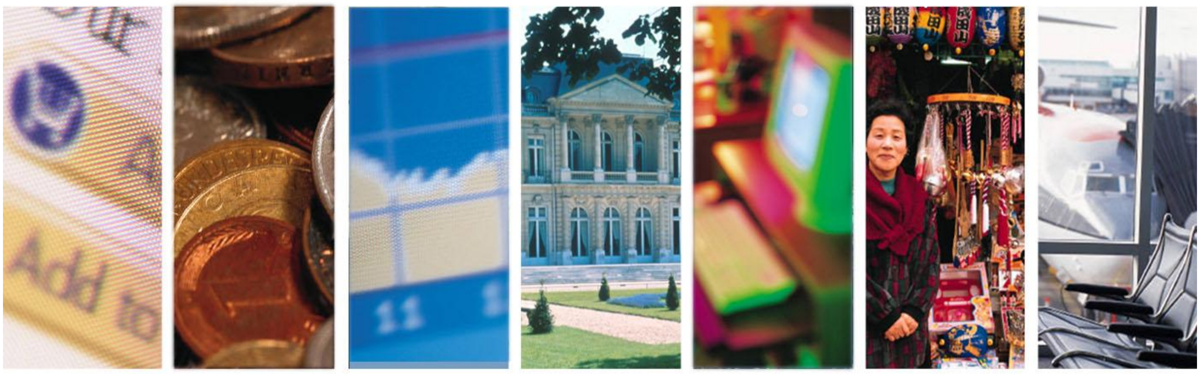
ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES



FORUM ON TAX ADMINISTRATION

Tax Repayments: Maintaining the Balance Between Refund Service Delivery, Compliance and Integrity

May 2011

CENTRE FOR TAX POLICY AND ADMINISTRATION

TABLE OF CONTENTS

Boxes

Tables

Figures

GLOSSARY OF TERMS

ANAO	Australian National Audit Office (Australia).
ARS	Accelerated payment system certificate (Turkey).
ATO	Australian Taxation Office.
BAS	Business activity statements (Australia).
Carousel fraud	Practice of importing goods from a country where they are not subject to VAT, selling them with VAT added, then deliberately not paying the VAT to the government (Source: Collins English Dictionary).
CAS	Client Account Services (Australia).
CFA	Committee on Fiscal Affairs, OECD
CIT	Corporate income tax
Connect	Data matching tool used in the UK.
CRA	Canada Revenue Agency.
CRISC	Credit Refund Integrity Steering Committee (Australia).
CTPA	Centre for Tax Policy and Administration, OECD.
CY	Current year
EFILE	Filing via internet through an agent (Canada).
e-filing	Lodging return via email.
EFT	Electronic funds transfer.
e-paying	Repayment made via electronic channels (such as electronic funds transfer (EFT)).
e-tax	On-line lodgement channel (Australia).
EU	European Union.
FAD	International Monetary Fund's Fiscal Affairs Department
FTA	Forum on Tax Administration, OECD.
GERR	GST Enhanced Registration Review (Canada).
GFC	Global financial crisis.
GST	Goods and services tax.
HHS	Health and Human Services (US).
HMRC	Her Majesty's Revenue and Customs (UK).
HOTSA	Health of the system assessment – an internal ATO report that assesses the risks and risk trends in the tax system
ICP	Integrated core processing system (Australia).
ICT	Information and Communications Technology (Australia).
IGOT	Inspector General of Taxation (Australia).
IMF	International Monetary Fund.
IOTA	Intra-European Organisation of Tax Administrations.
IRS	Internal Revenue Service (US).
Lean Six Sigma	A business management strategy used to identify and remove waste and improve process efficiency.
Lodgment/ filing gap	Period between lodgement/filing or processing of the return and payment of the refund.
NETFILE	Filing via the internet (Canada).

NTCA	Netherlands Tax and Customs Administration.
NTS	National Tax Service (Korea).
OECD	Organisation for Economic Co-operation and Development.
PAYE/PAYG	Pay as you earn/go.
Pharming	Identify theft method whereby victims are redirected to false websites without their knowledge as a result of a virus that infiltrates their computer. Information inputted into the false website is used for identity theft.
Phishing	Identity theft method using fraudulent emails that attempt to gather personal and financial information. Victims are directed to a fake website and asked to disclose information.
PIT	Personal income tax.
PY	Prior year
REAP	Risk Evaluation and Analysis Programme (Ireland).
RIS	Risk and Intelligence Services (UK).
ROS	Revenue On-Line Service (Ireland).
RRP	Return Review Program (US).
SMS	Short message service.
SPR	Superannuation business line in the ATO (Australia).
SSA	Social Security Administration (US).
TELEFILE	Filing via touch-tone telephone (Canada).
VAT	Value added tax
Withholding – flat creditable	The payee files a return and pays the difference between the estimated amount withheld and the real amount of tax due
Withholding – flat and final	Payer withholds an amount from the payee’s income, and pays this amount to the government instead on behalf of the payee. The payee then no longer needs to file an income tax return for this income.

ABOUT THIS DOCUMENT

Purpose

This information note has been prepared to assist revenue bodies, in respect of tax repayments, to achieve a balance between client service levels and the prevention and mitigation of fraudulent activities.

Background to the Forum on Tax Administration

The Forum on Tax Administration (FTA) was created by the Committee on Fiscal Affairs (CFA) in July 2002. Since then, the FTA has grown to become a unique forum on tax administration for the heads of revenue bodies and their teams from OECD and selected non-OECD countries.

In 2009 participating countries developed the FTA vision setting out that… "*The FTA vision is to create a forum through which tax administrators can identify, discuss and influence relevant global trends and develop new ideas to enhance tax administration around the world.*"

This vision is underpinned by the FTA's key aim which is to…improve taxpayer services and tax compliance – by helping revenue bodies increase the efficiency, effectiveness and fairness of tax administration and reduce the costs of compliance.

Caveat

National revenue bodies face a varied environment within which to administer their taxation system. Jurisdictions differ in respect of their policy and legislative environment and their administrative practices and culture. As such, a standard approach to tax administration may be neither practical nor desirable in a particular instance.

The documents forming the OECD tax guidance series need to be interpreted with this in mind. Care should always be taken when considering a country's practices to fully appreciate the complex factors that have shaped a particular approach.

Inquiries and further information

Inquiries concerning any matters raised in this information note should be directed to Richard Highfield (CTPA International Co-operation and Tax Administration Division) at e-mail (Richard.highfield@oecd.org).

SUMMARY

A key activity in the administration of taxation systems is the effective management of tax refunds, repayments and credits (hereafter referred to as 'tax repayments').

Revenue bodies face an ongoing challenge in balancing taxpayers' expectations of good levels of service with the responsibility for preventing and dealing with fraudulent and erroneous repayment claims.

This challenge grew considerably for many revenue bodies in late 2008 and 2009 as a result of the global financial crisis (GFC). Uniformly, there was unprecedented number and value of repayment claims being made by taxpayers.

In Beijing on 29 October 2009 the Forum on Tax Administration Bureau approved a project to research strategies and practices used by selected countries in relation to administration of tax repayments. This note is the result of research into the approaches and experiences of Australia, Canada, France, Ireland, Korea, the Netherlands, Spain, Turkey, United Kingdom and United States of America.

The key findings and observations from the research are:

- Repayment initiatives that deliberately set out to deliver integrated improvements in both, service levels and mitigation of repayment fraud risk, are more likely to result in a balanced approach.

- Management of risks associated with registration and establishment of identity are areas of significant importance in the mitigation of repayment fraud risk. This includes an emphasis on the ability to discover relationships between entities and associated 'natural persons'.

- Improvements and enhancements to identifying and treating fraudulent, or otherwise non-compliant, repayment claims involves incorporating a wide range of risk perspectives, data-sets and sophisticated analysis.

- Strategic and tactical governance for the mitigation of repayment fraud risk is enhanced through the use of cross-organisation management groups focused on repayment administration.

- Timely and reliable access to third party data enables revenue bodies to enhance tax return preparation services. Providing pre-fill capability for tax returns improves the accuracy of filing and associated repayment claims.

Recommendations

1. All OECD countries are encouraged to identify opportunities to enhance the administration of their repayment systems. The legislative and policy frameworks that revenue bodies operate within vary considerably and provide different opportunities and constraints in advancing repayment systems. Revenue bodies should consider the context of their own legislative and policy settings in reflecting on the findings of this study.

2. As a practical reference, Chapter IV and the associated Annex 1 provide key prompts for revenue bodies to consider in the design and operation of their repayment systems.

3. Methods, techniques and approaches employed by participating revenue bodies to improve their detection and treatment of fraudulent and otherwise non-compliant repayment claims are a major

focus of attention. The sensitivity of these topics poses a barrier to the free exchange of the detail of the approaches which would otherwise enable revenue bodies to learn more rapidly from each others' experiences. It is recommended that the FTA consider how relevant expert representatives from revenue bodies could be supported in secure information sharing and dialogue in this area.

4. Due to the interest in, and value gained from, discussions among participating revenue bodies, representatives would benefit from engaging in post-project dialogue to identify, assess and share views on resultant actions derived from the application of this Information Note. A follow up round of informal discussions with the task group approximately 6 months after the publication of this Information Note is recommended.

I. REFUND AND CREDIT ADMINISTRATION REGIMES

Background

1. The *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series 2008* highlights wide variation in the incidence of tax repayments (and associated workloads) across countries. Of the countries participating in the series (i.e. all OECD countries and thirteen other selected countries) the report notes that;

- In 2007, 11 countries reported aggregate repayments (for all taxes) amounting to less than 10% of gross tax collections, 14 reported an amount between 10-20%, 6 reported between 20-30%, and 2 reported an amount in excess of 30%;

- 13 revenue bodies (of the 30 revenue bodies reporting data) reported a trend of an increased incidence of aggregate repayments over the period 2005 to 2007.

- From the data presented for selected countries, aggregate repayments of PIT were relatively significant (i.e. over 10% of gross PIT collections) in countries with non-cumulative withholding regimes, while aggregate VAT repayments were commonly in excess of 25% of gross VAT revenue collections.

2. The large traffic of repayment claims resulting from increased aggregate tax repayment claims presents two challenges for revenue bodies:

- Achieving good standards of service in the processing of legitimate repayment claims; and

- Ensuring incorrect and fraudulent claims are detected prior to repayment.

3. At the Forum on Tax Administration Bureau meeting held in Beijing on 29 October 2009, a project was approved to examine the strategies and practices employed by member country revenue bodies in respect to administering repayments to taxpayers. It was agreed that a study, to be co-ordinated by the Australian Taxation Office, would entail a survey of selected countries, operating as a task group, that were prepared to participate in the initial round of research.

4. This report is the product of the work carried out by the project task group. It has benefited greatly from the contribution of participating revenue bodies (Australia, Canada, France, Ireland, Korea, The Netherlands, Spain, Turkey, UK and USA) and the support and guidance of the OECD Secretariat.

Introduction

5. This information note summarises analysis of strategies and approaches implemented by revenue bodies to achieve a balance between tax repayment service delivery and compliance activities, and assurance measures to prevent and minimise the impacts of dishonest and erroneous actions and is structured as follows:

- Chapter I provides important contextual information concerning tax repayments (i.e. repayment workloads and their trend in task group countries and the findings of related FTA reviews of aspects of tax administration affecting repayments) and relevant governance arrangements in task group revenue bodies.

- Chapter II presents and analyses repayment policies and practices of the task group revenue bodies.

- Chapter III outlines identified significant practices and synergies, and

- Chapter IV provides the key findings from the study.

Repayment workloads and related trends in participating countries

6. Revenue bodies participating in the task group were surveyed on their respective repayment workloads for each of the major taxes for the period 2006 to 2008 (later data has been referred to where available). The purpose was to identify the size of the respective workloads, the trend in their growth, the extent to which workloads might vary from country to country, and possible reasons explaining such variations.

7. Total value of repayments as a proportion of tax revenue does vary considerably across participating revenue bodies and tax types reflecting the difference in the underlying policy and administrative settings (Table 1 below).

Table 1. Total repayment value as a percentage of taxation revenue for participating countries (2008)

Country	Total refund value/ gross tax collections (by tax type)		
	Personal Income Taxes	Company Income Taxes	Value Added Taxes
Australia	18%	Australia	18%
Canada	19%	Canada	19%
France	10%	France	10%
Ireland[1]	20%	Ireland[1]	20%
Korea	30%	Korea	30%
The Netherlands	23%	The Netherlands	23%
Spain	18%	*28%*	27%
UK	6%	17%	41%
USA	26%	15%	*Not Applicable*

Source: Participant countries survey responses

8. In explaining the reasons for the high incidence of aggregate repayments and the significant variation in their incidence across countries, the series pointed to a variety of tax system design and other factors summarised beneath in Box 1. This information provides useful background when considering trends in repayment workloads, and policies and practices of the revenue bodies participating in the task group. The taxation regimes and key features of the return filing systems present in the selected countries

1 Refund values include significant amounts which are accounted for by a tax relief at source process relating to mortgage and medical insurance payments. Under this process the taxpayer is not required to make a claim for a refund but pays the net amount in respect of the mortgage and medical insurance payments. This impacts on the relationship between the number of PIT refund claims and the value of the PIT claims, also impacting on the average refund value for PIT.

are summarised in the 4th edition of the Forum' Comparative Information Series published in March 2011 (Table 50).

Box 1. Factors that influence the overall incidence of tax repayments for the major taxes

Personal income tax*:* There is a variety of potentially relevant factors, including:

1) employee withholding schedules (where the non-cumulative approach is used) that are calibrated to 'over-withhold' taxes from employees wages, pending the settlement of liabilities in end of year tax returns;

2) tax system design features that result in various tax benefits being delivered to taxpayers via the end-of-year tax return assessment process;

3) the use of flat rate (creditable) withholding mechanisms for investment income, particularly interest income, that result in overpayment of taxes for lower income taxpayers (that are refunded after the end of the fiscal period);

4) features of the system for making advance payments of tax (e.g. the base applied for estimating instalments, the threat of penalties for under-estimates) that may discourage some taxpayers from making revised estimates prior to filing their end of year tax return; and

5) Inflated repayments, resulting from unreported income and over-claimed deductions and other entitlements in the end-of-year tax return process.

