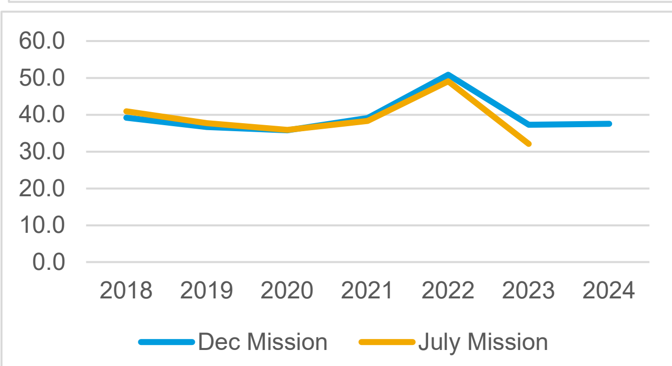


(5) VAT compliance gap by years in business in percent of full potential



(6) Comparison of relative VAT compliance gaps for large and other taxpayers in percent of relative potential



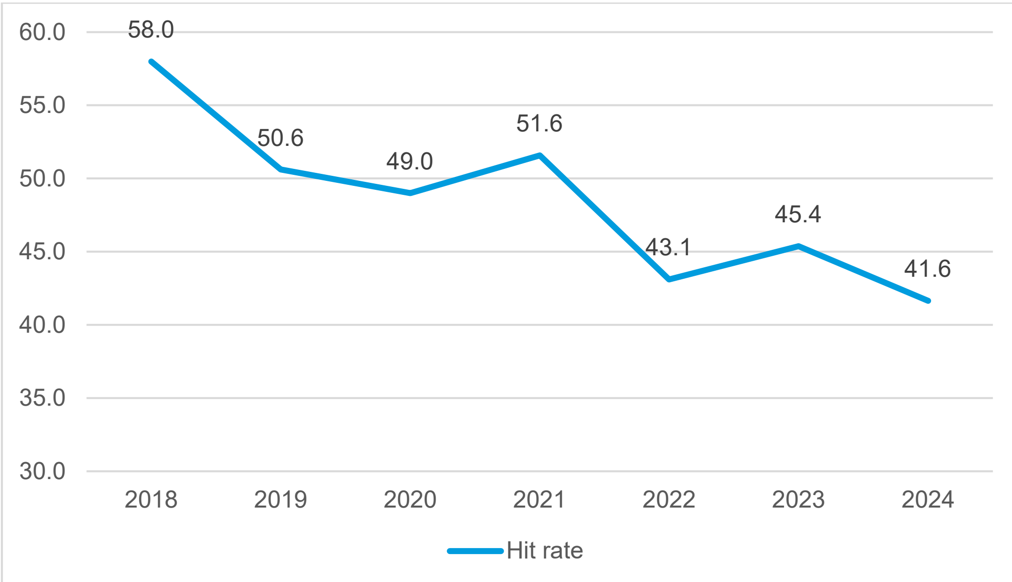


Source: IMF calculations based on data from STS.

The VAT Audit Hit Rate

55. The average audit hit rate between 2018 and 2024 is 48.3 percent, reflecting an overall downward trend (Figure 5). The hit rate decreased from 58.0 percent in 2018 to 41.6 percent in 2024, marking the lowest value observed in recent years.

