



CAMBODIA

TECHNICAL ASSISTANCE REPORT—TAX ADMINISTRATION MODERNIZATION PRIORITIES 2019–23

November 2018

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Cambodia

Tax Administration Modernization Priorities 2019–23

Debra Adams, Charlie Jenkins, Patrick De Mets, and Stephen Wilcox



Technical Assistance Report

May 2018

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GLOSSARY

COTS	Commercial Off-The-Shelf (information technology system)
CRM	Compliance risk management
DEA	Department of Enterprise Audit
DG	Director General
DSMT	Department of Small and Medium Taxpayers
FAD	Fiscal Affairs Department (of the IMF)
GDCE	General Department of Customs and Excise
GDT	General Department of Taxation
HR	Human resources
IMF	International Monetary Fund
IT	Information technology
JICA	Japanese International Cooperation Agency
LTD	Large Taxpayer Department
LTO	Large taxpayer office
MEF	Ministry of Economy and Finance
OTA	US Treasury Office of Technical Assistance
PIT	Personal income tax
Riel	Unit of currency, Cambodia
RMS	Revenue Mobilization Strategy 2014–18
RMU	Risk management unit
STA	Swedish Tax Agency
TA	Technical assistance
TADAT	Tax Administration Diagnostic Assessment Tool

PREFACE

At the request of the Senior Minister of the Ministry of Economy and Finance (MEF), His Excellency Dr. Aun Pornmoniroth, a Fiscal Affairs Department (FAD) technical assistance mission from the International Monetary Fund (IMF) visited Phnom Penh from March 14 to 27, 2018. This mission reviewed progress made by the General Department of Taxation (GDT) with implementing the Revenue Mobilization Strategy 2014–18 (RMS). It also identified areas of priority tax administration modernization for inclusion in the work of the MEF and GDT to develop the next phase of revenue reforms for Cambodia to be implemented from 2019–23. The mission comprised Ms. Debra Adams (head), Messrs. Charlie Jenkins and Patrick De Mets (FAD technical assistance advisors), and Mr. Stephen Wilcox (FAD external expert).

During its work the mission met with Excellencies Mr. Vongsey Vissoth, Secretary of State, and Mr. Hem Vandy and Mr. Chan Sothy, Under Secretaries of State, at the MEF; His Excellency Mr. Phiyorin Tep, Director General (DG) of the General Department of Policy; Excellencies Mr. Kong Vibol, DG, and Ms. Bun Neary, Mr. Ming Bankosal, Mr. Van Puthipol, and Mr. Um Seiha, Deputy DGs, at the GDT; and other senior MEF and GDT officials, including the Directors of the GDT's main Departments.

A coordination meeting was held with representatives from the development partners assisting the GDT—the Japan International Cooperation Agency (JICA) and the Swedish Tax Agency (STA). In outreach to the private sector, discussions were held with members of the business community.

The mission presented its findings to His Excellency Mr. Vongsey Vissoth, Secretary of State, at a closing meeting on March 27, 2018.

The mission team records its appreciation of the cooperation received from and the varied and informative discussions held with MEF and GDT officials, and their assistance with the logistical arrangements for the mission's work. The team is also grateful for the support of the IMF Resident Representative, Ms. Yong Sarah Zhou, and her staff, both before and during the mission.

This report consists of an Executive Summary and six sections—(I) Introduction (II) Progress Under Revenue Modernization Strategy 2014–18; (III) Planning for 2019–23; (IV) Institutional Framework; (V) Core Tax Functions; and (VI) Support Functions.

EXECUTIVE SUMMARY

This FAD mission reviewed recent progress to improve tax administration and identified areas of priority tax administration modernization for 2019–23. The MEF has been implementing the RMS, a major component of which is the strengthening of the administration of the GDT. As the RMS ends in 2018, the MEF is now developing the next phase of reforms to strengthen the revenue system of Cambodia over the period 2019 to 2023.

The GDT has made significant progress with implementing the RMS measures under its responsibility, and achieved extremely positive revenue growth and collections. The GDT has completed 71 out of the 86 RMS tax administration measures; the remaining 15 are under active progress. Since 2012, the GDT has routinely exceeded its revenue targets, and year-on-year revenue growth has far exceeded the annual levels of economic growth. Cambodia's 2017 tax-to-GDP ratio of 17.2 percent is now comparable with many regional countries.

Implementation of the RMS measures has strengthened the GDT's operations in a number of ways, including: improved human resource policies and management, early steps towards the full automation of tax administration processes, introduction of a centralized registration database, a range of taxpayer service initiatives, introduction of e-payment options, increased audit activity, revised arrears management procedures, improved large taxpayer management, re-establishment of internal audit and establishment of an investigation function, and establishment of a full three-stage dispute resolution system.

The MEF is now developing a new tax system reform strategy for 2019–23, in which the GDT will play a major role. FAD recommendations in other revenue areas are also expected to be incorporated into the new strategy, including: (i) tax policy reforms, covering taxation of business income, expansion of the personal income taxation, taxing immovable property, and value-added tax (VAT) and excise improvements; and (ii) reforms in the General Department of Customs and Excise (GDCE) to strengthen enforcement, risk management, and post-clearance audit.

This mission has worked with the GDT to consider how it needs to position itself in the coming years to meet the Government's revenue and other development needs. The GDT must build on its achievements to date to position itself to respond to the changing economic and business environment that is expected to be in place from 2019 onwards. This future environment includes: continuing pressure to sustain recent revenue growth levels; the need to improve the tax culture in Cambodia and support the Government's pro-growth and investment policies; the planned implementation of major tax policy reforms; and an increasing focus on strengthening fiscal governance and accountability.

While the GDT has achieved a high rate of revenue growth, there are concerns that the growth to date is unsustainable. New administrative approaches are therefore required to

secure future sources of tax revenue from the tax base. Administrative improvements may not provide the full level of required revenue mobilization; Government will therefore likely need to consider tax policy changes, such as the introduction of new taxes, and potentially significant investment, particularly in technology.

The mission identified a range of issues that have the potential to inhibit the GDT's capacity to meet the demands of and respond to the changing environment from 2019:

- Understanding the tax base and risks to the revenue, and expanding the base.
- Understanding cross-cutting approaches to manage improved taxpayer compliance, using risk-based strategies, beyond the current reliance on audit.
- Limited strategic long-term focus, with efforts directed at collecting today's revenue.
- Organizational constraints with the current GDT structure not clearly supporting the development of these risk and compliance approaches, which will also require clear "business process owners" for each core tax function.
- Limited access to data in a timely and usable form, which is converted into information and shared automatically across relevant units to support risk assessment and decision-making.
- Budget constraints to implement modernization reforms and deliver full range of core functions.
- Full automation of the GDT is a fundamental requirement for the future development of tax administration capacity.
- Capacity to implement reform will be needed for the successful implementation of the Government's planned tax policy reforms.

The mission has developed a tax administration modernization agenda for 2019–23 that builds on the good progress achieved to date (see Box 1 below). The agenda aims to put the GDT in a significantly stronger position to tackle the future challenging environment. It should enable delivery of the Government's anticipated revenue targets and other development objectives for the tax system. The vision for the future GDT will be to develop an organization that supports the collection of sustainable levels of revenue through: enhanced capacity to implement strategic initiatives, strengthened organizational arrangements and human resource capacity, improved management of the core tax functions, the adoption of fully risk-based approaches to compliance management, and the introduction of integrated information technology. The GDT has reached the stage of development to take on the more sophisticated approaches to tax administration and compliance management laid out in this report.

Table 1. High-Level Tax Administration Modernization Agenda for 2019–23

Strategic issue	Tax Administration Modernization Priorities 2019–23	Timeline
Narrow tax base	<ul style="list-style-type: none"> Update taxpayer register—with expansion and integration to capture all taxpayers managed by GDT for all tax types. 	Short
	<ul style="list-style-type: none"> Systematically detect and pursue unregistered entities. 	Medium
Addressing low compliance	<ul style="list-style-type: none"> Establish a risk management unit function that moves the GDT to risk based decision-making. 	Short
	<ul style="list-style-type: none"> Develop a comprehensive Compliance Improvement Plan that details how the GDT will improve its management of core functions. 	Short
	<ul style="list-style-type: none"> Ensure the Large Taxpayer Department (LTD) and Small-Medium Taxpayer Department (SMTD) are focused solely on delivering compliance improvement activities for their respective sectors, including the development of industry-based teams. 	Medium
Strengthen core tax functions	<ul style="list-style-type: none"> Improve VAT refund processes to reduce the waiting time for valid taxpayer requests for refunds. 	Short
	<ul style="list-style-type: none"> Develop a national audit plan that identifies treatment strategies for the key risks. 	Short
	<ul style="list-style-type: none"> Use the investigation unit to target tax crimes, not as an additional audit team. 	Short
	<ul style="list-style-type: none"> Manage taxpayer filing against the client register, with emphasis on specific strategies for stop and non-filing cases in each segment. 	Medium
	<ul style="list-style-type: none"> Develop an arrears management strategy that focuses on managing current debt stocks. 	Medium
	<ul style="list-style-type: none"> Continue to leverage dispute management to identify risks and to educate taxpayers. 	Medium
	<ul style="list-style-type: none"> Acquire software and training to enable electronic audit capability of the GDT to undertake compliance on taxpayer electronic records. 	Long
Strengthen tax culture	<ul style="list-style-type: none"> Develop a national Taxpayer Service Strategy to deliver structured and systematic approaches to service and broader educational initiatives. 	Short
Develop longer-term strategic focus	<ul style="list-style-type: none"> Establish a Strategic Management Unit to develop and oversee the strategic direction of the GDT. 	Short
	<ul style="list-style-type: none"> Develop a comprehensive set of Key Performance indicators to enable senior management to assess the performance of each business unit and core function. 	Medium
Organizational strengthening	<ul style="list-style-type: none"> Assign formal ownership of the core tax functions through the delegation of responsibility and accountability to individuals below the Deputy DG level. 	Short
	<ul style="list-style-type: none"> Identify workforce changes required under the next reform phase, the GDT Strategic Plan, and changes in IT. 	Short
	<ul style="list-style-type: none"> Revise LTD selection criteria and assign appropriate staff to LTD. 	Short
	<ul style="list-style-type: none"> Reorganize audit function by segment and core tax function owner. 	Short

Strategic issue	Tax Administration Modernization Priorities 2019–23	Timeline
Access and use of data	<ul style="list-style-type: none"> • Establish real time links with other government agencies and third parties. 	Long
Integrated technology solution	<ul style="list-style-type: none"> • Establish a business case and secure funding for a new integrated IT solution that will support GDT. • Enhance e-payment arrangements; look to make them mandatory. • Implement an electronic management system for overseeing core tax functions and business processes. 	<ul style="list-style-type: none"> • Short • Medium • Long
Develop human resources	<ul style="list-style-type: none"> • Further enhance the code of conduct, distribute it, and train staff on ethical behaviors. • Use internal audit and affairs to improve GDT's integrity, thereby improving taxpayer perceptions. • Implement full staff competency framework. 	<ul style="list-style-type: none"> • Medium • Medium • Medium

I. INTRODUCTION

1. This mission has reviewed the progress made by the GDT under the Revenue Mobilization Strategy 2014-2018 (RMS). This review takes FAD’s assessment of the GDT’s status in 2012 and 2013 as the baseline against which to assess progress. The 2012 and 2013 FAD mission reports provided a summary status report and detailed recommendations on improvements in tax administration to be achieved in the medium-term. The reports provided valuable input into the development of the Government’s RMS, and many FAD recommendations were reflected in the 86 detailed RMS tax administration measures. With the RMS due to end in 2018, this current report provides a “snapshot” of the GDT’s progress along its reform journey since 2014.

2. This report also provides detailed guidance on improvements in tax administration to be targeted for implementation by 2023. The Government is developing the next phase of its tax system reform strategy for the period 2019 to 2023. The mission’s advice on the priority tax administration modernization agenda is therefore a timely input. The advice is framed to provide a view of what the Cambodian tax administration should look like and the ways in which it should aim to operate by 2023. These targets are challenging but realistic, and build on the GDT’s achievements to date.

3. The targeted improvements are based around international good practice approaches to modern tax administration. For each area, a “Good Practice” box is provided, based on the practices observed across the strongest international tax administrations. For some areas, the contents of the boxes are drawn from the desired Performance Outcomes set out in the Tax Administration Diagnostic Assessment Tool (TADAT).¹

II. PROGRESS UNDER REVENUE MOBILIZATION STRATEGY 2014–18

4. The GDT has achieved significant progress with implementing the RMS measures under its responsibility. The GDT reports that 71 of its 86 RMS measures have been completed, with 15 still underway in 2018. Of the Top 10 high impact priority measures agreed with the MEF: six are complete, including introducing the simplified accounting formula for small businesses and developing an information technology (IT) masterplan; three are considered 95 percent complete, including the introduction of e-filing and e-payment (expected to be complete in

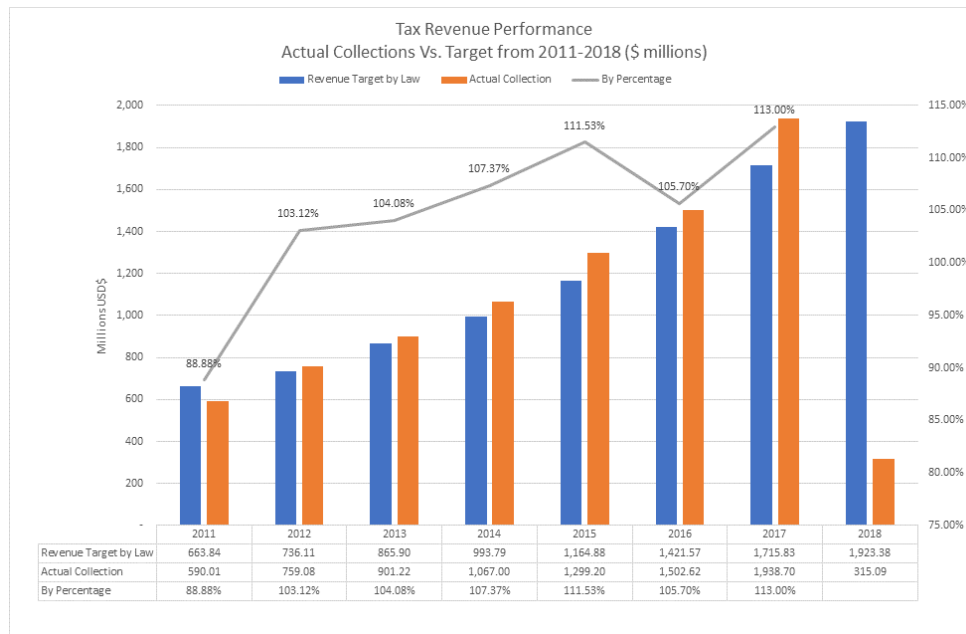
¹ TADAT is designed to provide an objective assessment of the health of key components of a country’s system of tax administration. Full details of the TADAT framework can be found at www.tadat.org. TADAT is supported by international development partners and institutions, including the European Commission, Germany, IMF, Japan, Netherlands, Norway, Switzerland, United Kingdom, and the World Bank.

2018); and the remaining measure to update taxpayers’ profiles is assessed as 75 percent complete.

A. Revenue Performance

5. The GDT has made extremely positive revenue growth and collection in recent years. Since 2012, the GDT has routinely exceeded its revenue targets, and year-on-year revenue growth has far exceeded the annual levels of economic growth, making a significant contribution to achieving the RMS revenue objective.² The MEF reports that Cambodia’s 2017 tax-to-GDP ratio, including the contribution of the GDT and the GDCE, reached 17.2 percent,³ comparable with many regional countries.

Figure 1. Tax Revenue Performance 2011–18



Source: GDT Presentation March 2018.

B. Other Main Achievements

6. The GDT has also achieved significant improvements in its tax administration approaches. Subsequent sections of this report cover the detailed progress made for each main area of tax administration. Highlights include:

² The RMS Objectives and Goals included: increase the total current revenue by at least 0.5 percentage point in addition to the ratio of current revenue-to-GDP annually, from 15.18 percent in 2014 to 17.35 percent in 2018.