Corporate income tax: Factors potentially relevant here include:

1) reversals of relatively large assessments following the favourable resolution of taxpayers' disputes, resulting in refunds of overpaid taxes; and

2) features of the system for making advance payments of tax (e.g. the base applied for estimating instalments, the threat of penalties for under-estimates) that may discourage some taxpayers from making revised estimates prior to filing their end of year tax return.

Value added tax: Factors relevant here include:

1) the nature of a country's economy (e.g. the extent of value added of export industries, the proportion of taxable and zero-rated sales in the economy);

2) design features of the VAT system, particularly the extent of zero-rating and use of multiple rates, and the registration threshold; and

3) inflated VAT refund claims that go undetected, including those resulting from fraudulent schemes designed to exploit weaknesses in VAT refund controls.

9. Whilst there are many similarities amongst the tax policy frameworks of the participating countries, key distinctions are: 1) variations in filing requirements for personal income tax returns; 2) exclusion of a VAT from the American tax framework; and 3) absence of use of a withholding requirement for employees from the French income tax regime.

Personal Income Tax (PIT)

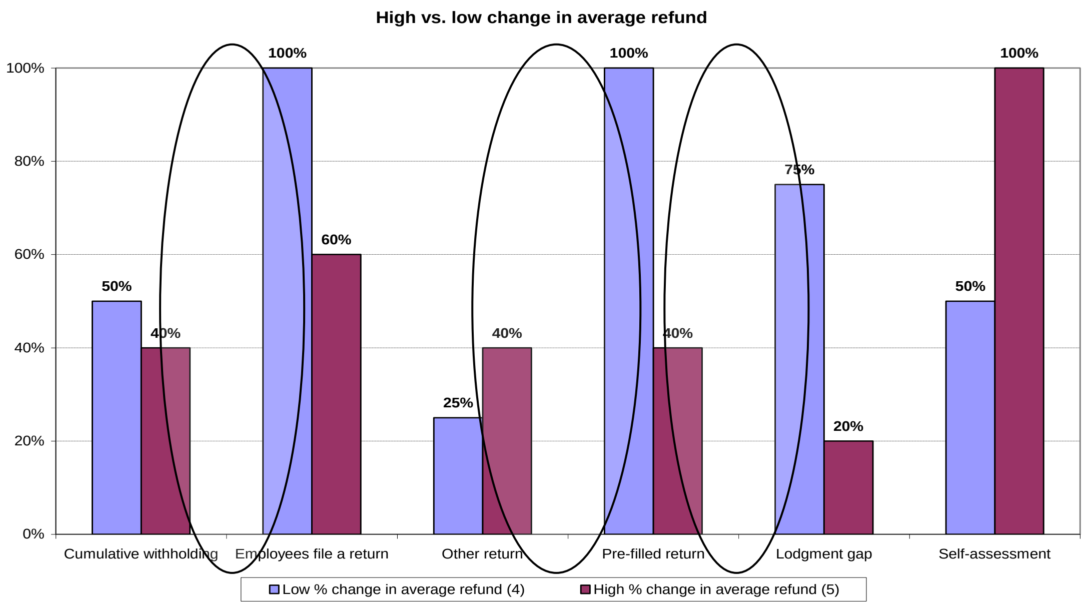
10. With few exceptions, countries have tax withholding arrangements in place, especially for employment-related income, to collect the bulk of their personal income revenue. Withholding mechanisms are varied - cumulative, non-cumulative, flat and final, flat and creditable. In practice, these mechanisms are accompanied by systems of advance payments which require taxpayers deriving income not subject to withholding to pay instalments in advance of filing their end-of-year tax return. The dual

operation of withholding and advance payment arrangements, along with other tax system design features, inevitably results in some proportion of taxpayers overpaying their tax liabilities for a fiscal period, which must be settled with the filing of an annual tax return.

11. Information on the types of income subject to withholding and reporting for each of the participating revenue bodies can be found in the 4th edition of the Forum' Comparative Information Series published in March 2011 (see Table 48). That series also provides fuller explanations of the principles of cumulative and non-cumulative withholding mechanisms.

12. Figure 1 shows that the combination of cumulative withholding, pre-fill returns and a distinct period between the end of the fiscal year and commencing repayment processing is more likely to be associated with lower rates of change in the average value of personal income tax refunds. It demonstrates that providing a comprehensive pre-fill return service is an easier transition path for revenue bodies operating a cumulative withholding system. Pre-fill services are dependent on timely access to third party data (more likely to be available and comprehensive under a cumulative withholding system) and where that information is available prior to the commencement of repayment processing.

Figure 1. Personal income tax factor comparison across high and low growth in average refund value



Source: Country survey data

13. Table 2 sets out data on repayment workloads[2] of PIT in surveyed countries. More detailed information is at Annex 2. In brief the key findings are:

- There are enormous variations in the relative numbers of repayment claims in surveyed revenue bodies, primarily as a result of the use of non-cumulative and cumulative withholding mechanisms and associated annual tax return filing requirements for taxpayers.

2 Annex 4 includes figures of annual volume of PIT refunds for each country.

- There was substantial growth (i.e. over 20%) in the survey period in the value of repayment claims processed in five of nine surveyed countries; however, when viewed in terms of the growth in the number of refund claims (i.e. 20% or more) increases were experienced in three of the nine countries.

- The combination of relatively 'high volume' and 'growing in value' workload was particularly evident in four surveyed countries (Australia, Korea, Netherlands, and Spain) and suggests significant/growing demands on in-house refund validation activities of revenue bodies in these countries.

- Despite their use of cumulative withholding arrangements for employment income, both Ireland (in volume) and Korea (in volume and value) also reported significant growth in repayment claims.

- France also experienced significant growth in the number and value of repayments claimed, although the average claim was much lower than observed elsewhere. [3]

- For the period surveyed, eight of the nine revenue bodies were subject to one or more of the following situations: 1) a relatively high volume of payment claims; 2) a significant increase in the number of repayments; and/or 3) a significant increase in the aggregate value of repayment claims.

Table 2. Personal income tax market in the surveyed countries, 2008

Country	Changes from 2006 to 2008		Refunds in 2008		
	Number of refund claims processed (+/-%)	Value of refunds processed (+/-%)	Number processed/ number of taxpayers (%)	Value processed/ gross tax revenue (%)	Average refund ($US)
Australia	16	42	81	18	1,840
Canada	6	20	66	19	1,410
France	30	33	32	10	784
Ireland [4]	39	11	44	20	4,179
Korea	15	17	41	30	666
Netherlands	15	26	78	23	2,381
Spain	20	23	81 [5]	18	1,197
UK	-10[6]	5	13	6	3,089
USA	5	51	83	26	3297
Average	**15**	**25**	**58**	**19**	**2,505**

Source: Country survey responses

3 The low average value of refunds in France results, in part, from its limited use of withholding arrangements for employment income—withholding from employment income is limited to social security contributions, while taxpayers must make their own arrangements for the payment of PIT.

4 Refund values include significant amounts which are accounted for by a tax relief at source process relating to mortgage and medical insurance payments. Under this process the taxpayer is not required to make a claim for a refund but pays the net amount in respect of the mortgage and medical insurance payments. This impacts on the relationship between the number of PIT refund claims and the value of the PIT claims, also impacting on the average refund value for PIT.

5 Spain– although using a cumulative system, most employees must file and claim any refund.

6 UK PIT repayment recipients are non-employee taxpayers and reduction attributed to economic downturn.

Corporate Income Tax

14. Companies in all participating countries are subject to limited tax withholding arrangements. Tax repayments typically arise as a result of advance payments of tax made prior to the filing of an annual tax return exceeding their assessed end-of-year tax liability. The 4th edition of the Forum' Comparative Information Series published in March 2011 provides details of the requirements for corporations for making advance payments (i.e. their computation, number and timing) of income tax (see Table 51).

15. Table 3 sets out data concerning the repayment workloads of the corporate income tax in surveyed revenue bodies. The key points are as follows:

- There was substantial growth (>20%) in the numbers of repayments claims processed in two of the nine surveyed countries; however, when viewed in terms of the relative value of tax repayments, significant increases were experienced in seven of the nine countries,

Table 3. Company income tax market in the surveyed countries, 2008

Country	Changes from 2006 to 2008		Refunds in 2008		
	Number of refund claims processed (+/-%)	Value of refunds processed (+/-%)	Number processed/ number of taxpayers (%)	Value processed/ gross tax revenue (%)	Average refund ($US)
Australia	-47	52	25	10	29,527
Canada	5	8	3	6	49,361
France[8]	38*	150*	21	28	114,458
Ireland	7	66	18	16	50,045
Korea	20	5	20	12	52,135
Netherlands	5	30	34	33	49,477
Spain	3	41	30	28	26,120
UK	17*	75*	23	17	29,263
USA	42	80	9	15	85,004
Average	**15**	**56**	**20**	**18**	**53,932**

* Percentage for France is for the period 2008 to 2009, and for the UK is 2007 to 2008.

Source: Country survey responses

16. Refund data provided by the participating revenue bodies shows a trend increase in the both the volume and value of repayments in CIT. However, survey responses did not highlight CIT repayments as a significant focus of attention. This is likely to be explained by the structure of the company income tax regime where refunds are mostly derived from the repayment of overpaid tax (paid by instalments) rather than claims of withheld credits or refundable offsets. Consequently, they present as a significantly lower refund risk compared to personal income or value added taxes.

Value added tax

17. The incidence of VAT repayments is typically high in countries with significant export volumes, given the almost universal practice of zero-rating exports in VAT system design.

---

7 Reduction in number of CIT repayments in Australia attributed to reduced coverage of tax payable during period of stronger profit performance.

8 Influenced by France stimulus package enabling companies to apply for refund of unallocated loss carry back credits and research tax credits.

18. Other factors that can affect the number and value of repayment claims include: 1) a VAT's rate structure and the incidence of exemptions; 2) the level of the registration threshold; and 3) policy/administrative choices made concerning the frequency of VAT repayments.

19. Previous work carried out by the FTA [9] has also highlighted the fact that VAT systems, especially in countries forming part of the European Union, have over the last decade been subject to persistent attempts to defraud the revenue using various fraudulent devices (e.g. carousel fraud).

20. Table 4 sets out data on repayment workloads of value added tax in surveyed revenue bodies. The key points are as follows:

- There are enormous variations in the relative number of repayment claims across surveyed countries - applying the ratio of 'number of repayment claims to the total number of taxpayers revealed figures ranging from 13 (Spain) to 150 (Netherlands).

- There s substantial growth (>20%) in the numbers of repayment claims processed in only one of the nine surveyed countries; however, when viewed in terms of the relative value of tax repayments, significant increases were experienced in three of the eight countries.

Table 4. Value added tax market in the surveyed countries, 2008

Country	Changes from 2006 to 2008		Refunds in 2008		
	Number of refund claims processed (+/-%)	Value of refunds processed (+/-%)	Number processed/ number of taxpayers (%)	Value processed/ gross tax revenue (%)	Average refund ($US)
Australia	2	36	100	50	17,697
Canada [10]	-2	-13	93	67	11,154
France	3	12	31	32	63,820
Ireland	11	5	112	25	20,766
Korea	7	53	20	47	38,156
Netherlands	15	24	150	36	16,727
Spain	33	16	13	27	102,746
UK	5	10	114	41	49,982
USA	n.a.	n.a.	n.a.	n.a.	n.a.
Average	**9**	**18**	**79**	**41**	**40,131**

Source: Country survey responses

9 '*Developments in VAT Compliance Management in Selected Countries'* (September 2009)

10 Canada VAT rate reduced by 1% in January 2008

Impacts of the global financial crisis on the incidence of repayment claims

21. Drawing on the survey data from selected countries, and some additional research, it is apparent that the severe financial conditions brought on by the global financial crisis in 2008 and 2009 had a significant impact on the overall volume and value of repayment claims. As indicated in Table 5, both Ireland and the USA experienced pronounced changes in the amount of PIT (USA) and CIT (USA & Ireland) repaid to taxpayers in 2008 and/or 2009. It can be inferred that many other countries experienced a similar situation.[11]

Table 5. Overall incidence of repayments in selected countries- 2005 to 2009

Tax type	Country	Overall incidence of repayment value made to taxpayers (% of gross collections) by fiscal year				
		2005	2006	2007	2008	2009
PIT	Ireland	20	20	19	20	21.4
	USA	20.5	19.6	18.1	25.6	28.2
CIT	Ireland	8.3	8.2	12.3	16.1	27.1
	USA*	11.1	7.6	6.8	15.0	42.2

* Data relate to business income tax (i.e. corporations and exempt bodies).
Sources: *Irish Commissioners' Annual Reports and USA IRS Data Book for years indicated.*

Repayments and taxpayers' service delivery expectations

22. Taxpayers with a bona fide claim to a repayment of overpaid tax have a legitimate expectation that their entitlement will be satisfied in a timely manner. The definition and perception of what constitutes a 'timely manner' is likely to be influenced by a range of factors (e.g. the strength of a revenue bodies capability to quickly validate repayment claims, any legal obligations to pay interest on delayed repayments and cultural considerations) and is likely to vary from country to country.

23. As noted in other FTA products, some, but not all, revenue bodies commit to respecting a set of taxpayers' rights that are either stated in law and/or set out in administrative materials (e.g. a Taxpayers' Charter). These taxpayer rights are often accompanied by a set of 'service delivery standards' that identify targeted timeframes for the completion of specified services.

Use of technology in repayments processing

24. The capacity of revenue bodies to provide good standards of service for the vast majority of repayment claims depends to a significant degree on the availability and use of modern electronic services (e.g. including e-filing, pre-filling, and direct crediting of repayments).

25. The use of technology in tax repayment processing has been the subject of close monitoring by the FTA over recent years. Most recently it was reviewed as part of an in-depth study of OECD revenue bodies' use and plans for electronic services in taxpayer services delivery[12]. This report contains a number of relevant observations and findings in relation to tax repayments processing and service delivery outlined beneath.

---

11 The significant changes in PIT as % of Gross Collections in USA are attributed to $90b Economic Stimulus Payment in 2008 and to a drop in Gross PIT collections in 2009. Ireland's substantive change in CIT in 2009 is attributed to increase in losses claimed.

12 See *'Survey of Trends and Developments in the Use of Electronic Services for Taxpayer Service Delivery'*. Forum on Tax Administration (March 2010).