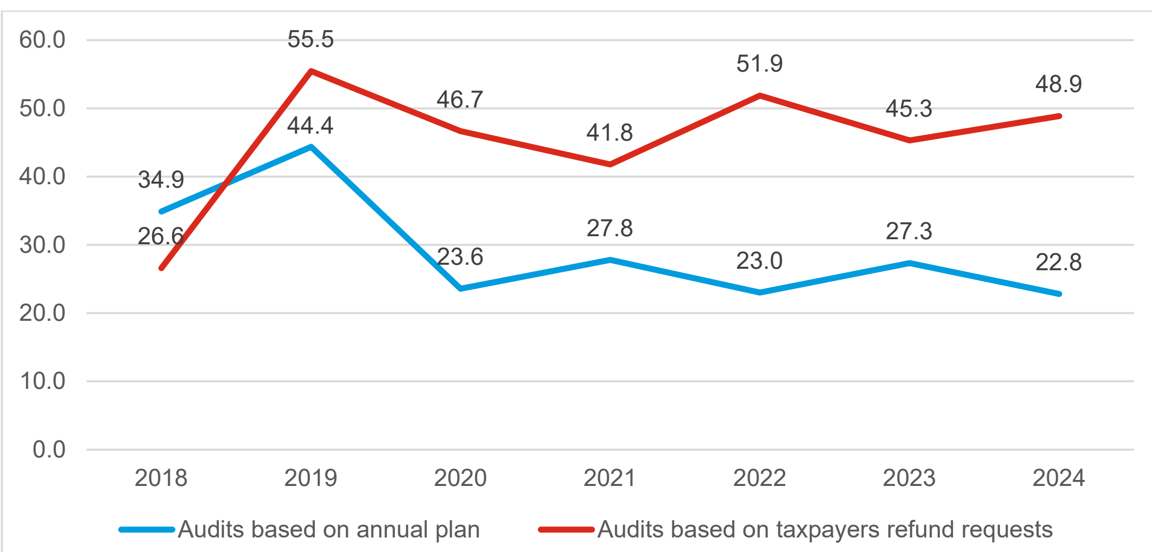
Figure 5. VAT Audit Hit Rate over 2018-2024 (Percentage)



Source: IMF calculations based on data from STS.

56. **The reduction in the overall audit hit rate is primarily due to the shift in case selection from the annual audit plan to those based on taxpayers' requests for refunds** (Figure 6). On average, the hit rate for cases selected through refund requests is only 10.4 percent, while cases chosen as part of the annual audit plan achieve an average hit rate of 92.4 percent (Table 1). Notably, the proportion of audit cases selected under the annual plan has decreased from 34.9 percent in 2018 to 22.8 percent in 2024. Conversely, cases selected based on refund requests have risen significantly, accounting for 48.9 percent in 2024 compared to 26.6 percent in 2018.

Figure 6. Share of Audit Case Selection over 2018-2024 (Percentage)



Source: IMF calculations based on data from STS.

Table 1. Reasons for Initiating an Audit, 2018-2024

Reasons for initiating audit	Frequency	Percent	Mean Audit Correction (Leu)[1)]	Hit Rate (Percent)
Audit based on taxpayers' request for VAT refund	5,507	45.5	12,313	10.4
Annual audit plan	3,528	29.1	87,527	92.4
Other grounds based on the identified risks	1,093	9.0	410,877	72.7
Audit based on insolvency proceedings	952	7.9	266,340	93.0
Cancellation of the taxpayer as a subject of VAT taxation	606	5.0	45,754	10.7
Late registration of the taxpayer as a subject of VAT taxation	168	1.4	25,021	47.6
The procedure of the liquidation of taxpayers	94	0.8	28,673	85.1
The request of other law enforcement Institution	84	0.7	337,501	86.9
On the examination of the appeal of taxpayers	31	0.3	-296,677	19.4
The reorganization of the taxpayers	26	0.2	139,033	88.5
Audit based on other requests submitted by the taxpayer	12	0.1	-1,239,264	41.7
The request of taxpayers to suspend activity for some period	6	0.0	864	66.7
Registration of the taxpayer as a subject of VAT taxation	3	0.0	835,980	33.3

