Working with Large Taxpayers: Getting Started

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PFTAC Handbook Series No. 5

Pacific Islands Tax Administrators Association

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Preface

This is the fifth of the *PFTAC HANDBOOK SERIES* publications. The purpose of this series is to build capacity in the public sector for Pacific Island States. While there are some theoretical approaches included in the handbooks, the main intention is to provide *practical, hands –on, contextual* advice for counties at various stages of developing fiscal, monetary and statistical systems.

The 15 Pacific Island members of PFTAC all share certain similarities: small size, large distance from each other and the rest of the world, limited resources and capacity, and reliance to varying degrees on donor aid and/or large remittance inflows. At the same time, the countries have quite different situations in political and economic governance and institutions. Each country faces different challenges to revenue management, and we hope the following pages provide pragmatic advice in all of those various situations.

Under the general guidance and support of the International Monetary Fund (IMF), the Pacific Financial Technical Assistance Centre (PFTAC) is fortunate to enjoy financial support from the Asian Development Bank (ADB) and the Governments of Australia, Japan, Korea and New Zealand. Most importantly, the PFTAC team has been privileged to work effectively over a number of years with Pacific Island States to achieve measurable improvements in economic management. The experience we have developed through our numerous in-country interactions provides the richest source of lessons for the writing of this handbook. We stand ready as a partner to carry that work and experience forward in the future, and hope that this handbook contributes effectively to that partnership.

Susan J. Adams, Ph.D.
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Foreword

Although comparatively small in numbers, the large taxpayer sector contributes a significant portion of the total revenue collected within a country. The sector is highly sophisticated and commonly involved with domestic and international transactions of some complexity. Within countries, the communities at large take an active interest in the compliance of large taxpayers and have a high expectation that revenue administrations will equitably manage the compliance issues of this group of taxpayers.

For these reasons the managing of large taxpayer compliance is an important component of the technical assistance that PFTAC provides to Pacific Island countries. This topic has also been a focus of the Pacific Island Tax Administrators' Association (PITAA) Conference over the last three years, with the input of members incorporated herein. This handbook is an excellent resource for Pacific Island revenue administrations to use when faced with the challenge of better understanding large taxpayers to achieve higher levels of compliance. I commend the handbook to you.

Carson McNeill
PFTAC Revenue Advisor

Chapter 1: Introduction

Overview

This is the second handbook produced under the PFTAC Revenue Administration umbrella. The handbooks are designed to address topical issues facing Pacific Island Revenue Administrations, presenting the topics in a practical manner to be adapted and applied in your local environment.

The challenges Pacific Island revenue administrations face trying to improve voluntary tax compliance are significant: scarce skilled staff and other resources, limited technology, dated legislative frameworks and limited public awareness. Well-intentioned consultants and technical advisors usually look to more developed revenue administrations of other countries and recommend models already in use. The drawback with this approach is that the disciplines and systematic approach of such models often do not allow sufficient flexibility for the challenges of a Pacific Island environment. The revenue handbooks aim to bridge that gap.

This handbook provides ideas and templates for working with large taxpayers. The topic has been the subject of much discussion and technical assistance, as well as many trials over recent years, culminating in the presentation at the Pacific Islands Tax Administrators' Association (PITAA) Conference in Port Moresby, Papua New Guinea in 2007. The development of ideas and templates for working with large taxpayers in developing Pacific Island countries is possible because of the interest shown in the subject matter by you as senior managers, and because of your commitment as PITAA members to share ideas and experiences in the search for consistency across and within the Pacific.

This handbook provides ideas to help small less-developed revenue administrations work with large taxpayers and suggests the business functions that could usefully be undertaken to encourage and ensure compliance amongst this important group of taxpayers. The handbook is directed at tax administration issues and does not address technical issues that large taxpayers may raise.

How to Use this Handbook

This handbook aims to be a useful and thought provoking guide to one of the challenges facing modern day Pacific Island revenue administrations. The handbook does not pretend to provide all the answers. It suggests a process and a range of questions for you and your colleagues to consider as you develop your own approach to working with large taxpayers. Chapter 2 provides some theory, deliberately kept brief, with sufficient detail to provide ideas about the evidence that can be used to support changing towards a focus on large taxpayers. Additional references are provided for those who want to delve into the theory behind the individual topics.

The remainder of the material in this handbook is activity based. Chapter 3 suggests a process for identifying and planning the changes you will need to make to focus on large taxpayers. Recognising that Pacific Island revenue administrations are at different stages with different needs and varying levels of resources available, the process directs you to subsequent chapters depending on your identified needs. You can thus choose whether to do a comprehensive review of all the areas where you might work with large taxpayers or whether to select a particular area and focus on that. You can pull out the appropriate segment at any time to commence your activity in the topic area or as a refresher of the material it covers. To assist you further, graphics are used in the margins to indicate action required:

The templates and checklists provided should be used as guides. If they do not suit your particular environment please change them. A CD with electronic copies of the templates has been provided to make copying and changing them easier.

References

A copy of the original PITAA presentation is included in the handbook at Appendix 1.

An electronic copy of the PITAA presentation is also available from the PITAA website: www.pftac.org/PITAA and in the CD enclosed with this handbook. Feel free to use the slides from the presentation in your meetings or adapt them to suit. All we ask is that you acknowledge the source of the slides you use.

Chapter 2: Large Taxpayers are Important

Overview

Most Pacific Island revenue administrations have received advice from PFTAC to focus attention on large taxpayers, yet the nature and scale of operations in your offices are quite different, as are the tax laws that you administer. Some of you have established separate large taxpayer units, some of you have established separate units and then disestablished them, and some of you have received advice to focus your attention on large taxpayers but have not yet made the move to do so.

In this chapter we will look at the theory behind the PFTAC/IMF advice: why large taxpayers are important and why are they so different from small/medium taxpayers that they need special attention. The examples in this chapter will help to identify the evidence, already available in your organization, that you can use to support the change to a focus on large taxpayers.

Putting theory into practice is the hard part. The remainder of this handbook will look at practical issues: how to define large taxpayers; how to transition to a focus on large taxpayers; what functions are needed; whether to have a separate large taxpayer unit; and the new skills will staff need when working with large taxpayers.

Large taxpayers are important because:

1. They account for the largest share of the revenue.
2. Helping large taxpayers can help with tax administration reform.
3. Focussing on large taxpayers can lead to improvements in collecting returns and payments.
4. Revenue risks are different for different size taxpayers.
5. Large taxpayers are different from other taxpayers.

Each one of these reasons is important in its own right. Collectively they make a tight case for working closely with large taxpayers. This chapter provides evidence for each of these reasons and explains what this means for working with these taxpayers.

1. Large taxpayers account for the largest share of the revenue

The main reason to focus on large taxpayers is because they account for the largest share of the revenue. You may have heard casual references to 20% of taxpayers paying 80% of the tax take. These casual references are based on fact. Looking at statistics from Pacific Island countries, the importance of large taxpayers in relation to revenue collected is self-evident.

Papua New Guinea
2 industries, Petroleum and Mining, account for 40% of total tax in 2007 (up from 29% in 2006).

Vanuatu
76 taxpayers account for 75% of total VAT.

New Zealand
0.2% of taxpayers pay 48% of total tax collected. They pay:

- 57% of company tax
- 34% of VAT/GST
- 55% of wage and salary tax/PAYE

Source: Data from respective country tax offices

The revenue impact of compliance by large taxpayers covers the entire tax base: income tax, gross revenue tax, wage and salary tax, VAT, and goods and sales taxes. Any changes in the compliance of these taxpayers, positively or negatively, will likely have a significant impact on revenue. If a large taxpayer makes the wrong legal interpretation in relation to a single high-cost transaction, their systems are not programmed properly or their policies and processes don't ensure accurate recording of sales and expenses, big (material) discrepancies are likely to arise.

At PITAA 2006, PNG reported that an 11% increase in tax collected from the Petroleum and Mining industries was largely the result of the Internal Revenue Commission's focus on those industries.

The data from Samoa, a mid-size Pacific Island country, provide another clear example of the revenue impact of large taxpayers.

Samoa

- Approximately 3000 business taxpayers
- Approximately 1400 are registered for VAT
- Approximately 700 are employers

Source: Ministry for Revenue data 2006

Working closely with 3000 business taxpayers is not manageable for a Pacific Island revenue administration. By reviewing the available taxpayer data it is possible to see where the majority of the revenue is paid. This reduces the total number of taxpayers who need closer attention to only those large ones responsible for the majority of the revenue. In the case of Samoa this might realistically be only 100 taxpayers.

Samoa

- Total sales = $1.73bn, Total VAT = $563m
- The top **100** VAT payers make $1.5bn in sales
  - 9% of VAT taxpayers make 80% of total sales
  - Those 9% of VAT taxpayers pay 65% of the total VAT
- The top **200** VAT payers make $1.7bn in sales
  - 18% of VAT taxpayers make 91% of total sales
  - 18% of VAT taxpayers pay 80% of the total VAT
- The remaining 1200 VAT taxpayers only make $0.175bn in sales (82% of VAT taxpayers make 9% of total sales and pay only 20% of total VAT)

Source: Ministry for Revenue data 2006 ($ = Samoa tala, VAT = Value Added Goods and Services Tax)

Using the Samoan data, it is at least possible that one big transaction by the largest taxpayer may result in more VAT payable than the total VAT paid by all other taxpayers. Note also the differences between the top 100 and top 200 taxpayers. Setting thresholds for the number of large taxpayers you can realistically focus on is important and will be covered later in chapter 4. If the revenue administration focussed on compliance of those top 100 VAT taxpayers, the amount of revenue at stake is still greater than the total VAT paid by the remaining 1300 VAT taxpayers.

The amounts are even more pronounced in the case of Samoa's employers.

Samoa

- Total salary and wages paid = $150m
- Total Wage & Salary Tax = $18.6m

- The top **100** employers pay $17.24m in Wage & Salary Tax (WST)
  14% of employers pay 85% of salary & wages and 95% WST

- The top **200** employers pay $18.3m in WST
  28% of employers pay 95% of salary & wages and 98% of WST

- The remaining 500 employers pay $0.261m WST
  72% of employers pay only 5% of salary & wages and 1.4% of WST

NB. The statistics above do not include Government Departments

Source : Ministry for Revenue data 2006 ($=Samoa tala)

Of the total wage and salary tax collected, 95% comes from just 100 employers. Including an extra 100 employers only adds an extra 3% to the total wage and salary tax collected. Giving attention to the remaining 500 employers is going to affect less than 2% of the total wage and salary tax collected.

Note that these data do not include Government Departments; this would likely also be true of other Pacific Islands where Government is typically the largest employer but may not actually pay wage and salary tax or the tax may not be paid through the revenue administration.

The critical message, however, is that by ensuring the wage and salary tax deductions are accurate and paid on time for the 100 largest employers, Samoa can be 95% certain that the bulk of the wage and salary tax is accounted for.

Working with the largest employers to ensure their systems and procedures for payroll and payroll taxes are correct will, in turn, ensure that their returns are likely to be more accurate and on time, and that the revenue will be collected on time. This has a corresponding impact on wage and salary earners; if the deductions by the employers are accurate, it is probable that the employees' final tax liability will also be correct.

Working closely with large taxpayers means, from a revenue perspective, the majority of the tax base is covered for all tax types and potential risks.

2. Working with large taxpayers can aid tax administration reform

Focussing on large taxpayers can be a catalyst for other changes in revenue administration procedures, systems, processes, services, forms and staff skills.

The wage and salary tax provides a good example where working with large taxpayers in their capacity as large employers can lead to tax administration reform.

> In many countries the wage and salary tax is not a final tax and employees are required to file an annual tax return. The compliance costs for taxpayers, both employees and employers, are high and the administrative costs for the revenue administration to process the returns are significant.
>
> By working with the top employers to ensure their systems are programmed properly, and the wage and salary tax is calculated and deducted accurately it is possible to change the wage and salary tax to a final tax and, in turn, remove the requirement for employees to file personal income tax returns.
>
> It is also possible for the revenue administration to introduce automated processes, compatible with the payroll systems used by the large taxpayers, for processing the payroll data and wage and salary tax. The costs associated with such transitions are usually covered by the increased tax take and reduced administration effort.
>
> When Revenue staff are working with the large employers to ensure their systems and processes are accurate, existing deficiencies will come to light and may result in some sizeable discrepancies. Ultimately, Tax Office resources previously used for processing personal income tax returns from employees will be freed up to focus on other high risk areas.

It is not difficult to see from the example above how tax administration reform can be aided by working more closely with the large taxpayers.

3. Improvements can be made in return and debt collection

Delays with return filing and payment can be resolved before the problem arises if Tax Office staff work closely with and understand the way large taxpayers operate. This means more returns are filed on time and payments made on time or alternative arrangements are made. Reporting statistics can also be noted to reflect the cause of major variances and remedial actions can be identified. The following two examples provide good illustrations of this.

Return Collection Example

The experience of Tonga with outstanding Consumption Tax (VAT) returns shows clearly how working with large taxpayers can benefit return collection.

> **Tonga**
>
> Consumption Tax returns were required to be filed 15 days after the end of the month. Many taxpayers complained that this was too hard to comply with. One industry provided evidence that it could not get the necessary records from its off-shore contacts within the time required. Consequently returns were filed late or, if filed on time, were often not correct, resulting in frequent reassessments. These taxpayers were united in their protests against the filing timeframe. The situation got to the point where 40% of the top taxpayers had outstanding returns and all had outstanding debt most commonly resulting from non-payment of late filing penalties and interest.
>
> To understand the reasons for this high level of non-compliance, the Tax Office had at least two options open to it. Rather than increase enforcement resources and not address the underlying problem, the Government and the Tax Office chose to work with the taxpayers and change the filing date to the 28th day of the month, a date more likely to encourage compliance. Apart from a one-off timing difference, the impact of the change was positive from the perspective of the taxpayer community and freed up Revenue resources to work on other higher risk areas.

Debt/receivables management example

In relation to debt (receivables) management, the experience of one mid-size Pacific Island country shows how understanding the make-up of the debt outstanding can lead to better informed resource allocation.

> **Mid-size Pacific Island**
>
> Wage and Salary debt amongst the top 50 taxpayers totalled nearly $1 million and had been outstanding for some time. Closer review indicated that there were only two debtors and one debt was less than $2,000.
>
> The taxpayer responsible for the larger unpaid debt advised that payment would be withheld until payment was received of an amount owing from the Government. The legality of this stance is questionable, even if the reality is understandable and not uncommon. Knowing the reason for this long overdue debt (receivable), the Tax Office chose not to put time and resources into pursuing the debt through legal action; instead informed decisions were made about where to more usefully use its debt/receivables management time and resources; regular debt/receivable performance reports were noted accordingly.

Chapter 5 provides more detail on opportunities for improving return and debt collection by working with large taxpayers.

4. Revenue risks are different for different size taxpayers

Strategies focused on risks are the most effective means to improve tax compliance. Understanding large taxpayers, the way their industry does business locally and internationally, and the way the particular taxpayer does business, enables you to more accurately predict where the tax risks will be. You can focus your resources more effectively on known risks, thus increasing the tax take and improving compliance. If large taxpayers are more compliant there is usually a 'trickle down' effect and other taxpayers become more compliant over time.

Aside from individual and industry differences, large taxpayers collectively are different from other taxpayers for a number of reasons.

- Typically they have a *high volume of transactions.*
- They will usually have *good internal controls* often reflected in procedures manuals and written processes.
- They *rarely have cash flow issues.*
- They usually have *computer based accounts* and their computer systems may be programmed offshore.
- They have *advanced accounting practices* and many, with international connections, will follow the accounting practices set by their offshore parent companies.
- Large taxpayers are *rarely involved in fraud or evasion;* they tend to use *hard to detect avoidance or aggressive mitigation mechanisms* instead.
- Often large taxpayers adopt *convenient and liberal interpretations of tax laws* to mitigate their liability.
- Large taxpayers organize and *operate differently between industries.* For example, the construction, aviation, mining, and petroleum industries, and Government, are often found in the large taxpayer group but all have quite different methods of operation and, in some cases, special tax rules.
- Large taxpayers often have a *complex network* of operations, either via incorporated companies or multiple business types and multiple outlets. Understanding the corporate network is like finding the way through a maze.
- Typically large taxpayers *operate in foreign trade.*

- They may by *branches of multinationals* or have *branches offshore* and can *manipulate profit* through the use of related entities and their overseas operations.
- They can create *complex financial* and *capital restructuring arrangements*.
- Usually large taxpayers have the *smartest advisors* (accounting and legal).

The table on the next page provides a stark comparison of the differences between large taxpayers and other taxpayer groups. The last category which relates to lobbying power should not be under-estimated.