Personal Income Tax

- There has been considerable growth over the past five years in the use of e-filing services by taxpayers and tax professionals - for 2008, 16 of 27 OECD countries achieved e-filing take-up rates in excess of 50%; however, in eight of the 27 surveyed countries take-up rates are less than 40%, suggesting potential for substantially greater use of e-filing in these countries.
- Six revenue bodies reported their intention to introduce, or extend existing, mandatory e-filing requirements over the medium term.
- Pre-filling [13] has evolved to become a significant component of revenue bodies' electronic services strategy in many countries, particularly for the PIT.
- Seven revenue bodies provide a capability able to generate at year-end a fully completed tax return (or its equivalent) in electronic and/or paper form for the majority of taxpayers required to file tax returns. Two revenue bodies achieved this outcome for 2008 for 30% of taxpayers.
- Just over half of surveyed revenue bodies indicated further exploration and/or development of pre-filling over the medium term.
- There has been reasonable growth over the past five years in the provision of e-filing services for employers' reporting of employee wage reports (included related tax withholding credit information). For many revenue bodies, efforts to increase electronic reporting have been driven by a goal to pre-fill tax returns, and
- Notwithstanding this growth, approximately two thirds of revenue bodies reported that in excess of 80% of wage reports were captured electronically, suggesting that for some, weaknesses are likely to exist in their capability to efficiently validate taxpayers' repayment entitlements (particularly tax withholding credits) where such a need arises.

Corporate Income Tax

- There has been considerable growth over the past five years in the provision of e-filing services for the CIT. In 2008, 16 of 26 revenue bodies achieved a take-up rate in excess of 50%; however, there is potential for substantially greater use (i.e. >60% in absolute terms) in 10 surveyed countries.

Value added tax

- There has been significant growth in the use of available e-filing services by taxpayers and tax professionals. In 2008, 16 of 26 revenue bodies achieved a take-up rate in excess of 50%. Increased usage in many countries has been achieved with the introduction of mandated requirements; however, there is potential for substantially greater use (i.e. >60% in absolute terms) in eight surveyed countries.

26. In summary, these findings suggest that significant improvements have been made by many revenue bodies in participating countries over the last five years in their ability to rapidly process taxpayers' repayment claims. However, there remains considerable potential in around 30% of OECD countries to significantly expand the use of electronic services with a flow-on service delivery benefit to taxpayers, in particular to those making repayment claims.

---

[13] Pre-filling, particularly concerning tax withholdings/ credits, provides a means of validating the information in a tax return.

Governance arrangements

27. A range of collaborative mechanisms are employed across participating countries in pursuit of delivering a balanced approach in repayment activities. These range from those created to progress specific initiatives, conduct reviews and identify improvements (Box 2 Ireland's Lean Six Sigma initiative) to more established and lasting arrangements characterised as repayment working or management groups and committee structures. Their purpose is to ensure tax repayment activities are considered from a holistic viewpoint, assessing the effects of risks and compliance strategies on service delivery focuses, and vice versa.

28. There are differing stages of maturity of such groups across participant countries. Table 6 provides an overview of the structures in place in each of the participating countries and Boxes 2, 3 and 4 provide specific examples of the roles of these groups, forums or task forces.

Table 6. Overview of the repayment governance initiatives in participating countries

Country	Governance Initiatives
Australia	**Credit Refund Integrity Steering Committee (CRISC)** – formal responsibility for determining the balance between the treatment of refund risks across the revenue products and the operational effectiveness of the associated processes. **Credit-Refund Integrity Senior Business Management Group** – responsibility under broad direction of the CRISC to progress tactical and operational delivery of priority refund activities across the organisation as identified by the CRISC. Provides enterprise level focus to progressing refund/credit risks and mitigations across all the revenue and administrative products.
Canada	Organisationally, the CRA has branches responsible for the processing and service and for overall compliance. To address the need for a holistic approach to refund policy, the CRA has responded through internal governance measures. The Headquarters Compliance Committee addresses the integrated approach to refunds.
France	The DGFiP has two services, the National Audit Unit and National Risk Control Unit, whose aim is to measure and assess risks with particular regard to tax refunds. The National Audit Unit was born of the merger between the national in-house tax assessment audit service and the national collections service following the creation of the DGFiP. The merger of these two services should improve synergies and in-house auditing in relation to the sequencing of tax assessment and tax collection work.
Ireland	Planning Division has responsibility for all compliance planning and policy including refunds and credit claims. This Division has responsibility for operational policy, strategic planning and risk analysis systems. **Management Advisory Committee (MAC)** – consists of the Revenue Board and all Heads of Division. MAC meets at least once a month to monitor performance across the organisation.
Korea	Internal group across Personal Income Tax, Withholding Tax, Corporate Income Tax, VAT and Electronic Compliance Divisions.
The Netherlands	The **Taskforce on Provisional Refund Fraud**, headed by one of the Regional Tax offices, consists of all bodies in the NTCA who deal with refunds as well as; other tax regions (both at management and operational level), the National Supervision Organisation, the Fiscal Information and Investigation Service, the Central Office and the Directorate General of the NTCA. The taskforce develops, instigates and co-ordinates activities on the compliance strategy regarding refund claims and possible fraud cases.
Spain	Permanent management committee: consists of Directors of the Departments. This committee meets one a week to develop head and co-ordinate the AEAT activity.
UK	Threat assessment and action plans prepared by individual businesses are assessed by a team within the Central Compliance Directorate. HMRC has a detailed repayment action plan covering all major repayment regimes.
USA	**The Pre-Refund Program (PRP)** was created in 2006 to provide enterprise-wide governance and policy for pre-refund compliance activities. PRP engages all functions responsible for pre-refund activities to ensure that policies are consistent across business units and meet the needs of all functions

Box 2. Example of reviewing the balance

Ireland conducted a review in 2009 of income tax and corporation tax refunds guided by Lean Six Sigma. This review considered and realigned the balance between risk and service. Key findings from that review were:

- Risk criteria were too loose thus generating too many cases for verification checks. The verification process itself had unnecessary stages within the process and these stages led to significant and unnecessary delays in the process.
- There was an unnecessary level of proof documentation being requested in support of claims.

There was a technological process inefficiency built into the selection process which caused significant delays for large volumes of cases not selected for verification checks

Box 3. Refund governance arrangements in the United Kingdom

HMRC aim to ensure that legitimate taxpayers receive repayments to which they are entitled quickly, accurately and in a cost effective way, with the minimum amount of bureaucracy or procedures for them to follow. This is subject to the need for HMRC to apply security checks to prevent fraud and abuse, with minimum cost and maximum effectiveness for both HMRC and the taxpayer.

HMRC Director-Generals have personal accountability to deliver this aim for repayments. This is achieved by working together and empowering a high level committee, the Repayments Task Force (RTF) to oversee the work being done across HMRC.

Central Compliance has devised an integrated nine stage generic repayments process (with toolkits – see Annex 11) against which business lines involved in repayments self-assess their performance. Performance is critically judged against the agreed standard, covering both compliance and customer service.

The RTF and the membership of a cross-cutting Repayments Risk Forum (RRF) provide feedback on emerging or urgent compliance risks. Business lines must prepare action plans demonstrating how they will address any issues identified in their assessments. These are reviewed and a refresh is required every six months. Subject and regime experts, as well as experts in risk management and internal audit, work with business lines to ensure the assessments and action plans identify the true risks and the best ways to address them. Progress against plans is reported to the RTF and RRF to ensure strategic alignment and allows the Director-Generals to monitor the position across HMRC.

This approach allows HMRC to ensure that there is both central oversight and accountability along with a structure that ensures best practice is followed, risks are identified at an early or emerging stage and that corrective and preventative action is taken.

Box 4. Refund governance arrangements in Australia

The areas of the ATO with the most direct involvement and responsibility across repayment (refund) processes associated with income tax and GST (VAT) are:

- Operations Sub-Plan - Client Account Services Business Line
- Compliance Sub-Plan – Micro Enterprise & Individuals (Income Tax) & GST Business lines

To provide an integrated view across the repayment regime, internal committees monitor, assess and review the strategic and operational plans and repayment performance. The internal governance arrangements operating across the ATO Repayment (Refund) activities comprise:

Credit Refund Integrity Steering Committee (CRISC). The CRISC has formal responsibility for determining the balance between the treatment of refund risks across the revenue products and the achievement of service delivery priorities.

Credit Refund Integrity Senior Business Management Group. The Senior Business Management Group has responsibility under the broad direction of the CRISC, to progress tactical and operational delivery of priority activities across the organisation as identified by the CRISC. This group provides enterprise level focus to progressing repayment risks and mitigations across all the revenue and administrative products

29. Revenue bodies in participating countries with a more permanent repayment working group or committee consider the governance role of these groups as a means of achieving optimal balance. They operate to influence repayment priorities and view key repayment strategies of the compliance and service branches from a whole of agency viewpoint.

30. Tax repayment working or management groups are an effective governance arrangement. They influence the balance between service delivery and compliance risk, through the formulation, implementation, assessment and review of integrated service and compliance strategies across tax repayments. There are differing stages of maturity across participating countries in this area. Some have groups charged to progress specific tax repayment initiatives, reviews or improvements, and others have more established and lasting working arrangements.

II. APPROACHES TO REFUND AND CREDIT ADMINISTRATION IN SELECTED COUNTRIES

Repayment balance

31. The standard operational elements of taxation administration across revenue bodies comprise:

- upfront education of taxpayers and offering ready access to tax information and advice;
- providing a range of return filing services;
- processing of filing returns incorporating error checking and validation activities; and
- post-issue audit and compliance examination and validation actions.

32. Compliance and service delivery aspects of repayment administration form only part of the responsibility of the broader compliance and service areas. Participating revenue bodies do not report having specific repayment business areas or branches within their administrative structures, rather repayment issues are initially dealt with in the strategic, tactical and operational plans of compliance and service areas.

33. Tax repayments are recognised as requiring specific attention by both compliance and service areas. For example, in the compliance context they are associated with a heightened risk of attracting fraudulent behaviour and in the service realm taxpayers' expectations of timely service are more sensitive.

34. All participating revenue bodies report having compliance activities targeting repayment risks prior to the repayments being made (pre-issue). As any intervention poses a risk to delivering a timely repayment service, this is one obvious feature of repayment systems that requires balancing attention.

The management of tax repayment risk detection and validation

35. Normally, inflated repayment claims arise in practice as a result of incorrect/fraudulent information provided by taxpayers in tax returns or other similar documents. In an income tax context, inflated repayment claims will result from one or more of the following: understated income, over-claimed deductions, tax credits and withholdings. For VAT, inflated claims are typically the by-product of understated gross VAT liabilities and overstated input tax credits.

36. These forms of non-compliance constitute part of the many compliance risks that revenue bodies are expected to manage as part of their day to day administration of the laws. With a diversity of risks to address and considerable tax revenue often at stake, revenue bodies need a systematic and thorough approach to managing their tax compliance risks. The FTA's guidance note on risk management[14] outlined and promoted the concept of compliance risk management as an essential management tool for revenue

---

[14] OECD *'FTA guidance note: Compliance risk Management : Managing and Improving Tax Compliance (2004)'*

bodies. It includes a description of practical approaches and processes that could be adopted by revenue bodies.

37. The FTA's guidance note recommends a process which has direct relevance to governance arrangements revenue bodies deploy for the management of tax repayments.[15] Given that some proportion of repayment claims for each of the major taxes administered will be subject to a degree of overstatement. The scale of this 'non-compliance' in a relative sense will vary from tax to tax and jurisdiction to jurisdiction, however, based on the data from surveyed countries, all revenue bodies are clearly focussed on this challenge.

Repayment Compliance Risks

38. In general, tax repayment compliance risks are categorised into three main types: 1) fraud (including criminal activity); 2) deliberate non-compliance; and 3) error (taxpayer or administrative).

39. In addressing tax repayment compliance risks, the majority of participating countries consider differentiation by tax type, market segment and taxpayer type.

40. All revenue bodies reported a repayment transaction level risk where compliance attention is focussed on the identification and mitigation of fraudulent repayments as the most critical. The common view from participating revenue bodies is that personal income tax and VAT are the distinct centres of the most significant fraudulent repayment risks within the scope of this study. This presents as a whole of market repayment risk.

41. In relation to income tax, participating revenue bodies identified individuals as presenting the greatest repayment risk. In VAT, whilst individuals were also highlighted, the consensus was that all client types featured as potential repayment risk with some inference that the non-individual entities were increasingly significant.

42. At the segment level, most participating revenue bodies differentiated between large taxpayers and the wider population. Many have established centralised divisions or business lines specifically designed to deal with the tax affairs and specific risks of this group. While these segments are not primarily driven by any repayment perspectives, where they exist, revenue bodies have access to reliable compliance perspectives for that market segment that can be influential in their repayment compliance strategies and activities.

43. Participating revenue bodies note similarities with emerging risks, especially those driven by technology. Globalisation and new technology has opened the opportunity for new avenues of fraud. However, technology has also expanded opportunities for sophisticated risk assessment. Table 7 below summarises a number of key areas of current and emerging risks.

---

15 *'OECD Guidance Note: Compliance Risk Management: Managing and Improving Tax Compliance (2004),'* p. 21

Table 7. Sources of current and emerging repayment risks

Current risks	Emerging risks
Client Risks • Identity fraud – fictitious or stolen identities. • Specific high risk industries. • Specific high risk occupations. • Regional location. • Distinct population group. • VAT related carousel fraud (notably in the EU where there in a common economic bloc).	**Client Risks** • Foreign nationals or new citizens. • Identity fraud (especially using new technological medium), phishing and pharming. • Cash flow problems for taxpayers due to economic climate, especially where refund is a repayment in a preliminary/provisional refund system. • Industry sectors affected by the GFC – eg property, retail. • New businesses. • Organised criminal involvement.
Transaction Risks • Claims where 3rd party data is unavailable. • Hidden controlling or influencing 3rd party. • Collusion between credit provider and claimant.	**Transaction Risks** • On-line lodgment and associated weaknesses (eg authentication). • Low value-high volume fraud. • Fictitious Credit fraud.
Service Risks • Weakness in lodgment channels, notably on-line lodgment. • Technology – complexity and provides opportunities for misuse/fraud. • Claims where supporting documentation is required.	**Service Risks** • Decision shopping across channels. • Out of country fraud attacks.
Organisation Risks • Legal complexity. • Friction between service and compliance outcomes. • Resourcing imbalances across service and compliance work.	**Organisation Risk** • Maintaining adequate resourcing. • Revenue or refund targets – pressure to restrict refund losses through compliance crack-downs.