³ Based on MEF-National Treasury data at February 2018.

- Improved human resources (HR) policies and management, including for recruitment, training, and performance management, and expansion of staff establishment to over 1,900 staff.
- Early steps towards the full automation of tax administration processes with 22 IT systems implemented and 15 smartphone applications available.
- Introduction of a centralized registration database and strengthened verification checks.
- Service improvements, including new service halls, simplification of forms and procedures, increased information and educational offerings, and introduction of some online services.
- Deployment of e-payment capability, reducing the need for taxpayers to attend GDT offices.
- Increased audit activity generated revenue gains, but at the potential expense of efficient and consistent enforcement approaches.
- Documentation of and training on revised arrears management procedures.
- Improvements in large taxpayer management to protect over 70 percent of GDT revenue.
- Re-establishment of internal audit and establishment of an investigation function.
- Establishment of a full three-stage dispute resolution system.

III. PLANNING FOR 2019–23

7. The MEF is now developing a new tax system reform strategy for 2019–23, in which the GDT will play a major role. In addition to targeting further improvements in tax administration, the new strategy will also identify developments in revenue policy, revenue legislation, customs administration, and the management of non-tax revenues. It is in this context that the mission has worked with the GDT to consider how the GDT needs to position itself in the coming years to meet the Government’s revenue and other development needs.

8. While the GDT has achieved a high rate of revenue growth, there are concerns that the revenue growth to date is unsustainable. New administrative approaches are therefore required to secure future sources of tax revenue from the tax base. Administrative improvements may not provide the full level of required revenue mobilization; Government will therefore likely need to consider tax policy changes, such as the introduction of new taxes, and potentially significant investment, particularly in technology.

A. Expected Environment from 2019–23

9. **The GDT must position itself to respond to the changing economic and business environment that is expected to be in place from 2019 onwards.** This will include:

i. Continuing pressure to *sustain revenue* levels.

It is accepted across MEF and GDT that the recent rate of year-on-year tax revenue growth is not sustainable. The MEF focus is shifting to a focus on achieving an “optimal”⁴ level of revenue collection, reflective of the need for fairness and equity in the tax system, which the GDT will have to consider in its work plans and programs.

ii. The need to improve the *tax culture* in Cambodia.

Cambodia continues to face a weak tax culture across society. There is a recognized need for the tax system to be fair and equitable from the perspectives of both tax policy and tax administration practices. The public also needs to better understand the role of taxation in the country, and how they can play their part in the country’s development through good tax compliance behaviors.

iii. Support the Government’s *pro-growth and investment* policies.

The tax administration can play a significant role by implementing business-friendly approaches that reduce the administrative burden and cost of compliance for taxpayers. Such approaches would include the planned consolidation of the tax laws into a single, updated tax code, continuing simplification of forms and procedures, the expansion of e-services, and shifting to service-oriented approaches—becoming a “*taxpayer-focused*” organization, rather than a “*tax-focused*” organization.

iv. Planned implementation of major *tax policy reforms*.

The MEF is considering major tax policy changes in the period 2019–23. These could include the introduction of a comprehensive personal income tax (PIT), changes to capital gains tax, and restructuring of property taxes. Implementation of such large-scale tax reforms requires significant planning, resources, and time.

v. Fiscal *governance and accountability*.

The MEF recognizes society’s growing accountability demands on government spending, and an increasing need to focus on improving the fairness and social justice aspects of the revenue system. There is also a continuing need to address governance and integrity issues in the revenue system. While ongoing improvements in tax administration, such as expanding automation, reducing the need for face-to-face interactions with taxpayers, and a robust internal audit function will assist, there remains a great deal to do in this area.

⁴ This term is currently undefined.

B. Issues Inhibiting the General Department of Taxation’s Capacity to Respond

10. There are a range of issues that have the potential to inhibit the GDT’s capacity to respond to this changing environment. These include:

- *Tax base and risk.* The GDT needs a deeper understanding of the tax base in Cambodia and the fundamental risks to the revenue presented by the various participants, segments, and sectors in the base. The tax and taxpayer bases also need expanding.
- *Compliance management.* The GDT needs a broader understanding of cross-cutting approaches to manage improvements to taxpayer compliance levels (see Appendix 1). A wide range of fully risk-based strategies are needed to address non-compliance, going beyond the current reliance on audit. These strategies could include policy and legislative changes, new procedures, targeted education and service initiatives, as well as the costlier deployment of risk-based audit and enforcement actions for more serious cases of non-compliance.
- *Limited strategic long-term focus.* GDT’s efforts are directed at collecting today’s revenue, leaving insufficient time and resources dedicated to the longer-term strategic planning needed to develop the organization to meet future needs.
- *Organizational constraints.* The GDT’s current structure does not support the development of the risk and compliance approaches noted above. In addition, many of the core tax functions do not have a clear “business process owner” at headquarters to focus on their specific development and delivery. Working within the design constraint of Cambodia’s civil service means the GDT structure is not able to quickly respond to the changing environment.
- *Access to data.* The GDT is technically entitled to access third party data from a range of Government agencies and third parties, but, in practice, it has limited access to this data. Even with ministerial approval, data is not provided in a timely or usable form. Once data is provided, there are challenges to convert the data to information and allow all relevant units automatic access to the data and information for risk assessment and decision making.
- *Budget constraints.* The GDT continues to face budgetary constraints for its modernization and the delivery of some core functions. To implement the modernization agenda laid out in this report, the GDT will need to prepare a detailed budget and be provided with an appropriate level of funding. Some core areas, such as taxpayer service, currently have insufficient budget to deliver their desired level of core programs.
- *Automation.* The full automation of the GDT is a fundamental requirement for the future development of tax administration capacity. There is no current funding provision for the full-

scale automation of the GDT, for example, to invest in a commercial off-the-shelf (COTS) IT system that would support all aspects of tax administration.⁵

- *Capacity to implement reform.* The successful implementation of the Government’s planned tax policy reforms will require a new approach to reform implementation and management. Such reforms are not something that can easily be done alongside the day-to-day operations of tax administration. For example, the implementation of a PIT in Cambodia will affect millions of individuals and will require, at a minimum:
 - A 2-year design and implementation project.
 - The assignment of a team of full-time staff, removed from their normal duties.
 - A project team with a range of skillsets—legislative drafting, project management, business process design, IT system development, taxpayer communication, training.
 - Automation of tax administration to manage the expanded taxpayer base.
 - Sufficient budget allocated for delivery of the full implementation plan.

C. Tax Administration Modernization Priorities 2019–23

11. The mission has developed a tax administration modernization agenda for 2019–23 that builds on the good progress achieved to date. The agenda aims to put the GDT in a significantly stronger position to tackle the changing environment from 2019 onwards and address the challenges noted at subsection B above. It will enable the delivery of the Government’s anticipated revenue targets and other development objectives for the tax system. The modernization priorities outlined in the Executive Summary are grouped in Box 1 by relevant report section and suggested timeline: short-term targets (to be completed by mid-2020), medium-term targets (by end-2021) and longer-term targets (by end-2023).

⁵ See section VI.B and Appendix 5. The IMF’s three technical notes on the *Use of Technology in Tax Administrations* provide reference materials for the way forward on automation for the GDT: see <https://www.imf.org/en/Publications/TNM/Issues/2017/03/15/Use-of-Technology-in-Tax-Administrations-1-Developing-an-Information-Technology-Strategic-44714>, [Use-of-Technology-in-Tax-Administrations-2-Core-Information-Technology-Systems-in-Tax-44689](https://www.imf.org/en/Publications/TNM/Issues/2017/03/15/Use-of-Technology-in-Tax-Administrations-2-Core-Information-Technology-Systems-in-Tax-44689), and [Use-of-Technology-in-Tax-Administrations-3-Implementing-a-Commercial-Off-The-Shelf-COTS-Tax-44719](https://www.imf.org/en/Publications/TNM/Issues/2017/03/15/Use-of-Technology-in-Tax-Administrations-3-Implementing-a-Commercial-Off-The-Shelf-COTS-Tax-44719).

Box 1. Summary of Main Tax Administration Modernization Priorities 2019–23

Section IV. Institutional Framework

Short-term

- Establish a Strategic Management Unit to develop and oversee the strategic direction of the GDT.
- Assign formal ownership of the core tax functions through the delegation of responsibility and accountability to individuals below the Deputy DG level.
- Establish a risk management unit function that moves the GDT to risk based decision-making.
- Revise LTD selection criteria and assign appropriate staff to LTD.
- Reorganize audit function by segment and core tax function owner.

Medium-term

- Develop a comprehensive set of Key Performance Indicators to enable senior management to assess the performance of each business unit and core function.
- Ensure the LTD and SMTD are focused solely on compliance improvement for their respective sectors, including the development of industry based teams.

Long-term

- Implement an electronic management system for overseeing core business processes.

Section V. Core Functions

Short-term

- Develop a comprehensive Compliance Improvement Plan that details how the GDT will improve its management of core functions.
- Develop a national Taxpayer Service Strategy to deliver structured and systematic approaches to service and broader educational initiatives.
- Develop a national audit plan that identifies treatment strategies for the key risks.
- Improve VAT refund processes to reduce the waiting time for valid taxpayer requests for refunds.
- Update taxpayer register—with expansion and integration to capture all taxpayers managed by GDT for all tax types.
- Systematically detect and pursue unregistered entities.
- Use the investigation unit to target tax crimes, not as an additional audit team.

Medium-term

- Manage taxpayer filing against the client register, with emphasis on specific strategies for stop and non-filing cases in each segment.
- Enhance e-payment arrangements; look to make them mandatory.
- Develop an arrears management strategy that focuses on managing current debt stocks.
- Continue to leverage dispute management to identify risks and to educate taxpayers.

Long-term

- Acquire software and training to enable electronic auditing capability of the GDT to undertake compliance on taxpayer electronic records.

Section VI. Support Functions

Short-term

- Identify workforce changes required under the next reform phase, the GDT Strategic Plan, and changes in IT.
- Establish a business case and secure funding for a new integrated IT solution that will support GDT.

Medium-term

- Use internal audit and affairs to improve GDT's integrity, thereby improving taxpayer perceptions.
- Further enhance the code of conduct, distribute it, and train staff on ethical behaviors.

Long-term

- Implement full staff competency framework.
- Establish real time links with other government agencies and third parties.
- Implement an electronic management system for overseeing core tax functions and business processes.

12. The GDT has reached the stage of development to take on the more sophisticated approaches to tax administration and compliance management laid out in this report. To support the GDT in this effort over the coming five years, this report is organized in three main sections covering suggested improvements to the GDT's: (i) institutional framework; (ii) core functions; and (ii) support functions. For each component, the sub-section summarizes the: (a) pre-RMS status; (b) current situation and achievements made under the RMS; and (c) targeted improvements to be implemented by 2023.

IV. INSTITUTIONAL FRAMEWORK

A. Strategic and Operational Planning

Box 2. Good Practice: Strategic and Operational Planning

Strategic planning is used to guide the deployment of resources and to provide focus on key activities and measurements of achievement in attaining the vision or future state of the tax administration. It articulates where the tax administration wants to be within 3-5 years by developing a future vision, identifying the key problems/challenges, and defining key goals, as well as the options for achieving these goals. The end-product of the strategic planning process is a collaborative set of decisions on the objectives or goals about what to do, a justification for why do it, and, through a series of actions and projects, an approach on how to do it. The strategic plan sets out objectives for the duration of the plan in the key areas against which successful performance will be measured. To be an effective management tool, the strategic plan requires performance indicators, which reflect performance against each objective. Performance management is used to direct and better manage the tax administration at all levels that includes not only performance measurement but also the determination of the appropriate level of performance, the development and reporting of performance information, and the use of that information to assess the actual level of performance against the desired level. The strategic plan sets performance targets against which actual performance is measured. Most modern tax administrations have clearly defined strategies that are linked to the major functional areas of the organization—registration, filing, audit, payment, taxpayer service, etc.—and most tax organizations aim to increase the quality of audits, improve their revenue collection, deliver quality service to taxpayers, and process information more rapidly and with greater accuracy. Improving the effectiveness of these key functions should be the basis for defining performance standards in most tax administrations. The strategic plan is supplemented with detailed operational and action plans describing how each major organizational unit is to accomplish the objectives of the strategic plan. These action plans usually describe who has responsibility for various actions, the milestones, timing, required resources, and a rough budget.

Pre-RMS

13. Little formal strategic planning was undertaken. While a GDT strategic planning document was prepared for the period 2012–14, it was not institutionalized within the GDT and did not drive developments over that period.

Current situation

14. The GDT’s strategy for the period 2014 to 2018 has been drawn directly from the RMS. The GDT did not prepare its own strategic plan for this period, and the organization does not currently have a dedicated unit that is responsible for strategic planning and monitoring.

15. Many RMS measures are based on actions and outputs to be delivered, rather than outcomes or results to be achieved. GDT has succeeded in delivering most of the required actions and outputs by managing them on a piecemeal basis through a series of working groups

and committees. The RMS monitoring and evaluation was done by a team working part time under the direction of a Deputy DG.

16. GDT has focused on revenue collections as its main target, with few other performance targets set or measured.⁶ While the GDT has achieved a high rate of growth in recent revenue collections, as noted above, there are concerns that the revenue growth to date is unsustainable and new approaches to tax administration are now required, together with tax policy changes, and potentially significant investment, particularly in technology.

17. The GDT has also improved services and compliance, mainly in the large taxpayer segment. In addition, the audit function has increased its activities through the deployment of additional staff. This has provided the foundation for the high rate of recent revenue growth, but this heavy reliance on audit cannot continue indefinitely. Future strategy will therefore need to focus on: (i) targeted parts of the large taxpayer population; and (ii) the medium and small taxpayers. The medium and small segments are likely to be harder to reach, harder to tax, less capable of meeting basic compliance requirements, and yield less revenue.

18. The GDT has developed a draft Strategic Plan for 2019–23. This was developed by a working group approach that deployed various good practices, including a “Strengths-Weaknesses-Opportunities-Threats” analysis. The Plan will be finalized later under the umbrella of the objectives of the Government’s new revenue mobilization strategy for 2019–23.

Targets by 2023

19. GDT will be responsible for developing its own strategic plan to support the achievement of next phase of the Government revenue strategy 2019–23. This is expected to be a period of significant change in the GDT policy and operating environment. The likely introduction of new taxes and more sophisticated technology, in combination with a broader segment focus and industry specialization, and increasing engagement in international taxation issues, will present a complex range of challenges to which a carefully coordinated and prioritized set of strategic responses will be required. The establishment of a unit with the specialist expertise required to prepare, coordinate and monitor the strategic plan should be considered to meet the challenge presented by this new responsibility.

20. The GDT has identified three Strategic Goals and associated Objectives in its draft Strategic Plan for 2019–23—see Figure 2. Although at this stage these are in draft form, it is apparent that there will be a strong taxpayer service focus. This represents a strategic shift from the past, which has placed greater emphasis on audit and compliance enforcement. The draft

⁶ FAD has recommended the adoption of a broader range of indicators to measure the overall performance of the tax administration.

Goals and Objectives should be reviewed in the light of the advice in this report and to ensure they support the aims of the Government’s final revenue strategy 2019–23.