Revenue administrations need to recognize the differences between small/medium and large taxpayers both in how they approach the large taxpayers and the skills needed to best address the compliance needs of large taxpayers.

Chapter 4 provides more detail on the importance of understanding large taxpayers as individuals and within their industry groups, and how improved understanding can lead to more accurate identification of risks and appropriate responses.

Large Taxpayers are Different - Comparison by Taxpayer Size

	Employees	Small/Medium Business	Large Taxpayers
Taxpayer Category	Citizens	Citizens and individual legal entities	Legal entities and corporate groups, often with overseas affiliations and branches
Number of Taxpayers	A large number of taxpayers, most with small incomes	Large number of businesses with diverse activities	Small number of powerful local and international companies
Revenue Potential per Taxpayer	In thousands of dollars	In tens of thousands of dollars	In hundreds of thousands and millions of dollars
Return Preparation	Prepare and file their own returns	Prepare returns with advice of local accountants	Receive advice from international lawyers and professional accountants
Opportunities for Non-Compliance	Payroll tax withholding by employer, little opportunity for evasion	Deal in cash, sometimes poor record keeping, and ready opportunities for hiding income	Maintain books of account, are subject to audit, but regard tax as a cost to be minimized through local and international arrangements & interpretation of the law
Nature of Compliance Issues	Non-compliance issues minor	Non-compliance issues are transactional, or from non-participation in the system (shadow economy)	Non-compliance involves complex transactions with significant revenue implications; issues are essentially questions of interpretation
Lobbying Capacity	Minimal	Medium—however may be powerful when well-organized	Powerful, at all levels of business and government

5. Large taxpayers need different, not preferential, treatment

Working closely with large taxpayers is essential because of the revenue they generate and because of the different characteristics they have. If we accept that it is a good idea to work with large taxpayers, it is important to ensure that there is a common understanding of what working with large taxpayers means:

- A strong focus on *customer service, tailoring Tax Office processes and systems* to work with the systems used by large taxpayers.

- *Systems and process audits* can be introduced. If the process for recording and paying invoices is robust and generally accurate, the need to check source documents is minimized.

- *Electronic filing and paying* may be an efficiency opportunity that can be introduced to save time and costs and provide a valuable audit trail.

- *Account managers or industry experts* can be trained to understand a specific industry, how it operates and what the issues are in that industry.

- Working with large taxpayers provides opportunities to *work together for the right outcome and the greater compliance good.* There are two good examples of Governments working with large taxpayers to improve compliance with little real cost to the revenue administration.

Federated States of Micronesia
The FSM Legislatures are considering implementing a VAT. When discussing VAT impacts, a large taxpayer in FSM advised that its forms are all designed in America and it has little control over the content of the forms. This same company has outlets in other Pacific Islands, including Samoa. The company presumably complies with its Samoa VAT obligations. Early discussion and communication with this large taxpayer enabled advance notice of possible changes. The taxpayer could then discuss the issues with its parent company and PIC counterparts and design the forms to meet the needs of the tax office and the needs of the head office.

Tonga
The original Consumption Tax filing date meant many taxpayers were not able to file their returns on time; they incurred penalties and interest and became very disillusioned with the tax. The Government agreed to change the law. Except for a one-off timing adjustment, some changes to forms and publications, the cost of the change was minimal and resulted in positive compliance improvement.

- *Pre-filing and pre-assessment reviews* can be introduced once a relationship is built with a large taxpayer.

- *Robust debate* about technical interpretations can occur with a view to getting the right answer rather than 'winning the argument'.

- Finally, working with large taxpayers means that *integrity and perceptions of integrit*y must be beyond reproach. A good working relationship with large taxpayers will result in the revenue administration being aware of much confidential and commercially sensitive information. It is paramount to build trust and ensure confidentiality of the information if this information sharing is to work.

Working with large taxpayers also means:

- Large taxpayers *do not get preferential treatment on the amount of tax payable.* Tax must still be assessed according to the law. It is the level and type of service given to large taxpayers that is different. This is not an opportunity for kickbacks, bribes or any other form of corruption.

- It *does not mean removing the audit function*. Large taxpayers will still need to be audited; the risks they present and the responses used to address those risks might be different from those used for other taxpayers.

- Working with large taxpayers does *not mean removing focus from small/ medium businesses.* It is a question of coverage; how much resource can and should be put into large taxpayers and how much resource into small/ medium sized taxpayers. In all except the very smallest of Pacific Island countries it should be possible to manage the balance. In the smallest countries it might be prudent to focus only on large taxpayers in the short term.

- Working with large taxpayers *does not mean removing focus from deliberately dishonest and other high risk taxpayers*. Coverage of all taxpayers is important because of the deterrent factor. It is a question of focus and priority: where are the biggest risks and the biggest impacts?

Summary

This chapter has covered five reasons why it is important to focus on large taxpayers and why they are different from other groups of taxpayers. The chapter has also addressed what this means for the way the revenue administration works with these taxpayers, the types of services that can be offered and the opportunities for building new relationships and new services. This does not mean that large taxpayers will be given preferential treatment in their tax liabilities.

The challenge now is to identify who your large taxpayers are and their current compliance profile. Once you have identified who the large taxpayers are and what their compliance profile is you can plan the changes necessary to focus on them more closely. The balance of this handbook covers these points and provides suggestions for identifying the changes you can make to work more closely with your large taxpayers and how you might make those changes within the resource limitations and constraints of your revenue administration.

Chapter 3: Planning the Changes - a Process

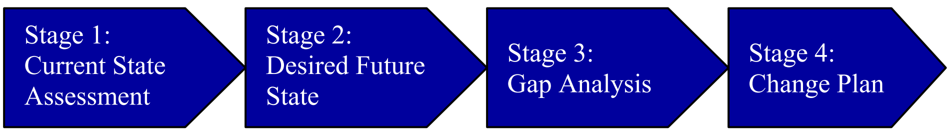
Overview

There is no right way of working with large taxpayers and no right way of making the change to focus on large taxpayers. This chapter outlines a process that PFTAC revenue advisors follow when advising on improving the compliance of large taxpayers. You can use the same process to determine which large taxpayers you will focus on and the changes you will need to make to work more closely with them.

It is unlikely you will have the resources to be able to achieve all you would like to with your large taxpayers immediately. The process in this chapter provides a means of identifying what you would like to achieve in the short, medium and long terms but does not go into detail; the detail is covered in subsequent topic-specific chapters. As with this handbook generally, you are encouraged to draw on the chapters that you need and adapt and improve the concepts in them to work more effectively in your environment.

When talking about working with large taxpayers, many revenue administrators talk about changing the organizational structure of the tax office first (i.e., number of staff and reporting lines). IMF advice recommends a full-function separate large taxpayer unit as the most effective way of improving the compliance of large taxpayers. For many Pacific Island administrations with less than 50 staff this is simply not possible, and for those with between 50 and 100 staff a separate stand-alone large taxpayer unit raises practical concerns. For that reason, this handbook focuses on process and suggests questions for you to work out what is best in your environment.

The process suggested here ensures that whatever strategy, systems, services, skills, staff, and structure you do adopt, they will be appropriate for your environment.



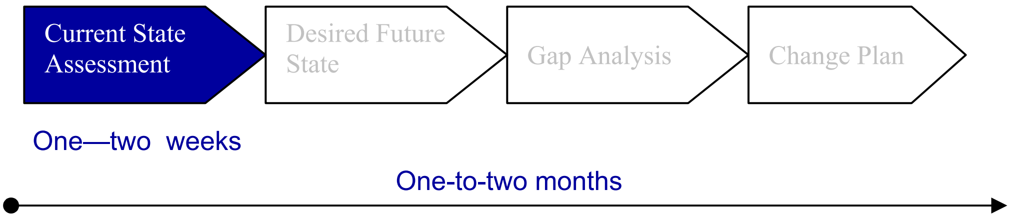
Changing to a Focus on Large Taxpayers—Planning Process

Put simply, the process is about:

- Stage 1: Current State Assessment: Identifying who your large taxpayers are and what compliance issues they generate.
- Stage 2: Desired Future State: Deciding what the compliance level of your large taxpayers should be and what services, systems, staff, skills, structures and strategies you will need to achieve that level of compliance.
- Stage 3: Gap Analysis: Identifying the gaps between where you are now (stage 1) and where you want to be (stage 2).
- Stage 4: Change Plan: Putting in place a realistic plan to achieve the changes you want to make in the short, medium and long terms.

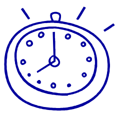
The rest of this chapter looks at these stages in more detail.

Stage 1: Current Status Assessment



The purpose of the current status assessment is to objectively identify the current position with regards to large taxpayers. This stage is about gathering information, statistics and feedback from within the revenue administration and externally.

Timeframe



Allow one to two weeks to complete this part of the process, depending on the size of your organization. The actual number of hours involved will depend on how easy it is to access the information, how much information is available and how many offices you have.

People Involved

Depending on the size of your organization, one or two people should be allocated the task of gathering the information. The people involved will need to understand the processes currently used in the organization and be able to extract taxpayer data or explain adequately to the Information Technology staff the types of information they want extracted and how the information should be presented. The people involved should also be confident to interview external parties to obtain their view on the current status of revenue administration related to large taxpayers.

The Task

The task is to gather as much information as possible about the following areas of your tax office:

- **Taxpayer data**: including turnover thresholds, overdue returns, outstanding debt, tax paid, employee numbers, location, industry, recent audits and discrepancies. Chapter 4 provides more detail on the information that is useful to collect.

- **Tax administration functions:** the functions that you currently provide (e.g., audit, service, return and debt collection, legal, research and policy, assessment, return processing and accounts) particularly those functions directed at large taxpayers.
- **Legislation:** particularly the legislation which applies specifically to large taxpayers.
- **Staff:** the number of staff who deal with large taxpayers, their skills and qualifications.
- **Systems:** the systems and processes you use for large taxpayers, particularly around security and confidentiality of commercially sensitive information, information technology and compliance monitoring of these taxpayers.
- **Structure** and how large taxpayers are managed within that structure.
- **External feedback** from the private sector and other Government agencies; what are the current problems large taxpayers face with revenue administration and tax laws? What changes would they like to make voluntary compliance easier for them and to improve their working relationship with the tax office?

It is important to have a good understanding of the current state of these areas so you can identify where potential changes will generate the most benefit and what the impacts of any changes will be on your existing business activities.

> It is possible that you will have very little comprehensive statistical or other data about your taxpayers. At this point you do not need to get the additional data; you simply need to know what information you currently have, what form it is in and what it tells you about your taxpayer population.

There is no right way of presenting the information gathered during a current state assessment. Many of you will have seen lengthy PFTAC reports containing current state assessments. You do not need to go to this level of detail unless you have the resources and need to do so. What is needed is an objective review of your current status and a means of reporting that back to the management team and other stakeholders.

A very simple template for recording or summarising findings in relation to each of these areas is shown on the next page.

Template 1: Current State Assessment

Template 1: Change Planning Process Template Stage 1: Current State Assessment				
	Current State Assessment			
Taxpayer Statistics	Who are our large taxpayers? How many are there? What industries are they in? How did we determine who they are? How many employees do they cover? How much tax do they pay? As individuals? Collectively? As a percentage of the total tax collected? What is their compliance profile?			
Tax Admin/ Functions	What functions do we currently provide? Audit, services, legal, return and debt collection, accounts, payments, policy, processing, corporate services, information technology., etc. What processes are used in each of these functions? What specialist functions are provided to large taxpayers?			
Legislation	What legislation specifically applies to large taxpayers? What legislation do the large taxpayers commonly complain about? Why?			
Staff	How many staff do we have? What areas are they in? What skills do they have? What qualifications do they have? Do any staff work specifically with large taxpayers at the moment?			
Systems	What systems are in place: accounts, assessment, filing, security of information, revenue management?			
Structure	What is the current organizational structure: function based, tax based, mix of function and tax based?			
External Feedback	What are the common complaints we receive from large taxpayers? From their agents? What are their views on our: processes, staff and skills, legislation, systems, structure, security of information? What has been our response to their feedback?			

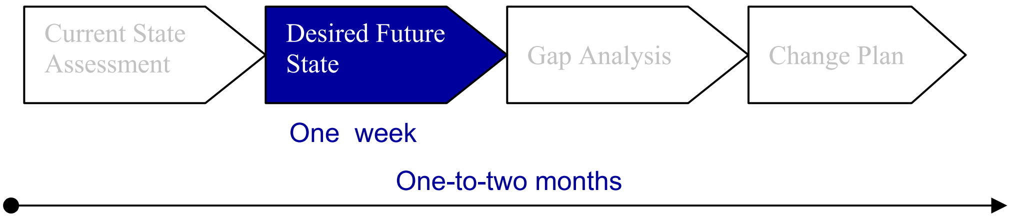
The template highlights the questions that you should be answering under each of these headings. Additional detail can be found in the corresponding chapters.

In many cases you will have more information than can realistically fit into a template like this. The detailed information is necessary for decision making. The template summary of the information can be used during your planning discussions, at management meetings and with stakeholders.

At the end of this stage

At the end of this stage you will have gathered as much information and data as you can about your taxpayer population and their current compliance profile, the tax administration services you provide, relevant legislation, your staff skills, systems and processes, the current structure and the thoughts of external stakeholders. This information will form the basis of the Gap Analysis in Stage 3.

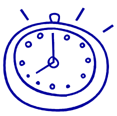
Stage 2: Desired Future State



The purpose of the desired future state stage is to identify, at a high level, what you think the compliance level of your large taxpayers should be and the services, systems, staff, skills, structures and strategies you will need to achieve that. This could be a wish list but is more likely to be a description of the real position in which you would like to be in in the short, medium and long term in relation to the compliance of your large taxpayers.

This stage does not require a detailed plan to be developed or a reality check. It is simply about identifying what services (functions) you would like to provide to large taxpayers in the short, medium and long term to improve their compliance. The detail of the systems, staff, skills, structures and strategies, will be able to be determined once you know what services you want to provide.

Timeframe



Plan to have one-to-two meetings to complete this part of the process. The actual number of hours involved will depend on how much information is available and how many offices you have.

People Involved

The people involved in planning the desired future should be managers or senior staff from each of your current functional areas who know what improvements can and should be made to improve compliance of large taxpayers. Staff from information technology, human resources and corporate services should also be involved. If your office combines Tax and Customs services, Customs staff should be involved, as they will have much to offer about compliance improvement opportunities for large taxpayers.

The Task

The task is to plan what you want to achieve in the short to medium term in relation to these large taxpayers. How do you want to work with them? What services do you want to offer?

Specifically you might want to plan a future that has: lower rates of non-filing; less debt and greater automation of services: self assessment, electronic filing; more taxpayer services, relationship visits and a range of binding statements that taxpayers can rely upon; or a wider range of audit techniques.

At this stage it is about deciding what would be most beneficial to have in the future to improve the compliance of large taxpayers.

Think services before organizational structure

Some revenue administrations operate on functional lines (services, audit, debt and return) and some operate by tax type (income tax, VAT, wage and salary tax). It is recommended that you think about the types of revenue administration services that you want to offer first, and then consider tax types and organizational structure.

With large taxpayers it is important to think about them as one entity rather than a range of tax types. A transaction may have implications for a range of tax types payable by the taxpayer not just one tax. If you focus on large taxpayers in a single tax type you may overlook and miss compliance issues in the other tax types affected by the transaction. Once you have decided what services you want to offer you can then consider the best way to provide these services and what structure is most appropriate.

To make this task easier it is recommended that the desired future is planned for each of the areas you considered in the current state assessment:

- **Taxpayer data:** Who are our large taxpayers and what level of compliance do we want from them? Chapter 4 provides more detail.
- **Tax administration functions**: services, debt and return collection, processing, assessment, audit. What services will we provide? What level of service will we provide in relation to each of these functions? Chapters 5, 6, and 7 provide more detail.
- **Legislation**: What specific legislation (if any) is needed?
- **Staff**: What skills and qualifications will our staff need to provide the desired services? Chapter 8 has more detail.
- **Systems and Processes:** What systems and processes will we need to

provide these services?

- **Structure:** What structure is most appropriate to provide these services? Chapter 9 has more detail.
- **External linkages:** Will the desired future meet the needs of the public sector and other government agencies? What impacts will the desired future have on them?

You can complete this task in a report form or by adding a column to the template outlined in Stage 1. An example of the amended template is outlined on the next page.

Many of you will not be in a position to address all the ideas for your desired future at once; however, this should not prevent you from having ideas about what you want in your desired future. Having a longer term plan ensures that short and medium term changes are consistent with your longer term direction.