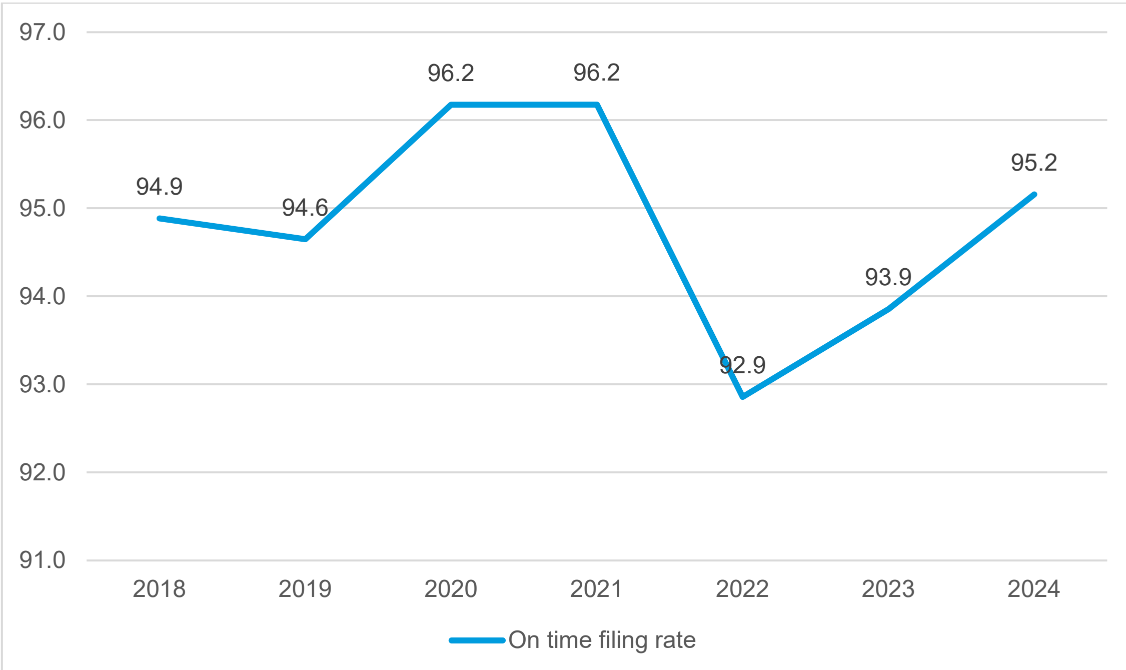
Source: IMF calculations based on data from STS. Note: [1)] Simple average - not corrected for inflation.

The VAT On-Time Filing Rate

57. The average on-time filing rate for VAT between 2018 and 2024 is 94.8 percent. Throughout this period, the rate remains near 95 percent, with a significant decrease observed in 2022, which coincided with the outbreak of the war in Ukraine (Figure 7). The average on-time filing rate for large taxpayers is 97.2 percent, higher than the 94.7 percent recorded for other taxpayers. It should be noted that the on-time filing rate may be overstated, as inaccurate filings constitute approximately one-quarter of all tax returns.[9]

[9] Taxpayers can influence the on-time filing rate by submitting an inaccurate return on time and later revising it in a subsequent period.

Figure 7. VAT on-time Filing Rate Over 2018-2024 (Percentage)



Source: IMF calculations based on data from STS.

B. Way Forward

58. STS analysts are encouraged to continue working with R to build on the analytical capability developed during this mission. This will significantly strengthen their capabilities. A practical first step could be to perform new upcoming analyses using the usual tools and then replicate the same analyses in R to ensure accurate results. It is recommended that analysts continue to use generative AI tools to assist in understanding R code. These tools are highly effective to resolve errors in R scripts and to develop new R scripts.

59. The analysts should proceed with analyses relevant to the CRM process. A logical next step would then be to broaden these analyses to address gaps identified in the dashboard proposal presented to senior management during the mission. For example, this could involve estimating audit hit rates and on-time filing rates for other tax types such as CIT, PIT, Pay-As-You-Earn (PAYE), and excise duties.

60. STS is advised to routinely estimate the VAT gap and work towards including the import VAT gap in these estimations. The inclusion of additional years in VAT gap analysis was demonstrated during the mission. Whenever new data becomes available, STS should update its VAT gap estimates accordingly. However, because audit data from customs is unavailable at the conclusion of this mission, the import VAT gap is not yet factored into existing estimates. To achieve a comprehensive understanding, STS should enhance collaboration with customs to incorporate import VAT into its VAT gap analysis.