Figure 2. General Department of Taxation Draft Strategic Plan—Goals and Objectives

GOALS	Promote voluntary compliance and minimize tax burden by providing quality services	Ensure that taxpayers meet their tax responsibilities by fairly and firmly enforcing the tax law	Deliver high performance by insitutional strengthening
<ul style="list-style-type: none"> • OBJECTIVES 	<ul style="list-style-type: none"> • Reduce taxpayer burden by developing simple and efficient tax administration processes • Provide taxpayers with uninform, timely and accurate information through multichannel services • Enhance taxpayer education through strengthening outreach, education and tools • Achieve fair andtransparentn administration by respecting rights and interest of taxpayers • Design tailored service approahes to taxpayers' needs, preferences and compliance behavior by conducting consultation, survey and research • Foster strong partnership with private sector and related stakeholders through dialogue engagement 	<ul style="list-style-type: none"> • Identify non-compliant taxpayers in high-risk sectors through internal and external information gathering processes • Reduce tax evasion and tax avoidance by fairly and firmly enforcing the law • Strengthen tax arrears collection through the implementation of tax arrears enforcement measures 	<ul style="list-style-type: none"> • Increase work productivity through the support of standardized and modernized information technology • Empower employees with the tools and training to further develop skill proficiency and improve work performance • Strengthen institutional capacity development of staffs

21. After the Strategic Plan is finalized, the organization structure and staffing levels should be reviewed to ensure that they support the future GDT strategy. Questions to be asked should include:

- Does the organization structure support the goal of providing quality taxpayer services, through the inclusion of a headquarters function to develop service policies and national service programs?
- How will the Department of Finance and Personnel be able to determine the allocation of staff between service and compliance activities to reflect their relative importance in the Strategic Plan?
- How to design, develop and deploy a new integrated IT solution to enable the delivery of the goals of the Strategic Plan? Including the acquisition of the requisite funding and the development of the business requirements.

B. Organization and Management

Box 3. Good Practice: Organization and Management

Managing revenue risks requires the right organization structure and management to design the strategies for the future and effective processes to address identified risks. A hybrid model, comprising a function-based organization structure, coupled with segmentation for large taxpayers is the model recommended for most tax administrations. Segmentation of large taxpayers reflecting the high revenue importance of this relatively small group of taxpayers is commonly found in tax administrations today. Strong headquarters management and direction is responsible for shaping the strategic direction of the tax administration in line with government objectives. An effective delegation framework provides a clear pathway to good governance and transparent decision-making. It enables the head of the tax administration and senior leadership team to focus on strategic issues by decentralizing responsibility for decisions about the administration's dealings with taxpayers to an appropriate operational level. Headquarters divisions develop policies, procedures and plans and oversee their implementation in operational and field offices. There are clear lines of accountability from headquarters to field offices and within the field offices themselves. Field offices can be: (1) organized based on geography, serving all taxpayers through targeted programs to address the needs of the different taxpayer segments; (2) organized as either "front offices" for service functions or "back offices" for enforcement functions; and (3) a combination of these.

Pre-RMS

- 22. The organization structure of the GDT did not reflect good practice in planning, functional definition, reporting, or governance.** The principal reason for this was the lack of a strategic vision and goals beyond the achievement of revenue collection targets. The absence of clearly set out goals and objectives resulted in there being no perceived need for a specialized planning and monitoring capability.
- 23. The role of a tax headquarters was not clearly understood or defined.⁷** Many headquarters staff were largely engaged in operational level activities, and clear ownership of the core tax functions (taxpayer service, registration, filing, collections, audit) in headquarters was missing. Responsibilities for administrative policy development, and program planning and direction were not established. The roles and responsibilities of the Deputy DG's were not clearly defined.
- 24. The headquarters structure grouped together some unrelated functions and did not include others.** Service and compliance functions were combined in the Department of Taxpayer Services and Arrears; while there was no provision for tax investigations to be undertaken.
- 25. The internal audit function had been suspended.** As noted in Section VI.C below, there was no internal mechanism for assessing and reporting on process and systems effectiveness, procedural compliance, and integrity.

⁷ FAD advised on the need to strengthen the role of headquarters in the management of the tax system.

Current situation

26. GDT has designed and implemented a new organization chart, with effect from December 2017. This structure addresses some of the shortcomings of the previous arrangement. In particular:

- The Department of Small and Medium Taxpayers (DSMT) has been created to provide headquarters' oversight of the non-large taxpayer segments. Under this Department, the Phnom Penh Municipality Tax Division acts as a regional oversight office for the city's tax Khan branches.
- The tax crime investigation function has been elevated to the level of a Department.
- Internal audit has been re-established as a headquarters function.
- The importance of various headquarters functions has been recognized, including the role of:
 - Training and staff development to the future of the GDT with the establishment of the National Taxation School at Department level.
 - Taxpayer communication and engagement to support compliance with the establishment of Bureaus responsible for Consultation and Public Relations under the Department of Administration and General Affairs.
 - International taxation issues with the establishment of the International Tax Cooperation Bureau under the Department of Law, Tax Policy and International Cooperation.

27. Some concerns still exist in relation to the new headquarters structure. The importance of risk assessment as a basis for planning across the range of compliance functions is still understated, and no business owner for risk or compliance has been established. In addition:

- Some core tax functions do not have a single business owner at headquarters, while for others, including audit, their national role in terms of setting strategies and providing oversight, is very limited.⁸
- The audit function remains fragmented, with responsibility divided between the Department of Enterprise Audit (DEA) and Large Taxpayer Department (for large taxpayers) and between the DEA and the Khan and Provincial Tax Branches (for small and medium taxpayers).
- Units with responsibility for strategic planning, monitoring, and project/change management are not included in the new structure.

⁸ FAD has provided advice on the need for central business owners to be in place for the development of all core functions.

- Specific responsibilities for the Deputy DGs are not defined in the new organization chart, and it was reported that each Departmental Director reports to two Deputy DGs.
- Internal audit does not fall directly under the office of the DG.

28. Operationally, many day-to-day decisions and approvals are routinely routed through the DG's office. This slows down operational work and response times, and risks disempowering lower levels of the organization.

Targets by 2023

29. The GDT strategic plan will also require a vision of what the ideal organization to support the strategy will look like. This will involve considering issues such as:

- How to build capacity to implement and monitor major strategic initiatives, separately from the management of day-to-day operations?
- How to deliver effective delegation of duties to provide a clear pathway to good governance and transparent decision-making? This will enable the head of the GDT and senior management team to focus on strategic issues, while allowing the responsibility for decision-making about the administration's day-to-day dealings with taxpayers to be managed by regional and local heads.
- The assignment of formal ownership of the core tax functions to business owners at headquarters level to take responsibility for the development and management of the core tax functions, and work on cross-cutting risk issues.
- The implementation of organizational performance management to direct and manage the tax administration at all levels. The GDT should determine a set of key performance indicators that will enable each of the core business functions to measure their success.
- How to establish a central risk assessment function as the basis for operational planning, and the need to establish technical expertise in this area?
- What will be the impact of technological developments on the organization structure?

C. Effective Risk Management

Box 4. Good Practice: Effective Risk Management

Compliance and enforcement strategies are in place that are fully based on risk management. Formal governance arrangements exist at senior management level (i.e., there is an active risk management committee) to approve risk mitigation strategies and monitor progress with implementation. Risks are classified as: (i) compliance risks—where revenue may be lost if businesses and individuals fail to meet the core taxpayer’s obligations and; (ii) institutional risks—where tax administration functions may be interrupted if certain external or internal events occur. Good practice in *compliance* risk management includes that a structured compliance risk assessment process is in place—linked to the tax administration’s broader annual business planning—to identify, assess and prioritize compliance risks for all core taxes, the core compliance obligations, and key taxpayer segments. Major compliance risks are managed via development and implementation of a documented compliance improvement plan comprising mitigation activities in respect of all identified high risks. Good practice in *institutional* risk management includes having a structured process applied regularly to identify, assess, and prioritize institutional risks across the whole organization. A documented institutional risk register of identified institutional risks that potentially pose a threat to the continuity of tax administration operations is in place. A business continuity plan exists to mitigate risks and is reviewed regularly. Staff are trained in disaster recovery procedures; preventive measures are taken and internal controls are implemented to protect tax administration systems from fraud and error.

Pre-RMS

30. The GDT had not adopted comprehensive good practices for compliance risk management (CRM). There was little systematic information gathering, nor the consistent use of a wide range of analytical indicators to assist the development of understanding, identification, and risk assessment of more complex issues, nor the controlled testing of emerging findings on “new” risks. The absence of an integrated IT system constrained risk analysis activities, which were basically performed using manually-generated spreadsheets. Data for risk assessment was very limited and not supplied automatically by other parts of the GDT.

31. Limited risk analysis was undertaken to select audit cases across the GDT. Although the DEA, LTD, and the tax branches used risk as the basis for audit case selection, none of the offices operated from formal case selection guidelines. Audit selection and programs were not coordinated between the functions, and audit outcomes were not routinely shared to feed back into the risk assessment process. Most audit selection was based on cross-checking of VAT and customs transaction data, with other risks identified through experience-based “sift” processes.

Current Situation

32. The GDT has not transitioned to a comprehensive “risk-to-revenue” approach that recognizes that cross-functional strategies need to be employed across the core functions. Consequently, there is limited understanding and analysis of compliance risks among key taxpayer segments and sectors, and of their impact on revenue performance. There is no central

GDT risk assessment function, and the use of risk-based approaches is mainly restricted to audit case selection, and not yet applied across other core tax functions. An ongoing RMS measure does highlight the need for a computerized, automatic risk analysis system. The DEA and each tax branch continue to undertake their own independent risk analysis work to select their audit cases, with little interaction or sharing of results. The LTD is using basic risk assessment techniques for improved audit and debt case selection, mainly using “tax income losses” and “high value” as priority criteria for case selection. The “risk-to-revenue” approach and the type of compliance improvement model the GDT should be aiming for is set out in detail at Appendix 1.

33. The STA is providing advice and support to develop the GDT’s risk capability. Work to undertake a general risk overview has commenced. A small list of high risks has been identified and the cash sector selected for priority follow up action. STA will support a project to install cash registers in selected cash-based businesses to improve their reporting compliance.

34. The need for approaches to identify and address institutional risks are recognized but in their infancy within the GDT. A good example of addressing institutional risks is the establishment of the GDT’s new data management center to better secure taxpayers’ data held by the GDT.

35. The GDT is well-positioned to leverage opportunities from advancements in technology to move to a more strategic risk-to-revenue approach. The GDT has made significant progress over the last years in IT capability and further enhancements are expected.

Targets by 2023

36. The GDT will establish compliance and enforcement strategies that are fully based on risk management:

- The GDT will move to a modern CRM approach in the short-term. Sustainable increases in tax revenue could be obtained over time through increased voluntary compliance using compliance and enforcement strategies that are fully based on risk management. As set out in detail in Appendix 1, this will include development of:
 - Formal structure (including central risk assessment function as noted at subsection B above) and governance arrangements and key functions at senior management level to approve risk mitigation strategies and monitor progress with implementation.
 - A structured approach to identifying, assessing, prioritizing and mitigating compliance risks within a framework of taxpayer segments (with fully documented procedures). Increasing the LTD’s understanding of the segments of the taxpayer population and their behaviors is fundamental.
 - A “GDT Compliance Improvement Plan” to address the underlying causes of non-compliance, not just the symptoms. The Compliance Improvement Plan should outline

the most significant risks to the tax system, as well as how the GDT intends to respond to those risks through “mitigation strategies” (to be delivered by each of the core tax functions outlined in Section V below). The Plan should also explain the process to monitor and evaluate the mitigation strategies put in place enabling the GDT to measure their performance.

- A “Business Continuity Plan” to mitigate institutional risks where tax administration functions may be interrupted if certain external or internal events occur. Institutional risks that potentially pose a threat to the continuity of GDT are documented in an institutional risk register. Staff will be trained in disaster recovery procedures.

D. Taxpayer Segmentation

37. Tax administrations must tailor different service and compliance strategies for small, medium, and large taxpayers for effective risk management. The GDT has a well-established LTD and has recently established a DSMT. The DSMT will focus on designing and implementing strategies for the management of the small and medium taxpayer segments.

38. The focus of the advice in this sub-section is on the effective administration of large taxpayers. However, much of the advice is equally relevant to the DSMT. For the sake of brevity, the advice has not been repeated but can be adjusted for the management of the small and medium segments. This includes ensuring that control measures are focused on improving voluntary compliance and managing relevant taxpayer risks for each segment. As medium and small taxpayers have less formal structures and many deal mostly in cash, they usually have more opportunities to under-report their income.

Large taxpayer management

Box 5. Good Practice: Large Taxpayer Management

Segmentation of large taxpayers, applied in a function-based model as a hybrid organization structure, is commonly found in tax administrations today. The underlying characteristic that results in the recommendation to put an organizational focus on large taxpayers is that they generally account for 60 to 70 percent of the revenue collected by the tax administration. The large taxpayers' office (LTO) provides the full range of services and tax administration functions for all large taxpayers, irrespective of their legal status. Risk assessment is conducted in the LTO or at headquarters, depending on local circumstances and capability. The level of trading turnover is generally used as a criterion for determining whether a business is a large taxpayer. Where a company is part of a corporate group, the determining factor should be the domestic turnover of the whole group, rather than individual entities' turnover. Many countries now view 1,000 large taxpayers as the maximum size of their LTO. Further segmentation is accomplished through grouping activities in the LTO based on industry sectors (for example, banking, insurance, natural resources, telecommunications) even if their turnover falls below the threshold. Depending on resources and the level of risk, specializing in this way will result in efficiency gains resulting from audits being completed more quickly, and better revenue yields from an in-depth knowledge of the industry and its inherent risks. More and more tax administrations include their High Wealth Individuals (HWI) in the LTO. This is generally an acknowledgement that HWIs are usually involved in complex tax planning and ensuring their compliance is the responsibility of the most experienced audit staff in the tax administration. Taxpayers that should be included in the LTO are regularly reviewed. Where the situation warrants, there could be more than one LTO.

Pre-RMS

39. The LTD handled some, but not all, tax administration functions relating to their taxpayer base.⁹ The LTD managed: (i) registration of and assistance to taxpayers that meet the conditions to be administered by the LTD; (ii) processing of large taxpayers' returns; (iii) selection for, and conduct of, "desk" and "limited" audits of large taxpayers; and (iv) pursuit of tax arrears of large taxpayers. The LTD did not conduct "comprehensive" audits of large taxpayers; this work was undertaken by the DEA. This split of taxpayer control and administration functions for large taxpayers led to the duplication of activities and carried the risk of gaps in coverage, including the potential for inefficient audit selection and activity.

40. Understanding of the large taxpayer base was limited, constraining the GDT's ability to improve large taxpayers' compliance. Analysis of the large taxpayer group was largely confined to looking at businesses in terms of industry sector, and/or the extent of foreign ownership. It was not developed to give the GDT a better understanding of the compliance behaviors and tax planning opportunities within this group of taxpayers, and the compliance risks that arise from them.

⁹ FAD has recommended establishing a single LTD with full responsibility for all large taxpayer management, including audit, intelligence and risk assessment.

Current situation

41. The GDT continues to improve the revenue management of its large taxpayer segment, which represented over 70 percent of GDT's total revenue in 2017. In particular:

- The organization of the LTD is built around the core tax functions.
- Data capture is being maintained for all large taxpayers' return filing.
- Enhanced and targeted taxpayer services are in place, including outreach to encourage compliance and explain the GDT's views.
- There is a systematic follow up of non-filers and most tax debtors.
- Improved audit case selection using basic risk assessment techniques is in place.
- An increased number of desk and limited audits, and a limited number of joint comprehensive audits with DEA have been conducted.

42. There are many challenges facing the LTD's attempts to adopt modern large taxpayer management practices. These include:

- Too many taxpayers to actively manage. The LTD reported 3,744 active taxpayers under its portfolio in 2017 out of a total of 5,821 taxpayers.
- A relatively small workforce. The LTD currently has 196 staff, increased from 112 in January 2015. This means that approximately 10 percent of total GDT staff managed 72.62 percent of total GDT revenue collections in 2017.
- LTD has responsibility for a range of non-core issues, including the registration of tax agents, reducing the time available for core large taxpayer management activities.
- Inefficient tax filing and payment processing arrangements, including the need to manually capture data from returns and supporting documents.
- Limited specific industry focus.
- Manually-based risk analysis and assessment methods with limited access to third party data.
- A fragmented audit function, with the DEA selecting and undertaking comprehensive audits, albeit now jointly with LTD.
- Limited utilization of the full range of powers to enforce payment of tax debt.