As you work through this exercise, you will likely notice that for each of the areas there is some overlap. For example if your compliance picture shows a number of errors with wage and salary returns filed by large taxpayers, you may discover this is caused by manual systems and could be overcome if the wage and salary tax returns were able to be automated. If you automate wage and salary returns for large taxpayers, you may also be able to automate other returns, and you may also be able to introduce electronic filing and electronic payments. The discussions you have with large taxpayers to develop the new processes may assist with relationship building. And so the linkages could go on. After you have completed the first draft of the desired future state you should review the decisions you have made to identify the overlaps. It is likely that the areas where there are overlaps will be areas where you can concentrate your efforts to achieve the greatest impact. Prioritizing is covered in more detail under Stage 4: Change Plan.

At the end of this stage

At the end of this stage you will have developed a picture of how you want your organization to operate in the future to improve compliance of large taxpayers. Stage 3: Gap Analysis is where you identify the gaps between where you are now and where you want to be. These gaps will reflect the changes that will need to be prioritized for action in Stage 4: Change Plan.

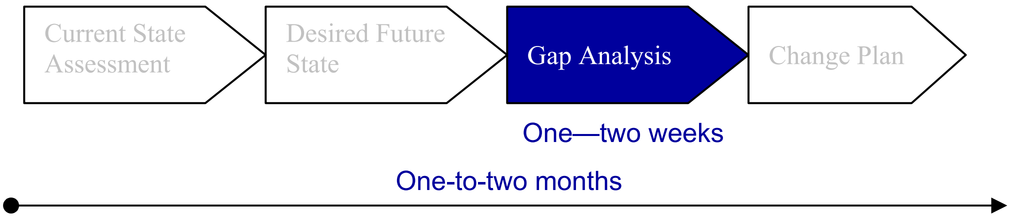
Template 1: Desired Future State

Template 1: Change Planning Process Template
Stage 2: Desired Future State

	Current State Assessment	Desired Future State		
Taxpayer Statistics		Which taxpayers will we focus on? The desired level of compliance by large taxpayers is: for audit…, for debt…, for returns…, for services…, etc.		
Tax Admin/ Functions		What functions will you provide for large taxpayers: Services: tax advice and education, dedicated phone lines, industry meetings/account managers, binding statements? Are there new relationship building opportunities? Can you work in partnership to improve the compliance of other taxpayers? Return and Debt Collection: Can large taxpayers file their returns and pay differently from other taxpayers? Electronically? By self assessment? Audit: What audit techniques will you need? computer audits, systems and process audits, specific issue audits, etc. Other functions: policy, processing, research, etc; Performance standards: What performance standards do we want for these functions?		
Legislation		What new or amended legislation is needed? What legislation needs to be repealed?		
Staff		What skills will our staff need? How many staff will work with large taxpayers?		
Systems		What systems do you need to amend or improve? What new systems do you need? How can you ensure confidentiality of large taxpayer information?		
Structure		Do you need to set up a separate large taxpayer unit? Do you need to change to a function-based approach? Do you need to keep your existing structure but change to focus on large taxpayers instead?		
External Feedback		What will large taxpayers, their agents and other stakeholders say about the tax office in the future?		

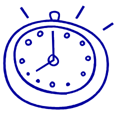
The template highlights the questions that you should consider under each of the headings. Additional detail can be found in the corresponding chapters.

Stage 3: Gap Analysis



The purpose of the gap analysis is to identify the gap between where you are now with your large taxpayers and where you want to be. This will enable you to plan how to make the changes, how much it will cost and who will implement the changes and by when. This will need to be done for each of the areas you have decided to focus on.

Timeframe



Plan to have two meetings to complete this part of the process: one at the start of the analysis and one to summarize findings The actual number of hours involved will depend on how much information is available, how many offices you have and the level of detail you are able to consider.

People Involved

The people involved in this discussion are senior managers and those who will be responsible for managing the compliance of large taxpayers. If you have specialist staff, it would also be sensible to involve them in these discussions, particularly information technology, human resource, operations services, legal and Customs staff .

The Task

The task is to identify what needs to be done to shift from where you are now to where you want to be.

It is recommended that this task be completed at a high level first; as more detail becomes known, it can be included in the change plan. Template 1 can be amended to add an extra column summarizing the gap analysis as shown on the next page.

Template 1: Change Planning Process Template Stage 2: Gap Analysis				
	Current State Assessment	**Desired Future State**	**Gap Analysis**	
Taxpayer Statistics			What is the gap between the current compliance profile and where we want to be? What changes do we need to make to improve compliance? What changes do taxpayers need to make to improve their compliance? How can we help?	
Tax Admin/ Functions			What is the gap between the current functions we provide and the functions we will need to provide to large taxpayers? What will we need to do to introduce these new functions?	
Legislation			What is the gap between the current legislation and the legislation we need? What do we need to do to get new legislation introduced?	
Staff			What is the gap between the current staff numbers and skills and the staff numbers and skills we will need? What do we need to do to recruit more or differently skilled staff? To train existing staff?	
Systems			What is the gap between the current systems and the systems we will need? What do we need to do to improve our systems or introduce new ones?	
Structure			What is the gap between the current organizational structure and the structure that we want? What changes do we need to make?	
External Feedback			What changes do we need to make to improve the feedback to the level we want it to be? From all large taxpayers/ from within each industry? From their agents?	

The template highlights the questions that you could consider under each of the headings. Additional detail can be found in the corresponding chapters.

The wage and salary tax example on the next page shows Template 1 completed for a relatively simple compliance improvement idea. In this case a number of mistakes were identified with the wage and salary returns filed by large employers.

Example 1: Change Planning Process Template

Template 1: Change Planning Process Template
Working with Large Taxpayers:
Wage and Salary tax Compliance Improvement

	Current State Assessment	Desired Future State	Gap analysis
Taxpayer Statistics	10,000 employees, 60% file on time, 80% have refunds, 15% tax to pay, 5% returns filed are correct 50 large employers with > 6000 employees Wage and salary returns often wrong – Social security numbers don't match	~~Either more returns filed on time and more accurate~~ *or* Make wage and salary tax final tax and no more employee returns.	Need to work with large employers to get payroll tax deductions accurate and paid on time
Tax Admin/ Functions	Processing/Assessment: 4 staff process returns plus team leader. Accounts: 1 staff spends 2 weeks doing refund payments Audit: 20 returns audited Services: No services provided to employers to get wage and salary tax deductions correct.	Services: ensure payroll deductions are accurate mainly with 50 top employers Audit: time for other higher risks Processing/Assessment: staff available for other work	Services: New function Audit: Finalize current audits of employees Processing/Assessment/ Accounts: Wind down existing work , reduce outstanding returns & finalize refunds owed.
Legislation	Wage and Salary tax not a final tax	Wage and Salary tax is a final tax	Change legislation
Staff	4 staff involved full time for 3 months on annual returns 2 staff involved full time on monthly payroll returns from employers 1 accounts staff: 2 weeks on refund processing and 1 week per month on payroll payments processing 1 auditor on employee audits	4 staff available for other work—probably advisory services to large employers	Staff will need training in advisory services and understanding large employer's payroll systems
Systems	Paper returns filed at local tax office. Supposed to be sent to central office at end of the year but local offices are often late. Central office processes returns, issues assessments, makes refund payments. Takes about 4 months. Paper returns stored at central office, running out of storage space fast. Central office gets heaps of phone calls from taxpayers wanting refunds—don't know the actual number	Old paper returns are archived Electronic filing of payroll returns from large employers Service contact line for payroll enquiries from employers	Will need archiving process Will need new/ upgraded computer system—expensive and won't be easy! Electronic filing needs to be compatible with employers' systems
Structure	Business Processes, Accounts, Audit	Business Services staff providing advisory services to large employers	New function added to Business Services *or* in Large Taxpayer Unit
External Feedback	Large taxpayers not concerned about employees having to file returns. Suggested could be more automation of monthly payroll returns and payments if employees personal details (name, address, social security or TIN) were accurate Other Gov't departments could cope with automation if we helped them.	Process is more efficient Employers get accurate advice when they want it	Relationship building, consultation, education and awareness.

In the example, during the *Current State Assessment* it was discovered that:

- the compliance profile of the large taxpayers showed a number of errors in wage and salary returns and consequently in payments made.
- large numbers of income tax returns are filed by employees earning only source-deduction income.
- filing and processing these returns gives rise to significant compliance costs for both the tax office and the taxpayers involved with relatively low rates of compliance.

During the D*esired Future State* discussion it was decided:

- not to increase enforcement resources.
- legislation should be changed: wage and salary tax would be a final tax.
- new services and systems would be in place to ensure large employers get the wage and salary tax deductions correct.

The *Gap Analysis* determined that:

- new skills and tools will be needed to get to the desired future.
- existing cases needed to be finalized and closed.
- some staff would need to be trained in new services and some will need to be redeployed over time.

If you draw the connection between the low number of large employers and the high number of employees for whom they are responsible, it is possible to look at alternative ways of addressing the low rates of compliance, other than by increasing enforcement resources. The option chosen in example 1 recognizes the importance of the large employers, and the limited resources of the revenue administration. This option allows return processing and assessment staff to be freed up to do more compliance-focused work, and audit staff can be freed up to focus on higher risk audits.

This example shows how working with large taxpayers can aid tax administration reform and improve compliance across a wider range of taxpayers.

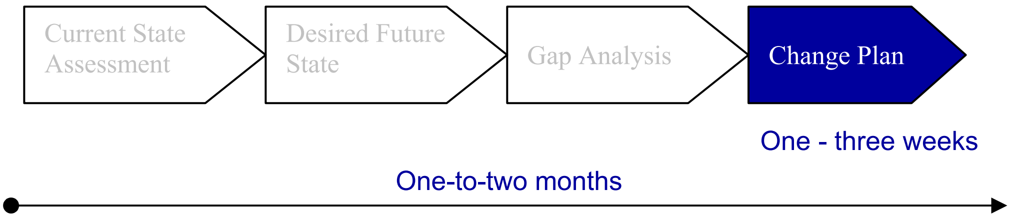
You will need to complete the gap analysis for each of the items you have identified in your desired future state.

At the end of this stage

At the end of this stage you will have identified the gaps between where you are now and where you want to be in relation to your large taxpayers.

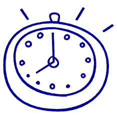
Identifying the gaps is not the same as agreeing to make the changes. The picture you drew at Stage 2 is where you want to be in relation to your large taxpayers. Stage 3 identifies the gaps between where you are now and where you want to be and outlines the changes that would need to be made if you want to achieve the desired future state. The next step is to stop for a reality check and work out what changes you can realistically make and when. This is Stage 4: Change Plan.

Stage 4: Change Plan



The purpose of the Change Plan stage is to identify, at a detailed level, what you need to do to achieve the changes you want to make to start working with your large taxpayers. Now is the time for a reality check. If you have selected a number of changes or changes that will require additional resources and donor assistance, you will need to prioritize them and be realistic in the timeframes within which they can be achieved. This is the purpose of the change plan—to set out the detail in relation to the transition.

Timeframe



Depending on the complexity of the changes you have decided upon, this task can take some time. For relatively simple changes it might take one week to plan the changes. For more complex changes it may take a number of meetings to identify what is involved in the change plan, who is available to work on the change, and the indicative costs and time frames.

If the changes are relatively complex, you may choose to do this stage in two parts: first, a high level change plan and secondly, a more detailed plan. The detailed plan would be completed by the person who has been appointed to implement the changes.

People Involved

Ideally, responsibility for the change plan should be delegated to one person. That person can then liaise with others in the organization and externally to identify the impacts of the changes, set timeframes for implementation and build the detailed plan.

Once drafted, the change plan will need to be approved by managers responsible for the functions and areas being changed.

The Task

The task is to build a plan which sets out the steps required to implement the changes you have decided to make.

It is not possible to provide a definitive list of the items to be included in your plan. It is however probable that there will be a number of common items which should be considered. If they are relevant include them in your change plan.

Preliminary Considerations

During your current state assessment you may have discovered that you do not have a comprehensive profile of your large taxpayers. You may also have discovered that you do not know who your large taxpayers are or you have not yet defined who they will be.

If you do not know who your large taxpayers are or have not yet defined who they are, identifying these taxpayers and their compliance profile is the most important task to get started. If your system is manual or your data are not always accurate, improving the data may take some time. The advantage of small Pacific Islands is that you probably have a good 'gut-feel' of who your large taxpayers are. If you can name the top 10, top 20, top 50 taxpayers, and the main industries, this will be a good starting point. The detail and accuracy of the list can be built up over time. Chapter 4 has further detail on defining large taxpayers and identifying their current compliance profile or compliance baseline.

You don't need to build the compliance profile overnight but you do need a plan and some timeframes to ensure that the profile is developed. What don't you know about the compliance of your large taxpayers? These are your information gaps. Finding answers to these questions can also be built into your change plan.

Other Considerations

If you do have a good picture of your large taxpayers and have set the threshold for determining who is in the large taxpayer group, there are a number of other factors that should be considered as part of the change plan. These factors will need to be considered regardless of whether you decide to set up a separate large taxpayer unit or simply to focus on large taxpayers within your existing business units.

Factors to consider as part of the change plan include:

- ***Project team*****:** Are the changes so significant as to warrant a project team or can responsibility for the changes be allocated to a single senior staff member?
- ***Create a separate large taxpayer unit*** or changed focus within current structures?
- ***Big bang or slow transition*****:** Should the changes be introduced slowly or all at once on a future date to be determined? If you are going to change the entire audit, service, debt and return collection focus, can it be managed in one big effort or will it need a staged approach?
- ***Communications with staff, taxpayers & government departments before, during and after the transition*****:** Communication, consultation and education in relation to the changes will be critical to successful implementation.
- ***Training staff and taxpayers***: As you have learned more about the profile of your large taxpayers, you will have identified skill gaps in your staff and these will need to be addressed in the order you have decided to address the risks and opportunities.
- ***Code of Conduct, Ethics and Security of Taxpayer Information Policies*****:** Do you have these in place? Are they sufficiently robust to ensure confidentiality and security of information?
- ***New processes*****:** What new processes or changes to existing processes will you need to support the new ways of working with your large taxpayers?
- ***New forms booklets and guides.***
- ***New communication methods/ regular industry meetings.***
- ***Dedicated telephone lines*** for large taxpayers to contact staff.
- ***Job descriptions and skills*** for staff working with large taxpayers.
- ***Delegations of authority to act for discretionary decisions***: Will staff dealing with large taxpayers need different delegations from other staff?
- ***Tools and technology*****:** Do you need an automated revenue management system to replace a paper system, additional capability in your existing computer system or new technology (scanner, internet, email access) to communicate with your taxpayers and store their information?

You may need to address all, some or none of these areas when you transition to working with large taxpayers. Your assessment of your current large taxpayer compliance profile, your assessment of what you can realistically achieve with the resources you have in the environment you have and what you can access from donors and PFTAC will all impact on what is included in your change plan.

At the end of this stage

At the end of this stage you will have a plan or series of steps to follow to implement the changes you have decided to make. You can now start to implement the changes and work more closely with your large taxpayers to improve compliance.

Ideally as part of your plan you will have included a post-implementation review. It is important to check the outcome of the changes you have implemented to ensure they have achieved what you intended. This will also allow you to make refinements if you find that your initial ideas can be improved upon. Regularly updating the compliance profile of the large taxpayers will also enable you to see improvements in the compliance of this important group of taxpayers.

The purpose of this chapter was to outline a process to help you transition to a focus on large taxpayers. You can apply this process to make wide ranging changes in your approach to large taxpayers or you can adopt a piecemeal approach and focus on making only one or two changes at a time.

Summary

It is likely that you will find there are many overlaps between your systems, processes, functions and staff skills when thinking about the various ways in which you can work more closely with your large taxpayers. In the interests of simplicity this handbook has taken a functional approach. The remaining chapters will look at how you can work more closely with large taxpayers under each of the main functional headings: audit, services, return and debt collection, and other. The final chapter will look at structure and staff skills.

It is recommended that you start with Chapter 4: Identifying Your Large Taxpayers and Their Compliance Profile. Once you have a good understanding of the current state of your large taxpayers' compliance profile you can then turn to the relevant chapter to help you decide the specific changes that will need to be made to improve the compliance profile.

Please note that the change process outlined in this chapter has deliberately been kept brief. It is PFTAC's intention to publish a separate handbook on Implementing Tax Reforms; Managing the Changes based on the presentation given by Carson McNeill at PITAA 2007. To access a copy of that presentation please go to Chapter 10: Additional Resources for the link to the PITAA website: www.pftac.org/PITAA.