44. Approaches taken by participating revenue bodies to risk identification show an emphasis on data driven knowledge with a focus on the repayment transaction.

45. Participating revenue bodies reported the use of aggregated and strategic focus and the deployment of information and intelligence in repayment risk identification activities. For example, revenue bodies referred to their increasing use of demographic information such as industry and taxpayer profiles, monitoring of populations at risk and leveraging technology tools, data mining and knowledge based rules in their operations.

Identity Risk

46. Identity fraud was singled out as posing a current and increasing whole of market risk to repayment systems (refer Box 5). The repayment risk is associated with the creation of fictitious identities and/or the use of stolen identities that are subsequently used to make fraudulent repayment claims.

Box 5. Definitions and examples of identity fraud[16]

What is identity fraud?

Identity fraud and identity theft are often used to describe any situation in which personal details are misappropriated for gain. Examples include: using a false identity or someone else's identity details (eg name, address, previous address, date of birth etc) for commercial, economic or monetary gain, or obtaining goods or information, or obtaining access to facilities or services (such as opening a bank account, applying for a benefit or obtaining a loan/credit card).

The following definitions have been developed by the United Kingdom's Home Office Identity Fraud Steering Committee to clarify these terms:

- **Identity crime** is a generic term for Identity Theft, creating a False Identity or committing Identity Fraud.
- **False identity** is: a. a fictitious (ie invented) identity; or b) b. an existing (ie genuine) identity that has been altered to create a fictitious identity.
- **Identity theft** occurs when sufficient information about an identity is obtained to facilitate Identity Fraud, irrespective of whether, in the case of an individual, the victim is alive or dead.
- **Identity fraud** occurs when a False Identity or someone else's identity details are used to support unlawful activity, or when someone avoids obligation/liability by falsely claiming that he/she was the victim of Identity Fraud.

47. The increasing risk of identity fraud in relation to accessing refunds of both income tax and VAT was noted. Participating revenue bodies reported that most exposure was in individuals in the personal income tax domain but both individual and non-individual entities were implicated in VAT. A number of revenue bodies associated the increased incidence of identity fraud with advances in, and accessibility of, technology.

48. The presence of identity risks brings both the initial registration (creation of fictitious identities) and maintenance of registration record (identity takeover) into the focus of repayment compliance. Participating revenue bodies all emphasised their reliance on the integrity of registration processes as a key preventative measure in the mitigation of identity related repayment fraud.

Personal Income Tax Repayment Compliance Risks

49. Repayments in personal income tax arise where the credit claimed exceeds the tax payable. The source of the majority of credits in personal income tax is associated with those allied to the operation of withholding regimes. Employment related withholding is the most common of these. The potential repayment risks associated with withholding credits relate to taxpayers making fabricated or excessive withheld credit claims.

50. The second most significant source of credits in personal income taxes arise where there is access to tax offsets or rebates as part of the tax regime. The basic character of tax offsets and rebates provides for a specific tax credit to taxpayers who meet defined eligibility requirements.

51. The distinction between offsets and rebates is their impact on repayment risk. Offsets are applied against the tax payable and can only influence a repayment outcome if the taxpayer has claimed tax credits.

16 *'OECD Report in Identity Fraud: Tax Evasion and Money Laundering,'* p. 5

The potential repayment risks associated with offsets and rebates are related to ineligible taxpayers making claims, or fabricated or excessive claims made by otherwise eligible taxpayers.

52. Some revenue bodies where cumulative withholding regimes are operating in corporate tax offsets or rebates into the employment related withholding. The mitigation of risks associated with such claims of offsets or rebates are usually centred on the ability of revenue bodies to confirm eligibility or entitlement of the taxpayer to them. For example, those related to the existence of family and/or dependents.

53. The third most significant source of repayment risk in personal income tax arises from deductions taxpayers claim against their income. Repayment risks from deductions arise to the extent that they reduce the taxpayer's taxable income and expose credit (some or all) claimed by the taxpayer for repayment. In a similar way, the risk of undeclared income manifests in a similar repayment risk.

54. Again, a number of revenue bodies operating with a cumulative withholding regime reported the incorporation of a level of deduction into the employment related withholding. In others, the type and value or amount of deductions are limited or restricted for all or groups of taxpayers.

55. The final source of repayment risk is that arising from income tax pre-payments. A refund of over-paid tax can occur for taxpayers, who are subject to repayments, when the amount paid exceeds the tax payable. The survey results indicated that potential repayment risk associated with pre-payments is not considered significant in the operation of personal income tax systems.

Value Added Tax Repayment Compliance Risks

56. At the simplest level, refunds of VAT arise where the credit claimed for purchases of taxable supplies exceeds the VAT payable on sales of taxable supplies.

57. The most significant source of repayment risk is related to the credit claimed. The potential repayment risks associated with VAT credits arise with taxpayers making fabricated or excessive claims. This can take a variety of forms, including:

- fictitious purchases
- fictitious export sales
- taxable supplies used in exempt activity, and
- purchases from unregistered suppliers.[17]

58. Under-reported sales are also a source of repayment risk where the taxpayer has also claimed credits. The source of credits in the operation of VAT regimes offers practical difficulties for revenue bodies to employ large scale automated data driven validation methods.

59. Whilst credits arise and are recorded by a third party supplier it is not generally the case that such low level information is routinely available to revenue bodies in the first instance. Consequently, VAT repayment risk identification efforts are much more heavily reliant on drawing out risk characteristics from the VAT registration activities, from the VAT repayment transaction itself and from a view of the taxpayer's compliance history. However, an exception amongst the participating revenue bodies is in Korea (refer Box 6).

---

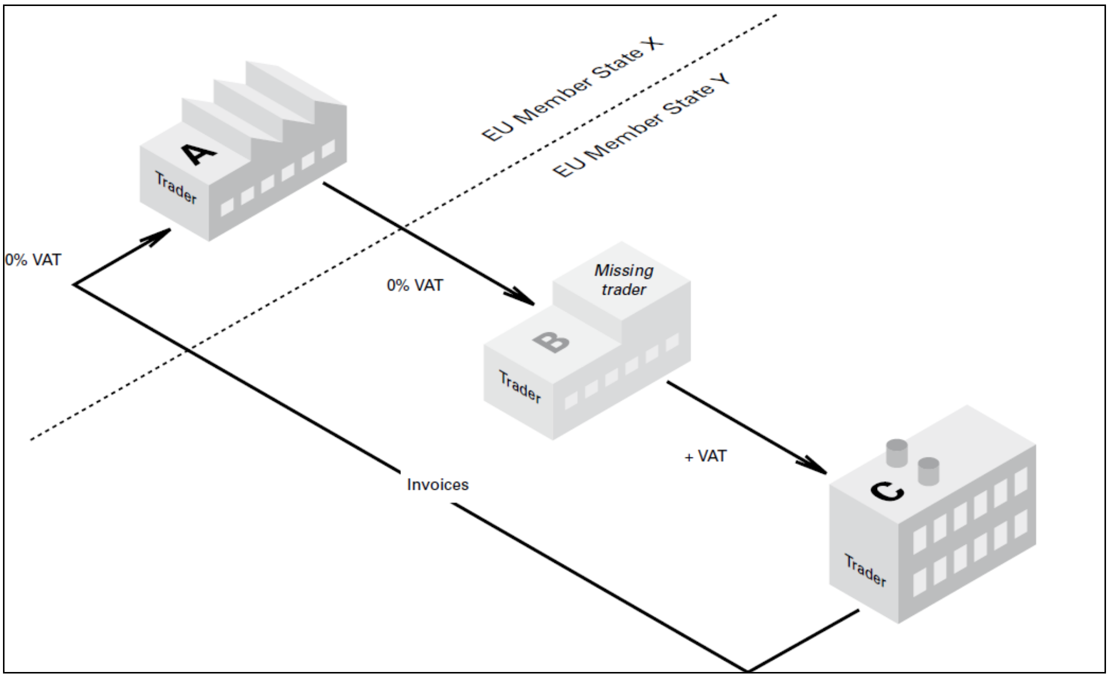
[17] Adapted from IMF Working Paper VAT Refunds *'A Review of Country Experience, 2004,'* p. 22

Box 6. e-Tax Invoice system in Korea

Korea recently introduced the e-Tax Invoice system which mandates all parties exchanging tax invoices to do so online. This information is then transmitted to the NTS on a real time basis. As the system is only new, penalties for non-use will not apply until 2011.Using e-Tax Invoice provides benefits to users as suppliers receive a tax credit of 100 won per issuance (a credit of up to one million won per year – approximately $ US 830). Once transmitted to the NTS, there is no need to print or keep copies of the invoice.

60. Participating revenue bodies reported an increasing trend towards fraud involving low value claims associated with high number of claimants. These are often associated with a controlling third party. The issue of carousel/missing trader fraud is of particular concern in the European Union which features a common VAT system and common borders.

Figure 2. Illustration of carousel fraud in its simplest form



Source ‘Intra-community VAT fraud -Joint report Bundesrechnungshof (Germany) Rekenhof (Belgium) and Algemene Rekenkamer (Nederland) (2009)’ pp. 5 & 6.

61. Issues of the detection and prevention of VAT fraud specifically relating to the validation of VAT refund claims are also being considered in a separate report for the Intra-European Organisation of Tax Administrations (IOTA) due to be presented in 2010.

62. In summary, repayment risk is identified as a strategic risk in all participating revenue bodies’ administration of income tax and VAT. The risk of repayment fraud is identified as the area of most focus. Identity risks are noted by the majority of revenue bodies as having significant existing and emerging impact on risk of repayment fraud. Repayment fraud is increasingly likely to involve higher volume, lower value claims and be influenced by a controlling third party.

Assessing and prioritising compliance risk

63. Survey responses indicated a general theme of conducting repayment compliance programs according to risk management principles. The presence of permanent pre-issue compliance activities in all participating revenue bodies demonstrates that repayment risk is identified as an existing and ongoing priority risk. The risk of fraudulent tax repayments is the centre of most current attention and all participating revenue bodies, to varying degrees, indicated they expected this would continue for the foreseeable future.

64. The subset of fraudulent repayments related to invalid claims by fictitious or invalid entities is considered to have the most significant consequences if undetected and untreated. Participating revenue bodies noted the factors which had fraudulent repayments classified high priority risks were the greater sensitivity to reputation risk, and much reduced ability to recover losses after the event.

65. Fraudulent repayments by legitimate taxpayers were acknowledged as posing similar levels of reputation risk for revenue bodies. Although it was possible there was an improved chance of recovery of revenue loss in such cases, the likelihood of instances of repayment fraud occurring was considered to be higher.

66. Repayment risk arising from administrative or taxpayer error was assessed by participating revenue bodies as more likely to occur for those new to the tax system or lacking in experience or knowledge of particular aspects of taxation. A number reported that those new to the tax system also presented as more susceptible to repayment fraud, especially identity fraud related repayment fraud.

67. Repayment risk assessment and prioritisation methods were reported as influenced by the value of the actual repayments, with higher value equating to higher repayment risk. Increasing concern with the presence of repayment fraud threats involving lower-value, higher volume cases has seen revenue bodies move to factoring aggregate value of repayments into their risk assessing and prioritisation activities. This has led to repayment case selection being less constrained by correlation of high value repayment value to higher risk, particularly in risk assessment and prioritisation activities (refer examples in Table 8).

Table 8. Nature of risk scoring criteria used in risk profiling systems

Nature of criteria	Australia	Austria	Canada	Ireland	UK
Size of refund	✓	✓	✓	✓	✓
Previous compliance history	✓	✓	✓	✓	✓
Business size	✓	✓	✓	✓	x
Refund history/ pattern	✓	x	✓	✓	✓
Length of time registered	✓	✓	✓	x	✓
Nature of business	✓	✓	✓	✓	✓
Existence of other tax debts	✓	✓	✓	✓	x
Status indicator-no/low risk	✓	✓	✓	✓	✓
Other useful criteria	✓/1		✓/1		

/1. The ATO also reported the presence of 'fraud' characteristics as a scoring criterion while the CRA noted that.... 'depending on the industry, regional discrepancies are also used to assess potentially 'at risk' cases'.

Extract from '*Developments in VAT Compliance Management in Selected Countries,'* August 2009, pg30. Compliance Management Data and Information

Registration

68. Registration is a necessary pre-requisite to a taxpayer filing and making a repayment claim. Information captured at registration provides revenue bodies with an initial opportunity to develop a risk profile of the taxpayer in advance of their interaction with the tax system. Not surprisingly, all participating revenue bodies reported leveraging their registration data as a preliminary source of risk identification, profiling and differentiation and in forming a whole of tax view of taxpayers.

69. Relationships between registrants, either captured as primary registration data or determined from integrating multiple data sources, is also prevalent in repayment compliance data management activities. This includes comparison of registration details across the revenue bodies own data holdings across various tax types as well as the use of external data from other agencies and sources.

70. Considerable attention continues to be placed on initial registration data. Increasingly the maintenance of taxpayers' registration information is being routinely monitored, particularly in connection with risks of existing identities being altered or otherwise used fraudulently to create fictitious entities.

Personal Income Tax

71. In order to identify, assess and address risks associated with taxpayer behaviour, the focus is on obtaining reliable information for verification purposes in advance of processing repayment claims.

72. In personal income tax the timely availability of high integrity withholding data provides a platform from which some revenue bodies provide information directly to the taxpayer pre-lodgment. This provides a further reduction in the risk of errors (including repayment claims) being introduced by taxpayers where they are preparing their own returns.

73. The extent to which revenue bodies are able to support the provision of withholding data directly to taxpayers for use in the preparation of their returns is an indicator of their confidence in its accuracy. Generally, the withholding data sources level of integrity is recognised by the revenue bodies as being sufficient to provide a credible data matching source. Beyond that, most attention is on ensuring the information is readily accessible and is available to revenue bodies in advance of repayment claims.

74. Timeliness of access to third party withholding data is of critical importance to personal income tax repayment risk mitigation as it is the primary validation for withholding credits claimed. Australia and the USA provide taxpayers with early opportunity to file after the end of the income year (immediately for Australia and approximately 2 weeks for USA) and this access is an area of sharp focus as noted in Box 7 below.