- Too many remaining face-to-face interactions between taxpayers and GDT officials in the LTD office setting.

Targets by 2023

43. The GDT will manage the large taxpayer segment focused on risk-based compliance management, targeted audits, and improved taxpayer services. Appendix 2 contains a sample set of high-level objectives for improving large taxpayer management. Specific areas of focus for the GDT will include:

- Adoption of revised LTD selection criteria to ensure the LTD has a manageable number of taxpayers to supervise with an appropriate level of staffing.¹⁰ Companies engaged in critical economic sectors should be under LTD supervision. LTD should continue to manage all companies enjoying investment incentives.
- Continued tailoring of service initiatives to meet the needs of large taxpayers with a focus on fast turnaround of technical advice related to large scale projects.
- Introduction of a performance management system to monitor large taxpayers' compliance with their basic obligations across different taxes.
- Centralized audit function for all large taxpayers within the LTD.
- Development of industry-based compliance improvement projects for high risk industries (see Appendix 1).
- Removal of all non-core large taxpayer management activities from LTD's responsibility.

¹⁰ International good practice suggests that the LTD should manage the largest taxpayers that contribute 60–70 percent of the overall revenue, which would likely number 500–700 taxpayers.

V. CORE TAX FUNCTIONS

A. Registration

Box 6. Good Practice: Registration

Simple and straight forward registration and de-registration processes are in place that underpin key administrative processes associated with filing, payment, assessment, collection, and reporting to government. A centralized database of businesses and individuals required by law to register is compiled and maintained that includes business and individual taxpayers, as well as others such as employers with withholding responsibilities. Registration uses a unique taxpayer identification number that facilitates routine identification of taxpayers for administrative actions, third party information reporting and data matching, and exchange of information with other government agencies. Proof of entity and other checks prevent fraudulent registrations. Ongoing efforts are made to ensure accuracy and reliability of the taxpayer database. Dormant registrations are identified and flagged and the database is kept clean of inactive, invalid, and duplicate records. Systematic initiatives are undertaken to detect unregistered businesses and individuals, especially those representing high revenue risks.

Pre-RMS

44. Registration arrangements met few of the good practice requirements. There was no centralized registration database that captured essential taxpayer details. Consequently, there was no meaningful baseline for measuring performance across the range of core tax administration functions.

45. Separate registration was required for different taxes and the register was inaccurate. Registration was cumbersome and inefficient for taxpayers, and did not provide a base for GDT officials to access a single view of a taxpayer's net tax position. Authentication checks on registration details provided were weak. The completeness and accuracy of details for those entities who were registered was therefore questionable, and provided a poor basis for taxpayer compliance management.

46. Enforcement of registration obligations was weak, and the number of taxpayers who should have been registered was unknown. There was some regular expansion of the taxpayer register, but this did not reflect the known growth in business registrations. Larger taxpayers who should have been registered in the 'real regime' were believed to be hiding the true value of their business activities, and operating under the 'estimated tax regime' intended for small taxpayers.

Current Situation

47. The GDT has made significant improvements in the registration process. In particular:

- A centralized national registration database has been established.
- An online registration portal has been launched (2014).
- A single, simplified registration form for all taxes has been introduced.
- More rigorous authentication checks were introduced to improve the accuracy of the register, including identification and place of business checks.
- A national street survey is underway to identify unregistered businesses.

48. The GDT still does not have full knowledge of, or complete records for, the taxpayer base. An exercise to update the taxpayer register is underway under the RMS, but the Registration Bureau informed the mission that, to date, only 32,364 taxpayer records have been verified as complete and transferred to the central database; a further 3,906 taxpayers have provided updated details. The taxpayer population continues to appear very small in relation to the visible economic development in Cambodia.¹¹ The 'estimated tax regime' was abolished in 2016, but it is not clear how many taxpayers who should now be registered under the real regime have yet to submit their registration applications. To encourage estimated regime taxpayers to move to the real regime, they were granted a transitional 2-year concession. The results of the street survey to identify new registrations were not made available to the mission.

49. The new Registration Bureau is not yet setting national registration policy and procedures. With the abolition of the Department of Taxpayer Services and Tax Arrears, which had earlier national responsibility for registration, the Registration Bureau is now part of the Department of General Affairs and Administration.

Targets by 2023

50. The management of taxpayer registration will be strengthened to ensure that all entities required to register are included in the database and that the database is complete and accurate. Improvements will include:

- Registration Bureau will take full responsibility for maintaining the national registration database and setting formal registration and de-registration policies and procedures.

¹¹ The 2011 Economic Census of Cambodia recorded over 500,000 establishments, and more than 50,000 which had more than 5 employees—see Analysis of the Census Results Report No.11, Application to National Accounts at <http://www.stat.go.jp/info/meetings/cambodia/pdf/c11ana11.pdf>.

- Single taxpayer register will contain complete information for all taxpayers, which will support effective risk analysis of the tax base. It should integrate the registers for all revenue types, including the property and vehicle ownership registers.
- Registration IT sub-system will interface with other core tax administration sub-systems, to support front-line GDT staff by providing a single, consolidated view of the taxpayer, their net tax position, and compliance history.
- Formal procedures will be documented and in use at all offices to maintain the accuracy of the taxpayer register.
- GDT will be able to detect unregistered entities who will be pursued through a variety of means, including the use of third party data (such as business registration and labor force data, and the issuance of government contracts).

B. Supporting Voluntary Compliance

Box 7. Good Practice: Supporting Voluntary Compliance (Taxpayer Service)

A service-oriented attitude toward taxpayers is adopted, ensuring that taxpayers have easy access to the information and support they need to meet their obligations and claim their entitlements under the law. Information on the main areas of taxpayer obligations (registration, filing, payment, and reporting of information in tax declarations), tailored to the needs of key taxpayer segments, industry groups, intermediaries, and disadvantaged groups, is available at minimal or no cost to taxpayers and intermediaries. It is available through a variety of user-friendly, cost-effective service delivery channels (e.g., telephone, website, brochures, fact sheets, and rulings). Procedures are in place, and dedicated technical staff are assigned, to ensure information is current. Taxpayers are made aware of changes in the law or administrative policy through targeted and general communication before the law or policy takes effect. The tax administration provides a broad range of proactive taxpayer education programs. Simplified record keeping and reporting arrangements exist for small taxpayers. Frequently asked questions and common misunderstandings of the law detected through service and verification activities are routinely analyzed to improve information products and services. Secure information and online self-service activities are available with 24-hour access. Electronic filing and payment and other e-services are adopted and reduce taxpayer costs of doing business with the tax administration. Tax declarations and other forms are reviewed regularly to ensure that only information that is needed and used is sought from taxpayers. The tax administration regularly obtains feedback from taxpayers through, for example, surveys via e-mail, telephone, website, public contact centers and meetings with stakeholders. A survey—based on a statistically valid sample of key taxpayer segments—is regularly conducted by an independent third party to monitor trends in taxpayer perceptions of tax administration services and products.

Pre-RMS

51. There was a lack of organizational focus on taxpayer service. While the Department for Taxpayer Service and Tax Arrears was responsible for taxpayer services, limited resources—staff and budget—were allocated to the service work. Only six staff worked on service issues

centrally, and, at the field office level, taxpayer service staff were routinely the first to be re-assigned to other duties considered to be of a higher priority.

52. While taxpayer service initiatives were undertaken, these were not developed or delivered under the umbrella of any centrally-driven taxpayer service strategy. As a result, service responses were ad hoc and reactive and the content varied widely across each office.

Current situation

53. GDT has increasingly recognized the importance of taxpayer service and its role in supporting voluntary compliance. National staffing levels for the taxpayer service function increased from 150 in January 2015 to 215 in January 2017.¹² Taxpayer service has been the focus of earlier and ongoing technical assistance support from the US Treasury Office of Technical Assistance (OTA), JICA, and STA. STA is delivering staff attitude and behaviors training, and supporting a study to determine taxpayer perceptions about the tax system and the GDT. JICA will also support a taxpayer satisfaction survey.

54. Efforts have been made to increase service and education offerings, and reduce the compliance burden for taxpayers. Achievements include:

- New taxpayer service halls with formal queuing systems.
- Enhancement of the GDT website, including an increasing range of information, outreach, and updates, and a new Live Chat option.
- Delivery of a range of targeted seminars and workshops to different taxpayer segments and industry groups nationally.
- Establishment of a Public Relations Bureau to manage media relations.
- Development of a wider range of taxpayer education materials and frequently asked questions, with the support of JICA and OTA.
- Launch of a new call center, with specially-trained customer service staff to handle taxpayer enquiries, supported by GDT technical officials (with STA support).
- Simplification of tax forms and procedures, e.g., for registration and filing.
- Launch of downloadable forms and online services, including for registration and tax returns.
- Launch of e-payment options to facilitate taxpayers' capacity to pay their tax on time.

¹² Data provided by the Department of Finance and Personnel.

- Launch of user-friendly smartphone applications to support voluntary compliance.

55. GDT is also working to enhance the role and quality of tax agents in the tax system.

There is now a formal registration process for tax agents, which is managed by the LTD, along with the design and delivery of training courses, including examinations, specifically for tax agents at the National Tax School.

56. While taxpayer service is cited as an area of future focus, the function no longer has a central business owner.

The abolition of the Department of Taxpayer Services and Tax Arrears, means that the taxpayer service function no longer has a formal business owner at GDT headquarters. There is no taxpayer service strategy in place; many initiatives remain ad hoc and locally driven, increasing the risk of a lack of uniformity in content and messaging. Budget constraints continue to hamper the delivery of service initiatives. The LTD has, however, made efforts to deliver more targeted services and education to support its taxpayer population.

Targets by 2023

57. The GDT will focus on improving voluntary compliance through the delivery of enhanced taxpayer services.

Taxpayers will have the necessary information and support to voluntarily comply at a reasonable cost to them, and the broader population will be better informed about the role of taxation in society. Improvements will include:

- The GDT will have a structured and systematic approach to the development and delivery of comprehensive national service and broader educational initiatives, implemented through a national Taxpayer Service strategy.
- Service initiatives will be designed to help taxpayers obtain information and meet their tax obligations in an easy and cost-effective manner, thus supporting their ability to voluntarily comply. Taxpayers will be made aware of changes in the law or administrative policy through general communication, using a range of media, well in advance of the law or policy taking effect.
- Implementation of documented and consistent procedures and service standards across all tax branches and dedicated technical staff assigned to ensure current information is available on the main areas of taxpayer obligations and entitlements in respect of all core taxes. This information should be tailored to the needs of taxpayer segments, industry groups, and tax intermediaries to support their ability to voluntarily comply.
- GDT will continue to conduct surveys—based on a statistically valid sample of key taxpayer segments—through an independent third party, at least once every three years to monitor trends in taxpayer perceptions of tax administration services and products.

C. Tax Return Filing

Box 8. Good Practice: Tax Return Filing

Filing of tax declarations is a principal means by which a taxpayer's tax liability is established and becomes due and payable. There is a trend towards streamlining preparation and filing of declarations of taxpayers with relatively uncomplicated tax affairs (e.g., through pre-filing tax declarations). Moreover, several countries treat income tax withheld at source as a final tax, thereby eliminating the need for large numbers of individual taxpayers to file annual income tax declarations. Tax declarations may be paper-based or in electronic form, and may be filed by taxpayers themselves or via tax agents and intermediaries. Return filing compliance and enforcement strategies exist based on risk management, with filing compliance risks identified, assessed, ranked and treated according to taxpayer segments and sectors. Filing compliance activities cover a range of service and enforcement tools. From a service perspective, simple return forms and declarations, combined with straightforward self-assessment, filing, and payment arrangements should be in place to facilitate administration and compliance. This is aimed at securing timely revenues without imposing undue compliance costs and inconvenience on the business sector. In terms of process approaches, tax administrations offer self-service as a first option (i.e., putting in place arrangements that allow taxpayers to file and pay the correct amount without visiting or involving a tax office, e.g., enabling electronic options), request only the specific information that is needed to complete the transaction, provide simple and clear information on what a taxpayer must do, how and where to do it and by what deadline, standardize processes and procedures organization-wide in order to avoid different treatments across different offices; and operate with transparency and public accountability. Non-compliance is addressed using immediate, standardized (often automated) follow-up procedures, supported by appropriate penalties. These enforcement approaches are uniformly and automatically applied to ALL taxpayers who have not complied with their obligations. In these environments, tax return filing compliance rates of 90 percent or higher on-time filing are achieved across all tax types.

Pre-RMS

58. The management of tax return filing was not a high priority. Given the challenges with the taxpayer register (see Section V.A above), there was no easy way for the GDT to determine the expected filing or on-time filing rates, leaving staff to undertake follow-up activities in an ad hoc manner. Overall VAT filing rates provided to the early FAD missions had filing rates of 50.5 percent, but with no capacity to measure on-time filing.

59. The tax return filing function had no business owner at headquarters. Filing was not subject to a coordinated risk management methodology, meaning that taxpayers were followed up on a needs basis. In the absence of automation, the GDT's approaches to manage non-filers were labor-intensive and unstructured. Most filing obligations were managed locally, providing limited line-of-sight capability to headquarters, to measure the relative performance of taxpayers in meeting their obligations.

Current Situation

60. Progress to improve the management of taxpayers' filing obligations has been limited. This is in part due to the ongoing challenges with the underlying registration system and lack of full automation—without a clear idea of the expected filing rates, active management of taxpayer filing obligations remains difficult.

61. The LTD has achieved improved on-time filing rates through the adoption of more structured filing management approaches. The RMS set filing targets of 75 percent for the LTD, 70 percent for Khan tax branches, and 80 percent for provincial tax branches. The mission was not provided with data on national on-time filing rates. In 2017, 83.6 percent of active large taxpayers filed on-time, an increase from 78.2 percent in 2014 (see Table 1 in Appendix 3). LTD filing management approaches include formal reminder processes, using letters and SMS to routinely follow up with non-filers. The significant number of large taxpayers (35.2 percent in 2017) who are identified as "Did Not File" is problematic, as there is no reliable estimation of the status of these taxpayers.¹³ In addition, the LTD is not yet tracking the effectiveness of its follow-up techniques or monitoring the successes.

62. The availability of downloadable return forms on the GDT website eases taxpayers' administrative and cost burdens, and is an important step on the electronic filing path. While e-filing options are being developed, the current inability to accept electronic forms creates inefficiencies. A great deal of staff time is spent processing tax returns, with nearly 200 staff involved in this function nationally.¹⁴

63. There is no central GDT function responsible for the management of tax return filing on a national basis. The general management of filing below the LTD level is weakened by the distributed management and lack of central oversight of this core tax function. Local offices do not have easy and automatic access to lists of late or non-filers, and there is no systematic follow-up action taken against all non-compliant taxpayers.

Targets by 2023

64. The GDT's management of return filing will be strengthened through the active management of filing compliance for all segments. This will be achieved through:

- Filing obligations will be linked to the taxpayer register. This will enable the GDT to effectively manage filing based on expectations and to implement risk-based priorities for follow-up, including the need for specific actions for non-filers under the LTD. Specific Taxpayer Role Types (e.g., VAT, Income Tax, etc.) will be developed so expected filing can be managed

¹³ Data provided by LTD.

¹⁴ Data provided by the Department of Finance and Personnel for January 2017.

centrally and the filing patterns for tax products should be based on the need for information and the relative risk for the sector.

- Specific strategies will deal with stop and non-filing behavior of taxpayers. These actions need to be linked to the taxpayer registration function to ensure that taxpayers who no longer have a requirement to file are accurately recognized in the register.