Chapter 4: Identifying Large Taxpayers and Their Compliance Profile

Overview

Chapter 2 explained why working with large taxpayers is a good idea. Chapter 3 suggested a process for identifying and planning the changes you might make. This and the subsequent chapters look at specific areas of tax administration to show how you can work more closely with your large taxpayers. You can use the questions and ideas in these chapters as you work through the process outlined in chapter 3.

Many of you will have a good idea of who are your large taxpayers. This chapter expands on the taxpayer information you need to collect for your current state assessment. This will enable you to confirm who the large taxpayers are, and build a compliance profile or compliance baseline of those taxpayers. This chapter also highlights how the taxpayer compliance profile can be used to determine your desired future state of compliance by large taxpayers.

In any discussion on large taxpayers it is helpful to identify what is meant by 'large'. This will be different in different countries. 'Large' in Australia and New Zealand will be quite different from 'large' in the Fiji or PNG context, which will also be quite different from 'large' in the context of Tonga or Vanuatu, or Tuvalu and Niue.

The definition of large taxpayer varies from country to country. Usually it is based on one or more of the following criteria:

- Amount of annual sales/turnover (e.g. Tonga – taxpayers registered for VAT at $100,000 pa'anga)
- Annual income (income = sales – expenses)
- Assets
- Level of imports/exports
- Type of economic activity (e.g., PNG focuses on Mining; Fiji focuses on the construction industry)
- Amount of tax paid historically
- Number of employees

Some multi-national companies might be ‘large’ in any country even though the countries have different thresholds. For example:

South Pacific - ANZ, Westpac, BP and Total/Shell, Air New Zealand, Air Pacific

Northwest Pacific – Bank of Hawaii, Bank of Guam, Continental Micronesia, Mobil Oil

You might also consider whether high wealth individuals associated with the large business taxpayers should also be included in your large taxpayer group.

Whichever criteria are chosen, they need to work in your environment with the resources available.

Taxpayer Statistics— Stage 1: Current State Assessment

Timeframe

The time required to identify your large taxpayers and build their compliance profile will depend on the amount of information you have available and whether you need to extract the data manually from paper files or you can extract the data from an electronic database.

The time required will also depend on the number of large taxpayers you decide to profile. It is suggested that you allow one week to gather these data.

People Involved

If you have a good electronic database, the person responsible for the database can do the initial data extraction. The information can then be reviewed by managers or senior staff in the various functional/tax type areas.

If the data need to be extracted from a manual or paper based system, a senior staff member who is able to accurately extract the information should be involved.   If necessary, the information can be reviewed by a manager or another senior staff member.

The Task

The task is to identify and rank your large taxpayers and build their collective compliance profile. This is the current state assessment.

This task requires you to consider the criteria you will use to choose your large taxpayers. Collection of these data will enable you to ascertain how many large taxpayers you have and what the current compliance profile is for these taxpayers as individuals, within their industries, and collectively. The compliance profile will form the baseline for monitoring future compliance improvement. It will also help you decide what changes you need to make to improve the compliance of these large taxpayers.

Step 1: Rank the Taxpayers by Size

There are a number of criteria you can use to rank your large taxpayers. In the Pacific, size is typically determined by turnover. For countries with a VAT or gross revenue tax, the sales or gross revenue figure can be used to rank taxpayers. For countries with an income tax but no VAT, the total income figure could be used to rank taxpayers.

Where possible you could also rank the large taxpayers by the number of employees they have. This will identify if there are any taxpayers who are large employers but might otherwise not be in the large taxpayer ranks. Note that some employers with a low number of employees may pay large amounts of wage and salary tax if their employees are high income earners.

Ideally you will be able to rank your taxpayers from your computer records. If you do not have computerized taxpayer records or the data are not accurate, you will need to extract the information from paper based returns. If you have to extract the data manually, to save time, try guessing the top 10, 20 or 50 tax payers. You can then extract their returns rather than trying to extract the figures from all the returns filed.

If your computer data are not accurate, manually updating the data from paper based returns has two benefits: you can update the computer records and identify your top taxpayers.

As you rank the taxpayers by size it is likely you will notice some clusters or groups of taxpayers with similar levels of turnover, or similar numbers of employees. These clusters will help with decisions about where to set the threshold for determining who will be in your large taxpayer group.

Step 2: Identify the Compliance Profile of the Taxpayers

Once you have identified a sufficiently large group of taxpayers, the next step is to identify the compliance profile of these taxpayers: Have they filed their tax returns on time? How many returns are outstanding? Which tax types are outstanding? Why do they have outstanding returns? Have they paid their tax on time? How much tax have they paid? Do they have outstanding returns? Do they have outstanding debt? How much? Which tax types have debt owing? How long has it been outstanding? Why do they have debt? Have they been audited? When? Was there a discrepancy? What was the amount of the discrepancy? What are the largest industries—by level of turnover? By number of taxpayers? Which of the large taxpayers are large employers?

To get a good understanding of the compliance profile, it is recommended that you use a spreadsheet for this exercise. If the number of taxpayers you are dealing with is relatively small, this exercise could be done on a white board or large piece of paper. The advantage of using a spreadsheet is that you can easily reorder the data to give you different views of the same data without having to rewrite it each time.

Template 2: Large Taxpayer Compliance Profile

Try completing a simple spreadsheet like the one outlined below for your top taxpayers. If you have good computerized records you may be able to extract the data electronically for all your taxpayers.

Template 2: Large Taxpayer Compliance Profile
Top XX Taxpayers by Turnover

Taxpayer Name	Turnover	No. of Employees	Industry	VAT			Income Tax (or GRT)			Wage and Salary Tax		
				Audit	Return	Debt	Audit	Return	Debt	Audit	Return	Debt

You can adjust the spreadsheet to reflect the tax types for which your organization is responsible, e.g., by adding goods tax, sales tax or changing income tax to gross revenue tax. You can also add additional columns to provide more detail, e.g.,

- Add taxpayer location (town, village, island).
- Add the years involved if there have been multiple audits, multiple debt periods or many returns outstanding.
- Add the amount of tax paid for each revenue type.
- Add the type of audit and discrepancy amounts, or note open audits.

The example on the next page shows how you might complete the template if you have limited data available. In this example the information was manually extracted from the revenue management system.

Example 2: Single Tax Type Large Taxpayer Compliance Profile

Template 2: Large Taxpayer Compliance Picture
Top 20 Taxpayers by turnover

TIN	Taxpayer Name	VAT Audits Open	VAT Audits Closed	Returns overdue	Debt owing Periods	Turnover
1	Paradise Supermarkets	Investigation			13	**$179,568,392**
2	Paradise Co-operative Federation	Evasion		1	17	**$158,741,971**
3	Paradise Petroleum.	Refund check		7	3	**$72,715,529**
4	F L Development Company	Evasion		6	4	**$39,932,120**
5	Paradise Timber	Refund check	Non Filer check & 2 Investigations		15	**$39,387,194**
6	Nancy's Duty Free Shop	Refund check			1	**$36,381,457**
7	Petroleum Southwest Co	Refund check	Refund check		2	**$35,007,570**
8	MM Timber & Hardware	Investigation			12	**$27,206,993**
9	King Construction & Furniture World		Refund		12	**$20,789,470**
10	Ministry of Foreign Affairs				8	**$18,532,232**
11	Madame T	Investigation			4	**$13,796,623**
12	King Communications	Refund check	5 Refund checks	1	6	**$13,462,236**
13	Jone Meats Co			2	11	**$11,831,578**
14	Si & T Partnership				5	**$10,358,893**
15	Paradise Island Tours	Investigation		1	6	**$8,449,937**
16	Joseph Jones				2	**$7,372,385**
17	Paradise Traders				12	**$6,763,907**
18	Paradise Ready Mix Concrete Co	Non filer check		5	16	**$6,743,215**
19	Paradise Construction Pty. Limited				3	**$6,319,882**
20	May Fair Pacific Construction	Registration Check			7	**$6,149,278**

Notice the industry clusters: Taxpayers 4,5,8,9,18,19 and 20 are all linked to the construction industry. What issues does the construction industry present?

Large taxpayers shouldn't have cash flow issues. Why have they *all* got debt? Is it tax debt or penalties and interest? Why are there so many periods with debt?

Notice the turnover clusters:
- 2 very large taxpayers over $150m
- 1 taxpayer at $72m
- 11 taxpayers between $10—$40m
- 6 taxpayers between $6—$10m

The more data you have the better the picture you are able to form of your taxpayers. If you do not have all the data available when you first complete the template, the gaps will show you what information you need to obtain. This forms part of your gap analysis.

Example 3 shows how the template could be completed for more than one tax type.

Example 3: Multiple Tax Type Compliance Profile

2 taxpayers with very high turnover.
2 petrol companies
4 in construction

Template 2: Large Taxpayer Compliance Profile
Top Taxpayers by Turnover > $10million

TIN	Taxpayer Name	VAT		VAT				Income Tax				Wage & Salary Tax			
		Gross Sales	Gross Purchases	Audit	Discrep ancy	Returns Overdue	Debt	Audit	Discrep ancy	Returns Overdue	Debt	Audit	Discrep ancy	Returns Overdue	Debt
1	Pacific Petroleum	145,478,674	1,509,984	spot check	24,443.						yes	yes	118,563		
2	Wire Supplies	111,773,090	5,849,510	spot check						2	??	yes	85,753		
3	Pacific Investments	88,475,219	6,665,114	spot check	22,[illegible]88						??	yes	0.00		
4	Pacific Airlines	85,537,073	16,019,132	2 refund checks						2				5	899,443.
5	Pacific Breweries	65,920,864	15,579,366	spot check							??				
6	Wow Supermarket	57,406,288	7,550,208								??	yes			
7	Tobacco Co	40,554,680	1,764,437	audit						1					
8	Telecom Utopia	34,453,595	9,223,915							2	credit				
9	Ministry of Education	33,407,745	6,311,456												
10	Ministry of Health	32,945,087	9,868,134								exempt				
11	Ministry of Works	30,839,901	32,448,873								exempt				
12	Margaret's Company	28,384,29	7,712,974	audit				in progress			credit				
13	Smith & Smith Enterprises	26,666,830	26,537,724								credit				
14	All Blacks Co	25,996,015	12,097,123							2	loss c/f				
15	Lions Utopia Ltd	23,869,708	2,849,908								credit				
16	Utopia Petroleum	20,346,829	20,481,810								loss c/f				
17	Taufia's Construction	18,484,906	5,763,701	full audit							credit				
18	Ben's metalworks	18,265,215	1,653,318	full audit	57,641					3	yes				
19	Utopia Hotel	17,350,414	2,111,375								loss c/f				
20	Sione's Wood & Hardware	17,146,188	2,690,303							2	yes	yes	0.00		
21	Elvis Presley Construction	16,733,657	0.00							1		yes	19,568.		

Discrepancies are not material relative to the turnover.

Was the discrepancy $0? Why?

Notice profit margins. Is this realistic ?

What years?

Only 1 Inc Tax audit. Lots of overdue returns. VAT & WST no overdue returns or debt. What is happening with Inc Tax?

These are big $$. Have there been follow up checks? Good strike rate for WS tax audits.

What's going on with this taxpayer?

The picture you have drawn in relation to your taxpayers represents the current state assessment of your large taxpayer compliance and can be used as a baseline or bench-mark for measuring compliance improvements over time.

The data in your compliance profile represent the current state of your large taxpayer compliance. You could summarize this in the Change Planning Process Template as follows:

Example 4: Taxpayer Statistics/Compliance Profile—Current State Assessment Summary

Template 1: Change Planning Process Template				
	Current State Assessment	**Desired Future State**	**Gap Analysis**	**Change Plan**
Taxpayer Statistics	15 taxpayers with turnover > $10m 40% of large taxpayers have returns outstanding 100% of large taxpayers have debt			
Tax Admin/ Functions				
Legislation				
Staff				
Systems				
Structure				
External Feedback				

At the end of this stage

At the end of this stage you have ranked your largest taxpayers according to agreed criteria and have developed a compliance picture of these taxpayers. You have not yet decided which taxpayers you will focus on or how. This is done at Stage 2 of the change planning process: desired future state.

At this stage it does not matter if you have very little data on these taxpayers and their compliance. The lack of data will be identified as a gap during the gap analysis stage. The task of finding out more about the large taxpayers and their compliance can allocated as part of the change plan.

Taxpayer Statistics— Stage 2: Desired Future State

Once you have ranked your taxpayers and completed the compliance profile, the next step is to review the profile and the questions it raises. This will help you select the taxpayers you are going to focus on and identify areas for improvement in their compliance. The compliance profile will form the basis of the discussion in which you will determine the desired future state of compliance you want to achieve with these taxpayers.

Timeframe

The time required to discuss and decide which large taxpayers you will focus on and the desired future state for their taxpayer compliance will depend on the amount of information you have available and whether you decide to concentrate on one area of compliance improvement or more wide ranging changes.

It is suggested that you allow 2-3 hours for the initial discussion on the desired future state.

People Involved

This step is best undertaken by managers and senior staff from the business areas reported on in the compliance profile.

If the information has been extracted from an electronic database it is also sensible to have the person who extracted the information at the meeting.

The Task

The task involves a review of the list of taxpayers that have been ranked and their compliance profile. The purpose of the task is twofold:

- to identify which taxpayers you will select to be in your large taxpayer group and
- to decide what the desired future compliance of these taxpayers should be.

To help identify the large taxpayers you want to focus on and the desired future state of their tax compliance, use the information in your compliance profile to answer the following questions:

- What criterion/threshold will you use to define your large taxpayers? Why?
- Which of the taxpayers you have identified meet the criterion/threshold?
- How many are there? Can you realistically manage this number?
- Are there any other large taxpayers who should be in the group? Why?
- What do you need to do to improve the compliance of the selected group of large taxpayers? As individuals? Collectively?
- What levels of compliance do you want from these taxpayers in 6 months, 1 year, 2 years?

You can summarize your decisions in the Change Planning Process template below.

Example 5: Taxpayer Statistics/Compliance Profile—Desired Future State Summary

Template 1: Change Planning Process Template				
	Current State Assessment	**Desired Future State**	**Gap Analysis**	**Change Plan**
Taxpayer Statistics	15 taxpayers with turnover > $10m 40% of large taxpayers have returns outstanding 100% of large taxpayers have debt Audits don't result in material discrepancies	Focus on taxpayers with turnover >$10m In 12 months only 20% of large taxpayers will have returns overdue In 12 months only 50% of large taxpayers have debt outstanding Audits will all result in material discrepancies		
Tax Admin/ Functions				
Legislation				
Staff				
Systems				
Structure				
External Feedback				

In reality, it will not be possible to decide the desired future state for large taxpayer compliance without thinking about the impact of those compliance improvement changes on the other areas of your tax administration:

- What does this mean for the revenue administration functions you undertake: service, audit, return and debt collection, information technology, legal and policy advice, corporate services, customs?
- What does this mean for staff numbers and the skills they need?
- What does this mean for the way you should structure your organization to cater to the compliance needs of these large taxpayers? Is your tax office currently structured along tax type or functional basis?

The answers to these questions will form the basis of the desired future state for each of these revenue administration areas. Refer to Example 1 on page 28 to see how compliance improvements in wage and salary tax return filing can impact on the other areas of the tax office.

> It is likely the compliance profile will raise a number of questions that you might not be able to answer from internal sources. You could decide to delay your desired future state meeting while answers to these questions are obtained. This is not always the best approach.
>
> Alternatively, you can recognize the existing data gaps and note them in the gap analysis. Answering the questions can then be included in the change plan.
>
> Answering the questions arising from your compliance profile is particularly beneficial to help you build a better understanding of why the large taxpayer compliance profile looks like it does, and what the options are to improve the compliance.
>
> In most cases this can be done as part of a relationship-building exercise rather than as an enforcement activity. Enforcement is usually more expensive, more time consuming and less likely to improve voluntary compliance in the long term.

At the end of this stage

At the end of this stage you will have selected a threshold and criterion to determine who your large taxpayers are. You will also have made decisions about the desired future state of compliance by those large taxpayers over time.

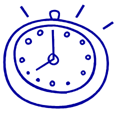
The next stage is to work out what needs to be done to move from where you are now to the desired future state. This is the gap analysis stage.

Taxpayer Statistics— Stage 3: Gap Analysis

The purpose of the gap analysis is to identify the gap between the position you have identified in your current state assessment and the position you have identified in your desired future state.

This can be quite simple if it relates to collection of more data or quite complex if the changes you have identified have impacts across a number of areas in your tax office.

Timeframe



The time required to complete the gap analysis will depend on the nature of the changes you have identified and the complexity of the operations of your existing tax office.

It is suggested that you allow a meeting of 1-2 hours initially.

People Involved

This step is best undertaken by managers and senior staff from the business areas reported on in the compliance profile.

