AFRICAN TAX ADMINISTRATION FORUM
FORUM SUR L'ADMINISTRATION FISCALE AFRICAINE

Compliance Risk Management in Africa

Preliminary Results of an ATAF Ongoing Research

09 September 2021

Presentation Outline

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Introduction

- Compliance risks are varied and manifest differently across various taxpayer segments.
- Some risks are unique to a particular business segment, industry sector or revenue type, while others cut across.
- Tax administrations (TAs) must focus on approaches that encourage voluntary compliance.
- The focus of compliance risk management should not just be to identify risks but to correct incidences of non-compliance and to contribute to longer-term behavioural shifts desired.

Classes of Risks

- ❖ Generally, TAs are faced with numerous risks that affect both revenue collection and their operations.
- ❖ The risks can be classified into two broad categories namely:

i. Compliance risks, and;

ii. Institutional risks

Compliance risks refer to risks where revenue is lost as a result of taxpayers failure to honour their tax obligations (i.e registration, filing of tax declarations, timely payment of taxes, and completely and adequately reporting truthful information in tax declarations).

Institutional risks refer to circumstances where the functional capacity of the tax administration is interrupted due to the occurrence of external or internal events. Examples include natural disasters (e.g Covid-19 pandemic), loss of physical assets, industrial action e.t.c

Classes of Risks

❖ TADAT Field Guide (2019) groups institutional risks into two classes:

i. **Operational risks –** risks that will affect/ destroy a portion or the entire tax administration systems, processes or resources.

ii. **Human capital risks –** risks that arise due to the failure of the tax administration's failure to capitalise/utilise its human capital capabilities.

❖ The focus of the presentation is **COMPLIANCE RISK MANAGEMENT**

Compliance Risk Management Good Practices

- Good compliance risk management involves the gathering of risk-related information from both internal and external sources such as:

  - analysis of the environmental scanning by TAs to identify emerging risks;
  - analysis of tax audits and tax declarations to have an insight of specific areas taxpayers taxpayers are inclined not to comply;
  - tax compliance gap analysis;
  - utilising third party information;
  - development and implementation of compliance improvement plan, to mention but a few.

Features of a Compliance Improvement Plan

WELL DESIGNED COMPLIANCE IMPROVEMENT PLAN

- Provides a detailed description of significant compliance risks and how the TA plans to react to the risks
- Focuses on risks to the core taxes and key tax obligations
- Is customiseed around taxpayer segments (e.g large taxpayers, HNWI, industry sector
- Summarises for each segment of taxpayers, the economic, revenue and business environment
- Describes risk mitigation strategies and actions to be taken
- Outlines headline compliance risks that have an impact across two or more segments
- Provides explanations to the process to be used to monitor and evaluate the impact of the risk mitigation activities

Compliance Risk Management: TADAT Indicators & Dimensions

- Three indicators and four dimensions are used to assess the extent to which a TA manages compliance risks;

i. Identification, assessment, ranking, and quantification of compliance risks

- the extent of intelligence gathering and research to identify compliance risks in respect of the main tax obligations (i.e registration, filing, timely payment, and complete and accurate reporting);
- the process used to assess, rank, and quantify taxpayer compliance risks;

ii. Mitigation of risks through a compliance improvement plan

- the degree to which the tax administration mitigates assessed risks to the tax system through a compliance improvement plan;

iii. Monitoring and evaluation of compliance risk mitigation activities

- the process used to monitor and evaluate the impact of compliance risk management activities.

TADAT Scoring Rules

A

Tax administration demonstrates performance that meets or exceeds international good practices – a tested and proven approach applied by a majority of the leading tax agencies.

B

Tax administration shows sound performance fairly close to internationally accepted good practices in that dimension.

C

Tax administration just meets the minimum performance standards in that dimension.

D

Inadequate performance, where the minimum standards set in 'C' are not met. OR

Insufficient information to determine level of performance.