D. Payment and Arrears

Box 9. Good Practice: Payment of Taxes

The aim of tax administration is to attain high rates of voluntary on-time payment and low incidence of tax arrears. Therefore, collection systems are in place that reduce the incidence of unpaid taxes, especially withholding of tax at source (e.g., in respect of employment, dividend, and interest income) and advance payment regimes that ensure that the bulk of income tax payable by businesses is collected at regular intervals (e.g., quarterly) during the year in which the income is earned. Payments due will be, as far as possible, self-assessed. Tax laws, regulations, and administrative procedures specify payment requirements, including deadlines (or due dates) for payment, who is required to pay, and payment methods. More and more tax administrations have adopted electronic payment methods. Failure by a taxpayer to pay is addressed immediately using standardized (often automated) follow-up procedures (including legal debt recovery action) supported by imposition of appropriate interest and/or penalties. Tailored cost-effective enforcement approaches are uniformly and automatically applied to ALL taxpayers who fail to pay on time. An appropriate legal debt recovery framework exists encompassing effective debt recovery powers and authority to grant time-payment arrangements (e.g., to viable businesses with a good payment record but experiencing temporary cash flow problems). Active management of the arrears inventory is done by reference to value, age, and collectability of arrears cases by dedicated collection enforcement units with full-time specialist staff, trained in collection techniques, debtor relationships, and negotiation. Priority debt cases are selected centrally, using analytics to select the highest risk cases within a target population of tax debtors. Special attention is given to new, high value debts as the rate of recovery of tax arrears declines as arrears get older. Outbound call centers and e-communication facilities are used to contact debtors during and outside regular business hours. Prompt write-off procedures for uncollectible arrears are in place. Tax clearances are required to gain access to government contracts, grants, and subsidies.

Pre-RMS

65. Tax payments were nearly all made manually. Electronic payment options were not available and many tax payments were made in person at the tax offices. All tax returns submitted had to be accompanied by payment.

66. The level of debt in the GDT was very high by international standards.¹⁵ The main reason for the high debt level was ineffective debt collection techniques being used across the

¹⁵ The tax debt nearly doubled between 2009 and 2011, from Riel 1.22 million at the start of 2009 to Riel 2.09 million at the end of 2011 (source: GDT during FAD 2012 mission). One requirement to achieve a TADAT "A"

(continued...)

GDT. The GDT applied recovery procedures uniformly to all tax debts and to all taxpayers, regardless of size or risk. Under this standardized approach, all tax debts proceeded through each step of the recovery process. In addition, there was no provision to write off uncollectable debt.

67. The law provided for a range of escalating debt collection powers, but the GDT was not using them systematically. Among the factors for this, were concerns about the accuracy of the debt data and reluctance to initiate the cumbersome administrative processes involved. There were no provisions for taxpayers to arrange to make payments by instalment and so partial payment was not an option for taxpayers without the capacity to pay in full.

Current situation

68. The GDT has benefited from OTA assistance to improve arrears management. This has included efforts to computerize the national debt data, while improving its accuracy, develop a tax arrears collection manual, and deliver a range of staff training to implement the revised procedures. The LTD is using the arrears manual procedures and actively managing its arrears cases. The GDT continues to rely on softer follow-up approaches through reminder letters and invitations to pay. More graduated collection techniques are being employed, but not on a systematic basis for all cases. The introduction of procedures to accept payment by instalment has helped with arrears case management where capacity to pay is an issue.

69. While the GDT has worked to analyze the arrears inventory, the mission was not provided with national debt data. With the abolition of the Department of Taxpayer Services and Tax Arrears, the tax payment and arrears management functions no longer have a central owner at GDT headquarters. Data compilation remains a challenge; only the LTD could provide arrears data for its taxpayer population.

70. There is still no route for the regular identification and write-off of uncollectable debts. The GDT is aware of this challenge; any solution requires the full cooperation of the MEF to ensure higher level approvals.

71. Electronic payment processes and options have steadily improved. Taxpayers can now pay electronically through certain banks and payment is allocated directly to the due amounts in the taxpayers' ledger. This is a significant improvement and a highlight of recent IT developments to reduce the burden of tax compliance. There is still improvement necessary, as in many cases, electronic payment still requires a "receipt" to be attached to the return to prove payment.

score is for the ratio of total core tax arrears at fiscal year-end to total core tax revenue collections for the fiscal year to be less than 10 percent. Another requirement is for the ratio of *collectible* core tax arrears to be less than 5 percent of total core tax revenue collections.

Targets by 2023

72. The GDT's management of payment and arrears will be strengthened through:

- Expansion of e-payment options available to taxpayers nationally.
- Ability to identify and track late or non-payment and report on its payment and debt situations in detail. Priority debt cases will be selected centrally, using analytics to select the highest risk cases within a target population of tax debtors. Special attention should be given to new, high value debts as the rate of recovery of tax arrears declines as arrears get older.
- Development of an overall collection strategy to focus on early engagement with the debtors, using preventative-type messaging and interventions and 'lighter touch' assistance interventions to assist debtors to become compliant with timely, engaging and consistent intervention for those who do not comply. It should include formal write-off procedures for uncollectable arrears.
- Active management of the arrears inventory by reference to value, age, and collectability of arrears cases by dedicated collection enforcement units with full-time specialist staff, trained in collection techniques, debtor relationships, and negotiation.

E. Accuracy of Reporting

Box 10. Good Practice: Accuracy of Reporting (Verification and Audit)

Tax systems rely heavily on complete and accurate reporting of information by taxpayers in tax declarations. Tax administrations therefore need to regularly monitor tax revenue risks from inaccurate reporting and take a range of actions to ensure compliance. Many tax administrations have an audit program in place that has far wider impact than simply raising additional revenue from detected discrepancies. It focuses on the highest compliance risks and covers all core taxes and key taxpayer segments, weighted towards (at least) large taxpayers and other high-risk segments and economic sectors (e.g., high wealth individuals, construction sector). Audit cases are selected centrally, using analytics to select the highest risk cases within a target population of taxpayers. A range of audit types and audit methodologies (i.e., direct and indirect methods) are in place and applied nationally. Audit operations are supported by: (i) An IT system that provides a consolidated view of the taxpayer's compliance history across all core taxes; (ii) Centralized audit case selection using analytics to select the highest risk cases within a target population of taxpayers; (iii) An automated case management system that allocate audit cases, monitors progress, records decisions, stores working papers and data, and generates management reports; (iv) Computer-assisted audit tools that automate the extraction, analysis, and crosschecking of large volumes of data from the taxpayer's accounting system; and (v) A uniform set of administrative penalties for inaccurate reporting, and judicial penalties for tax offences such as falsification of records. There is large-scale automated crosschecking of amounts reported in personal and corporate income tax declarations with information from internal and external sources. A system of public and private binding rulings exists and cooperative compliance¹⁶ arrangements are entered with qualifying taxpayers. The tax administration monitors routinely the extent of inaccurate reporting and the results are subjected to credibility tests, such as being independently reviewed (e.g., by the government auditor, a parliamentary committee or academia) and are made public. The results are used in designing tax administration interventions to improve accuracy of reporting. Investigations units are in place to pursue cases where audit results indicate serious fraud and need to be escalated to an investigation.

Pre-RMS

73. The GDT audit program was fragmented across multiple functions. This resulted in taxpayers being subject to almost continuous auditing due to the differing timeframes being adopted by each function. The LTD, DEA, and local tax branches all undertook their own case selection and conducted a range of audit types (desk, limited, and comprehensive audits), with almost no interaction or sharing of information.

¹⁶ Cooperative compliance includes the establishment of relationships between a tax authority and large businesses based on trust and co-operation. This is usually achieved through a collaborative framework, which is seen as giving benefits for both the taxpayers and the tax authority. For example, large taxpayers want to be tax compliant, they want certainty on tax position, they do not want any surprises, and, if things go wrong for non-fraud reasons, they want to put things right quickly. Meanwhile, the tax authority wants to know the business and its sector, it wants the businesses to self-review and self-correct, it wants unprompted disclosures when things go wrong, and to apply its scarce resources to the highest risk.

74. There was no national audit plan, and audit and compliance data was incomplete.

The lack of a consolidated audit plan identifying risks and case numbers made it difficult to determine the level of effectiveness of the overall audit function.

75. The GDT audit processes were focused mainly on revenue raising with cross-checking as the major focus of audit attention. Risk analysis was limited to basic ratio analysis and identification of high value transactions to determine case selection. The audit processes were manual and had limited guidance as to best practice in audit techniques.

Current Situation

76. Audit capacity has improved. The number of auditors has increased, from 337 in January 2015 to 443 in January 2017.¹⁷ Targeted training has been conducted by JICA and OTA to develop field audit capacity. OTA assistance has provided the GDT with detailed audit technique manuals for a selection of high-risk sectors and industries. The GDT have continued to make the training material available to staff and encouraged its use, although, operationally, the GDT audit units are not structured around industry segments or risks. Excluding the Transfer Pricing Bureau, all other audit teams are generalist teams with limited specialization.

77. While there is continuing reliance on audit to generate revenue, there is no clear central oversight of national audit operations and the audit function remains fragmented.¹⁸ The DEA does not have responsibility for overall management of the national audit program. There is no centrally-developed audit program and each unit selects its own cases. The DEA continues to undertake comprehensive audits of all taxpayers, including LTD taxpayers. The LTD and local tax branches undertake desk and limited audits on their own taxpayer populations. There is little evidence that audit work is being coordinated nationally, or targeted around improving specific taxpayer compliance behaviors. While a guide on taxpayers' rights and obligations in relation to audit has been developed, the audit fragmentation and the resulting overlapping and duplicate audits continue to be raised by the private sector as one of their main challenges when dealing with the GDT.

78. Case selection is based on an audit plan that has been developed using basic analysis of transactional data and without the benefit of an overarching compliance plan. There is currently no comprehensive audit plan focused on key taxpayer risks and designed to change taxpayer behavior and improve voluntary compliance. Risk assessment work is constrained by the lack of access to third party data and limited automation. Audit planning is undertaken by each office on a quarterly basis, with individual case lists sent to the DG for

¹⁷ Data provided by Department of Finance and Personnel.

¹⁸ FAD has recommended that the LTD should have responsibility for all audit activities relating to its large taxpayer population.

approval. There is little evidence that the data currently being captured by the LTD is being used to determine relative levels of compliance and to derive treatment strategies.

Targets by 2023

79. The GDT will develop the audit function to include a national audit plan covering the highest compliance risks and covering all core taxes and key taxpayer segments. The improvements will also include:

- The audit function will be organized by taxpayer type and relative risk:
 - The DEA will become the formal headquarters owner of the core audit operations, with national responsibility for development and management of the audit function, including strategic audit and risk issues and the national roll out of standardized audit procedures.
 - The LTD will be responsible for all large taxpayer audit activities and will be structured along industry lines and specific tax functions, including transfer pricing functions.
 - The DSMT will be responsible for the management of small and medium taxpayers—focusing the regional and local audit plans around the national compliance plan (see Section IV.C above). Future development would include specialized teams focused on specific risks, rather than generic regional audit teams.
- Development of an audit case management system that enables the central audit business owner to oversee the effectiveness of the audit program.
- The GDT audit staff will begin to move to becoming industry specialists using the existing training and audit guidance to develop a focus on specific industry risks and issues.
- Development of audit tools to improve the quality and capability of audit staff to deal with the growing complexity of the taxpayer base. It will also look to acquire auditing software packages to enhance its auditing capability.

F. Value-Added Tax Refunds

Box 11. Good Practice: Value-Added Tax Refund Management

Legitimate tax refunds are paid promptly, while having safeguards in place to prevent payment where fraudulent claims for refund are involved. In the case of VAT refunds, good international practices include subjecting VAT registration applications to proof of identity checks to prevent fictitious traders from entering the VAT system. Purpose-built, automated risk assessment software is used to review all VAT refund claims against risk criteria to distinguish refund claimants with a good compliance history from those with poor or unknown compliance histories. High-risk claims are subjected to pre-refund audits or other verification, while lower-risk cases may be subject to post-refund verification. Legitimate VAT refunds are paid or offset against other tax liabilities, within a reasonable timeframe (e.g., at least 80 percent of VAT refund claims by number of cases and value are paid, offset, or declined within 30 calendar days from the date on which a refund claim is made). Preferential treatment is given to low-risk taxpayers (e.g., regular exporters with a sound compliance history). Interest is paid where legitimate refunds are delayed. Budget funds are allocated to meet all legitimate refund claims when they occur.

Pre-RMS

80. All VAT refunds were subjected to 100 percent checking and cross-matching before the issue of any refund. The GDT had a process designed to ensure that refunds were not paid without being “verified.” This created a pool of unclaimed credits along with taxpayers waiting long periods for the processing of refund claims.

Current situation

81. The VAT refund process has improved slightly, but it still takes an average of 63 weeks to receive a refund.¹⁹ Compared to other tax administrations in the region, this is an unreasonably long delay in processing. An audit is still undertaken on almost all claims. Detailed refund statistics were not made available to the mission, however, during discussions with LTD staff, it was suggested that at least 80 percent of all claims were allowed in full, with approximately 65 percent of the value of the remainder being refunded. Based on the information provided, the long delays are due to a combination of factors, including:

- All claims above \$5,000 must be audited. It usually takes a minimum of 3 months to finalize the audit, longer when a taxpayer has purchases from taxpayers managed by other offices.
- After completion of the audit, there is an internal GDT process to approve each refund, including approval of all cases at the level of the DG.
- The GDT then refers the case to the MEF to seek ministerial approval for the refund payment.

¹⁹ Data provided by MEF based on the World Bank Doing Business Report 2018.

- Payment is made manually by the MEF based on budgeted amounts and government timing processes.

82. Taxpayers are routinely disallowed claims for VAT credits where the counterparty has failed to file a return. The main reason cited by LTD for refund claim adjustments is due to the counterparty to the transaction not having filed a return and paid the tax due, rather than taxpayer error or fraud. This practice penalizes the honest taxpayer, who keeps good records and manages their affairs effectively, and rewards the unrelated non-compliant business by allowing them to keep VAT amounts until, if ever, the GDT follows up and finds them.

Targets by 2023

83. The GDT will implement practices whereby legitimate tax refunds are paid promptly, with appropriate safeguards in place to identify fraudulent refund claims. This will include:

- Development of a mandatory electronic recording system for VAT and VAT counterparty transactions to enable real time cross-checking at the filing stage. This would eliminate the long delays in post-filing verification and allow for faster processing of refunds.
- Development of a comprehensive refund risk module that would allow for rapid refunding of low risk claims. The development of a risk-based refund management approach, as outlined in Appendix 4, would enable the GDT to develop a methodology to fast track refund processing for low risk taxpayers.

G. Tax Investigations

Box 12. Good Practice: Tax Investigations

Fraud investigations are a vital feature of the overall risk-driven compliance strategy of a tax administration. The primary mission of the fraud investigations function is to identify, target, investigate, and recommend for prosecution significant perpetrators of tax fraud and evasion. The country tax code or tax procedures codes has strong provisions and sanctions for tax fraud and evasion, including substantial civil fraud penalties and possible imprisonment, and gives specific authority to the tax administration to investigate tax fraud and evasion. Under the law, fraud investigators have full authority to subpoena and summon persons or documents, and to use circumstantial evidence for presumptive assessments to determine unreported tax. Investigators have (online) access to (taxpayers') financial information (banks and others) and use modern computerized equipment and systems for matching data. The fraud investigations function in headquarters and the district/field offices (as appropriate to the organization) is organized and performed according to international good practice, with intelligence, investigations, and quality review branches, all of which are well-equipped with the latest computerized equipment and systems. The function's highly trained and skilled investigators conduct in-depth investigations of tax fraud and evasion cases, gather all necessary evidence, select and forward those cases deemed worthy to the legal staff of the tax administration for review, and participate as expert witnesses in judicial proceedings on cases that the legal staff of the tax administration submit for prosecution. In some countries, cases are only able to be prosecuted by the government prosecutor after referral from the tax administration. Fraud investigators' skills include accounting. All have expert skills in the application of indirect methods, investigative techniques, evidentiary requirements, etc. The focus of the fraud investigation function is on the selection of the most serious cases, where the tax administration can pursue the most severe punishment, for investigation and possible prosecution. If successful, the tax administration publicizes these cases to give taxpayers a clear understanding of the high risks and consequences for noncompliance. Fraud investigators and their supervisors all receive criminal investigation training courses. Auditors and collection staff of the tax administration all receive fraud awareness training, designed and conducted by staff of the fraud investigation function. A documented, formal fraud case referral program, designed for the audit and collection functions, produces cases accepted for full-scale investigation. A well-designed and administered informant communications program, managed by the intelligence staff of the fraud investigation function, yields fraud prosecution cases, including convictions and prison sentences that are then widely publicized. In some countries, the tax administration pays informants awards based on the recovery of tax, penalties, and interest that stems from the information they provide.