Box 7. US Taxpayer Advocate Recommendation

The National Taxpayer Advocate recommends that Congress direct the Treasury Department to prepare a report identifying the administrative and legislative steps required to allow the IRS to receive and process information reporting documents before it processes tax returns. The Treasury Department should be given a full year to prepare its report in light of the complexity of the issue and the actions that would be required of the IRS, the SSA, private employers, and financial institutions. The goal should be to fully implement required changes within five years from the time the report is completed.

Source 'Taxpayer Advocate Service, 2009 Annual Report to Congress — Volume One,' p. 339

75. Mitigation of risks associated with claims of refundable offsets or rebates is usually centred on the ability of revenue bodies to confirm eligibility or entitlement of the taxpayer to them. Canada's reported approach to benefits risk is an example. (See Box 8 below).

Box 8. Canada and benefits risks

Benefits Risks are managed with Validation and Controls reviews. The objectives are to:

- validate a client's eligibility and entitlement
- validate a client's marital status
- validate a client's residency and citizenship
- measure the extent of incorrect payments
- measure level of non-compliance
- identify the specific causes for incorrect payments
- find common relationships
- develop benchmarks
- identify trends and concerns, and
- identify areas for future research.

76. Those offsets or rebates related to the existence of family and/or dependants have some of the participating revenue bodies sourcing information from other government agencies for use in their validation of taxpayer's eligibility. Box 9 below summarises the USA's access to, and use of, other federal departments' data in their repayment compliance activities.

Box 9. US Government data use

The law allows the Department of Health and Human Services (HHS) to share with IRS information they maintain regarding wage and employer information for the purpose of administering the Earned Income Tax Credit. The IRS reimburses HHS for the cost they incur to provide the information to IRS.

The IRS also contracts with HHS to obtain Federal Case Registry data. This data includes information regarding divorced parents and custody issues. This is valuable in detecting possible fraud/non-compliance in the areas of Dependency deductions, the Child Tax Credit, the Earned Income Credit and other tax issues based in whole or in part on relationship. The IRS receives data from "Kidlink", a database that contains Social Security Numbers of parents and related children.

77. All participating revenue bodies report the use of enhanced data matching, mining, analysis and modelling facilities in their repayment compliance programs. A particular area of attention is in the use of data technologies to bring otherwise disparate data sets together for the purpose of supplementing existing repayment risk processes as outlined in the UK example in Box 10 below.

Box 10. UK data management

In the Income Tax regime greater use is being made of a tool (Connect) to undertake additional data matching from a wider data set to supplement the initial risk checks in the processing computer system. They are also exploring how this tool can enhance repayment checks in the VAT system. This is being reviewed to see the potential for use in other regimes. This tool stemmed from realising that HMRC had come to hold data that could be used to detect fraud but which was not held in the main IT systems that processed returns and claims. Instead, it was held in a variety of other databases, such as records of payments made under deduction of tax, financial reconciliations, or records of HMRC interventions.

Value Added Tax

78. Whilst credits arise and are recorded by a third party supplier, it is not generally the case that such low level information is routinely available to revenue bodies. Consequently, VAT repayment risk identification efforts in relation to taxpayer behaviour are more heavily reliant on drawing out risk characteristics from:

- VAT registration activities
- VAT repayment transactions, and
- a view of the taxpayer's compliance history.

An exception is the introduction of the e-Tax Invoice system in Korea; however this is unique to Korea and not readily adaptable into other jurisdictions.

79. The frequency with which VAT returns are required to be lodged enables taxpayer history to be built up quickly. However, the life-cycle of a business often sees VAT repayment claims being generated early in the life of a business entity. It is likely that this is the reason that most countries with VAT have particular regard to new business and 'first' refund risks.

Box 11. Ireland, VAT and new business

Revenue has a number of walk-in centres/one stop shops that offer the full range of assistance to the customer. Each District has a "New Customers" Unit for business to which all registration forms for income tax, corporation tax and VAT are directed. This unit:

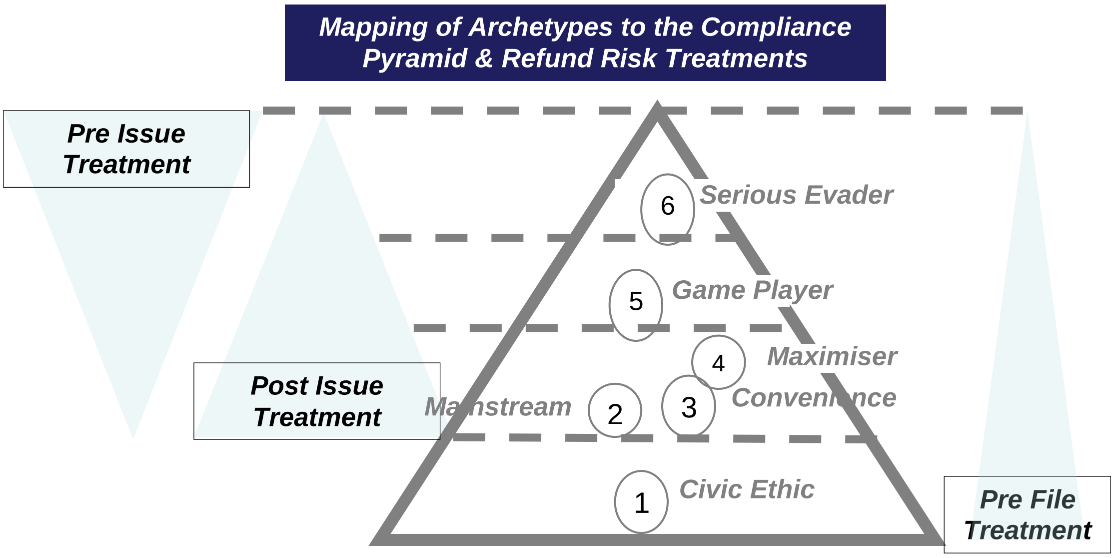
- validates the registration and updates the Revenue file
- visits the trader/company if requested
- provides detailed assistance on tax entitlements and obligations
- attends national trade shows.

Newly registered taxpayers attract a higher risk rating in their REAP risk analysis system, pending the development of a compliance history with Revenue.

Aligning repayment compliance treatment and compliance behaviour

80. Participating revenue bodies commonly make use of a compliance model. These models assist in describing differentiation and treatment of taxpayers according to risk. They accommodate the wider philosophy of self-assessment and voluntary compliance and are based on the assumption that the majority of taxpayers act honestly and should be treated accordingly. An adaptation of a compliance model approach to the repayment environment is illustrated at Figure 2.

Figure 3. Compliance model adapted from ATO Chief Knowledge Officer Risk Archetypes



An Illustrative Archetype Schema

	Behaviour	Differentiation
Arch 1 Civic Ethic	*Always does the 'right thing'*	*Expedite, reward and avoid unnecessary contact*
Archetype 2 Mainstream	*Generally does the 'right thing', but not always*	*Focus on reminders and help, give latitude*
Archetype 3 Convenience	*Often late or mistaken in meeting obligations*	*Focus on reminders, automatic options and third party help*
Archetype 4 Maximiser	*Persistently seeks maximum return but within the law*	*Educate on risks and encourage to stay within the law*
Archetype 5 Game Player	*Repeated testing of legal and administrative boundaries*	*Clarify boundaries and pre-empt where possible*
Archetype 6 Serious Evader	*Serious or repeated failure to meet obligations under the law*	*Apply full force of the law and restrict channel choice*

81. As shown, pre-issue treatment of repayment risk primarily focuses on dealing with the most serious of taxpayer repayment behaviour. Post-issue repayment treatments are centred on the mitigation of more general repayment non-compliance of taxpayers. Pre-file treatment, often in partnership with allied service initiatives, is predominantly aimed at those taxpayers at the lower end of the repayment compliance model.

82. A number of common risk drivers affecting the effective administration of repayments were identified. A list of key risk drivers relevant to repayments is provided in Box 12.

Box 12. Common drivers of repayment risk

Business

- Industry or occupation type.
- New businesses and taxpayers.
- New industries without a clearly understood/developed business model.
- Cash economy industries.

Industry

- Electronic environment - on-line lodgment and new technology.
- Administration robustness, especially structures, policy and information issues.
- Revenue bodies strategic directions and priorities.

Sociological

- Demographic flows, especially migrant populations and associated laws (eg EU laws on free movement of labour).
- Third party influence.

Economic

- Economic conditions, especially financial hardship –also consider good economic conditions.
- Legal complexity and a lack of knowledge. Confusion around law or responsibilities, or law not delivering on intent.

Psychological

- Changes in opportunity.
- Behavioural shifts – taxpayer risk appetite, tax officer integrity.

Repayment Risk Mitigation Strategies

83. It is apparent from compliance strategies implemented that a significant shift is occurring toward a 'whole of regime' approach, supported by smarter use of technology. For example, participating revenue bodies are seeking to enhance their technology systems to support detailed risk identification and assessment pre-filing of returns and pre-issue of refunds to minimise the risk to repayment accuracy, and to enable enhanced case selection techniques to be utilised.

84. Box 13 below sets out an overview of the key strategies being implemented by the participating revenue bodies to mitigate the impacts of fraudulent and erroneous behaviour.

Box 13. Examples of strategies to mitigate risks

Pre-filing of return

- Enhanced strategic planning and risk assessment.
- Publicly identifying non-compliant taxpayers.
- Pre-filing advice to taxpayers and education strategies.
- Increased access to and timeliness of third party data as data validation capabilities.
- Increased use of electronic services & technology (incl. automated processes & pre-filled returns.

Pre-processing of refund

- More sophisticated repayment risk filters with enhanced technology enabled tools.
- Whole of process focus involving pre and post compliance activities.
- Improved pre-issue and pre-file compliance processes directed at enhancing registration, identity verification and authentication.

Post-refund

- Post-refund audits and reviews.
- Post-refund performance measurement and feedback into learning circle.

Applying Risk Mitigation Strategies

Pre-filing of return

85. Repayment risk mitigation strategies used include:

- use of legislative and policy reform
- registration verification
- broad cross-sector education, and
- targeted specific information and advice.

Pre-file strategies in particular are rarely aimed at mitigation of repayment risk alone but are more likely to be aligned to broader education and compliance aims.

Legislative & Policy Treatments

86. Legislative change is often a costly and less timely response option to address compliance or service issues. Consideration of the external legislative context requires review of existing legislation to identify weaknesses and threats that may need to be addressed or mitigated through administrative practices.

87. A number of participating revenue bodies reported legislative reforms aimed at treating risks associated with their repayment environments. The use of legislative treatments is usually associated with attending to significant issues that have not responded to or are unable to be satisfactorily mitigated with administrative or compliance improvement. Some recent examples provided by the participating revenue bodies are provided in Boxes 14 and 15 below.

88. Whilst recommending changes to legislation does represent a legitimate compliance approach for revenue bodies, this information note concentrates on administrative rather than legislative solutions.

Personal Income Tax Legislative Reforms

Box 14. Legislative reform in Personal Income Tax

Australia

The Australian government announced initiatives in their 2010 budget which, from 1 July 2011 enable individuals to claim a standard deduction of $500 for work related expenses and costs of managing their tax affairs. In 2012-13 and later years the amount will rise to $1,000. Taxpayers with expenditure above these amounts will continue to be able to make claims in the usual manner.

The measure will provide taxpayers with the opportunity to file a simplified return where it suits their circumstances.

Ireland

Ireland recognises that a Tax Relief at Source policy/process reduces the number of refund claims received so that more attention can be given to verifying claims. The system introduced allows credit for Ireland's most common credits (those associated with mortgage loans and medical insurance payments) to be given to the taxpayer at source.

Mortgage lenders and medical insurers apply the relevant credit at the time the payments are made by taxpayers. This facility reduces the burden on both the taxpayer and Revenue. It also improves taxpayer compliance for these common credits.

USA

The Workers Homeownership Business Assistance Act (WHBAA) of 2009 signed by the President on November 6, 2009 requires tax preparers who file 10 or more returns to file electronically.

Value Added Tax Legislative Reforms

Box 15. Legislative reform in Value Added Tax

Netherlands

In the summer of 2009 a possible carousel fraud regarding the trade in CO_2 rights was brought to the attention of the VAT Fraud Agency. The market for trade in CO_2 rights had risen sharply. In co-operation with the business sector, other EU-member states and all bodies concerned in the NTCA and the Ministry of Finance, trends in this trade were researched and a risk analysis was made.

This led to the implementation of the reverse charge mechanism for VAT on this trade. This decision was approved by the State Secretary for Finance within a few weeks of the matter being raised.

Spain

Law change to combat industry segment risk in VAT: The scrap market industry had been identified as a high risk segment for VAT. Specific compliance attention and treatments were employed to deal with the risk but ultimately it was determined that a change in the law was a more appropriate solution. The law was amended to change the 'taxable person' for VAT transactions.

Registration Compliance Strategies

89. The emphasis of establishing taxpayer identity in revenue bodies' detection and treatment of repayment risk reflects the incidence of identity fraud and new registrants as a common risk concern. Initial registration and maintenance of registration records are being tightly integrated into risk strategies as methods of detecting and mitigating repayment risks before a claim is filed.

90. All participating revenue bodies report having strong initial registration regimes in operation, particularly for individual taxpayers. To varying degrees revenue bodies establish and maintain links between businesses and individual taxpayers associated with them. In personal income tax identifying relationships between individual taxpayers is routinely leveraged to support validation of eligibility for offset and deductions associated with partner, dependent or family unit arrangements.

91. In addition to those direct, clear and definitive relationships between registered entities, the ability to identify or infer less obvious relationships between entities is an increasingly important capability of particular focus for compliance risk management. Particularly in the operation of VAT, the ability to identify or infer relationships between seemingly independent businesses is a considerable aid in fraud detection efforts.

92. Reliable registration risk assessment processes support the operation of registration compliance strategies. For example, Canada's GST Enhanced Registration Review (GERR) is an example of one such registration risk screening approach[18]. The UK also operates a risk based screening process for registrations including the selected use of requiring a financial guarantee or shortening the VAT filing period for taxpayers.