61. Another option would be to estimate the gaps for CIT or PIT. Since data requirements differ slightly for CIT and PIT, and given that the econometric methods used to correct for sample selection bias[10] must be adapted accordingly, it is recommended that STS seeks IMF assistance should it decide to proceed with estimating the CIT or PIT gap.

62. STS would benefit from investing in a high-performance server to advance its analytical capabilities. Such infrastructure would enable analysts to process the substantial volume of data submitted from cash registers. Currently, Excel's row limit of 1,048,576 is insufficient for handling this scale of data. Access to these datasets will be critical for strengthening the risk scores already in use.

63. In the medium term, analysts should gain direct access to the data warehouse (DW) from the R server once the DW is established. This will significantly reduce the current delays associated with accessing data through CITF.

Recommendation

- In consultation with FAD decide the scope of further FAD assistance to STS on tax gap estimation by March 2026

[10] I.e. that audits are not selected randomly.

V. Capacity Development Support

64. Several Development Partners are currently supporting STS. In addition to the FAD, US Treasury OTA and Swedish tax administration are providing multi annual CD support including assignment of resident advisors from both agencies. The OTA support is focused on taxpayer service, anti-fraud, internal control, data security, and aspects of international taxation. Swedish tax administration works in the areas of HR, international information exchange, taxpayer support and communication, while considers also support aspects of CRM going forward. The EU is currently in the process of finding a financing solution for supporting expert assignment for developing automated CRM system for the STS. The latter work was abrupted in early 2025 by withdrawal of earlier committed support from USAID.

65. Successful implementation of the reform agenda as advised in this report, would benefit from continuous FAD CD support. Current FAD CD work is directed to support the development of CRM approach, tax audit reforms, and analytical capacity of the STS. However, preparing vision and implementation roadmap for modernized tax administration would benefit from strategic guidance, which FAD can provide. The wider number of the recommended reforms can also be supported by FAD provided availability of resource. The authorities may consider communicating their interest in further FAD support to outline priority areas of interest and commitment to the more comprehensive reform that FAD CD could support to implement.

Annex I. Timeline for Operational Plan Development

Based on the availability of data and the fiscal period of the tax administration, the dates may need to be adjusted to reflect the STS's situation.

Timeline	Activity
January-February	Compile data on four compliance obligations Review audit results from previous year Evaluate effectiveness of prior interventions
March	Conduct workshops with operational units to identify non-filing risks, underreporting risks, payment and collections risks and sector-specific risks
April	Quantify risks using available data (tax gap, filing and payment trends, underreporting patterns) Establish impact and likelihood scores Prepare an initial risk register
May	Develop priority ranking of risks using standard criteria: - Materiality - Behavioral drivers - Administrative feasibility - Strategic Importance
June-July	Design compliance responses for each priority risk
August	Draft compliance plan structure
September	Review by senior management and make adjustments Adjust KPIs and resource allocation if required
October	Finalize operational work programs - audit plans - education campaigns - collections schedules - assign targets and responsibilities to operational units
November	Publish and communicate the Compliance Strategy for the upcoming year
December	Prepare for implementation

Annex II. High-level Risk Indicators – Large Taxpayers and Entire Population

A list of high-level indicators that will help better to understand the large taxpayer population and identify factors that may give rise to compliance risk is presented below. Some of the indicators may be used in risk assessment of tax declarations for a particular year or period under review for the purposes of audit or other forms of compliance intervention.

Other indicators of attitude or behavior are intended for use in profiling the large taxpayer population. This will facilitate the assessment of:

- which large taxpayers may pose a high compliance risk, and
- what is the specific nature of the risks, for example the risk of tax avoidance, or error, or misinterpretation or taking an unreasonable interpretation of tax law provisions, or late filing, or late payment, or (exceptionally) evasion through deliberate under-declaration of income or over-claiming deductions or refunds.