If the information in the compliance profile has been extracted from an electronic database, it is also sensible to have the person who extracted the information at the meeting.

The Task

The task is to identify the difference between the current state assessment arising from the compliance profile and the desired future state in relation to the compliance profile. Strictly speaking, this task is not linear and cannot be done without considering the impacts compliance improvement will have on other areas of revenue administration.

Using the compliance profile as a starting point for deciding your desired future state provides objective evidence for your compliance improvement decisions. If you are familiar with change processes you may start from a different point.

The gap analysis aims to answer the following three questions:

- What is the gap between the current state and the desired future state?
- Why is the gap there?
- What needs to be changed (stopped, started, adapted) to achieve the desired future state?

These are questions for discussion and debate amongst the management team and senior staff. As the discussion progresses it is likely that issues will arise around the need for different and new services, increased costs and overlaps in the effects of compliance improvement activity. In relation to the second question: why is the gap there, further research may be needed. The additional research can be done as part of the gap analysis stage or, if resources are tight, you might decide the first step in the change plan is simply to answer the why questions. Decisions on what needs to be changed can be deferred until answers to the questions have been obtained.

Use the Change Planning Process template to record the summary of your gap analysis:

Example 6: Taxpayer Statistics/Compliance Profile—Gap Analysis Summary

Template 1: Change Planning Process Template				
	Current State Assessment	**Desired Future State**	**Gap Analysis**	**Change Plan**
Taxpayer Statistics	15 taxpayers with turnover > $10m 40% of large taxpayers have returns outstanding 100% of large taxpayers have debt	Focus on taxpayers with turnover >$10m In 12 months: only 20% of large taxpayers will have returns overdue and only 50% of large taxpayers will have debt.	For the 15 large taxpayers: Reduce overdue returns filing by 20% Reduce debt by 50% Don't know why so many overdue returns or so much debt. Need to find out why to work out best way to make changes.	
Tax Admin/ Functions				
Legislation				
Staff				
Systems				
Structure				
External Feedback				

Example 6 shows a very simple gap analysis and change plan. Unless your tax office is very small, it is unlikely you will have such a simple scenario. Decisions made to improve compliance will usually have an impact across a number of areas in the tax office.

In a more complex environment where the compliance profile is more detailed, like that in example 4 (pg 43), a number of cross-organization questions will need to be considered during the gap analysis stage. In example 4 there is a noticeable lack of activity in the income tax area and there are a number of taxpayers with returns out-standing. If the desired future state involves increased activity in relation to income tax, a number of questions will need to be answered:

- How will improvements in return filing for income tax be achieved?
- Can you increase enforcement activity
- Can you add a new taxpayer service function to gain an insight into why returns are late and address the cause of the delays?
- If the returns are filed without accompanying payment, this may impact debt collection staff. What impact will improved payment levels have on debt collection staff?
- If returns are filed with incorrect details they will need closer audit attention. What impact will this have on audit staff?
- If taxpayers put effort into filing income tax returns will they ignore their VAT obligations (which currently has excellent return filing compliance)?
- Will return processing and assessing staff cope with the increased number of returns?
- Can self-assessment be introduced to minimise the impacts?

All these points should form part of your discussion in relation to the gap analysis and what needs to be changed to improve your working relationship with the large taxpayers and ultimately to improve their compliance.

At the end of this stage

At the end of this stage you will have identified the changes that you need to make to improve the compliance profile of your large taxpayers or you will have decided to identify the changes as part of the change plan.

The examples given are relatively simple; however, for some of you, these examples will be similar to your own compliance profiles. Answering the questions raised by the compliance profile may be all you are able to achieve in the short term. One you have a better understanding of your large taxpayers and their compliance profile, you are then much better informed to make decisions on how to improve other areas of your revenue administration and your working relationship with these large taxpayers.

Others of you will be able to start with a more comprehensive picture of the changes that you need to make. In this case, as you work through the gap analysis, it will be important that you recognize the impact that changes in one area will have on the rest of the organization.

Taxpayer Statistics— Stage 4: Change Plan

After you have decided what changes need to be made, you can develop a plan for making those changes. The plan could be as simple as that shown in example 6 but is likely to be more detailed as would be required following the gap analysis in the multiple tax type compliance profile shown in example 4.

Timeframe

The timeframe for developing a change plan will depend on the complexity of the changes being undertaken.

People Involved

Ideally the responsibility for developing a change plan should be given to a senior staff member or manager. This person will need to involve staff from the areas that will be impacted by the changes. In some cases it will be helpful to involve some of the large taxpayers in developing the change plan.

The Task

The task is to build a plan that outlines the changes that have been agreed to in order of priority:

- the changes that need to be made and the steps required to make the changes,
- who is responsible for making them,
- the timeframes in which they will be made,
- the communication, consultation and education program that is associated with the changes, and
- the resources needed.

Where you have identified a number of compliance improvement changes or a single change that has impact across the tax office, it will be necessary to prioritize the changes and the timing of the changes.

Use the Change Planning Process template to record the summary of your change plan:

Example 7: Taxpayer Statistics/Compliance Profile—Summary of Change Plan

Template 1: Change Planning Process Template				
	Current State Assessment	**Desired Future State**	**Gap Analysis**	**Change Plan**
Taxpayer Statistics	15 taxpayers with turnover > $10m 40% of large taxpayers have returns outstanding 100% of large taxpayers have debt	Focus on taxpayers with turnover >$10m In 12 months: only 20% of large taxpayers will have returns overdue and only 50% of large taxpayers will have debt.	For the 15 large taxpayers: Reduce overdue returns filing by 20% Reduce debt by 50% Don't know why so many overdue returns or so much debt. Need to find out why to work out best way to make changes.	Sione to find out why? Report back in 2 weeks.
Tax Admin/ Functions				
Legislation				
Staff				
Systems				
Structure				
External Feedback				

At the end of this stage

At the end of this stage you will have a plan for implementing the changes that you have decided to make. You will know who is responsible for making the changes, when they will be made and what resources you will need.

You can monitor the success of the changes by updating the compliance profile at regular intervals. If compliance improvements have been made, you will have evidence to show it. If the expected improvements have not been achieved you will need to reconsider the decisions that you made and talk with the taxpayers again to see what else might be preventing them from complying voluntarily.

Summary

This chapter has identified a process for identifying who your large taxpayers are and what their collective compliance profile looks like.

The chapter has also suggested a series of questions which can be answered using the data collected in the compliance profile to help determine the desired future state for the compliance of your large taxpayers. This desired future state of compliance will in turn assist with deciding what needs to be changed in your functional areas to achieve the improved compliance.

For some small tax offices, the change might simply be to build a clearer picture of your large taxpayer compliance profile. For those of you with a more detailed compliance profile, the changes will be ones that can realistically be made given the resources available to you or with donor assistance. These improvements can be tracked over time by regularly updating the profile.

Chapter 5: Working with large taxpayers: Return and Debt Collection

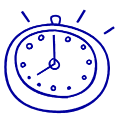
Overview

Working with large taxpayers opens opportunities to improve return and payment collection. Large taxpayers are responsible for the majority of revenue collected by the Revenue Administration. If a large taxpayer is late in filing returns or does not file returns, it is likely they will also be late in making payments due or they may not make payments at all. Pacific Island governments, like governments everywhere, need revenue to fund the activities of the country. If a significant tax payment is late it can have a material effect on the Government's ability to meet its obligations elsewhere. Consequently, monitoring returns and payments to ensure they are on time, as well as accurate is an important function of a revenue administration.

It may not be possible to monitor and follow up all returns but it is possible to monitor and follow up the returns and payments of large taxpayers.

This chapter uses the taxpayer compliance profiles identified in chapter 4 to demonstrate how working with large taxpayers can improve return filing and payment collection.

Timeframe



Return and debt collection activities are not time bound. They should be an ongoing feature of the way you work with taxpayers in general and large taxpayers in particular. Once you have identified your large taxpayer compliance profile for this function, it is possible to put timeframes around the compliance improvement levels you want to achieve in the next 6 months, 1 year and 2 years.

People Involved

The people involved should be your return and debt collection staff and their manager or team leader. If you have a separate large taxpayer unit, these will be specialist staff. If you are monitoring large taxpayers as part of your overall business activity, it will be important to identify those staff who have specific responsibility for monitoring the return filing and debt payments of your large taxpayers.

If you have separate taxpayer services staff, if will be beneficial to involve them as you build the relationship with your large taxpayers and understand why they file their returns late or make their payments late.

The Task

In relation to **tax returns** of large taxpayers, the general task is to ensure timely filing of returns by:

- monitoring return filing
- monitoring outstanding returns
- instant follow up of outstanding returns
- pursuing legal avenues to collect returns
- imposing and collecting penalties for outstanding returns.

In relation to **tax payments** of large taxpayers, the general task is to ensure timely payment of tax by:

- monitoring payment due dates and amounts
- monitoring arrears
- instant follow up of arrears
- pursuing legal avenues to collect arrears
- impose and collect penalties for late payment.

There should be nothing new to you in the above two paragraphs. This represents standard practice in relation to returns and payments from any taxpayer. The difference with large taxpayers is that you can monitor them individually and follow up quickly if their returns or payments are late. This is usually cheaper, quicker and more efficient than imposing penalties and interest or taking legal action. Often judicial systems are not resourced to cope with tax cases and revenue administrations lack the resources to pursue this resource intensive approach.

If you are going to monitor returns and payments of your large taxpayers, it is important not to include more taxpayers in the group than you can reasonably manage.

To identify the areas for improvement in compliance by large taxpayers with on-time payments and return filing, complete a current state assessment as outlined in chapter 3. Use that information and the data from your compliance profile to decide what you want the desired future state of on-time filing and debt collection compliance to be.

Example 7 shows how you might use the compliance profile to determine a desired future for return and debt compliance.

Example 8: Return and Debt Compliance

Large Taxpayer Compliance Profile Top 20 Taxpayers by Turnover - Debt and Return Compliance									
TIN	Taxpayer Name	VATax		VATax		Income Tax		PAYE	
		Gross Sales	Gross Purchases	Returns Overdue	Debt	Returns Overdue	Debt	Returns Overdue	Debt
1	Pacific Petroleum	145,478,674	1,509,984				yes		
2	Wire Supplies	111,773,090	5,849,510			2	??		
3	Pacific Investments	88,475,219	6,665,114				??		
4	Pacific Airlines	85,537,073	16,019,132			2		5	899,443
5	Pacific Breweries	65,920,864	15,579,366				??		
6	Wow Supermarket	57,406,288	7,550,208				??		
7	Tobacco Co	40,554,680	1,764,437			1			
8	Telecom Utopia	34,453,595	9,223,915			2	credit		
9	Ministry of Education	33,407,745	6,311,456						
10	Ministry of Health	32,945,087	9,868,134				exempt		
11	Ministry of Works	30,839,901	32,448,873				exempt		
12	Margaret's Company	28,384,290	7,712,974				credit		
13	Smith & Smith Enterprises	26,666,830	26,537,724				credit		
14	All Blacks Co	25,996,015	12,097,123			2	loss c/f		
15	Lions Utopia Ltd	23[illegible]	[illegible]				credit		
16	Utopia Petroleum	20[illegible]	[illegible]				loss c/f		
17	Taufia's Construction	18[illegible]	[illegible]				credit		
18	Ben's metalworks	18,2[illegible]	[illegible]			3	yes		
19	Utopia Hotel	17,350,414	2,111,375				loss c/f		
20	Sione's Wood & Hardware	17,146,188	2,690,303			2	yes		
21	Elvis Presley Construction	16,733,657	0.00			1			

No VAT returns or debt outstanding

3 large taxpayers have income tax debt, in 4 cases the arrears are unknown and 80% have returns outstanding. **WHY?**

What is happening with income tax? **WHY?**

Only 1 large taxpayer has defaulted on wage and salary tax

In this example it is not known why the debt and return compliance profile for income tax is so different from the other tax types. There are also a lot of data missing in relation to the actual amounts of debt outstanding for income tax.

What is happening to income tax? That is the big question that the compliance data in example 8 shows needs to be considered in relation to the debt (receivables) and return collection function. Knowing why these taxpayers have not filed their income tax returns on time or paid the tax owing helps you ascertain how best to respond to the cause. Knowing why will also help you to define your desired future state.

Match the response to the cause

Matching the response to the cause of the non-filing or non-payment will assist with the relationship between the taxpayers involved and the tax office and assist with their future compliance.

The appropriate response to an interpretation issue might be legal advice or remedial legislation.

The appropriate response to an internal problem might be a process change, improvements in the accuracy of data, information matching, staff training or improved communication between the VAT and Income tax divisions if the office is structured by tax type.

The appropriate response to an external problem affecting the taxpayer might range from education for a misunderstanding of obligations, to an extension of time for an information hold-up or cash flow shortage, to enforcement action for deliberate non-filing and non-payment.

For very small offices it might be prudent to concentrate the majority of resources on finding out why the returns and debt are outstanding first. The next task could be to ensure these returns are filed and the income tax debt is being proactively managed. Once compliance with income tax obligations is at a manageable level, resources can be reallocated across other high-risk areas.

For larger offices it will be possible to manage more than one task at a time.

Collecting outstanding returns and debt for large taxpayers is not likely to happen over-night, particularly if these taxpayers have a long history of late filing and paying. Compliance improvements will happen if you address the underlying cause of the lateness, set a realistic change plan, and monitor your progress against the original compliance profile baseline.

A realistic change plan based on the compliance profile in example 8 (page 56) could include a series of short and longer term tasks. In the short term:

- verify the arrears of the 4 taxpayers marked ??? within 2 weeks
- identify $$ value of arrears for the 3 taxpayers with debt within 2 weeks
- confirm debt and number of returns outstanding for Ben's Metalworks within 1 week and arrange visit within 2 weeks
- confirm number of outstanding returns of the remaining 7 taxpayers and arrange visits to find out why returns are late within 4 weeks.

Once the reasons for the non-compliance are known, details of the longer term tasks can be added to the change plan. For example:

- amend the legislation to change the return filing date by the end of 201X
- introduce a formal extension of time approval process within 6 months
- introduce debt collection enforcement processes within 6 months
- introduce return collection enforcement processes within 6 months
- introduce electronic filing and payments by end of 201X.

When the compliance picture is reviewed in 12 month's time, the efforts focussing on large taxpayers should be reflected in improvements in the on-time filing and paying compliance profile of the large taxpayers. Achievements in the other revenue administration reforms associated to the improved compliance picture can also be identified and recognized.

Summary

Improving on-time return filing and payments of large taxpayers is not a stage in a process; it is part of an ongoing program of compliance improvement. It is, however, recommended that you follow the change planning process to identify the changes you want to make in relation to the debt and return compliance of your large taxpayers and that you monitor your progress against the first compliance profile.

When you think about how you want to improve your return filing of these large taxpayers or the debt management of these taxpayers, it is important to start with manageable changes and make them part of business-as-usual rather than attempting too many changes at one time.

Chapter 6: Working with Large Taxpayers: Audit and Investigation

Overview

Working with large taxpayers is not an opportunity for them to avoid closer scrutiny of their tax returns. Tax audits and investigations into the returns of large taxpayers will still play a vital role in your enforcement and assurance activity.

Working with large taxpayers in other areas, return filing, debt management and taxpayer services will help to remove the need to audit small-value low-risk areas in the activities of these large taxpayers. If advisory services are provided, taxpayers will know what is required of them, when and how, and what the tax office's interpretation of the law is. This means tax office attention is directed to the high value and more complex risks that large taxpayers present.

Many of you will find that it is easier to improve on-time return filing and payments than to discover and audit complex tax transactions. It will be a constant challenge to build the capacity necessary to audit complex transactions, and many of you will choose to use external advisors instead. It is, therefore, not the purpose of this chapter to focus on the tax technical risks, which may be beyond the current technical capacity of your audit staff. Instead, this chapter looks at the changes that can occur in audit and investigations when a closer working relationship is built with large taxpayers. A close relationship enables you to better understand the way these taxpayers do business and identify where the tax technical risks might be.

This chapter adopts the principle that the better your technical staff understand the business of your large taxpayers, the better they will be able to identify tax technical risks.

You and your staff will probably know many of the large taxpayers and their key personnel individually. You may also have a good knowledge of the approach each of these taxpayers takes to their compliance obligations. This chapter suggests a simple but systematic approach to improving your knowledge and understanding of the way your large taxpayers operate so you can monitor their compliance and understand the risks they might present.

Timeframe

Audit and investigation activities are not time bound; they should be an ongoing feature of your revenue administration activities. However, once you have identified the compliance profile of your large taxpayers, particularly audit coverage, and your knowledge of their activities grows, you can put timeframes around the audit activity you want to achieve in the near/medium term and the staff skills and resources you will need for that activity.