Encouragement to operate within the law

93. Targeted strategies prior to the filing period, or at the time of filing, are used to encourage taxpayers to operate within the law by filing complete and accurate returns. They are more commonly used in personal income tax and are often not specific to addressing repayment risks. For example, Australia issues letters to specific taxpayer groups identified (from previous returns or third party information) as having income or possible deductions in areas identified as compliance risks (rental property, work related expenses, capital gains or losses etc).

94. The US Frivolous Filer Program (Pre-Refund) operates to identify returns that match frivolous filer schemes. First time frivolous filers are sent a letter explaining penalties and other consequences of frivolous filing and given an opportunity to file a compliant return. Those that do not file a compliant return have the penalty assessed. Injunctions and criminal prosecution are pursued against those who promote frivolous filing schemes that evade tax.

Pre-Issue Compliance Strategies

95. Participating revenue bodies are moving to more automated systems for the selection of tax repayments for differentiated pre-issue treatment. These systems leverage opportunities of pre-filling, electronic filing and the payment of refunds through electronic funds transfer to reduce the incidence of error in the preparation and filing of claims. The compliance benefits of this trend include reducing the cost for taxpayers in preparing the return and minimising the risks for taxpayer error. However, it is recognised that:

---

18 OECD Information Note *'Developments in VAT Compliance Management in Selected Countries (August 2009)'*

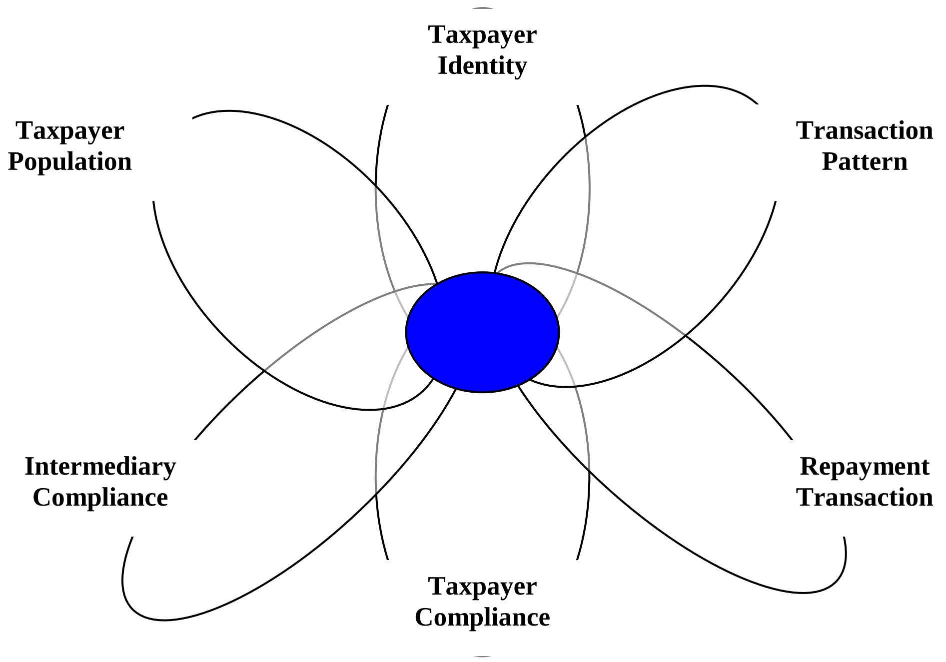
"There is a delicate balance between facilitating increased access to services and the need to ensure identities and access are verified at the various entry points to prevent potential false registrations and limit the potential for fraudulent refund or entitlement claims." [19]

96. Once filed, returns are scrutinised for signs of repayment compliance risk, using multi-factor risk models and return detail focused risk models (aimed at identifying risk areas within filed returns, or by comparison of stated information against third party information). Selection of cases for review or audit then occurs, based either upon the risk criteria developed in the pre-lodgment stage or by reacting to a new trend in the filing data. The identification of new risks will result in adjustment to strategies.

97. The specific detail of participating bodies' repayment risk models is sensitive information. There are some underlying common approaches and areas of innovation indicating the broad direction of improvements and innovations in repayment compliance strategies. The OECD *Report on Identity Fraud: Tax Evasion and Money Laundering Vulnerabilities* presents 'red flag indicators' which countries use to detect possible cases of tax evasion involving identity fraud. Many of these are directly relevant to the detection of repayment fraud.

98. When identifying repayments that present a risk revenue bodies consider the range of perspectives in the following schema (Figure 3)[20]. In tuning their selection criteria, revenue bodies expand the perspectives that are brought into consideration. They also leverage data technology to more efficiently manage and combine the corresponding increasing range and diversity of information.

Figure 4. Schema of Repayment Risk Perspectives



---

[19] *'Organisation for Economic Co-operation and Development, Managing and Improving Compliance: Recent Developments in Compliance Risk Treatments, Forum on Tax Administration, Information Note, March 2009,'* p21.

[20] Refer to Annex 4 for more detailed outline of Repayment Risk Perspectives

99. The Transaction Pattern perspective has increasing importance in revenue bodies' efforts to detect organised high volume, low value fraudulent claims. In particular the use of technology and advanced data analysis tools are enabling close to 'real time' detection solutions to be employed. These provide the ability to monitor for known signatures, detect and rapidly learn 'new' behaviours as they are applied. (See Boxes 16 and 17 hereunder.)

Box 16. Australian Repayment Risk Mitigation Developments

Personal Income Tax

Australia reports a number of advances in repayment risk detection across the Taxpayer Identity and Transaction Pattern perspectives. A hybrid signature detection model (combining business expert and analytical models) has been very successful in identifying pre-issue instances of personal income tax repayment fraud associated with identity theft. It also yields high confidence results of instances of unregistered preparers and potential refund skimming. This pre-issue personal income tax detection facility is complemented by the operation of post-issue Network Detection Models. These identify and surface common behavioural risk signatures which are used to re-tune the pre-issue components.

Advances in group fraud pattern detection routines have also been implemented in Australia's pre-issue personal income tax repayment operations. These work in harmony with the identity risk methods but are aimed at identifying group patterns of anomalous claims.

Value Added Tax (Goods & Services Tax)

Australia has also made additional investment in GST refund fraud detection and related risk processes – during the 2010 fiscal year enhancements to its repayment Risk Rating Engine yielded a doubling of its detection success rate. In a recently announced program, further investment is being made into early detection of fraudulent GST registrations and the incorporation of a pre-file registration compliance strategy.

Box 17. US Repayment Risk Mitigation Developments

USA – Repayment Risk Mitigation:

- Improvement of business rules and data mining formulas to decrease the number of legitimate refunds delayed by compliance processes.
- Receipt of third party data earlier in the filing season and automation of processes currently performed manually to decrease the time it takes to resolve a non-compliant refund claim.
- Development of the Return Review Program (RRP) will modernise IRS' ability to identify fraud and other forms of non-compliance before the refund is released via the use of third party data matching, business rules and algorithms.
- Development of new treatment streams, such as obtaining Math Error Authority from Congress for certain situations that resolve pre-refund compliance issues quickly.

All of these improvements were/ will be made to reduce the burden of compliant taxpayers who may currently be subject to pre-refund compliance treatments, and to enhance the IRS' ability to detect and resolve fraudulent and non-compliant refund claims before refunds are issued. Their research function is currently analysing data from returns that have been determined to be fraudulent or non-compliant to enable IRS to identify particular segments that show similar patterns of non-compliance

A study of patterns of non-compliant claims for the Earned Income Tax Credit showed patterns based on geography. The Earned Income Tax Credit office has also identified certain professional tax preparers that file a high percentage of non-compliant returns with respect to the Earned Income Credit.

100. Taxpayer compliance history is a perspective incorporated into repayment risk treatments. In support of detection, taxpayer's compliance history is incorporated as a factor in approaches such as described by Canada in Box 18, below. Australia, Turkey, The Netherlands and Spain (refer Box 19) also report using taxpayer compliance assessment as a mechanism for identifying compliant taxpayers who are exempted in full, or part, from being subject to pre-issue repayment treatment. This rewards those taxpayers with a potentially faster repayment service and permits revenue bodies to focus on claims from the remaining population.

Box 18. Canada Repayment Risk Mitigations

In general terms, a scoring system is invoked during the initial assessment to measure the risk associated with each return. The scoring system uses many criteria that subject matter experts develop.

Through the interrelationship of these criteria, a score is assigned to specific deductions and credits in each return; a taxpayer's compliance history also affects the score. Returns are sorted by categories with each of the deductions and credits that the program verifies and each of the four ways or modes of filing (paper, EFILE, NETFILE, TELEFILE) representing a category.

The Risk Model is used to determine the number of reviews conducted in each category.

Box 19. Spain Repayment Risk Mitigations

The extensive control consists of mass control measures based on information available in tax databases and backed by a powerful computer support system, which perform an analysis of all tax returns, especially during the annual campaign - in the case of personal income tax, this is developed from April to September for the refund returns. The validation process is quite integrated and diversified, based on filters that work automatically on data updated on a continuous basis.

The selective control consists of specific checks on those returns/taxpayers that, based on a number of objective criteria, are deemed as likely to avoid their tax obligations or even request returns improperly.

There is an Annual Tax Audit Plan that sets out risky taxpayers. The selective control is also applied to returns from the massive control.

101. The role played by formal intermediaries in the filing of repayment claims varies considerably across participating countries and tax types. However, those revenue bodies with a significant exposure to intermediaries bring that perspective into consideration in repayment compliance strategies generally, and pre-issue treatments more specifically. The Netherlands report implementing 'horizontal monitoring agreements' with tax intermediaries. This involves assessing the intermediary's internal processes in relation to the tax returns they prepare. If NTCA are satisfied they provide a 'green lane' for the processing of these tax returns with reduced frequency of checking and lower levels of scrutiny.

Post-Refund

102. Post-issue verification activities are based on multi-factor and return detail case selection techniques. By comparison to third party information and intelligence gathered at this point in the cycle, revenue bodies revise their pre-file and pre-issue compliance strategies, treatments and case selection settings for the following filing period.

103. Ireland, UK and Canada (refer Box 20) report the use of random sampling as a component of their tax repayment compliance risk management actions[21]. This is in addition to the normal flow of information generated from post-issue compliance activities. The benefit derived from random sample programs is an unbiased measurement of the repayment risks of the filing population. There is an acknowledged cost to both revenue bodies and to taxpayers impacted by the random program.

Box 20. Canada and use of random sample

There are two components of the Processing Review Program: Random Sample reviews and targeted Compliance workload reviews. Annually, statisticians conduct an analysis of the random sample results on about 80,000 returns. Random samples allow the CRA to make estimates about the larger population of filers based on what is learnt from the sample. It should be noted that the use of a random sample reduces the costs of data collection. A comparison between the results of the different types of reviews allows the CRA to identify potential areas for improvement to their risk scoring.

Evaluating compliance outcomes

104. Participating revenue bodies all reported close monitoring of their repayment environment, associated compliance activities and results. The standard approach adopted is to track trends in volume and value of repayments over time, often complemented with market, industry or occupation sub-segment analyses.

105. Results from repayment compliance activities are consistently tracked for trends in the volume of repayments at risk identified, the proportion of adjusted claims (or non-adjusted) and associated value or yield generated from each program (refer example in Box 21). Ireland (see Box 22) and Canada, who operate a formal random audit program, use the outcome from that activity to evaluate the currency of identified risks and the alignment of their mitigation efforts.

Box 21. USA—Evaluation of repayment risk strategies

Examination (Post-Refund)

- For post-refund risk management, a metric called the no-change rate is used. The numerator is the number of audits that result in no change to what the taxpayer originally reported, the denominator being the total number of audits. Audit results are tracked on a monthly basis, and if the no-change rate increases, Headquarters staff determines the root causes (training, selections, etc) of the lower rate of audit results.

Outcome measures

- For filing season 2009 the IRS identified 280,216 fraudulent returns with false withholding and deleted 192,104 of them. Corresponding refunding identified was $1,909,762,784. Refunds deleted were $1,437,911,310.

Trends in the rate of detection over recent years

Fraudulent returns and refunds (with false withholding) identified and stopped (Processing Years 2006 -2009)

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refunds Identified ($)	Amount of Fraudulent Refunds Stopped ($)
2006	52,255	35,523	$271,180,566	$188,715,519
2007	240,406	189,915	$1,467,762,110	$1,203,795,853
2008	380,656	306,128	$1,959,992,377	$1,683,912,973
2009	457,369	369,257	$2,988,945,590	$2,517,094,116

Source: Draft TIGTA analysis of IRS data, verified by CI except for 2006 (from Draft TIGTA report: Interim Results (March 24, 2010) of the 2010 Filing Season, Figure 6).

21 OECD Information Note *'Developments in VAT Compliance Management in Selected Countries'* (August 2009)

106. In the UK, HMRC employs tax gap measurement in support of their overall administration of VAT (see brief description in Box 22). Outcomes of assessment and associated repayment trends are used to contribute to a macro level of evaluation.

Box 22. United Kingdom—Evaluation of repayment risk strategies

Tax Gap

HMRC adopts a process of customer segmentation and has made an assessment of the tax gap by customer behaviour (estimates of around £40bn, around 8% of total tax liability). The main components are: evasion, hidden economy, criminal attack, avoidance, failure to take reasonable care, error, non-payment and large business technical.

There is a specific business unit, Risk and Intelligence Services (RIS), to understand and manage the risks to taxation. They gather information and intelligence from within and outside the UK. This is analysed, risks and threats assessed, and leads to risk and intelligence products for HMRC's internal partners, including a single HMRC national risk overview. Risks relating to repayments are included where appropriate in this approach.

HMRC track the percentage of interventions that produce tax yield, distinguished by types of taxpayer and types of intervention. The nature of repayment error and fraud makes it more difficult easy to provide reliable and effective information around actions aimed at curtailing it.

HMRC monitor trends in repayments by a variety of criteria (eg absolute value, numbers, distribution by value and in some regimes by trade sector or location). This includes reviews of intelligence (both sensitive and other) and third party information (such as reports from financial institutions of potential money laundering).

Ireland

Recently deployed an enhanced performance and monitoring system which records the outcome of verification checks implemented for personal and corporate income tax refunds processing as part of the Lean Six Sigma review. This monitoring system should, in time, inform an assessment of the effectiveness of our operational risk detection processes.