The note describes only indicators of potential risk. Each of these is intended to be only a part of a picture. A clearer view will begin to emerge as more of the questions posed by the indicators answered. For example,

- the more extensive or complex the taxpayer's business is, and/or
- the weaker the taxpayer's internal accounting and tax controls are, and/or
- the greater the involvement of the owners of a company in its day-to-day financial and taxation management and decisions on tax compliance matters is, and/or
- the more aggressive the attitudes to taxation of the directors or owners are, the greater the likelihood that classification will be high risk.

Indicators
Status and ownership
▪ wholly domestically owned, or wholly or partly foreign owned ▪ parent company, group subsidiary or branch ▪ publicly quoted company, or privately owned ▪ complex share structures ▪ complex group structure ▪ trading markets: wholly domestic, domestic and intra community, or worldwide ▪ have any mergers, takeovers, corporate restructuring or ownership changes occurred, and have they impacted the tax liabilities of the company or group (for example, continuity of relievable losses)
Size, scale and complexity
▪ diversity of business, range of regimes, number of premises

- size of profits and losses declared
- level of consolidated balance sheet capital
- amount of tax at risk - Corporate Income Tax, VAT, PAYE, other significant tax obligations
- if foreign owned or trading abroad, range of international activities, global exposure, international tax issues, VAT specific inter-country tax issues, related party transactions or structures whose effect is to artificially reduce domestic taxes payable
- size, structure & complexity of the business - for example, evidence of share schemes, employee benefit trusts or other schemes, complexity of remuneration arrangements, special tax schemes or exemptions, mixed VAT liable activities; VAT exempt activities
- employee numbers, number of expatriate employees
- nature of business / trade: risk rating of the sector as a whole

Tax governance

- absence of effective governance processes and controls, particularly in respect of tax risk management strategies and policies.
- proper oversight, systems and integrity in the management of tax risk
- level of skilled staffing, and/or continuity of staffing, in the in-house tax or finance departments
- in-house tax department often fail to respond properly to enquiries from tax authority
- strength of underlying systems - may range from strong systems with no or infrequent errors to fragile systems and processes resulting in repeated errors and providing a low level of confidence in the accuracy of tax declarations

Attitudes to compliance

- past compliance history regarding timely filing of tax returns- may range from “fully compliant”, to “regularly non-compliant”
- previous audit uncovered significant compliance failures
- cooperation with tax authority - may range from “prompt and cooperative” to “persistently dilatory, obstructive or litigious”
- directors or owners known to have a history of poor tax compliance or to use tax avoidance schemes in relation to their personal income tax or capital gains tax liabilities
- legal complexity & challenges to the accepted view of the law - may range from “occasional and straightforward” to “frequent and usually complex”.
- complex structures and intra group transactions that generate tax benefits unrelated to economic substance of commercial activity, where the projected tax benefit is a vital part of the costing of the scheme
- use of avoidance arrangements and schemes - may range from “unlikely to be used” up to “regular and frequent use and/or creation of schemes”

- use of arrangements or products that purport to transfer or create tax benefits in ways that challenge the tax authority's interpretation or application, or the generally applied interpretation or application, of the law
- use of tax agent known to market avoidance schemes, or to have a history of taking tax positions contrary to the accepted view of the law, or making frequent errors in clients' tax calculations

Transactions

- significant fluctuations in CIT payable from one year to another
- significant fluctuations in VAT payable from one year to another
- significant fluctuations in PAYE or other Withholding Taxes payable from one year to another, particularly where (re PAYE) there is no evidence of staff downsizing
- effective rate of CIT payable is significantly lower than the statutory rate, or significantly lower than the average or norm for the industry or commercial sector, or significantly different as compared with the effective rate declared for previous years
- effective rate of VAT payable is significantly lower than the statutory rate, or significantly lower than the average or norm for the industry or commercial sector, or significantly different as compared with the effective rate declared for previous years
- indications that VAT returns include significant lower rates or exempt transactions whereas the company's business or sector is believed to involve substantial sales at higher tax rates
- material variances between the current and previous tax year(s) in respect of profitability, tax payable, or major line items in the supporting financial statements for the company or group
- material differences in the accounting treatments for major items as between financial reporting and tax reporting
- material mismatch between commercial accounting profit and taxable profit
- minimal or low turnover and/or profit but significant net assets held on balance sheet
- losses declared year on year
- evidence of acquisitions, disposals and restructuring
- change in the nature or direction of the business
- has the company or group been involved during the accounting year under review in any complicated arrangements (for example, major restructuring, use of special purpose vehicles (companies, trusts, or hybrid entities such as foreign limited partnerships)?
- regularly use complex treasury or financial arrangements - for example, may range from "straightforward" to "sophisticated, innovative and proactive requiring significant resources to understand"
- are there any unusual or innovative financial arrangements, for example structured financing arrangements, long term subordinated debt facilities, large inbound or outbound loans, hybrid financial instruments such as convertible notes?
- are there any fees or guarantee payments made for inbound loans or other financial arrangements, or excessive above market interest terms?