People Involved

The people involved should be your audit and investigation staff and their manager.

If your organization is too small to concentrate on audit, service, and debt and return activity simultaneously, allocating some resources to understanding your large taxpayers and the risks they present will be valuable for all of these enforcement activities.

The Task

The task with audit and investigation activity is to identify the highest risks among the large taxpayers and focus appropriate audit attention on those risks. Investigation staff can then use their knowledge of the large taxpayers as individuals and as part of an industry to determine the highest risk cases to investigate and the most appropriate audit and investigation tools to address the risks.

You can use the compliance profile to identify where the audit gaps are and where you might start with building a better understanding of your large taxpayers.

The more detail in your compliance profile relating to audit activity and tax paid, the more you will be able to understand the compliance profile of your large taxpayers as individuals, how they compare as members of an industry and how they compare across the wider large taxpayer group you have selected.

For many of you this detail will need to be accessed manually. In the first instance, develop your current state assessment on what can reasonably be extracted.

Additional information can always be added over time to improve the detail in the compliance profile.

Example 8 shows how you might use a compliance profile to determine the current status of your audit coverage and the questions that arise.

Example 9: Large Taxpayer Audit Coverage and Compliance Profile

Large Taxpayer Compliance Profile
Top 20 Taxpayers—Audit Coverage and Compliance in last 3 years

TIN	Taxpayer Name	VAT		VAT		Income Tax		Wage & Salary	
		Gross Sales	Gross Purchases	Audit	Discrep	Audit	Discrep	Audit	Discrep
1	Pacific Petroleum	145,478,674	1,509,984	spot check	24,443			yes	118,563
2	Wire Supplies	111,773,090	5,849,510	spot check	0.00			yes	85,753
3	Pacific Investments	88,475,219	6,665,114	spot check	22,788			yes	0.00
4	Pacific Airlines	85,537,073	16,019,132	2 refund checks	0.00				
5	Pacific Breweries	65,920,864	15,579,366	spot check	0.00				
6	Wow Supermarket	57,406,288	7,550,208					yes	???
7	Tobacco Co	40,554,680	1,764,437	audit	In progress				
8	Telecom Utopia	34,453,595	9,223,915						
9	Ministry of Education	33,407,745	6,311,456			Exempt			
10	Ministry of Health	32,945,087	9,868,134			Exempt			
11	Ministry of Works	30,839,901	32,448,873			Exempt			
12	Margaret's Company	28,384,290	7,712,974	audit	In progress	in progress			
13	Smith & Smith Enterprises	26,666,830	26,537,724						
14	All Blacks Co	25,996,015	12,097,123						
15	Lions Utopia Ltd	23,869,708	2,849,908						
16	Utopia Petroleum	20,346,829	20,481,810						
17	Taufia's Construction	18,484,906	5,763,701	full audit	In progress				
18	Ben's metalworks	18,265,215	1,653,318	full audit	57,641				
19	Utopia Hotel	17,350,414	2,111,375						
20	Sione's Wood & Hardware	17,146,188	2,690,303					yes	0.00
21	Elvis Presley Construction	16,733,657	0.00					yes	19,568

Is this really the total value of discrepancies in these 6 audits of the largest taxpayers? Are these taxpayers fully compliant?

VAT discrepancies are not material relative to size of the taxpayers.
What might staff have missed?

Only 1 income tax audit
Limited in depth VAT coverage
Some wage and salary tax coverage.

Were the wage and salary tax discrepancies one-off or are they still making errors? Why?

The audit coverage compliance profile raises a number of questions about the extent of audit work done with these large taxpayers, in the last 3 years. To help determine what audit and investigation resources are required for improving the coverage and compliance of these large taxpayers it is necessary to understand them better as individuals and to understand the way they do business within their industries.

The balance of this chapter provides a 5-step process for better understanding these large taxpayers and their industries, and consequently where the risks might lie. It is not in the realms of this handbook to provide a case selection process. For further information on this area you can refer to PFTAC Handbook #3.

5-Step Process for Understanding Large Taxpayers

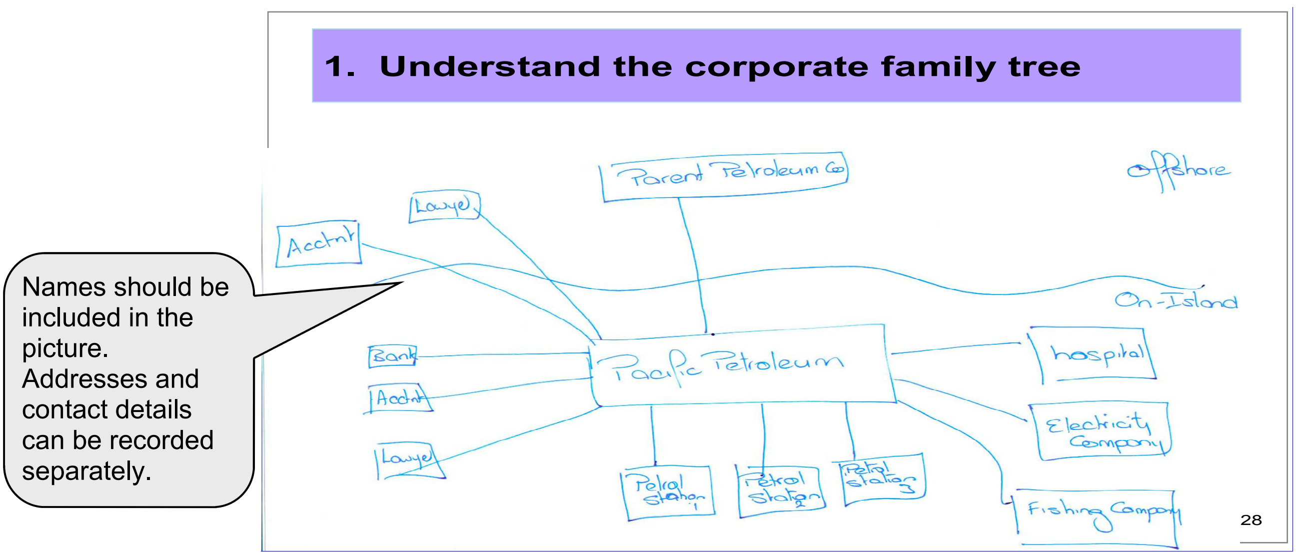
To help staff improve their understanding of the large taxpayers beyond what they know from common knowledge and local gossip, a simple 5-step process is suggested:

- Step 1: Understand the taxpayer's family tree
- Step 2: Understand the contracts
- Step 3: Understand the money flows
- Step 4: Understand the tax consequences of the contracts and money flows
- Step 5: Ask the questions.

Step 1: Understand the Taxpayer's Family Tree

Large taxpayers have a corporate or business structure similar to a family tree. This requires staff to understand the relationships between shareholders, parent companies and subsidiaries in the case of a corporate structure, partners and partnership interests, trusts, trustees and beneficiaries, joint ventures, and family arrangements in the case of unincorporated businesses.

The easiest way to achieve this is to draw a picture or wiring diagram of the taxpayer's family tree. A simple picture could look like this. [Slide 28—Appendix 1]



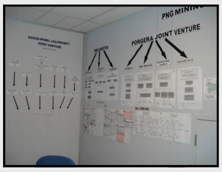
The more detail in the picture the better. Additional detail your staff could add includes: the taxpayer's accountants, lawyers and bankers, their branches or retail outlets, their main customers, suppliers and key personnel. It would also be beneficial to identify relationships on-island and off-island.

For large taxpayers with complex structural relationships, it may not be possible to complete the picture in one session. Ideally staff would start to build these pictures using information already held in the tax office files and their own local knowledge. It is likely that they will find there are details that they do not know and cannot find out without visiting the taxpayer. This visit provides an ideal opportunity to begin building a working relationship that is not based on audit activity but one that is based on understanding and awareness. Many taxpayers are happy to explain the way they operate. For those who are not, filling in the gaps in the picture can become part of enforcement activity if warranted.

Completing a family tree for all large taxpayers is what you should be aiming for. However, given the time and resources this could take, it will be easier to complete a small number at a time. The audit coverage compliance profile can assist with deciding which taxpayers to complete first: taxpayers you have already audited, the largest 3, 5 or 10, or those who have had no audit activity in the last few years.

Using a white board is an easy way to start drawing the family tree or corporate structure. If errors are made they can be amended without having to start again.

Alternatively, you can adopt the approach used in PNG where they used a wall and printed names and arrows on pieces of paper. As relationships were identified, names and arrows were stuck on the wall.



Please note: to maintain taxpayer confidentiality this picture has deliberately been kept small.

Step 2: Understand the Contracts

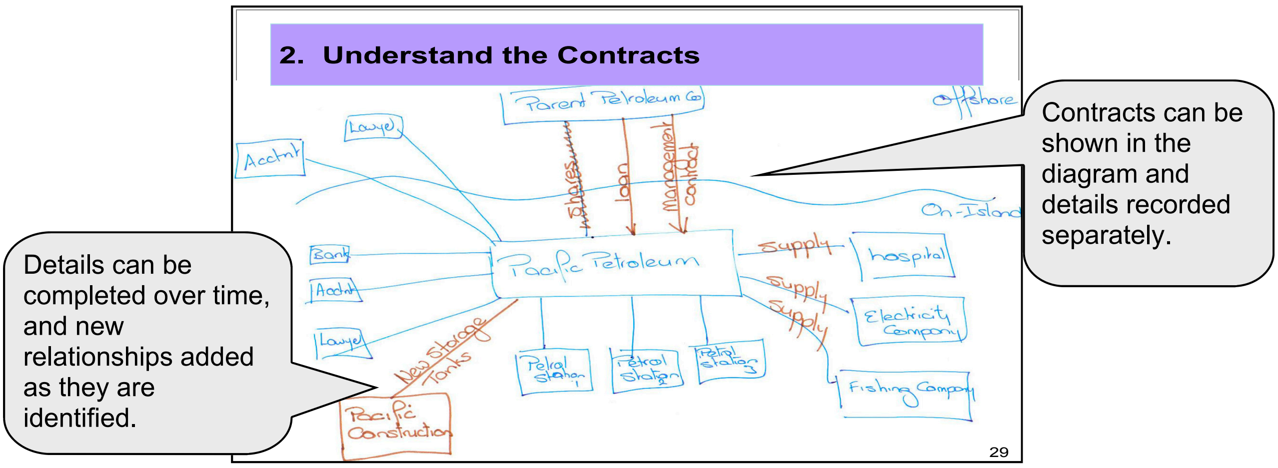
The second step is to understand the contractual arrangements between the taxpayer and those with whom they have relationships. Specifically, staff should be looking to identify:

- What contracts exist?
- Who are the parties?
- What are the terms or the contracts?

For example:

- Supply contracts: Who are the suppliers? What is being supplied? What are the terms of the contracts? Time frames? Payments? Default? Are there offshore suppliers?
- Finance Contracts: Who are the financiers? What are the terms of the financing arrangements? Timeframes? Payments? Defaults? Are there foreign accounts? Offshore loans?
- Agreements for sale and purchase: real property (land), personal property (non-land, shares, rights, other intangibles).

Again, the easiest way to complete this step is to add the detail to the picture already drawn as shown below. [Slide 29—Appendix 1]



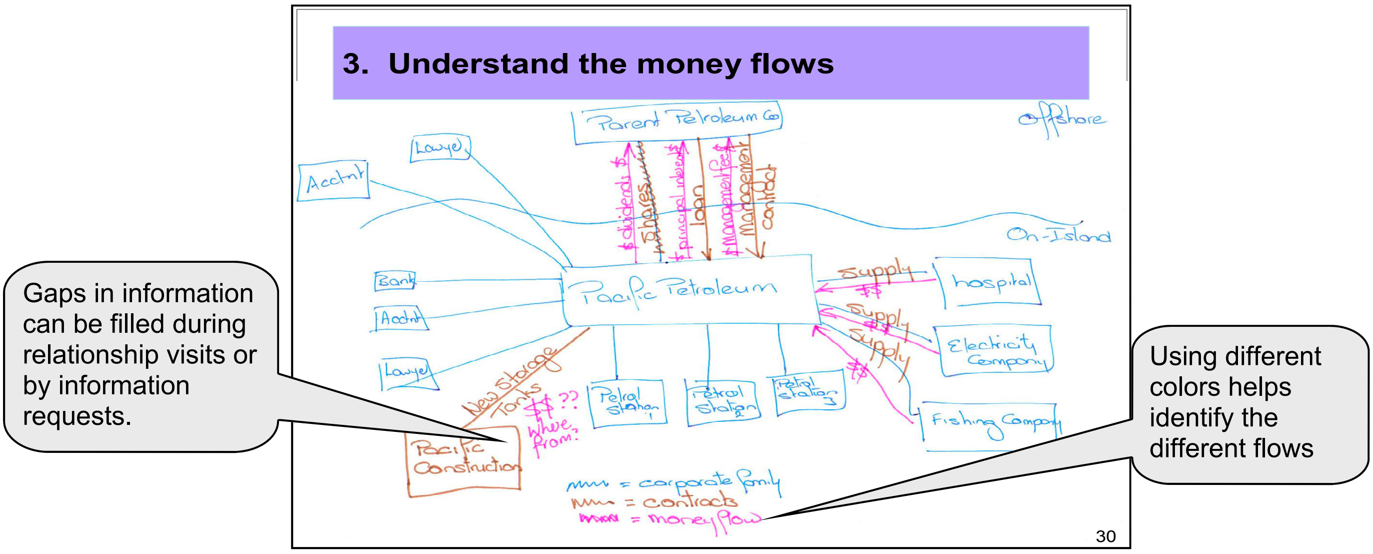
An added advantage with this approach is that it also works as on-the-job training. As staff complete the diagrams for each taxpayer, they will learn about the contracts and the industries. To the extent that there are gaps in the information, this can be obtained during relationship building visits with the taxpayer or their agent. Alternatively the detail can be requested as part of enforcement activity.

Step 3: Understand the Money Flows

The third step is to understand the money flows associated with the contractual arrangements. This will help identify whether there are any money flows which are different from what might be expected under the terms of the contracts, if there are foreign accounts and if payments were actually made. Specifically, staff should be looking to identify:

- Where does the money come from?
- Where does the money go to?
- Does it change hands? When, Where, Why?
- Who has possession of the money?
- Who has control of the money?

Details of the money flows can be added to the picture already drawn as shown below. [Slide 30—Appendix 1]



Money flows should be added to the picture for each of the contracts identified. Where actual money flows cannot be identified or confirmed, questions can be raised and answered at a later date.

It might also be possible to include probable money flows, i.e., shareholdings which likely result in dividends. Details of the money flow can be added once they are confirmed. If you adopt this approach it will be important to ensure that you can tell the difference between confirmed flows and probable money flows.

Step 4: Identify the Tax Consequences of the Contracts and Money Flows

The fourth step is to understand the tax consequences of the contractual arrangements and the money flows. This will help identify if there are any likely tax interpretation issues (e.g., capital/revenue, exempt/taxable/zero rated, tax avoidance) arising. This will also help identify if it would be prudent to check that the amounts were treated properly for tax purposes e.g. foreign source income is included in the return. Specifically, staff should be looking to identify:

- Are there any VAT consequences of the contract? What are they?
- Are there any income tax consequences of the contract? What are they?
- Are there any other tax consequences of the contract: salary and wage tax, sales tax, goods tax?
- Do the actual money flows result in different tax consequences from what is expected under the terms of the contract?

> The nature of the contracts identified and the resulting tax consequences anticipated will reflect the skills and knowledge of staff involved in this exercise.
>
> If their skill level is relatively unsophisticated, the nature of the contracts and the risks they identify will also be relatively unsophisticated.
>
> This can be used as a training opportunity to improve their skills and knowledge of large taxpayers and the industries involved. Where the risks are high and up-skilling is not an option in the short term, external assistance could be sought.

If the diagram that has been drawn is very complex, this step can become very time consuming. The tax consequences of each contract can be noted on the diagram; however, by this stage the diagram is probably starting to look fairly messy and unnecessarily detailed, particularly if the money flows are different from the terms of the contract.

There are a number of options available to manage the amount of work involved and the complexity of the diagram.

To manage the amount of work involved staff could: focus on high $$ value contracts; focus on contracts which are common to an industry so you can get the most value from researching one type of contract in depth; or focus on contracts where staff have the greatest skills and knowledge and build skills and knowledge in the other contracts over time.

To manage the complexity of the diagram, specific contracts of interest could be extracted and a separate wiring diagram or picture done for those contracts.