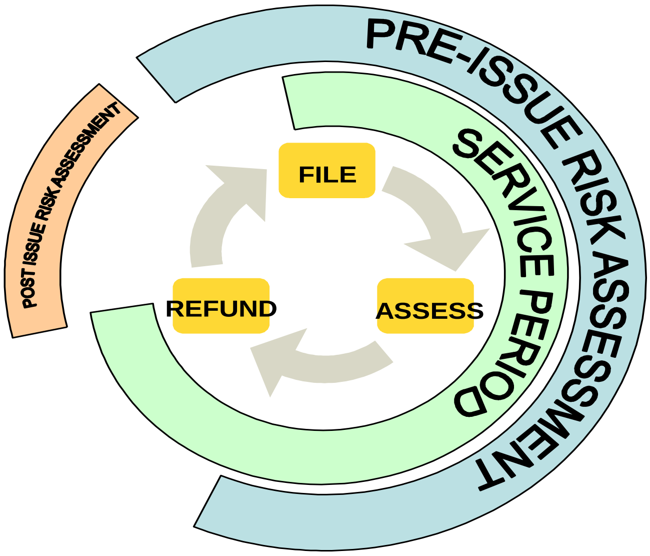
Repayment Service

107. Refund service delivery encompasses the process from determination of taxation repayable to verification of refunds subsequent to issue and imposition of penalties. The key step in this process, where the community is concerned, is the payment of the refund to the taxpayer, however the service process includes steps prior to and following this.

108. Figure 4 represents the scope of the repayment process. It illustrates the significant overlap of the repayment service period and associated pre-issue repayment risk activities. This overlap is the potential source of tension in repayment systems - between the timely provision of service (service period) and the compliance interventions generated from pre-issue risk mitigation activities.

109. Between filing or claim cycles there is a time period available to the revenue bodies to undertake post issue risk assessment activities and preparatory work in anticipation of the next filing period. Where the filing, or claim, cycles are shorter, (for example, VAT compared with PIT) it imposes further constraints on the capacity of revenue bodies to identify and respond to changes to maintain contemporary repayment settings between cycles. Similarly, reductions in the service period resulting from improvements in service delivery, including electronic filing and processing, could further increase the pressure on revenue bodies' pre-issue repayment risk capabilities.

Figure 5 - Repayment process cycle



110. The effective management of repayment service delivery, across all tax types, hinges on three key factors: 1) reducing the barriers for taxpayer engagement with revenue bodies; 2) the timely payment of refunds to the community; and 3) certainty of repayment.

111. The ease of engagement is increased by streamlined filing and repayment processes and is consistent with the generally held view that making processes easier and cheaper for taxpayers has a positive influence on their voluntary compliance. It is reasonable to propose that the less intervention or manual processing required in the repayment process, the more expedient the delivery of repayment to the taxpayer.

> *'Revenue bodies' plans give primary emphasis to reducing taxpayers' compliance burden, with improved operational efficiency as a clear secondary goal; a clear majority of revenue bodies signalled increasing the range, quality, and take-up of their Internet-based services as their number one priority.'*[22]

112. The presence of verification activity prior to the issue of repayments (all participating revenue bodies reported this as a feature of their repayment systems) adds potential to adversely impact the timeliness of the repayment service, and in some instances generate additional interactions.

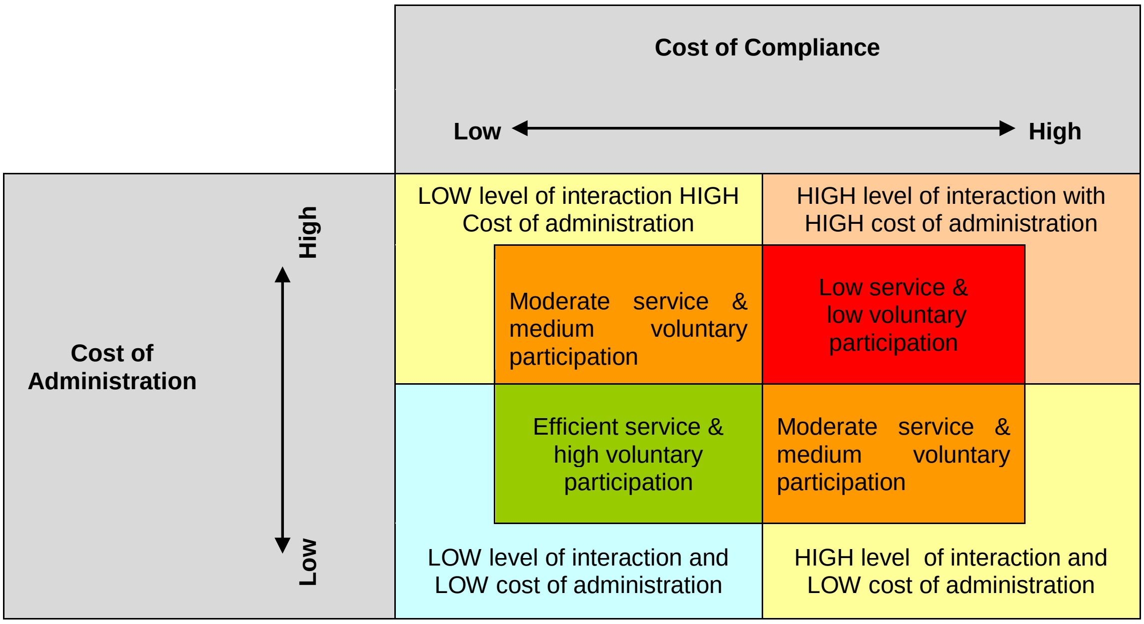
113. In respect of certainty, the service reputation of revenue bodies is impacted by the accuracy of their interactions with the community. In order to maintain confidence levels and meet community expectations, revenue bodies aspire to minimise inaccuracies in the distribution of repayments.

114. The matrix model below in Figure 5 provides a simple illustration of the relationship between costs of compliance and administration, standard of service, level of interaction and potential impact on voluntary participation. It demonstrates that as the cost of compliance for taxpayers and level of administration required increase, the impact to service delivery will increase and voluntary participation will decline.

---

[22] *'OECD Survey of Trends and Developments in the Use of Electronic Services for Taxpayer Service Delivery, March 2010,'* pg 5

Figure 6. Balances in interaction and cost in repayments administration



115. Whilst participation and service levels are enhanced through the implementation of strategies and service channels which simplify the administrative burden on taxpayers, the opposite impact is that opportunity for misuse is also increased. The majority of participating revenue bodies report that electronic filing services are increasingly the targets for more organised and larger scale fraud threats. Common security mechanisms include electronic filing services with high strength authentication requirements, via a known trusted third party and/or secure channel.

Repayment Service Delivery and Performance

116. At the basic level, a common service deliverable noted by the revenue bodies is providing taxpayers with ready access to information and assistance. The use of technology provides opportunities for improving taxpayer accessibility to that information. Revenue bodies are able to pursue further opportunities for providing more tailored information (information specific to taxpayers' circumstances) and services and ultimately integrating service and compliance improvement efforts through technology enabled channels.

117. Key benefits derived from the use of electronic filing and processing methods are improved data accuracy and an increase in the proportion of returns not requiring manual intervention. Additionally return data is provided in a form that enables more efficient validation and verification processes.

118. Some innovative uses of electronic channels were presented by revenue bodies including:

- the ability for taxpayers in Spain to confirm acceptance of the revenue body prepared income tax assessment via SMS, and

- taxpayer portals such as the Canadian online service 'My Account' allowing individuals to track their refund, view or change their return, check their benefit and credit payments and set up direct deposits.

119. Some revenue bodies indicated differentiated service standards based on filing and payment channels in an attempt to persuade taxpayers to take up electronic services. It is recognised that the shift to electronic services generally allows improvements in service delivery and also proves to be more efficient and cost effective for both the tax regime and the taxpayer. Some revenue bodies administer a set of incentives to encourage e-filing usage (refer Table 9).

Table 9. Trends in taxpayer service delivery using new technologies

Country with electronic filing take-up >30%	Incentives or inducements introduced or planned							
	Faster refunds	Longer filing	Reduced return data	Mandatory	Free use of filing software	On line help facility	Mail out promos	Monetary incentives
Australia	✓	✓			✓	✓		
Canada	✓				✓	✓		
Ireland	✓	✓	✓		✓	✓		
USA	✓	✓	✓		✓		✓	

Source – abridged Table 18 *'OECD Survey of Trends in Taxpayer Service Delivery Using New technologies (2005)'*

120. A number of participating revenue bodies offer significant variations in the service levels attributable to filing channels. As illustrated in Table 13 (at para. 145), Australia, Canada, Ireland and the USA have implemented distinct service standards for paper and electronic filing, with considerably earlier finalisation expected for electronically filed returns and all show increases in the take-up rate of electronic filing services (Refer Annex 2).

121. Australia, France, Ireland, The Netherlands, Spain, Turkey and USA have mandated electronic filing for some segments of their return filing taxpayer populations (Table 10). Australia, Canada, Ireland and the U.K. have indicated an intention to further expand mandating over the next three years (Table 11).

122. Taxpayer segments targeted for mandating electronic filing are usually large and/or business taxpayers indicating an approach driven more by revenue collection than repayment benefit. However, these sectors may also have greater technology capability in use in their normal business operations enabling an easier transition to electronic filing (refer examples in Box 23 and more elaborated details at Annex 3).

Table 10. Existing mandatory electronic filing requirement

(e-filing is mandated for these return/report types in 2009—yes (✓))

Country	Personal income tax	Corporate income tax	VAT	Employer income reports	Other 3rd party reports
Australia	-	-	✓	-	-
Canada	-	-	-	✓	✓
France	-	✓	✓	-	✓
Ireland	-	✓	✓	✓	-
Korea	-	-	-	-	-
Netherlands	-	✓	✓	✓	✓
Spain	-	✓	✓	✓	-
Turkey	✓	✓	✓	✓	✓
UK	-	-	-	✓	-
USA	-	✓	-	✓	✓

Table 11. Return/ report categories to be newly mandated in next 3 years

Country	Personal income tax	Corporate income tax	VAT	Employer income reports	Other 3rd party reports
Australia	-	✓	-	✓	✓
Canada	-	✓	-	-	-
France	-	-	-	-	-
Ireland	-	-	-	-	✓
Korea	-	-	-	-	-
Netherlands	-	-	-	-	-
Spain	-	-	-	-	-
Turkey	-	-	-	-	-
UK	-	✓	✓	-	-
USA	✓	-	-	-	-

Abridged extracts from *'FTA Survey of Trends and Developments in the Use of Electronic Services for Taxpayer Services Delivery March 2010'*

Box 23. Mandatory electronic usage

Australia: VAT (GST) – businesses with a GST turnover greater than $20 million must report and pay GST electronically every calendar month.

Canada: Recently announced mandatory electronic filing requirements for GST/HST filers – initially targeted to a select group, most of whom have reliable internet access. For those who don't, the requirement is to file "electronically" which includes an option to file over the telephone.

France: Mandating for businesses with large turnover to deal electronically. In October 2010 the turnover threshold above which VAT returns and payments must be electronic will be reduced from €760,000 to €500,000 then to €230,000 in October 2011.

Ireland: Introduced mandatory e-filing and e-paying (including mandatory repayments by electronic means) for larger companies and all public bodies. There are plans to extend the mandatory regime in 2011. Repayments are made by EFT for all corporation tax cases, VAT cases, mandatory e-filing cases and is currently a voluntary option for all other taxpayers.

The Netherlands: Compulsory for VAT taxpayers to send their VAT return electronically.

Spain: Electronic submission is compulsory for monthly VAT refund system, large enterprises, public and private limited companies. The return to declare intra-communitarian acquisitions and deliveries is also compulsory in cases that contain over 16 entries.

United Kingdom: From April 2011, all corporation tax returns will be delivered on line with electronic payments. The longer term aim is by 2012 to have universal electronic filing of tax returns from businesses and IT literate individuals.

USA: Congress has established goals for the percentage of returns filed electronically. The Workers Homeownership Business Assistance Act (WHBAA) of 2009 requires tax preparers who file 10 or more returns to file electronically.

Income Tax Repayment Service Delivery and Performance

123. With income tax in general, service pressures are exacerbated during peak annual filing periods. To the extent that revenue bodies are able to offer taxpayers staggered filing due dates they may be able to distribute or smooth out their peak workloads. However, taxpayers expecting a repayment outcome from the filing of their return are likely less influenced by the filing due date than by the choice of the earliest and most convenient opportunity to file a claim. Consequently, repayment claims are likely over-

represented in revenue bodies' seasonal peaks early in the filing period and pose a challenge to revenue bodies meeting repayment service standards during that period.

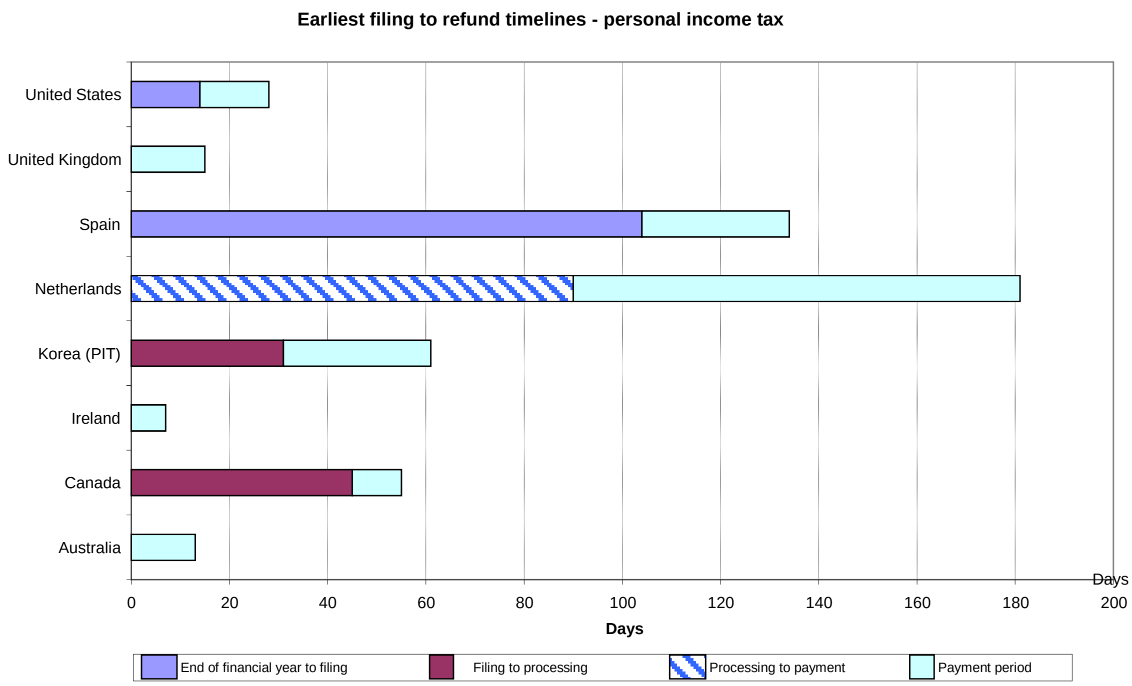
124. Service pressures may also be influenced by the size of the repayment. As illustrated in Figure 6 those countries which have on average lower value repayments (refer Table 1) generally have comparatively longer service periods. There are a few exceptions to this, particularly The Netherlands.