- if loans are made to entities or persons outside the domestic corporate group, is the interest rate or any fees or guarantees received at a market rate?
- substantial increase in professional fees payable - may indicate significant business change or restructuring, or use of tax avoidance scheme
- substantial net VAT credit, or VAT refund claim, declared for the first time, or in consecutive returns where previously net VAT payable was declared
- significant fluctuations in named deductions from one year to another (for example, higher than normal deduction for repairs and renewals, or for cost of sales)
- third party information held indicating significant expansion, rebuilding, merger or acquisition, sale of part of business or subsidiary company
- large payments made for commissions or management charges
- apparent errors in deductions for depreciation
- significant amounts charged as, or material changes in provisions
- absence of or low value of trading stock and/or work in progress
- ownership or leasing of expensive assets capable of private use
- indications that purchases or expenditure are included at any value other than open market cost
- substantial payments to or from, or loans to or from, overseas entities
- transactions with entities based in tax havens or low tax jurisdictions
- cross-border mismatches - are there any differences in tax treatment of a material transaction or an entity between different countries that give rise to tax loss in your country - for example, transaction treated as debt in one country and equity in another?
- has the company or group been involved in any transactions where the expected net return predominantly depends upon or arises from projected tax savings or benefits?
- have any uncharacteristic losses or credits arisen, or utilized by the company or group ?
- are there any significant transactions that have either escaped taxation, or have been treated as either income or capital in contravention of normal taxation practice in order to gain a tax advantage?
- are there any transactions with overseas associates? How are the transfer prices set and are they at a rate that provides a fair result in your country?
- has VAT been reported the correct VAT on associated party transactions?
- has VAT been reported properly on significant non-routine transactions?
- is VAT being reported correctly according to the reporting basis applied (for example on discounts, credits, deposits or part payments)?
- is zero rating or reduced rates being applied properly?

- is PAYE treatment being applied properly to directors, executive remuneration packages, workers from abroad, people working in your country for an overseas employer contracted to a company resident in your country, recipients of fringe benefits, payment of commissions or bonuses, workers allegedly on self-employment contracts who are in reality employees?

Other Potential Risk Indicators – All Taxpayers

This is not a complete list but will give an indication of the types of indicators that may be useful. Consideration of the available data is necessary to determine if these indicators would be useful for the STS.

General

- Gross profit margin is X percent or more lower than similar businesses in the same industry sector.
- Negative gross margin
- Operating expenses as a percentage of sales are higher than similar businesses in the same industry sector
- Change in control of a company (sale of shares or corporate reorganization)
- Bad debts are greater than Y percent of revenue
- Capital transactions i.e. sale of real estate
- Expense item increases by more than Y percent compared to previous year

VAT

- Are sales within MDL xx of the VAT registration threshold.
- ITCs claimed on exempt activities.
- Significant increase in input tax credits compared to last x number of filings
- Credit return in an industry that would not be expected to have a credit

Annex III. Draft STS Compliance Strategy

This strategy outlines a risk-based approach to tax compliance that emphasizes education for those who wish to comply, facilitated compliance for those who are willing, but need assistance, and enforcement for those who choose not to comply. It applies the principle of using the 'right intervention for the risk' to maximize voluntary compliance and effective enforcement.