Step 5: Ask the Questions

The fifth step is to identify the areas of concern and ask the necessary questions to fill in the gaps.

As staff work through each of the steps, they will have identified relationships in the corporate structure or family tree that they are unsure of, gaps where they do not know what contracts exist, or gaps in relation to money flows and how transactions were financed. They may also have identified areas where they are unsure of the tax consequences or they are unsure if the taxpayer would have returned the amounts correctly for tax purposes.

All these information gaps and areas of concern provide opportunities to work more closely with the taxpayer involved. The gaps provide opportunities not only to find the answers but also to better understand the way the taxpayers operate and the business issues they face and, ultimately, to improve their compliance.

The challenge with Audit is to find the best way of answering the questions arising from your compliance profile given the resources available to you and the risks you had identified with other taxpayers. Consider the following questions:

- How many large taxpayers have been audited?
- What were the discrepancies?
- Are these amounts material in relation to the size of the company?
- What risks did you identify in the 5-step 'getting to know you' exercise?

- Are these risks limited to the one taxpayer or to the industry?

Answering these questions provides an opportunity to consider the desired future state for your audit activity and the most appropriate responses to improve compliance. A review of your audit coverage compliance profile will show the range of audit responses you currently use. For most Pacific tax offices the most common audit response is a VAT refund check or full audit.

Using the 5-step process it is possible to identify a range of audit/investigation techniques

- Single issue investigations (only one risk or transaction is investigated rather than the whole tax return)
- Risk-based audits where only the risk identified is reviewed across a number of taxpayers in an industry
- Comprehensive investigations of all tax types
- System or process audits
- Post-audit reviews (repeat visits after an agreed period to review discrepancy areas for continuing compliance).

> The terms audit and investigation have deliberately been used separately in this chapter.
>
> For the purposes of this chapter an audit is a review of what has been disclosed in a tax return and requires attention to detail. An investigation requires looking for what is not obvious on the face of the tax return and needs attention to detail and good inquisitorial and questioning skills.
>
> The 5-step process outlined in this chapter supports an investigative approach. Potential risks are identified from knowledge and understanding of the activities of the taxpayer. Decisions are then made on whether to and how to investigate the way these risks were treated in the applicable tax returns.

Summary

Improving audit and investigation case selection, coverage and rates of return should be built into an ongoing program of compliance improvement. It is recommended that you follow the change planning process to identify the changes you want to make in relation your audit and investigation functions, and that you monitor your progress against the first compliance profile.

When you think about how you want to improve your audit and investigation activity, it is important to start with manageable changes and make them part of business-as-usual rather than attempting too many changes at one time. This might mean building a better understanding of your large taxpayers and the risks they present in the short term, rather than trying to start with complex avoidance or transfer pricing investigations.

There is little point opening such investigations if your staff do not have the capability to conduct the audits effectively. Yes the tax might be avoided, but unless you bring in specialist expertise it will continue to be avoided if staff are unable to properly investigate these complex transactions.

This chapter recommends that you use the audit compliance review to build a better understanding of the number of audits and investigations that have been conducted on large taxpayers over recent years, the resulting discrepancies and the range of audit responses that have been used. This will enable you to develop a plan to build a better understanding of the compliance risks the large taxpayers present as individuals and within their respective industries. A 5-step process is suggested to understand the businesses of your large taxpayers and the major transactions in which they are involved.

This process will help identify staff training needs and skill gaps.

Chapter 7: Working with Large Taxpayers: Services

Overview

Working with large taxpayers requires a mindset change shifting from being a regulatory enforcement agency to a more public-focused agency. This is most obvious in the assistance and advice function, also known, as the taxpayer services function.

IMF/PFTAC advice is frequently to introduce more service related activities. This advice recognizes that it is more cost effective to assist taxpayers with their compliance obligations and introduce services that reach many taxpayers than it is to increase enforcement activities. Enforcement activities are time consuming, labor intensive and only reach a small number of taxpayers.

For many Pacific Island tax offices service related activities will be new. It is important not to underestimate the change this activity requires, particularly where staff, historically, are used to treating taxpayers with suspicion, expecting that accounts are wrong and that their task as auditor is to find the mistake. The challenge is to find a way to introduce the mindset change across those staff.

As you work through the current state assessment and desired future state for compliance of your large taxpayers you will have to consider how you will achieve the compliance improvement. Many times the answer will be to learn more about your large taxpayers and the way they do business.

Finding opportunities to work with large taxpayers as individuals or in industry groups outside typical enforcement activities, is important for relationship building. These meetings also help to identify the services you can introduce to make compliance easier for these taxpayers.

This chapter look at the taxpayer services you could introduce to simplify compliance obligations, reduce compliance costs and improve voluntary compliance in your large taxpayer group.

Timeframe

Taxpayer service is not time bound. It should be an ongoing feature of the way you work with taxpayers in general and large taxpayers in particular.

People Involved

Taxpayer service involves everyone in the organization as appropriate to their role in the organization. Some services will require the CEO and senior managers to be involved. Taxpayer and industry meetings will likely require service staff to be involved unless there are specific issues the taxpayers want to discuss with staff from other areas of the tax office.

All staff with taxpayer contact should understand the principles of taxpayer services.

The Task

Follow the planning process outlined in chapter 3 to identify the services that you want to provide for large taxpayers and how you will introduce those services into your tax office.

Complete a current state assessment of your taxpayer services function

The first step is to complete a current state assessment and find out what taxpayer services you currently provide. Some indicative questions are outlined below.

- What services do you currently provide to large taxpayers?
- Do you produce information booklets and brochures?
- Do you produce binding statements?
- Do you have a regular column in the newspaper or spot on the radio?
- Do you have a website?
- Do you have regular meetings with large taxpayers outside audit or other enforcement activity meetings?
- Do you have regular meetings with tax agents or industry representatives, e.g. chambers of commerce, fishing industry, bankers association, hotel and tourism association, builders association, etc?
- How many staff are involved in providing taxpayer services?

- Do you have staff dedicated to dealing with the files and queries of large taxpayers?
- Do the large taxpayers know who these staff are?
- Can the large taxpayers contact these staff directly, via email or telephone and get a timely and accurate response?

Many of you will not have a developed taxpayer services function. Printing budgets, staff access to computers, telephones and transport to travel to meet with the large taxpayers, will be limited. Services that are provided will often be ad-hoc. It is however, important to complete the current state assessment accurately with as much detail as possible because improvements in these areas will likely be part of your desired future state.

Some Pacific Island revenue administrations do have developed taxpayer services functions. For those offices additional data can be collected as part of the compliance profile. Such data could include:

- How many telephone enquiries are received?
- What are the most common enquiries about?
- How many are from large taxpayers?
- How long does it take your staff to respond to these telephone calls?
- How many letters of enquiry/emails are received?
- How many are from large taxpayers?
- What are the most common enquiries in the letters/emails?
- How long does it take your staff to respond to letters/emails?
- How many hits do you get on your website?
- Which web pages are most often accessed?
- How often do you update your website?
- What are the most common complaints that your office receives?
- How many are from large taxpayers?
- What are the most common complaints from large taxpayers?

Answers from the current state assessment and the large taxpayer compliance profile will help with decisions on the desired future state for your taxpayer services function.

Determine the Desired Future State for Your Taxpayer Services.

Opportunities for developing a taxpayer services function and working more closely with large taxpayers typically fall into three categories:

- Assistance and advice
- Process Improvement
- Partnership opportunities.

Assistance and advisory services are usually the easiest and quickest to introduce, process improvements take more time and may have greater payback. Opportunities for working in partnership with large taxpayers will generally only arise once a good working relationship has been built. The level of development in your existing taxpayer services will indicate the preferred starting point.

Assistance and Advice

Taxpayer assistance and advice requires staff to build a relationship with large taxpayers. This can be done via: regular site visits, industry meetings, telephone calls, newsletters or email. The purpose for building the relationship is to:

- *Fact find* by developing an understanding of the taxpayer's business, the industry they operate in, the issues they face and the problems they have

  If your organization is new to working with large taxpayers one of the easier ways of building a relationship with these taxpayers, is to understand their business. Pacific Island communities are typically small where it is often said 'everyone knows everyone else'. Understanding large taxpayers is about knowing how the business operates, who the people are who are involved and the issues a business in that industry faces.

  While there may be some truth in the statement that 'everyone knows everyone else', it will also be true that there is still a lot to learn about the specific business of large taxpayers and there will likely be some reluctance on the part of staff to be seen as 'prying' into the detail of the business.

> Knowing your taxpayers' business means you understand the way they operate as you would know the nuances and subtleties of your wontok, whanau, vanua, fanau, or family group.

To assist staff with fact finding, a few simple questions can be used to get the conversation started. Answers to the questions should be stored on the taxpayer's file or in their computer record for future reference. Questions would be aimed at finding out more about the taxpayer's business:

- who is involved?
- what is the nature of their ownership or interest in the business—employee, shareholder, director, partner, trustee?
- what are the roles of the people involved?
- what processes does the business use to produce its goods or services?

One of the ways to find out most about large taxpayers is to visit their work sites. Usually taxpayers are proud to show you around their work sites. Visiting a factory, brewery or mine and seeing how the taxpayer operates makes it much easier to understand how they work than listening to them describe the processes, and it's fun for staff too.

Chapter 6 outlines a 5-step process for understanding more about large taxpayers.

- *Educate* by ensuring taxpayers know their obligations, keep appropriate records and understand the law.

  This type of assistance follows on from problems and issues identified in the compliance profile or from the industry and taxpayer meetings. It may be that there is a common mistake occurring across the industry. Education allows you to move forward on a positive note, rather than undertaking enforcement action against each taxpayer involved. Education assistance can be one-on-one, or one-to-many in industry meetings, newsletters, brochures, guides or statements.

When consultants refer to binding rulings or binding statements, it often creates an impression of technically worded statements many pages long. This is not necessary: a binding statement could be as simple as a one page statement that says; "This is how the Commissioner will apply the law in these circumstances….".

Binding statements are an effective taxpayer service when they are developed and used in a manner suitable to the local environment.

Industry meetings are popular with large taxpayers. They present an opportunity to discuss and debate issues of general interest to the industry as a whole, not just a single taxpayer. Industry meetings, once started, usually become very popular. It is, therefore, important that they are held regularly and that decisions or agreements reached during the meetings are acted upon. This helps to build integrity and furthers the relationship.

- *Improve* the relationship by responding to (not necessarily accepting) the issues and problems raised.

Taxpayer services which address technical issues and problems will come as the relationship and confidence grows between the parties. Large taxpayers approach revenue staff to discuss technical issues before a transaction is entered into or after a transaction has been entered into and before the return is filed. Large taxpayers will typically be looking for certainty of tax liability because of the large value of the transaction. These transactions will be highly commercially sensitive and the large taxpayer will want absolute certainty that the information and records will be kept confidential. The taxpayer will also want assurance that the person they are dealing with is competent and confident of the accuracy of the advice they give.

Having a good working relationship with large taxpayers does not mean that you need to concede technical issues. The desired outcome of the discussion is an agreed position, not an adversarial approach. In some cases you may not be able to agree or you will agree to disagree. The taxpayer will then file the tax return based on their interpretation of the law and the objection process will follow. However, where agreement is possible, this gives certainty to both sides and ensures the law is understood and applied in an agreed fashion without the need to resort to costly and time consuming dispute or objection mechanisms.

Process Improvement

Building a relationship with large taxpayers will identify opportunities for simplifying forms and guides, greater automation of return filing and debt payment, and possibly electronic filing and payments.

Taxpayer services aimed at process improvement recognize that by making processes simpler and easier for large taxpayers to comply with, greater amounts of revenue will be collected more easily and at less cost to both Government and taxpayers.

Federated States of Micronesia:
Normally wage and salary details for each employee (employee social security number (TIN), amount paid and tax deducted) were handwritten into the tax return each time the return was due for filing. This was time consuming and prone to mistakes especially where there were a large number of employees. The Payroll Manager asked a small number of large employers to assist with a pilot for improving the accuracy of wage and salary returns. Large employers were asked to key the data into a computer file and save it on a floppy disk. The floppy disk was given to the Payroll Manager for processing instead of a paper based return. It was hoped the outcome of the pilot would minimize processing time and costs and increase accuracy. If the pilot works, process improvements can be implemented.

Partnership

Once you have built good working relationships with large taxpayers, it is possible to consider how you might work with them more closely to improve the compliance of other taxpayers or reduce compliance costs. For example: working with the banks for internet banking, direct credits to the Revenue Administration (Government) bank account, rural banking, or working with the Post Office or other nationwide agencies for the collection of returns. An example of a partnership opportunity can be seen in an example from the Solomon Islands.

Solomon Islands:
A large bank has recently set up rural banking to encourage people outside the main centers to open bank accounts. The Tax Office only has 2 rural offices and does not have resources to get to the communities that the bank is visiting. When the time is right, the Tax Office could negotiate to form a partnership with the bank whereby the bank agrees to collect returns and payments from taxpayers in the villages it visits. Payments will be as secure as the bank's receipts and return forms would be delivered to the main tax office in Honiara. Opportunities like this can save money for the Tax Office, ensure greater coverage and make it easier for remote smaller taxpayers to comply.

Gap Analysis and Change Plan

Once you have decided what the desired future state of your taxpayer services function will be you will need to complete your gap analysis and change plan.

Some tax offices are too small to concentrate on taxpayer services, audit, and debt and return activity simultaneously. For these offices it may be most helpful to allocate resources to understanding your large taxpayers and the risks they present in the short term. This will have the advantage of providing on the job training for staff whilst simultaneously building knowledge of your large taxpayers and identifying areas for process improvements of benefit to both the tax office and taxpayers in general. The knowledge gained will be valuable for the enforcement activities in the longer term.

For large tax offices with more developed taxpayer services functions, using data from your current state assessment taxpayer will also help with your gap analysis. Regular review and monitoring of your taxpayer service compliance data will show improvements in the delivery of taxpayer services and in the wider compliance improvement profile.

Summary

Developing a customer service approach to your large taxpayers should be part of your ongoing program of compliance improvement.

When you think about the services you want to offer and how to build your relationship with large taxpayers, it is important to start with what is manageable. It is better to embed a few important new services into business-as-usual rather than attempt to introduce too many new services at one time.

Using the compliance profile from your large taxpayer population, you will be able to gradually identify which groups you want to work with first, be it your very largest taxpayers, your biggest industry group, or your most vocal group of large taxpayers. Working with them to build their trust and confidence in your staff as professional and knowledgeable, courteous and discreet will help pave the way for better compliance by these large taxpayers and improve the collection of the tax they administer on behalf of other taxpayers.

Chapter 8: Staff Skills

Overview

It is important that the staff who work with large taxpayers are appropriately skilled. Generally, staff who work with large taxpayers will require a higher level of tax technical and commercial awareness skills than staff who work with small-medium enterprises and individual taxpayers. Large taxpayers operate sophisticated businesses using modern technology, complex financing arrangements and complicated legal contracts. Staff who are working with large taxpayers need to have the ability to understand how these taxpayers operate.

In some countries, staff working with large taxpayers are paid more than other staff to reflect the higher skill requirements. This is not always possible in the Pacific, where recruitment and remuneration decisions are usually made by a central public sector agency.

As well as matching staff skills to the services they will be providing, it is important to have sufficient staff working with large taxpayers to provide the desired level of service.

This chapter will suggest questions that you need to consider when thinking about the human resource requirements needed to work with the large taxpayers identified.

Timeframe

Decisions about the skills staff will need when working with large taxpayers and how many staff will be needed should be made *after* you have decided what functions and services you want to provide to improve the compliance of those taxpayers.

People Involved

Initial discussions on the skills and number of staff needed will involve the managers and senior staff within the tax office who have been involved in decisions on the services that will be provided for large taxpayers. Once preliminary decisions have been reached, external stakeholders, (e.g., Minister of Revenue, Permanent Secretary, Public Sector Department) should be involved as is appropriate for your environment.

The Task

The task is to use the change planning process to determine the skills staff will need to deliver the services you have chosen.

Current State Assessment

During your current state assessment you will have identified the functions that your office currently provides and whether any of those functions are specifically directed to large taxpayers. You will also have identified the skills that your staff currently have, their qualifications and whether any of your staff currently work closely with large taxpayers.

Details of the existing staff skills and qualifications should be summarized in the Change Planning Process Template (Template 1 chapter 3).

Desired Future State

To identify the skills that staff will need to deliver, you will need to consider:

- What services do you want to provide? Taxpayer services? Return and debt collection? Audit?
- What supporting activities will you have? Return and payments processing? Assessments? Taxpayer records and filing? Do you need separate staff dedicated to providing these services to large taxpayers?
- Will you have specialist activities? Legal Advice? Research and policy development? Performance reporting? Information Technology? Human Resources? Will these activities relate solely to large taxpayers or will they be provided across the tax office?
- How many locations do you operate out of? Will you provide services to large taxpayers from all those locations or only some of the locations?