Methodology

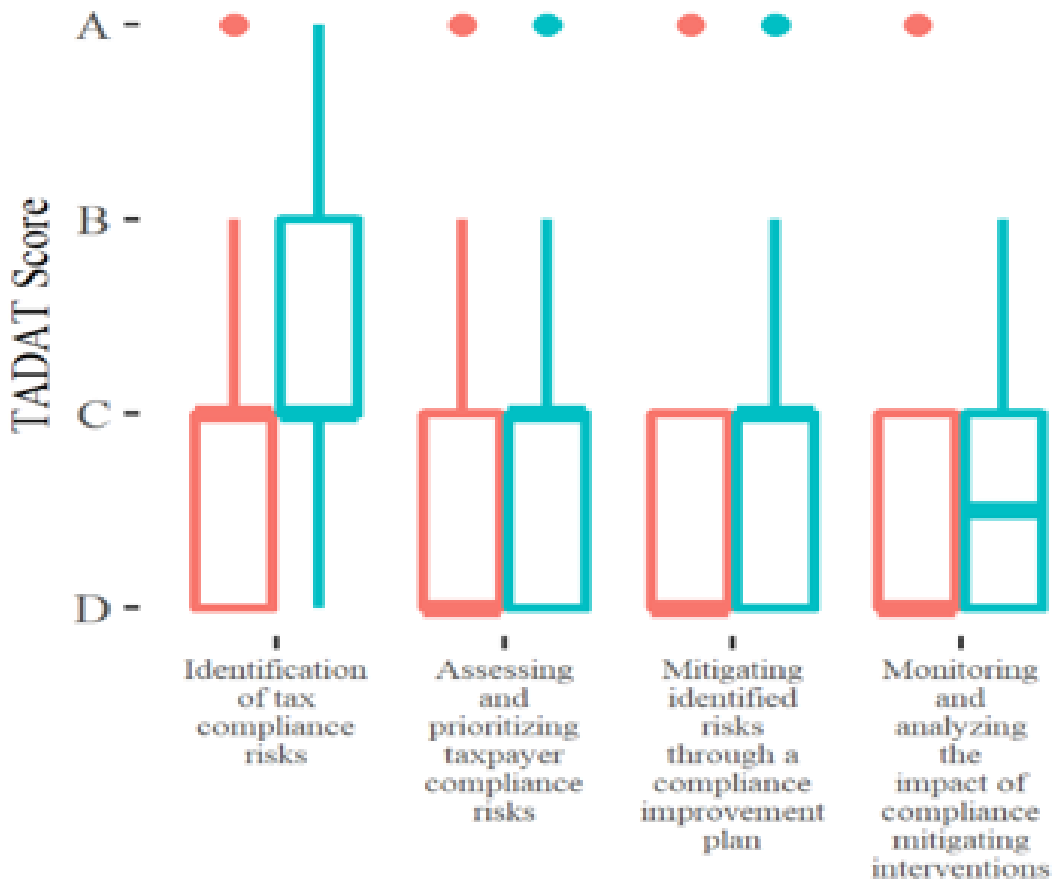
- A comparative analysis of the performance of TADAT assessed ATAs and Rest of the World (ROW) was adopted.

- Utilises secondary data obtained from the TADAT PARs for ATAs and ROW and covers 98 TADAT assessments of which 42 relate to ATAs.

- Boxplots were used to understand the distribution of the TADAT scores.

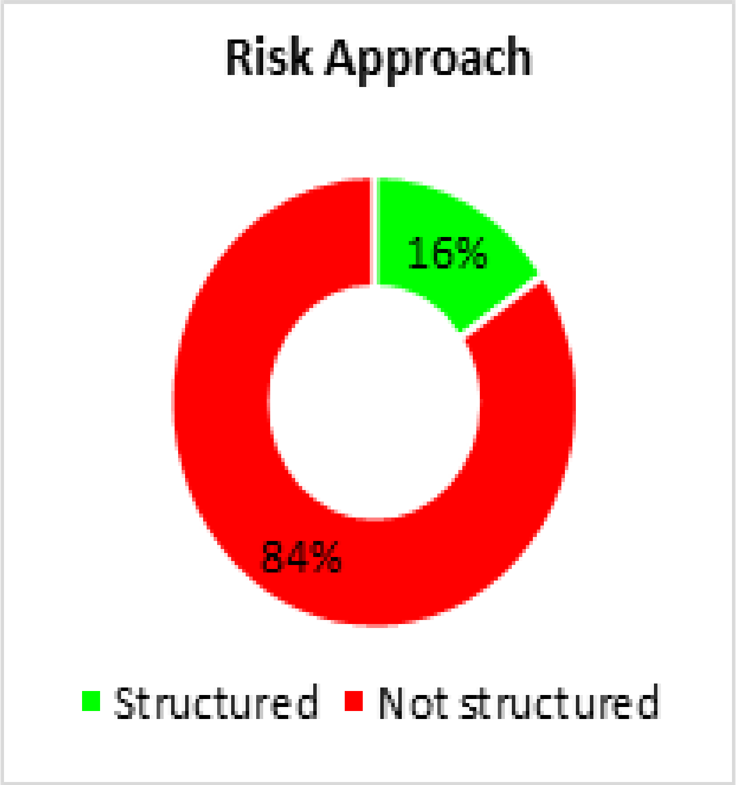
- The Boxplots show the first quartile (Q1) where 25% of the scores lie, the median (Q2) below which the 50% of the scores lie and the third quartile (Q3) below which 75% of the observations lie.