1. Strategic Objective

To achieve sustainable voluntary tax compliance by segmenting taxpayers based on their willingness and ability to comply, and tailoring interventions—educational, supportive, or enforcement-based—according to assessed risk.

2. Core Principles

- Risk-based approach: Match interventions to the likelihood and consequence of non-compliance.
- Fairness and transparency: Encourage trust in the system by ensuring consistent treatment.
- Efficiency: Focus resources on areas with the highest compliance risk or revenue impact.
- Behavioral insight: Recognize that most taxpayers want to comply but need support, while a minority deliberately evade.

3. Scope of Compliance Obligations

Effective compliance management requires recognition that compliance encompasses four fundamental taxpayer obligations. A comprehensive strategy must address each of these obligations to ensure full and accurate participation in the tax system:

1. Registration: Ensuring that all liable taxpayers are registered promptly and accurately with the tax authority.
2. Timely Filing: Requiring taxpayers to submit returns and declarations by statutory deadlines.
3. Timely Payment: Guaranteeing that all taxes due are paid on or before the due date.
4. Accurate Reporting: Ensuring that information provided in tax returns and records is correct, complete, and truthful.

By targeting interventions across these four obligations, the tax administration can more precisely identify areas of risk and tailor responses—using education, facilitation, or enforcement—to achieve comprehensive compliance outcomes.

4. Compliance Spectrum and Interventions

Taxpayer Segment	Behavioral Description	Strategic Response	Intervention Type
Willing but not able	Intend to comply but lack understanding or capacity	Build awareness and knowledge	Education
Willing and able	Comply voluntarily with minimal prompting	Maintain convenience and fairness	Facilitated Compliance
Unwilling	Choose not to comply; deliberate evasion	Detect, deter, and penalize	Enforced Compliance

5. Education: Building Capacity and Awareness

Goal: Empower taxpayers who want to comply through understanding and accessible guidance.

- Develop targeted outreach and communication programs for new and small taxpayers.
- Publish simplified guides, FAQs, and e-learning tools explaining tax obligations and benefits of compliance.
- Use social media, webinars, and taxpayer forums to promote compliance culture.
- Implement pre-filing education campaigns before key deadlines to reduce unintentional errors.
- Partner with professional associations and business chambers to extend education reach.

Expected Outcome: Fewer errors and omissions, increased voluntary filing, and improved taxpayer confidence.

6. Facilitated Compliance: Making It Easy to Comply

Goal: Reduce administrative barriers and make compliance the default behavior.

- Simplify processes with online filing, pre-populated returns, and e-payment systems.
- Offer real-time assistance via chatbots or helplines.
- Introduce risk-based audit selection so compliant taxpayers face minimal intrusion.
- Encourage cooperative compliance agreements with large taxpayers based on transparency and data sharing.
- Use nudges and reminders to prompt timely filing and payment.

Expected Outcome: High compliance at lower cost, improved satisfaction among honest taxpayers.

7. Enforced Compliance: Targeting Non-Compliance

Goal: Address willful non-compliance through proportionate, visible enforcement.

- Strengthen risk profiling and analytics to detect high-risk taxpayers.
- Conduct targeted audits and investigations focusing on deliberate evasion and fraud.
- Apply graduated penalties proportionate to severity and intent.
- Publicize enforcement outcomes to reinforce deterrence.
- Collaborate with law enforcement and financial intelligence units for complex cases.

Expected Outcome: Increased deterrence, reduced tax evasion, and enhanced equity perception among compliant taxpayers.

8. Integrated Risk Management Framework

- Identify risks through data analysis and compliance history.
- Assess risk severity (likelihood × consequence).
- Select the right intervention based on taxpayer profile.
- Monitor outcomes and adjust strategies dynamically.

9. Performance Measurement

- Voluntary filing rate and on-time payment rate.
- Reduction in taxpayer errors.
- Number and yield of risk-based audits.
- Taxpayer satisfaction and trust levels.
- Compliance cost to the administration vs. revenue recovered.

Annex IV. Sample Management Information Dashboard