Pre-RMS

84. The GDT did not have a 'serious' investigation capability for tax fraud.²⁰ There was no standard process for escalating the scope of an audit when serious deficiencies and potential fraud were found. Where evasion was discovered, cases were generally concluded at the same level at which they started within the audit function.

²⁰ FAD's has advised on the need to establish investigation capability within the GDT.

Current situation

85. There have been significant improvements in fraud investigation capacity. The GDT has established a Tax Crime Investigation Department to focus on tax evasion. With assistance from FAD, basic procedures were established and investigation staff trained. While it is early days, the Department has completed some "simple" investigations and achieved results.

86. The GDT does not have clear guidance on what constitutes serious fraud, and how such cases should be escalated to the Tax Crime Investigation Department. Formal criteria for selection and transfer of cases from other Departments have not been implemented.

87. No cases have been referred for criminal prosecution to the prosecutor's office. However, there is management support to pursue cases through to prosecution. There appears to be a focus on raising revenue through investigations. However, investigation functions traditionally focus on identifying taxpayers for prosecution, rather than raising revenue.

Targets for 2023

88. The Tax Crime Investigation Department will focus on bringing the most serious fraud and evasion cases for criminal prosecution. This will also include:

- Development of detailed policy and procedural manuals for case investigations, and formal criteria for selection and transfer of cases from other departments and how such cases should be escalated to the investigation department.
- Attendance by fraud investigators and their supervisors at criminal investigation training courses, to develop adequate skills in the application of indirect methods, investigative techniques, evidentiary requirements, etc.
- Building good relationships with the prosecutor's office, the Ministry of Justice, the judiciary, GDCE, and police agencies, and active participation with other agencies on important investigations of economic crimes.

H. Dispute Resolution

Box 13. Good Practice: Dispute Resolution

A tax dispute resolution process is in place that safeguards a taxpayer's right to challenge an assessment resulting from an audit and to get a fair hearing. The process, which has uniform application across all core taxes, is based on a legal framework, known and understood by taxpayers, easily accessible, guarantees transparent independent decision-making, and resolves disputed matters in a timely manner. An appropriate graduated mechanism of administrative and judicial review is available and used by taxpayers comprising the following stages: (i) *First stage*—independent review by the tax administration (i.e. reviews are undertaken by designated review officers independent of the audit department); (ii) *Second stage*—review by an independent external specialist tax tribunal, review board/committee, or court where the taxpayer is dissatisfied with the outcome of an administrative review (an alternative fast-track dispute resolution process involving arbitration may also be in place); and (iii) *Final stage*—review by a higher appellate court to resolve remaining disputes concerning legal interpretation and facts review mechanism. Taxpayers can escalate a dispute directly to the second stage where the tax administration fails to complete an administrative review within a reasonable timeframe. The tax administration publishes clear explanations of taxpayers' rights and legal avenues for review of decisions made by the tax administration and auditors are required to provide taxpayers with a clear explanation of adjustments made to tax liabilities as a result of an audit. Collection of all or some of a disputed amount is suspended for the duration of the appeal process if recovery of the debt is not considered to be at risk (e.g., is secured by a lien on an asset owned by the taxpayer or a third-party guarantee). Dispute outcomes are regularly taken into account in determining policy, legislation, and administrative procedural updates.

Pre-RMS

89. The full dispute resolution process contemplated by law had not been implemented. While provided for in Article 123 of the Law on Taxation, the Committee for Tax Arbitration had not been established. Many taxpayers were unaware of the appeal system and the procedures to follow to lodge an appeal, and the number of appeal cases finalized annually was low (65 cases in 2011).

Current situation

90. A more modern three stage dispute resolution process is now in place. Taxpayers now have access to three levels of formal appeal: (i) administrative review within the GDT; (ii) appeal to the Committee of Tax Arbitration;²¹ and (iii) appeal to the Court. Prakas 1470 on the rules and procedures for settling tax complaints was launched in 2015, supported by the issuance of a detailed instruction in 2017. The Committee of Tax Arbitration has been established under the chairmanship of the Minister of Economy and Finance, and has heard several cases during

²¹ The GDT is not a member of the Committee of Tax Arbitration.

2017. Very few cases move forward to the Court, and, with so few cases, officials raised concerns about the Court's ability to adequately consider the technicalities of detailed tax cases.

91. Taxpayers are more aware of and informed about the full range of appeal processes available to them and how to access them. The taxpayer's right of appeal and procedures for appeal are now clearly stated on tax reassessment forms. The new Prakas and appeal instructions have been publicized, and there were several media reports and events focused on this issue. Concerns remain in the private sector about the independence and fairness of the dispute resolution system.

92. An increasing number of appeals are being lodged and processed. The Department of Law, Tax Policy and International Tax Cooperation has added more staff to the Litigation Bureau and its efficiency is increasing. The Bureau is processing an increasing number of cases annually (112 in 2017), and the year-end balance of cases is steadily decreasing (see Table 2 in Appendix 3). Of note, is the recent improvement in the quality of taxpayer appeals; in 2016 and 2017, no appeals were rejected, while 10 cases were rejected in 2015 and 11 in 2014.

Targets by 2023

93. The tax dispute resolution process will be increasingly fair, independent, and accessible to taxpayers. This will include:

- Monitoring dispute outcomes of a material nature on a regular basis and take account of these in determining tax policy, legislation, and administrative procedural updates. And ensuring that risk identification and compliance actions are updated to reflect the insights provided from decided cases.
- Making outcomes of disputes public, at a global level, while maintaining confidentiality of individual taxpayers.

VI. SUPPORT FUNCTIONS

A. Human Resource Management

Box 14. Good Practice: Human Resource Management

A human resources (HR) management strategy, policies, systems and procedures are in place which fully support the tax administration's business strategy and the development of members of staff through structured training and professional development. The HR policies and practices motivate, protect and support employees, and align their interests with the goals and values of the organization. Staff behaviors are managed within the framework of an ethics policy and code of conduct designed to ensure that the tax administration maintains high standards of professional and ethical behavior which are visible to all stakeholders. The tax administration has autonomy in making decisions about the management of its employees. Formal processes that identify, assess and mitigate human capital risks²² are in place and a formal internal assessment of the human capital risks status is conducted at least once a year. An active governance structure, comprising at least the tax administration's senior management team or subcommittee of the governing board, meets regularly to review HR risk issues and provide direction on mitigating measures. An independent (third party) human capital risks assessment is conducted on a regular basis and recommendations implemented as part of the tax administration's annual business/work plan. The tax administration's annual operations report contains a section that deals with human capital risks and the content mirrors results of the internal and external assessments.

Pre-RMS

94. HR management practices were largely beyond the control of GDT. There were significant delays in filling vacant posts due to cumbersome approval and recruitment procedures, and training opportunities were limited. There was no automatic process to fill vacancies as they arose, which could lead to posts being unfilled for more than a year. Performance evaluation was under the broader civil service procedures.

Current Situation

95. GDT has established greater control over staffing and a sound HR management function.²³ The GDT has made great improvements in this area, exemplified in the following areas of strength:

- Implementation of a formal Human Resources Strategy for 2014–18.

²² Human capital management includes the domains of: talent acquisition, performance and total rewards, career and succession planning, mobility and deployment, leadership development, learning and development, talent strategy and analytics, and competency systems.

²³ The US Treasury Office of Technical Assistance has provided extensive assistance on the GDT's HR development issues.

- The exercise of greater control cover staff recruitment, training, and performance management, as evidenced by the quality of new recruits.
- The application rate for GDT vacancies is high, at around 50 applicants for every position.
- Employment is at full establishment level—the mission was informed that there are currently no vacant positions within the organization. The establishment numbers increased from 1,391 positions in January 2015 to 1,902 in February 2018.²⁴
- Launch of Staff Code of Conduct.
- Staff turnover is very low (between 2–3 percent), and is mainly attributable to retirement.
- The retirement schedule to 2023 is already prepared, and planning for succession in place.

96. In addition, the GDT has strengthened its HR management and development through:

- Implementation of an IT-based HR management system, which includes an employee database, fingerprint scanning for attendance, and daily performance reporting.
- Establishment of a GDT performance management and evaluation system, independent of the civil service performance management system.
- Development of position descriptions and standard operating procedures for each tax unit.
- Development of a Personnel Management Manual, to be adopted from 2018 onwards.
- Conduct of Training Needs Assessments, with results linked to the National Training School training program, and other available local and foreign training opportunities.
- Introduction of a staff incentive scheme, increasing the attractiveness of the GDT as an employer.

Targets by 2023

97. The HR management strategy, policies, systems and procedures in place will fully support the tax administration’s business strategy and the development of staff. This will include:

- A competency framework, which will be the basis for recruitment, promotion and succession. And linked to standard operating procedures for all GDT functions. Including:

²⁴ Data provided by Department of Finance and Personnel.

- development plans linked to the competency framework, and providing a framework for the development of internally-focused National Training School training programs.
- risks being identified and addressed as part of institutional risk assessment, and assessed under the internal audit program.
- Active workforce rebalancing, taking into consideration the changes in practices, policies and procedures as the GDT develops and linked to the outcomes of regular authorized personnel studies.
- National Training School programs that are constantly responsive to changes in skills requirements resulting from developments in the use of technology-based systems within the GDT.
- Staff behaviors being managed within the framework of an updated ethics policy and code of conduct to ensure the maintenance of high standards of professional and ethical behavior, visible to all stakeholders.
- The current incentive scheme being further developed to incentivize the full range of staff behaviors and achievements required to support the GDT's planned strategic outcomes. The scheme should apply to staff across all GDT functions and with targets set beyond just revenue collection.

B. Technology Needed for Tax Administration

Box 15. Good Practice: Automation

An integrated Tax Information System is in place that brings together all information that tax administrations need for successful operational performance in a way that facilitates ease of access and use by the ultimate users. It enables the tax administration to move away from manual processing and to direct its resources to facilitating, monitoring, and enforcing compliance. It supports the tax administration in all aspects—taxpayer interactions and service, registration, processing, accounting, work automation, case management, exchange of information, risk analysis, etc. Following leading practice, an IT solution 'landscape' is in place that includes: (i) a 'core system' component; (ii) a 'compliance performance system'; and (iii) a 'management information' system. The 'core system' component provides technology support to and connects, at varying levels, all core functions: Taxpayer Registration, Returns Processing, Taxpayer and Revenue Accounting, and Payment Processing. The core system is supported by additional systems that use the information to provide particular outcomes—e.g., electronic filing, case management and workflow for debt collection and audit, and an analytical capability to automatically detect and select audit cases, provide individualized taxpayer service, forecast revenue, etc. Voluntary compliance is facilitated by opening multiple, interactive and electronic channels with taxpayers. With respect to compliance monitoring and enforcement, the 'compliance performance system' supports, based on risk analysis, the tax administration's audit and collections functions in collecting and managing information on target areas where non-compliance poses greatest risks to revenues. In addition, a 'management information system' is in place that facilitates decision-making by getting the right information to managers and staff. More and more tax administrations that have very little or rudimentary IT support for their operations, or which have IT systems that have not kept up with their needs as well as more advanced administrations, are buying core systems solutions which embody good practice features of tax administrations (COTS solutions). The existence of these packaged systems presents a significant opportunity for tax administrations as they represent a modern systems suite designed with reference to other tax administrations, embodying the same level of knowledge and experience in their inherent business processes. A high-level set of requirements that any IT system should normally support to deliver the services required by a tax administration is in Appendix 5.

Pre-RMS

98. The general systems focus of the GDT was on the capture of transactions, and business processes were largely paper-based. Most processes were focused on personal engagement with taxpayers and there was limited capacity for electronic dealing with the GDT. Except for the LTD, which had some basic IT systems, there was a high level of paper-based processes, practices, and procedures.

99. The database structure was disparate with no real integration in systems, making it extremely difficult to extract data for decision-making purposes. The GDT did not have an integrated IT infrastructure, meaning management reporting was a collation of individual regional reports. The lack of an integrated system also created many difficulties associated with management the tax base and taxpayer risks.

Current Situation

100. The GDT have made improvements to the functionality of the IT systems and the interface between the taxpayer and the tax system. An IT Masterplan is being implemented and the GDT has focused efforts on the development of system capability and the deployment of a range of smartphone “Apps” or tools to assist both taxpayers and the GDT in improving compliance. In addition, the provincial offices are now linked to headquarters through a wide area network.

101. Due to funding constraints, development is being done in a staged approach. However, work completed has already improved some of the operations of the GDT; increased management information, particularly on revenue performance; and enabled both taxpayers and the GDT to benefit from improved processes. The GDT reported that 22 new IT systems have been implemented, including for taxpayer registration, single invoice payment management, human resource management, audit and debt management, document tracking and management, and vehicle tax management.

Targets by 2023

102. The GDT will have a fully integrated technology-driven tax system that supports all aspects of taxpayer administration and service. This will include:

- Establishment of a business case for the GDT to source appropriate funding for a new, fully integrated system that will meet all the requirements of a modern tax administration.
- Development of the business requirements of an integrated technological solution to support the GDT in administering the tax system. The new technology solution needs to be designed to enable the GDT to meet changes in policy and changes in the taxpayer base. Appendix 5 sets out the specific requirements for any good tax processing system. For the GDT, it would also require the development of:
 - an information collection strategy focused on identifying the data required on each form to enable the GDT to effectively determine and manage risk.
 - real time links with other government agencies and third parties to enhance taxpayer management.
 - capacity to deploy across multiple platforms allowing electronic interactions with the GDT for all tax types and online maintenance of the associated tax obligations.

C. Internal Audit

Box 16. Good Practice: Internal Audit and Internal Affairs

Internal Audit: The tax administration has an organizationally independent internal audit unit responsible for assuring senior management of the soundness—and adherence to—the administration’s internal control, risk management, and governance frameworks. The unit reports directly to the head of the administration or an audit committee. There is an annual internal audit plan comprising internal control checks, operational performance audits, information technology systems audits, and financial audits. The program provides wide coverage and scrutiny of key operations, revenue accounting, and internal financial management. Internal auditors are trained on a regular basis in audit methodologies. Internal audit operations and systems are reviewed at least every five years by an independent entity. There is a central repository of internal control policies, processes and procedures. IT system controls are in place to detect incidents that threaten the confidentiality and integrity of tax administration data. Specifically, audit trails of user access and changes made to taxpayer data exist, together with effective surveillance by internal audit, including through use of system-generated reports and other audit tools.

Internal Affairs: The tax administration has an organizationally-independent internal affairs unit responsible for formulating integrity and ethics policy and ensuring that everyone within the organization adheres to it. The unit investigates professional misconduct of tax officials and brings wrongdoers to account, often in cooperation with relevant enforcement agencies (e.g., police, anti-corruption body, and public prosecutor). Due to the sensitive nature of their responsibility, the internal affairs unit usually reports directly to the tax administration head or deputy head. The unit: (i) has appropriate investigative powers, and exercises these powers with due process; (ii) provides leadership to the formulation of integrity and ethics policy, including codes of conduct; (iii) cooperates with relevant enforcement agencies (e.g., anti-corruption agency, police, and public prosecutor); (iv) maintains integrity-related statistics for the organization, while preserving confidentiality; and (v) reports integrity statistics publicly.

Pre-RMS

103. The GDT’s internal audit function was not in formal operation. While the Controlling Department was nominally responsible for internal controls, it did not undertake the typical internal audit function expected within a tax administration.