The answers to most of these questions will have been decided during the desired future state and gap analysis discussions on your return and debt collection, audit and taxpayer services functions.

Once you have decided the answers to these questions you can then consider staff issues:

- How many staff will you need to provide the services?
- What skills will your staff need to have to provide these services? Tax technical skills, customer service skills, relationship management skills, commercial awareness skills, revenue administration skills, ethics and integrity.
- If you operate from more than one site, will you have staff in each site focusing on large taxpayers or only staff in some sites? Will the staff in each site need the same skills?

The answers to these questions will help determine the desired future state for the skills and knowledge of the staff who will be providing the services to the large taxpayers.

> Integrity and perceptions of integrity are essential for staff who work closely with large taxpayers. If taxpayers discuss confidential and commercially sensitive information with tax office staff, they need to be assured that the information will be kept secure and confidential. If taxpayers think that the information may not be secure or confidential they will not share it, and the close working relationship that you are seeking will be very hard to build.

Gap Analysis

The next step is to complete the gap analysis. The following questions will assist with this discussion.

- What is the gap between the skills and of your current staff and the skills that will be needed in your desired future state?
- Will you need to recruit staff with these skills? Can your existing staff be trained over time? If up-skilling is not practical or realistic, do you need to seek external assistance?
- How many more (or less) staff will you need to work with the large taxpayers?

In many Pacific Island countries recruitment of revenue staff is managed centrally by a public sector department. Recruitment processes are time consuming and remuneration decisions are outside the control of the tax office. Where this occurs it is important to be realistic about recruitment options when you develop your change plan. There is little to be gained by planning a future that realistically cannot be achieved or cannot be achieved in the timeframe and with the resources available.

When considering how many staff will be required to work with large taxpayers, it is again important to be realistic:

- Can you maintain an adequate level of coverage across all your taxpayers when you introduce changes for large taxpayers?
- How many staff will focus on large, medium and small taxpayers ?
- Should the majority of your staff resource work on large taxpayers in the short term to ensure that the majority of the revenue is covered?

Change Plan

Once you have identified the gaps between the staff numbers, skills and qualifications that you currently have, you can develop a plan to recruit new staff, up-skill existing staff or seek external assistance. Early planning will enable you to put forward your budget needs for overall fiscal planning.

The timeframes in your staff change plan will need to be reflected in the timeframes in which you introduce the new services and new ways of working with large taxpayers.

At this point it is prudent to stop for a reality check and ensure that the threshold you have established for selecting your large taxpayers is appropriate: will you have enough staff to cope with the numbers of taxpayers you have selected? Will those staff have the necessary skills or can they develop the necessary skills to work with those taxpayers in a reasonable period of time? If not, you will need to revisit the decisions you made in relation to the functions and services that you want to provide.

Papua New Guinea
PNG was aware that it faced a significant revenue risk in the petroleum and mining industries. PNG also knew they could not up-skill existing staff sufficiently quickly to address the risk. To overcome the skill gap they decided to limit their large taxpayers to only those two industries and to seek long term technical assistance from the World Bank. Revenue from these two industries has increased significantly.

Factors to consider as part of your change plan include:

- *Job descriptions* for staff working with large taxpayers
- *Delegations of Authority to Act*: Will staff dealing with large taxpayers need different delegations of authority to act from other staff?
- *Training staff/ taxpayers*: As you learn more about the profile of your large taxpayers, you will identify skill gaps in your staff. These skill gaps will need to be addressed in the order in which you have decided to address the risks and opportunities.
- *Code of Conduct, Ethics and Security of Taxpayer Information Policies*: Do you have these in place? Are they sufficiently robust to ensure confidentiality and security of information?

Summary

Once you have identified the revenue administration functions that you want to provide to large taxpayers, you can identify the skills that your staff will need to be able to provide those services. These skills will include tax technical skills, customer service skills, relationship management skills, commercial awareness skills, revenue administration skills, ethics and integrity.

You can then compare the skills you need with the skills of your existing staff and make appropriate decisions around recruitment, up-skilling or seeking external assistance.

Chapter 9: Tax Office Structure

Overview

Some revenue administrations set up separate full-function large taxpayer units when they begin working more closely with their large taxpayers. Some set up separate limited-function large taxpayer units and others focus on large taxpayers as part of their normal business operations without a separate unit. The option that works best for you will depend on the size of your revenue administration.

IMF advice recommends a full-function separate large taxpayer unit as the most effective way of improving the compliance of large taxpayers. The large taxpayer unit then has responsibility for all key revenue administration functions affecting large taxpayers: return filing and payment, debt collection, taxpayer services and audit. Many Pacific Island revenue administrations have less than 50 tax staff and it is simply not possible to establish a separate unit. Establishing a separate unit where staff numbers are between 50 and 100 staff is possible but raises practical concerns.

This chapter looks at the questions you should consider when you decide the most effective structure to work with your large taxpayers.

Timeframe

Decisions about how best to structure the tax office should be made after you have decided what functions and services you want to provide to improve the compliance of your large taxpayers.

People Involved

Initial discussions on the most appropriate structure will involve the managers and senior staff within the tax office who were involved in the discussions on the desired future state of the services that will be provided to large taxpayers. Once preliminary decisions have been reached, external stakeholders, (e.g., Minister of Revenue, Permanent Secretary, Public Sector Department) should be involved as is appropriate for your environment.

The Task

The task is to use the change planning process to determine the most appropriate structure for your tax office to effectively and efficiently deliver services to the large taxpayers.

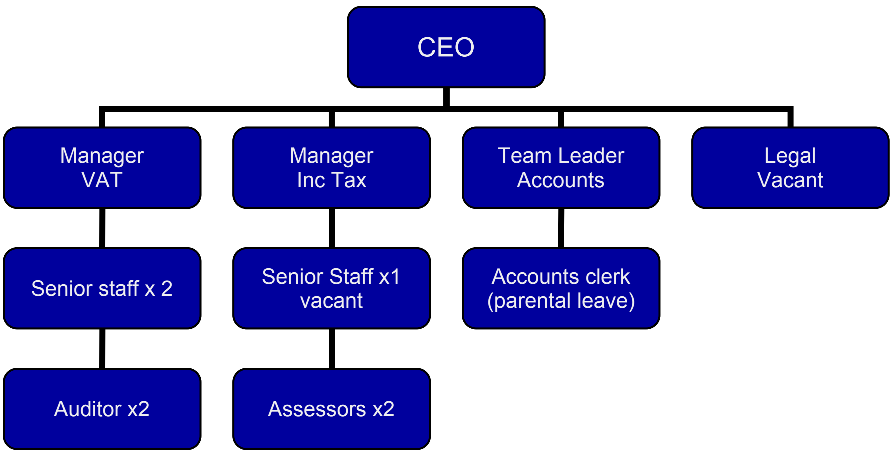
Current State Assessment

During your current state assessment you will have identified the functions that your office currently provides and whether any of those are specifically directed to large taxpayers.

Details of the organizational structure can be summarized in the Change Planning Process Template (Template 1, Chapter 3). It will also be a good idea to draw a diagram of your organizational structure. This can be attached to the Change Planning Process template.

A simple organizational structure diagram is shown below.

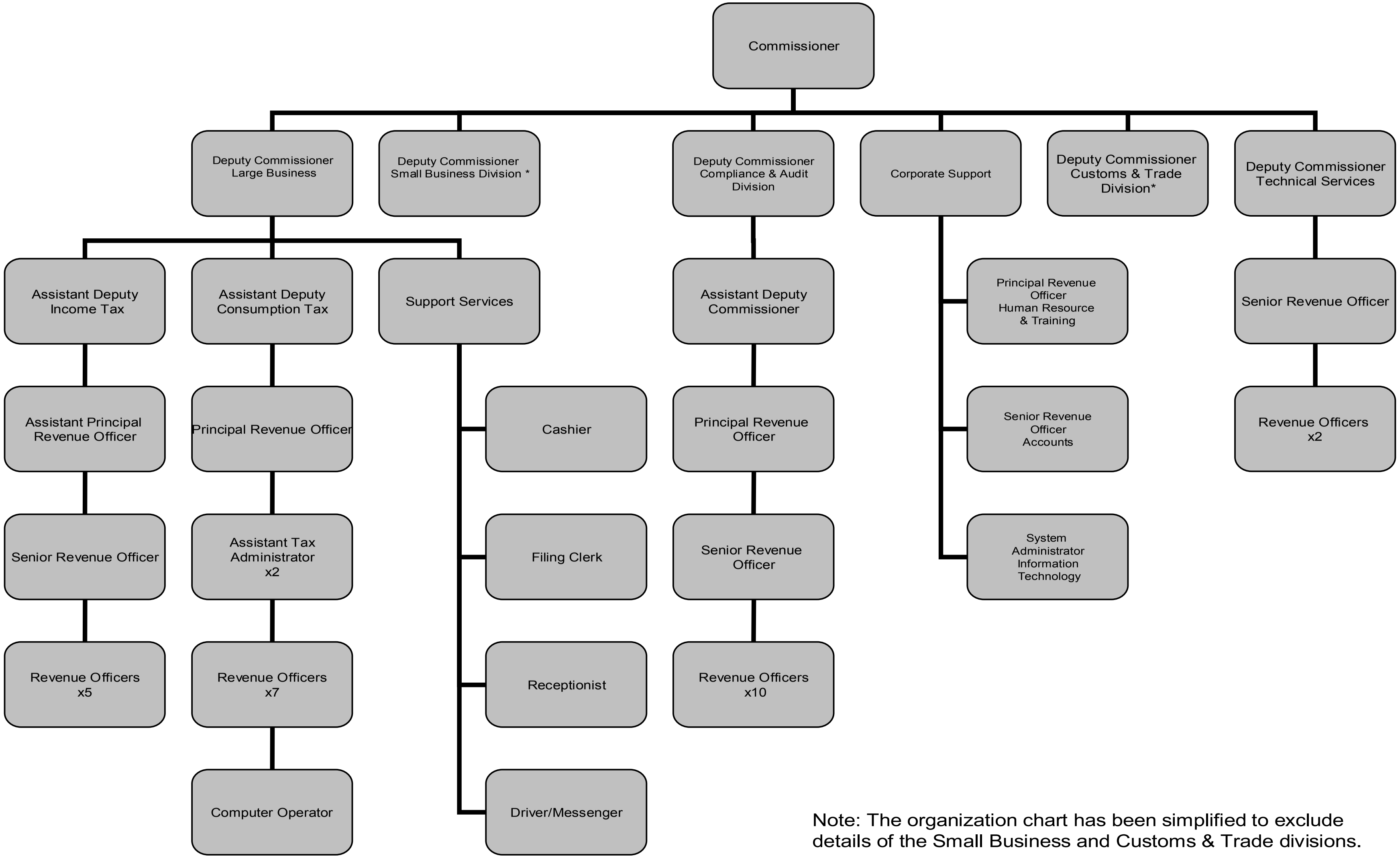
Example 10: Simple Organizational Structure Diagram



During your current state assessment it is helpful to note vacancies as well as filled positions. This will ensure that any decisions you make which affect your structure will take into account the full current picture. If you operate from more than one location your diagram should include each separate location.

A copy of the rganizational chart for the Tonga tax office on the next page.

Example 11: Tonga Tax Office Organization Structure Chart



Note: The organization chart has been simplified to exclude details of the Small Business and Customs & Trade divisions.

Desired Future State

To identify the most appropriate structure to deliver services to large taxpayers in each of the functional areas, you will need to consider:

- What services do you want to provide? Taxpayer services? Return and debt collection? Audit?
- What other supporting activities will you have? Return and payments processing? Assessments? Taxpayer records and filing? Do you need separate staff dedicated to providing these services to large taxpayers?
- Will you have specialist activities? Legal Advice? Research and Policy Development? Performance Reporting? Information Technology? Human Resources? Will these activities relate solely to large taxpayers or will they be provided across the tax office?
- How many locations do you operate out of? Will you provide services to large taxpayers from all those locations or only some of the locations?
- How many staff will you need to provide the services?
- Where will the staff be located?

The answers to these questions will have been decided during the desired future state and gap analysis discussions in relation to your return and debt collection, audit and taxpayer services functions and staff skills.

Once you have decided the answers to these questions you can then consider the desired future structure:

- Will you have a separate large taxpayer unit?
- Are there enough large taxpayers to warrant a separate unit?
- Do you have enough staff for a separate unit?

> In Vanuatu 14 taxpayers provide 56% of revenue. Potentially only those 14 or perhaps up to 25 taxpayers would be in the large category. Would this justify a separate unit or simply a special focus? Could Vanuatu achieve the same outcome by focusing resources on large taxpayers without a structural change?

- Will the large taxpayer unit be fully functional or will it only provide some functions? Which ones?

- Will you focus on large taxpayers without a separate unit?
- Will some staff work only on large taxpayers and some on other taxpayers?
- How will you ensure the taxpayers get the attention they need if the staff are focused on both small/medium and large taxpayers?
- Will all staff work on all taxpayers? This is only recommended for very small offices i.e., less than 20 staff. In these cases it might be preferable to put the majority of attention on large taxpayer compliance to ensure the revenue is collected on time.
- How will you ensure that you do not set the threshold for large taxpayers too low so there are more taxpayers in the group than staff can realistically manage?
- If you have a separate large taxpayer unit, how will you ensure that it is not subjected to undue political and lobbying pressure?
- How will you avoid unnecessary duplication of effort between the large taxpayer unit and the rest of your tax office?

Answers to these questions will help you decide the desired future state for the structure you will use to work with your large taxpayers.

Gap Analysis

The next step is to complete the gap analysis. The following questions will assist with this discussion.

- What is the gap between your current structure and the structure that you will need to deliver the services that you want to deliver?
- What will you need to change (introduce, stop, alter) to restructure?

Change Plan

Once you have identified the gaps between your current structure and the desired future structure, you can develop a plan to manage the restructuring. The timeframes in your structural change plan will need to be reflected in the timeframes in which you introduce the new services and new ways of working with large taxpayers.

Factors to consider as part of the change plan, particularly if you are going to establish a separate large taxpayer unit, include:

- *Project team*: Are the changes so significant as to warrant a project team or can responsibility for the changes be given to a senior staff member?
- *Big bang or slow transition*: Should the changes be introduced slowly or all at once on a future date to be determined? If you are going to change the entire audit, service, debt and return collection focus, can it be managed in one big effort or will it need a staged approach?
- *Communications with staff, taxpayers & government departments before, during and after the changes*: Communication, consultation and education in relation to the changes will be critical to successful implementation of the changes.
- *Tools and technology*: If you need to update your computer systems, software and revenue management system, the timeframe for this will need to be taken into account when setting your change plan.

You may need to address all, some or none of these areas when you transition to working with large taxpayers, depending on your assessment of your current large taxpayer profile and your assessment of what you can realistically achieve with the resources you have available.

Summary

There are some definite advantages in having a separate large taxpayer unit. However, in small Pacific Countries tax administrations, this will not always be possible or sensible. The number of large taxpayers may not warrant a separate unit or the size of the tax office may mean a separate unit is not practical. In these countries the question of structure is not whether to have a separate large taxpayer unit but how to best reorganize the current structure to deliver the required services to large taxpayers.

In medium-to-large Pacific Island countries, the question of structure should be determined once decisions have been made on the type of services to be provided and how they can best be delivered.

Chapter 10: Additional Resources

There are a number of additional resources for learning more about the application of case selection models:

- A copy of the overheads used in the presentation of this topic at PITAA 2007 are attached at Appendix 1. Feel free to use these in your presentations and discussions with staff. Electronic copies are available in the attached CD and on the PITAA website.

- Try the following websites:

  Australian Tax Office: **www.ato.gov.au**

  New Zealand Inland Revenue Department: **www.ird.govt.nz**

  Fiji Islands Revenue and Customs Authority: **www.frca.com.fj**

  PFTAC: **www.pftac.org**

  PITAA: **www.pftac.org/PITAA**

- These two books are also useful to learn about the experiences of other countries:

  Baer, K. (2002). *Improving Large Taxpayers' Compliance: A Review of Country Experience.* Washington, DC: International Monetary Fund.

  CATA. (2006). *Implementing Large Taxpayer Units*. Commonwealth Association of Tax Administrators. London.

  These books give examples of implementing separate large taxpayer units in a number of countries all larger than most Pacific Island Countries however you may still find some of the lessons learned useful.

- Contact your colleagues in PITAA and PFTAC. Their email addresses can be obtained from the websites above.