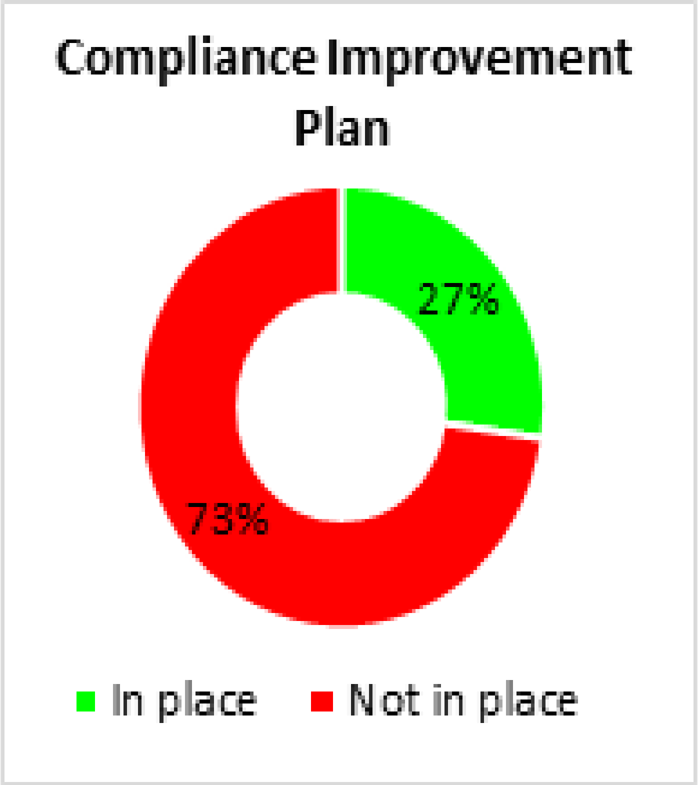
Compliance Risk Management: TADAT Findings

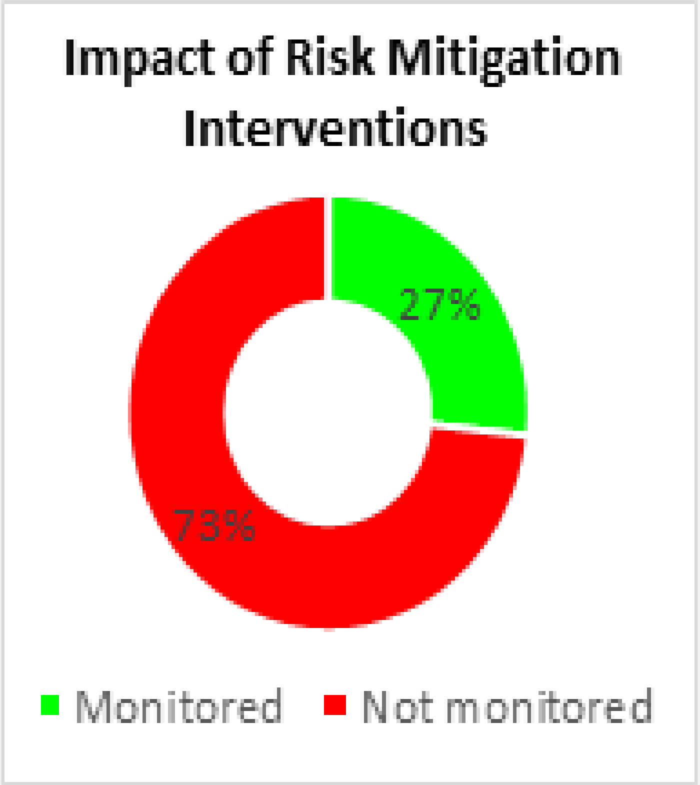


Dimension	Median score		Explanation
	ATAs	ROW	
Identification of tax compliance risks	C	C	The median score for both the ATAs and ROW are the same—weak performance with regard to the identification of compliance risks
Assessing and prioritizing taxpayer compliance risks	D	C	The ROW recorded better performance than the ATAs, although both are weak.
Mitigating identified risks through a compliance improvement plan	D	C	The ROW recorded better performance than the ATAs, although both are weak.
Monitoring and analyzing the impact of compliance mitigating interventions	D	D+	Inadequate performance in both the ATAs and ROW.

Compliance Risk Management: TADAT Findings







Compliance Risk Management: TADAT Findings

- **Other key findings:**
  - heavy reliance on internally generated information or taxpayers declarations to determine risks rather than leveraging on third-party data to corroborate the internal sources of information.
  - risk management is used primarily for generating audit cases without reference to the incidence of risk posed by taxpayers.
  - assessment of risks posed by transfer pricing and HNWI is not common in many African Tax Administrations (ATAs).
  - risk management is not part of a structured multi-year strategic process.
  - Processes to monitor and assess the effectiveness/impact of risk mitigating actions by the ATAs are almost non-existent.

Conclusion

- Compliance risk management gaps exist across the ATAs

- The findings from the analysis of the TADAT PAR assessments have indicated that risk management in general and compliance risk management in particular are not well embraced.

- These gaps need to be addressed and;

- The big question is **“How to do it?”**

- Ministries of Finance, ATAs and development partners can come together to bring a common understanding of these compliance risk management gaps and steps to improve tax compliance that will ensure sufficient domestic resource mobilisation (DRM).

THANK YOU