Current situation

104. The GDT’s internal audit function has been formally re-established. The Internal Audit Bureau has been established within the Department of Administration and General Affairs. The location of the Bureau appears to be due to administrative constraints; the Bureau chief noted that the Bureau gets its authority directly from and reports its work outcomes directly to the DG. The Bureau has responsibility for internal audit and internal affairs (the investigation of professional misconduct of tax officials).

105. The capacity of the internal audit function has been strengthened through support from the OTA. This support included the development of instruction manuals and staff training. Unfortunately, while the Bureau currently has 15 staff, only a few benefited from the earlier OTA training, and the impact of the assistance has been diluted.

106. An annual plan of routine work is developed and implemented. In addition to the routine auditing of the 33 tax branches, the Bureau also identifies emerging risks and can undertake unannounced visits for investigative purposes.

Targets by 2023

107. The internal audit and internal affairs function will be strengthened by reporting directly to the DG, in recognition of the sensitive nature of its responsibilities. It needs to be empowered to contribute to the checks and balance required within a revenue administration. This will include:

- An annual internal audit plan comprising internal control checks, operational performance audits, information technology systems audits, and financial audits. The program providing wide coverage and scrutiny of key operations, revenue accounting, and internal financial management.
- Internal affairs establishing and managing the integrity and ethics policy ensuring that everyone within the organization adheres to it. This includes:
 - Providing leadership to the formulation of integrity and ethics policy including codes of conduct.
 - Cooperating with relevant enforcement agencies (e.g., anti-corruption agency, police, and public prosecutor).
- IT system controls will be in place to detect incidents that threaten the confidentiality and integrity of tax administration data. Specifically, audit trails of user access and changes made to taxpayer data exist, together with effective surveillance by internal audit, including through use of system-generated reports and other audit tools.

Appendix 1. Compliance Model for Medium-Term Implementation

The GDT is yet to transition to a comprehensive risk-to-revenue based approach to compliance management. Only the LTD is using simplified risk assessment techniques for improved audit case selection. There appears to be little systematic information gathering, and analytical indicators are not being used consistently to develop the understanding, identification and risk assessment of more complex issues, with the controlled testing of emerging risks.

Sustainable increases in tax revenue could be obtained over time through increased taxpayer compliance using a more strategic approach to compliance management. More and more tax administrations now apply this approach, and their experience has led to the development of the CRM model, which is endorsed by the IMF, European Union, and the Organization for Economic Cooperation and Development.

There are two core features of a systematic, risk-based compliance approach that are relevant to all tax administrations. These are: (i) identifying major compliance risks for resource allocation purposes in pursuit of revenue targets and fairness objectives; and (ii) developing and implementing a compliance strategy and work program to address these risks. Depending on the risk, these actions may have a legislative, administrative, educational, or enforcement focus. Moving to a risk-based approach requires a commitment and strong capacity to undertake analysis, an ability to prioritize and address multiple risks to revenue, as well as effective leadership to balance these tasks with managing the basic tax administration functions to a high standard.

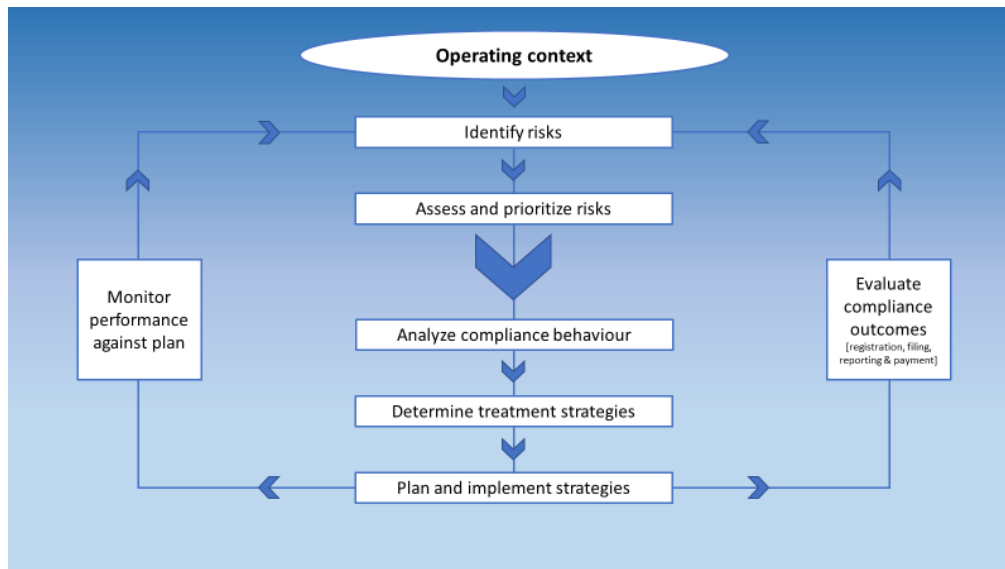
Taxpayer segmentation is a cornerstone of effective risk management. Holistic management of taxpayer segments involves the identification of current and emerging revenue risks. This is especially important for large taxpayers where the revenue consequence of non-compliance is high. A tailored focus on the large and medium taxpayer segments can considerably improve compliance levels for these taxpayers, who account for the bulk of revenue collection. Embedding taxpayer segmentation in the broad GDT strategy will support it in moving to a full risk-to-revenue compliance approach. The LTD and new SMTD form a strong basis for the segment-based approach going forward.

The GDT is well-positioned to leverage opportunities from advancements in IT to move to a more strategic risk-to-revenue approach. The GDT has made significant progress over the last years in IT capability and further enhancements are expected. This capability should be leveraged to generate the information requirements for intelligence and risk analysis. Special attention should be given to the ability to generate taxpayer segment-based information. It is also crucial that the GDT IT systems can store and retrieve information and insight from the field to feed back into risk assessment and analysis processes.

The GDT wants to use third-party information to support the transition to a risk-based approach to administration of the tax system. Third party information will: (i) add depth to understanding of taxpayer segments and behaviors; (ii) contribute to a thorough analysis of relevant information; and (iii) support the process to rank/prioritize the main risks to revenue. Comprehensive views of taxpayer segments will help identify additional compliance interventions. The GDT should work with external public and private sector parties to complement its own information and to maximize the effectiveness of education and service-based activities. The GDT’s plans to support and foster a partnership with tax practitioners is a positive step toward this outcome.

The underlying causes of non-compliance, not just the symptoms, should be addressed through the development of a GDT Compliance Improvement Plan. The Compliance Improvement Plan will outline the most significant risks to the tax system, as well as how the GDT intends to respond to those risks. Importantly, the Plan will also explain the process to monitor and evaluate the mitigation strategies put in place enabling the GDT to measure its performance. The risk management process model (see Figure 1 below) provides a useful framework for developing a plan and reflects the important cyclical nature of the risk management process where information from outcomes of compliance activities is fed back into the process. The Annex below provides additional detail regarding the development of Compliance Improvement Plans. And Box 1 illustrates how an industry-based compliance improvement project is structured and delivered.

Appendix Figure 1. Compliance Risk Management—Process Flow



Moving to a modern CRM approach should be adopted as a medium-term objective for the GDT. It would not be sensible to attempt to move immediately to this approach given the scale of the overall reform challenges currently facing the organization. The CRM approach will

represent a major change in the way GDT plans and manages its compliance activities and it will take considerable time to develop the skills and expertise as well as the cross-cutting management arrangements necessary to support it. For this reason, the next reform phase for 2019-2023 should include a roadmap aimed at fully implementing the CRM approach in the medium-term.

A high-level steering committee (Compliance Council) is required to guide and manage the CRM process. Genuine buy-in to the new planning process and ownership of the annual compliance plan by functional departments is critical to success. This is best achieved through the establishment of a formal Compliance Council to provide effective corporate governance of the planning process. Ideally, this Council should be chaired by the Director General (or Deputy Director General) and include the heads of each of the core functional departments. The Council takes responsibility on an ongoing basis for: (1) Identifying and prioritizing significant compliance risks according to a structured risk assessment process; (2) identifying those compliance risks that represent a sufficient level of threat to warrant the ongoing attention of the senior executive; (3) ensuring that an appropriately integrated mitigation strategy is in place for each of these severe compliance risks; (4) ensuring that the treatment strategies are adequately resourced (people, finances, skills, business support tools etc.); (5) determining appropriate effectiveness measures; (6) promoting awareness across the organization of the high priority to be allocated to the annual compliance plan; and (7) monitoring the implementation and effectiveness of the strategies.

A permanent compliance risk management unit (RMU) is also essential to support the process. The RMU has two key functions: (1) risk identification and analysis; and (2) development of integrated compliance improvement strategies. Ideally, these functions are managed by separate teams of specialist staff within the RMU as follow:

Risk management unit—Risk identification and analysis team

This team is responsible for capturing and analyzing data from a wide variety of internal and external databases. They would use sophisticated analytics (e.g., data mining technology and automated search engines) to support the CRM approach at multiple levels:

- At the strategic level, the team is responsible for managing the data warehouse; monitoring the external environment for changes that are likely to have a significant impact on the organization or operational environment; using macro-economic indicators, demographic trends, behavioral analysis, tax gap analysis, taxpayer profiling, and risk modelling to identify emerging compliance patterns among taxpayers; and providing research-based decision-support to the strategic risk assessment process.
- At the tactical level, it is responsible for identifying and analyzing emerging compliance patterns among taxpayers, particularly in registration, filing, reporting, and payment

compliance; conducting sectoral analyses (e.g., professions, trade sectors, and industries); and assisting to refine and prioritize identified risks.

- At the operational level, it is responsible for working with the compliance strategy team and other headquarters units to analyze specific risks; understand the drivers of the noncompliant behavior; identify the specific taxpayer populations subject to the identified risks; and profile the taxpayer populations to assist in targeting case selections.

Risk management unit—Compliance strategy team

This team is responsible for developing a set of integrated strategies to promote compliance and deal with noncompliance. This work is informed and supported by the risk identification and analysis team; therefore, close collaborative working arrangements are required. This compliance strategy team identifies key compliance risks and provides the information in a structured way to the Compliance Council. With the approval of the Council, it develops integrated, multifaceted response strategies. Development of these compliance strategies generally requires significant interaction with, and input from, the core functional departments and often from external stakeholders (e.g., industry and professional associations). Once endorsed by the Compliance Council, these compliance strategies become corporate priorities (i.e., they take priority over other business activities independently planned by functional departments). Delivery of the compliance strategies may be undertaken by each relevant functional department with coordination by the compliance strategy team, or special project teams may be formed by drawing operational staff together from a range of functional departments.

RMU staff requires specialist skillsets to perform these functions effectively. The RMU, when supported by a modern data warehouse facility, effectively becomes the “brain” of a modern tax administration. It is therefore critical that RMU staff has the right skills and experience. Typically, statisticians, economists, and data analysts would be employed in this unit together with staff with broad experience across a range of tax administration functions.

Strong core operational capabilities are also a pre-requisite. Even the best strategies may fail if the tax administration lacks the operational capacity to deliver the planned activities efficiently. The modern CRM approach assumes the existence of strong capabilities within core tax administration functions (especially taxpayer services, audit, and filing and payment enforcement). This includes a well-functioning headquarters with authority to direct and control the activities of field offices to ensure that corporate priorities are understood and followed. Field office staff must be properly trained, equipped and empowered under the law to carry out their roles effectively. Reliable management information systems and a structured performance management system should also be in place.

Annex 1. Compliance Improvement Plan

Contents of a Compliance Improvement Plan

A Compliance Improvement Plan is generally a single document detailing the significant risks to revenue identified in the tax system and the administration’s intended responses focusing on core taxes and key tax obligations. The Plan:

- **Is structured around taxpayer segments and other parameters**, e.g. individuals, micro and small business, medium business, large business, non-profit and Government organizations, high wealth and high-income individuals, tax types, industry sectors, geographic regions.
- **Includes an overview/summary for each taxpayer segment** describing the economic, revenue and business environment (such as taxpayer numbers, entity types, role of intermediaries, tax performance and contribution).
- **Outlines major compliance issues and segment-specific risks.**
- **Describes the risk mitigation strategies** and action to be taken to address the underlying causes of non-compliance based on the various levels of risk.
- **Explains the process to monitor and evaluate mitigation strategies.**

1. Strategy Overview	<i>Describes the broad approach to managing compliance for the segment</i>	
2. Segment Profile	3. Priority Risks	4. Risk Treatments
<i>Describes the segment’s operational environment including:</i> <ul style="list-style-type: none"> - number/type of businesses, - amount/type of tax revenue, - key industries and industry issues - record keeping capacity - key leverage points such as the use of tax professionals and industry associations, etc. 	<i>Identifies and ranks the key risks posed by the segment against the four pillars of compliance:</i> <ul style="list-style-type: none"> 3.1. Registration risks 3.2. Filing risks 3.3. Payment risks 3.4. Under-reporting risks 	<i>Describes the key measures for mitigating the risks, including measures for facilitating compliance and dealing with non-compliance</i> <ul style="list-style-type: none"> 4.1. Measures for facilitating compliance 4.2. Measures for dealing with non-compliance
	5. Compliance Measures	6. Workflows (Outputs)
	<i>Describes the indicators against which performance outcomes are to be measured</i>	<i>Enumerates the risk treatments – no. of audits, taxpayer education events etc.</i>
7. Capacity Development	<i>Describes the enhancements to a revenue authority’s operations that are needed to implement the compliance strategy. These could include enhancements to information systems and technologies, new taxpayer services and enforcement measures, staff training, etc.</i>	

Source: IMF staff

Annex 2. Developing a Compliance Improvement Plan

There are a number of steps (that follow the flow of the risk management cycle) that need to be undertaken to develop a Compliance Improvement Plan. These are:

- **Evaluate compliance outcomes of the previous plan**, or if developing the first plan of this nature the evaluation should occur on the separate treatment strategies that were applied previously.
- **Understand the operating context.** Compliance risks and responses must be determined in the context of the revenue agency's broader objectives and be aligned to the organization's strategic plan.
- **Identify risks by segment** (and often by sub-segments) allowing the risk identification to occur using information gathered from a variety of sources, including:
 - Internal IT systems and internally held information (e.g., results of compliance activities, taxpayer enquiries, return information).
 - Information held by other tax administrations.
 - Information held by other Government agencies.
 - Third-party intermediaries such as banks.
 - Professional bodies and industry groups.
 - The community.
 - Open source information.
- **Assess and prioritize the risks.** This process is where risks are ranked according to priority which usually involves consideration of the likelihood and consequence of non-compliance. Importantly, consequence should not be 'revenue' alone as there are other factors which should be considered in the context of the integrity of the tax system.
- **Analyze compliance behavior.** Priority risks are analyzed to identify the drivers and attitudes of non-compliance. This assists with determining the required mixture of responses from the tax administration.
- **Determine treatment strategies.** Treatment strategies should be considered in a holistic way and span the full range of service and enforcement activities which should be applied based on a taxpayer's perceived level of risk and their compliance behaviors.
- **Plan and implement treatment strategies.** The strategy should be rolled out and supported by guidance and documentation to ensure consistent actions by operational

areas. There should be an avenue for front line staff applying the treatment to provide feedback and insight back into the risk management process.

- **Evaluate the effectiveness of the treatment strategies.** This is the final step in the process, where performance against the plan and the compliance outcomes are evaluated. As the risk management process is cyclical, this step represents an opportunity to refine and improve the future Compliance Improvement Plans by incorporating any new knowledge and results into the process.

Appendix Box 1. Illustration of a Typical Industry-Based Compliance Improvement Project

Where an industry or trade is identified as high risk, the tax administration should do the following:

- **Engage with the relevant industry or business associations** to explain why it is seen as high risk and to ensure that the revenue agency has an accurate understanding of how the industry operates.
- **Publicize the GDT intention to conduct a verification program of the industry** and seek the support of the associations in informing their members.
- **Identify tax agents and practitioners who have a significant client base in the targeted industry**, alert them to the issues and request that they inform their clients of the intention to conduct a verification program.
- **Conduct a sample audit program** to confirm the most serious areas of noncompliance and to quantify the amount of tax at risk across the industry.
- **Engage with the relevant associations and tax practitioners** to prepare advice to industry participants on the areas of noncompliance identified through the sample audit program.
- **Send letters to taxpayers in the industry and/or communicate with taxpayers through the relevant associations and tax practitioners** advising them of the specific areas of noncompliance and requesting that they review their returns and make any necessary self-corrections. In some jurisdictions, government policy may be set for voluntary disclosures to attract more lenient penalties; taxpayers should be informed about this, and that further audits are planned under which taxpayers who have not self-corrected will be subject to full penalties.
- **Offer free seminars and advisory visits to taxpayers** who are unsure of their obligations (these seminars should ideally be conducted jointly with the industry association).
- **Ensure that the GDT audit staff are aware of the compliance improvement program** and have scripted answers for enquiries received from taxpayers about the program, including how to make a voluntary disclosure, attend a seminar or request an advisory visit.
- **Ensure that the collection enforcement staff is aware of the program** and applies more flexible payment arrangements to taxpayers who voluntarily self-correct.

- **Conduct a follow-up audit program** of the industry with wider coverage and targeting taxpayers who have failed to self-correct and are assessed as high risk; and prosecute the worst offenders.
- **Publicize results of audits and prosecutions** highlighting how data matching and other new approaches facilitated detection of high risk taxpayers and using representative case studies to show how material noncompliance was identified and dealt with.
- **Measure the effectiveness of the project**, e.g., by tracking the number of voluntary disclosures received and the overall change in tax paid by taxpayers in the target industry and surveying the industry and practitioners to test for observed changes in compliance behavior.

Appendix 2. Example of High-Level Objectives for Large Taxpayer Department

Objective	Examples of Actions
Help and encourage large taxpayers to comply voluntarily through a range of taxpayer-focused activities	<ul style="list-style-type: none"> • Work in a transparent relationship with large taxpayers. • Deliver high-quality service—the money and complexity involved makes this the most cost-effective way of ensuring the right amount of tax payable is received on time. • Offer real support and encouragement, e.g., through simplified procedures, for those who want to become more tax-compliant. • Provide greater certainty over the interpretation of law and practice at a time when the taxpayer needs it, e.g., through binding rulings. • Help large taxpayers to identify any shortcomings in their day-to-day tax compliance practices so that they can avoid future risks to compliance.
Detect, address and deter non-compliance or aggressive tax planning effectively and timeously	<ul style="list-style-type: none"> • Improve LTD staff understanding of the business of large taxpayers and the relevant law. • Work within a common set of risk priorities. • Develop coherent and effective risk assessment across all taxes to get the best return (in terms of tax compliance and service) from the resources deployed. • Focus on those large taxpayers who do not meet their tax obligations, by targeting interventions to the areas of significant risk. • Work as closely as practicable in real time to provide earlier certainty to the taxpayer and to detect and address avoidance more quickly.
Take timely action to protect current and future tax revenues	<ul style="list-style-type: none"> • Identify areas where legislation or GDT technical guidance needs to be clarified or amended. • Litigate important or substantial issues where a difference in legal interpretation cannot be resolved by agreement.
Help taxpayers to minimize their costs of compliance, particularly with reference to taxpayers who pose a low compliance risk	<ul style="list-style-type: none"> • Apply risk-based strategies in respect of all compliance work. • Avoid burdensome audit interventions in respect of taxpayers who are judged to be low risk. • Ensure audits focus on issues of substance. • Work as closely as practicable in real time.
Invest in staff so that they are well-equipped to deal with the complexities of the large taxpayer segment	<ul style="list-style-type: none"> • Regularly enhance staff training and professionalism, with a focus on issues relevant to large businesses. • Improve staff understanding of how major industries work and what revenue risks are prevalent in each industry. • Collaborate with large businesses and their representative associations to enhance mutual understanding and LTD's own understanding of the business environment. • Seek to engage relevant industry specialists to support and advise front-line staff and those involved in risk assessment.

Appendix 3. General Department of Taxation Performance Data Tables

Table 1. GDT Large Taxpayer Return Filing 2014-2017

Year	Total Taxpayers	Active Taxpayers	Active - percentage of total	Filed on time	Filed late	Did not file	Percentage on time filers (active)	Percentage non-filers (total)
2014	4,033	2,684	66.6%	2,100	616	1,349	78.2%	33.4%
2015	4,165	2,920	70.1%	2,189	755	1,245	75.0%	29.9%
2016	5,205	3,348	64.3%	2,639	766	1,857	78.8%	35.7%
2017	5,821	3,774	64.8%	3,154	621	2,047	83.6%	35.2%

Source: Department of Large Taxpayers

Table 2. GDT Tax Disputes 2011-2017

	2014	2015	2016	2017
Opening balance	181	162	116	68
New cases	22	48	77	100
Total	203	210	193	168
Transferred (e.g., back to audit)	0	1	1	2
Rejected	11	10	0	0
Solved	30	83	124	110
Total cases processed	41	94	125	112
Closing balance	162	116	68	56

Source: GDT Department of Law, Tax Policy and International Cooperation

Appendix 4. Potential Approach for Risk-Based Value-Added Tax Refund Management

Potential Approach for Risk-Based VAT Refund Management

1. The taxpayer is green flagged (i.e., approved large refund claimer): consistency desk examination

Status	Refund Action
Claim is consistent with the usual refund pattern and general compliance level is high:	Instant refund.
One of the above conditions is not met:	Further examination.

2. The taxpayer is not green flagged:

A. Low risk (small amount or closing enterprise) and average or unknown compliance: desk examination

Status	Refund Action
Credit situation is consistent with the industry norms and with the taxpayer credit pattern	Instant refund.
Credit situation is inconsistent with the industry norms or credit profile but originates in reported operations (exports, investment):	Written request for supportive documents (copy of invoices, export statements).
If request unanswered or documents do not support the claim:	Desk assessment.
Credit situation is unexplained:	Request for a list of supplies.
If anomalies (insufficient gross margin ratio, expenses presumably not related to the business):	Potential high assessment: field audit. No prospect of high assessments: refund, desk assessment when possible.

B. Medium risk (medium amount, average compliance): desk examination

Status	Refund Action
Good solvency prospect (i.e., ability to repay future assessments):	
Credit situation is consistent with the industry norms and with the taxpayer credit pattern:	Instant refund.
Credit situation is inconsistent with the industry norms or credit profile but originates in reported operations (exports, investment, and rate differentiation):	Written request for supportive documents (copy

	of invoices, export statements).	
If request unanswered or documents do not support the claim:	Desk assessment, refer for future field audit.	
Credit situation is unexplained	Request for a list of supplies.	
If anomalies detected (insufficient gross margin ratio, expenses presumably not related to the business):	Prospect of high assessments: comprehensive field audit. No prospect of high assessment: Refund and refer for future audit.	
Bad or unknown solvency prospect: Always request for supportive documents and list of supplies.		
Claim fully substantiated (see above):	Refund.	
Claim not fully substantiated and origin of the credit known:	Issue oriented field audit.	
Claim not fully substantiated and origin of the credit unknown:	Full scope field audit.	

C. High risk (large amount, high risk ratio)

Status	Refund Action
Good compliance history and good solvency prospect:	Desk examination.
Credit explained:	Refund, refer for future audit.
Credit unexplained or tax fraud suspected:	Comprehensive field audit.
Bad compliance history or solvency prospect:	Instant comprehensive audit, consider precautionary enforcement measures.
Unknown compliance history:	Instant comprehensive field audit, consider demanding guarantees.

Appendix 5. Example of High-level Requirements for Tax Information Technology System

This is an example of a high-level set of requirements that an IT system should normally support to deliver the services required by a tax administration

1. A Taxpayer Registration system that can:

- Issue and maintain a national tax identification number for all taxpayers, and to cater for business license activities.
- Calculate and maintain a check digit and internal referencing to ensure the validity of these identification numbers.
- Capture and store specific registration details for different tax types in a 'whole of client' view.
- Integrate the registration system with all other core business functions, e.g. returns and payment processing, so that registration details are stored and maintained once, but reused by other systems.
- Deregister taxpayers and archive information in such a way that it can be restored.
- Allocate one identification number for a legal entity, but enable branches of an entity to be linked.
- Allow for linking details where taxpayers are directors of companies and/or a partner in partnerships.
- Generate registration management information, e.g. registrations by entity type, by office, by region, by sector, by industry and an audit trail of any accesses and adjustments made.

2. A Payments Processing system that can:

- Capture identification number, tax type, payment period, payment type, and payment amount.
- Update these details into the taxpayer and revenue accounts automatically.
- Automatically interface with external payment method options, e.g. banks, "e-payment".
- Reverse payment data and manage any re-transmissions of payments data including the processing of dishonored payments.
- Process a payment to a suspense account if taxpayer or account details are not known.
- Generate management information that enables: (1) payments reconciliations; (2) revenue reports; (3) payment statistics; (4) report on suspense account activities; and (5) an audit trail of accesses and any adjustments made.

3. A Form (tax returns) Processing system that can:

- Process tax forms (returns) for all tax types, including business licenses.
- Support fully the principles of self-assessment for processing returns, including: (1) check taxpayer identity against the taxpayer registration system; (2) record date of lodgment; (3) acceptance of the tax liability declared by the taxpayer; (4) perform arithmetical calculation based on the data in the form (return); (5) compare information submitted against information held within the database for the taxpayer; and (6) storage of tax form (return) data in the database.
- Be configured easily to cater for new tax types or changes to existing taxes.
- Have the provision to perform a reconciliation of third-party income details from their sources.
- Receive forms (returns) electronically.
- Generate electronic receipt for electronic tax forms (returns).
- Process amended tax forms (returns) or assessments.
- Issue assessment notices electronically and issue any subsequent refund electronically to a customer's bank account.
- Raise default assessments where a tax form (return) has not been lodged where appropriate.
- Archive form (return) information where the account balance is nil at an appropriate determined time, to an environment that can be restored if required.

- Produce management information on quantity of forms (returns) received, and an audit trail of any accesses or adjustments made.

4. A Taxpayer and Revenue Accounting system that can:

- Develop and maintain an account for all taxpayers.
- Account for all debits and credits for all tax types in a 'whole of client' view.
- Enable all tax types to be recorded in the same style of account.
- Allow proper identification of all information passed to it from the payment and returns processing systems.
- Calculate due dates for incoming transactions.
- Allow for amendments to be made via reassessments, account adjustments, transfers, etc.
- Allow online enquiry to all details of a taxpayer's account.
- Allow with appropriate security, taxpayers to view their account via web access.
- Calculate and impose late/nonpayment penalties and charge interest if appropriate.
- Automatically adjust penalties and interest if an amendment to an assessment is made.
- Structure the account details so that details can be clearly identified between tax, penalties, interest, while being able to present all the taxpayer's account balances across all tax types.
- Age debts.
- Archive nil balance account details at the appropriate determined time to an environment that can be restored if necessary.
- Generate a statement of account, in either paper or electronic form for a tax type, or consolidated for all tax types.
- Offset credits and debits within a tax type and across tax types.
- Provide for a variety of accounting transactions, e.g. debits, credits, transfers, refunds, penalties, payments, adjustments, write offs etc.
- Produce management information on overall account status, general ledger for the Department and wider government, and an audit trail of any accesses or adjustments made.

5. An Events calendar capability that can:

- Determine whether a return for a particular tax type should be expected from a taxpayer. This includes a 'nil return'. Automatically generate appropriate returns for each Revenue type.
- Determine the due date for all return types according to legislation and administrative arrangements.
- Allow an extension to the due date for lodgment of a return if a taxpayer's request is approved.
- Automatically generate a demand for the return after a nominated period, after the return has not been filed.
- After a determined period, automatically issue a stronger worded demand if the return has still not been filed.
- If after a further determined period and the return is still outstanding, allocate the case for manual follow up via the case management system. Manual follow up may involve the issuing of a default assessment or if the case warrants, possible prosecution for failure to file the return.
- Generate management information reporting on how many returns were expected, how many were received, how many are still outstanding, the age of the outstanding returns for all offices, and be able to consolidate this information on a national basis. An audit trail of any accesses or adjustments made is also required.

6. An Arrears Management system that can:

- Detect cases where there is a debt outstanding and payable.
- Automatically generate a demand for payment of the debt after a nominated period when the payment was not received, or has been made late.
- Report all outstanding debts by taxpayer, so that coordinated action can be taken across all debts owed by the taxpayer in a 'whole of client' view.

- After a further period, automatically issue a stronger demand for the debt to be paid. Automatic retention of a taxpayer's debt history must be updated to the database.
- If after a further determined period and the debt is still outstanding, allocate the case for manual follow up via the case management system.
- Rank debt cases for manual action based on risk assessment criteria, e.g. size of debt, age of debt, number of revenue types involved, taxpayer history etc.
- Support collection of outstanding debts by installments.
- Provide for the ability for cases to be cleared via approved write off processes.
- Support the compilation of local and national debt collection plans.
- Generate management information on level and composition of debt, the volume of new debt, the amount of debt collected and the amount written off, the age of debt, the number of taxpayers who are in debt, status of cases allocated via the case management system, and an audit trail of any accesses or adjustments made.

7. A Case Management system that can:

- Handle all types of workflow that lends itself to be managed as an individual case, e.g. a taxpayer audit, a taxpayer debt, disputes, an outstanding return and responding to taxpayer correspondence.
- Prioritize cases to be created and allocated to predetermined risk assessment criteria.
- Electronically assign cases by a supervisor to case officers based on relative priority.
- Record case details, with the majority of this recorded at the time of case selection.
- Display other cases involving the same taxpayer.
- Recording of actions taken and date.
- Generate standard letters and notices as initiated by the case officer.
- Record case notes.
- Permit re-allocation of cases.
- Record time to action cases and maintain status of case, e.g. pending, closed etc.
- Notify supervisors if cases are not being resolved in a timely manner.
- Retain and retrieve case history indexed by the taxpayer identification number.
- Generate determined management information for all case types, such as cases created, cases closed, cases still outstanding, and maintain an audit trail of adjustments made.

8. An Audit Support system that can:

- Conduct financial analysis of return and other data to automatically select cases for audit.
Prioritize selected audit cases based on predetermined risk management criteria.
Allocate cases for manual action via the case management system.
Provide information for the preparation of the annual audit work plan.
- Provide tools to assist with audit activities, e.g. software that can analyze taxpayer accounting records, links to other 3rd party information, and the ability to work remotely from a taxpayer site.
Record audit activities and results.
Update risk data according to outcomes of audit.
- Generate determined management information on success rate of audit cases selected, changes to selection criteria and maintain an audit trail of any accesses or adjustments made.

9. A Taxpayer Services system that can:

- Support the development of taxpayer services products.
- Provide staff with access to rulings database, public information, standard questions and answers for frequently asked queries.
- Ensure information and downloadable forms on the department's website are accurately maintained.
- Allow interaction from the taxpayer through the website and with proper security allow taxpayers to view their account detail on line.
- Receive and record taxpayer correspondence which is then managed via the case management system.

- Receive and record taxpayer disputes, appeals, objections and amendments which are then managed via the case management system.
- Generate determined management reporting with an automated audit trail of any accesses or adjustments made.

10. A Revenue Reporting and Forecasting system that can:

- Report on all revenue assessed across all tax types, nationally, by office, by sector and by industry and have the ability to analyze information at further levels if required.
- Enable real time reports to be generated by department officials.
- Track revenue collection against predetermined budgets for specific tax types and for the revenue as a whole.
- Create and maintain revenue forecasting models that can determine 'what if' scenario planning outcomes for tax policy budget changes, and for determining the possible result of a specific compliance strategy intervention work activity.

11. An Analytical capability that can:

- Receive and assemble data from multiple sources (including Customs data).
- Cater for multiple views of data with multi-indexing capability.
- Provide analysis tools for risk assessment, trend analysis, "what-if" scenario analysis etc.
- Generate pre-defined reports.
- Respond to requests for ad-hoc reports and analysis.