125. Direct comparisons of the revenue bodies' income tax repayment service standards are not sufficient to distinguish between higher and lower service levels. Present in the operation of a number of the participating countries income tax regimes is a period between the end of a fiscal year and the earliest date that returns can be filed or commencement of processing of repayments. The term 'repayment service period' is used to define the combined timeframes.

126. Figure 6 illustrates combined timeframes of the participating revenue bodies' 'repayment service period' as it would present at the end of a fiscal period (Day_0).

- USA and Spain have defined periods after the end of a fiscal year before taxpayers are permitted to file.
- Korea and Canada have prescribed periods before they commence processing of filed claims.
- The Netherlands has a distinct period before they commence issuing repayments; final claims are made in tax returns which are due before 1st of April. Whoever files before 1 April will receive notice of repayment before 1 July.

Figure 7 - Personal Income Tax Service Period Comparison



127. As shown there is considerable diversity in the character and duration of notional repayment service periods across participating revenue bodies. Canada and Korea (personal income tax) provide

taxpayers with access to file claims immediately after the end of the income year but do not commence processing immediately.

128. The period between the end of the income year and the earliest date of commencement of repayment processing provides revenue bodies with an opportunity to prepare and gather data and information to increase the certainty and accuracy of repayments. Spain reports that this period is critical to ensure their comprehensive collection of relevant withholding and other third party data necessary to support the generation of revenue body prepared assessments and validation of claims.

129. Taxpayers in the United Kingdom, Ireland and Australia are able to file immediately after last day of the income year, when their respective processing cycles commence.

VAT Repayment Service Delivery and Performance

130. VAT regimes generally demand shorter repayment service standards. This is due to the increased frequency of filing and the direct impact of VAT repayments on business cash flow. In the majority of instances participating revenue bodies report the average value of VAT refunds being larger than those in the personal income tax regime adding further pressure.

131. The majority of the participating revenue bodies operate VAT registration thresholds. In depth discussion of the choice of thresholds and selection of appropriate settings is outside the scope of this study but references in Box 24 reflect the views as expressed in International Tax Dialogue 2005 Background Paper *'The Value Added Tax Experiences and Issues' and International Monetary Funds Working Paper 'VAT Refunds – A Review of Country Experience'*.

Box 24. VAT Registration Thresholds

The level of the threshold at which registration for the VAT becomes compulsory is a critical choice in the design and implementation of the VAT. Experience suggests that many countries have tended to set the threshold too low, putting themselves in considerable difficulty when their tax administration is found to be insufficiently developed to administer a large VAT population. *(Pg16)*

There is considerable variation across countries in the level of the VAT threshold, ranging from a few thousand dollars to over US$200,000. Even within the European Union, where there is a common legal framework governing the VATs of Member States, the threshold levels vary from zero to approaching US$100,000. There is also significant variation in the form that thresholds take and in the extent and nature of related measures. In addition to the most common case of a single threshold, variations include: different thresholds for different activities; sliding adjustments to the tax liability of entities below the threshold to smooth the discontinuity around the threshold; and the application of simplified schemes, such as a presumptive tax, to the smaller traders below the threshold. *(Pg16***)***

A tax authority's ability to administer the VAT effectively—including the processing of refund claims—is influenced by the level of the threshold for compulsory registration. Experience suggests that many countries have tended to set the threshold too low, finding themselves in difficulty when the capacity of their tax administration is found to be insufficient to manage the number of registered taxpayers. A recommendation frequently made by FAD, therefore, is to regulate the number of VAT taxpayers (by adjusting the VAT registration threshold) at a level that can be realistically managed by the tax administration. This means that, where administration is weak, a high VAT threshold should be maintained until such time as the tax authority's capacities are developed to enable it to administer a larger number of VAT taxpayers in a self-assessment environment (i.e., until such time as the tax authority is organized appropriately, has adequate resources and systems, and has established effective enforcement and service programs). *(Pg24)*

The number of VAT payers should be kept at a level that can be realistically managed by the tax administration. A high VAT registration threshold should be maintained until the tax authority is sufficiently developed to administer a larger number of VAT payers and refund claimants in a self-assessment environment. *(Pg35).*

132. In context of VAT repayments, the impact of a registration threshold minimises the number of registrants and consequently has a positive influence in reducing the likelihood of repayment risk. However, businesses operating below any compulsory registration threshold are often able to voluntarily register. It is reasonable to conclude that those expecting repayments have a greater incentive to do so.

133. The majority of participating revenue bodies administering VAT use differentiated frequency of filing (bi-monthly, monthly, quarterly, annually). Generally, large businesses are required to file more frequently than small. It is likely the settings are more heavily influenced by VAT collection than repayment. However, in the context of VAT repayments, different filing frequencies can reduce the number of refunds and consequently provide some reduction in associated repayment service pressures.

134. VAT filing requirements vary across the participant countries. A summary is contained in Table 13. As an example, when comparing the United Kingdom and Canada VAT registrants relative to their respective populations (almost 61 million (U.K) and 33 million (Canada) the influence that registration thresholds have on the number of VAT registrants and potential repayment claimants is apparent.

135. The frequency of return filing requirements impacts on three key components of repayment service delivery design. In particular, the regularity of filing for VAT returns restricts the timeframes available to revenue bodies to achieve the following:

- identify, assess and treat risks to repayments and illegitimate behaviour within timeframes which support the achievement of requisite service levels
- ensure timely collection of VAT within policy and administrative frameworks , and
- minimise detrimental impacts on taxpayer cash flow through timely and accurate distribution of legitimate repayments to taxpayers.

136. In Australia, the return incorporates the filing requirements for a number of business taxation obligations including, in addition to VAT, Income Tax Withholding and Fringe Benefits Tax. Referred to as 'Business Activity Statements' (BAS) the simultaneous gathering of information to enable assessment of multiple business taxation liabilities expedites the process to calculation, offsetting and payment of any applicable refund amounts for these tax types. It also minimises the administrative burden to business taxpayers.

Table 12. VAT repayment service/performance benchmarks for participating countries

Country	VAT registration threshold (€)	Number of registrants (m)	General VAT return filing frequency	Processing VAT returns with refunds	
				Benchmark	Performance (2007)
Australia	€52,000	2.6	Quarterly	90% in 14 days (92% if e-filed)	92.5% (95%)
Canada	€23,100	2.7	Monthly	95% in 21 days	98.50%
France	€76,300 €27,000 (s)	3.9	Monthly	80% in 30 days 100% in 60 days	90% (93.4% in 2009) 61.7 days (2009)
Ireland	€70,000 (g) €35,000 (s)	0.3	Bi-monthly	Not available	
Korea	Zero	4.5	Quarterly	Early refund within 15 days; Normal refund within 30 days	Not available
Netherlands	Zero	1.11	Monthly	Within 6 months	Not available
Spain	Zero	3.1	Quarterly	Spanish law establishes 6 months	Average 40 days
UK	€80,000	1.9	Quarterly	90% of correct repayments within 10 working days	Not available
USA	Not applicable				

Source: Abridged extract from OECD 2008 Comparative Series – Tables 19(a), 34 & 41

Repayment Education & Information

137. Participating revenue bodies have reported a significant move to electronic filing of returns. The progression to electronic mediums is also evident in supporting the timely delivery of education and information material to taxpayers. Whilst not a strategy specific to repayments, the enhanced provision of information adds value to the client experience by reducing ambiguities in respect of responsibilities and obligations. It also provides guidance in respect to the application of relevant legislation and policies. This, in turn, expedites the repayment progress through the mitigation of risks. Examples include:

- Targeted pre-filing advice to taxpayers to influence their return preparation, for example warning them they are in higher risk areas either by industry/occupation, and
- Published compliance plans.

138. Participating revenue bodies reported a clear trend towards targeted service initiatives directly related to key taxpayer segments or groups. They have identified the advantages of engaging directly with key taxpayer segments to improve service delivery by enhancing awareness, reducing errors and, consequently reducing the risk to repayments. Common taxpayer segments included new to business, large businesses and taxpayers represented by intermediaries.

139. New businesses are identified by the revenue bodies as requiring specific service attention due to their limited knowledge and experience in participating in the business tax environment. The resultant impact of this inexperience leads to a higher incidence of errors requiring attention or intervention, which in turn contributes to delays in issuing any associated repayments.

140. The Netherlands reported operating a new business service for VAT registrants. NCTA were faced with the number of new businesses doubling over the past four years. The NTCA seeks out opportunities to inform, guide and advise new entrepreneurs as soon as possible and has found that this significantly enhances their willingness to comply with their tax obligations, improving the service delivery capacity of the NTCA. Box 25 demonstrates the NTCA approach to new businesses.

Box 25. The Netherlands new business approach

VAT

Starting a business is also an event that requires the NTCA's specific attention. The number of people starting a business has almost doubled over the past four years, from 54,000 in 2003 to 102,000 in 2007. The Tax and Customs Administration wants to inform, guide and advise new entrepreneurs as soon as possible. This significantly enhances their willingness to comply with their tax obligations.

Tax and Customs Administration regions focused on new starters in 2008, using special initiatives:-

One tax district, for example, in cooperation with the Chamber of Commerce set up a low-threshold office near the predominantly immigrant districts. Future entrepreneurs can register there, walk-in consulting hours are available and thematic meetings are held about subjects such as keeping accounts.

Another tax district assesses new entrepreneurs' fiscal risks using criteria such as business plans and credit worthiness. This serves as a basis for subdividing starting entrepreneurs into categories requiring varying degrees of attention.

Throughout the past years, tax districts all over the country organised well-attended new starters' meetings. Visitors received information about taxes, marketing, business planning and other subjects of importance for entrepreneurship.

At the same time the NTCA has a strategy to visit start up companies to check for fraud risks; these visits are not as much aimed at service but at determining risk levels (for example if the VAT taxpayer has been involved in fraud before or if there is a signal from international sources or the Chamber of Commerce). For example visits to "re-start" companies which had previously been identified as a potential fraud risk.

Income Tax

The NTCA undertakes a large number of visits to companies, particularly start-up companies, recognising that information in advance helps new businesses in preparing correct tax returns and saves in administrative time and effort dealing with incorrect returns. New business is a growth area and this poses a considerable challenge for the NTCA as the quality of their returns is often insufficient due to a lack of knowledge resulting in mistakes. Visits to companies address issues of service provision and prevention. They are informed of their obligations and visits are often carried out in collaboration with other parties such as Chambers of Commerce and other fiscal intermediaries.

141. All revenue bodies advised their administrations had existing departments focussed on Large Business taxpayers (income tax and VAT). It was acknowledged that the primary purpose of these Large Business departments was not repayment service. However, the importance of the segment and the size of repayments generated meant the Large Business departments play an active role in supporting the repayment process for their large business taxpayers.

Repayment Service Activities and Programs

142. All participating revenue bodies reported promoting a client service ethic in their organisation. The philosophy is one applied broadly to general tax administration translating in the context of repayments, to a focus on ensuring the timeliness and certainty for the taxpayer.

143. Key objectives common across revenue bodies include: 1) repayment client service outcomes centred on timeliness and certainty in outcome; 2) transparency and accountability in repayment service standard performance, and 3) minimising the cost of taxpayers meeting their tax obligations.

144. In order to achieve these objectives, revenue bodies reported that they pursue repayment services that minimise barriers to engagement and improve the timeliness of repayment processes. These include: 1) repayment process improvement; 2) targeted marketing and education; 3) implementing and enhancing electronic filing and payment services; 4) promotion and incentives to increase the use of electronic filing and payment systems.

145. Good repayment services are characterised by the timeliness and accuracy of repayments. Taxpayers' expectations of the timeliness of refunds are influenced by the published repayment service or benchmark standards, together with their personal experience with the revenue bodies' repayment systems (refer examples in Table 13).

Table 13. Published Personal Income Tax Service Standards

Country	Processing Personal Income Tax Returns (Paper)		Processing Personal Income Tax Returns (e-filed)	
	Service Standard	Performance	Service Standard	Performance
Australia	90%/80% in 42 days	89.6% (2008) 91.9% (2009)	82%/90% in 14 days	96.1% (2008) 96.1% (2009)
Canada	100% in 4-6 weeks	4.1 weeks (2008) 4.0 weeks (2009)	100% in 2 weeks	1.7 weeks (2008), 1.6 weeks (2009)
Ireland	80% in 10 working days; 100% in 20 working days	10 days: 64% (2008); 87% (2009) 20 days: 84% (2008), 95% (2009)	100% in 5 working days	76% (2008) 87% (2009)
Korea	100% in 30 days	Not available	100% in 30 days	Not available
The Netherlands	Minimum of 3 months (taxpayers who file before 1 April will receive notice of (re)payment before 1 July	99.3%	Minimum of 3 months (taxpayers who file before 1 April will receive notice of (re)payment before 1 July	99.3%
Spain	Legislated period is 100% in 6 months with corporate objective of 1 month	27 days (2007) 23 days (2008)	Legislated period is 100% in 6 months with corporate objective of 1 month	27 days (2007) 23 days (2008)
UK	60% of tax credit payments in 15 calendar days	Not available		
USA	100% in 6 weeks (1 week less if direct deposit of refund)	Not available	100% in 2 weeks (1 week less if direct deposit of refund)	Not available

Source: Country project data

146. The majority of published refund service standards of participating revenue bodies reflect the time period relevant to processing those repayments which require a low level or no manual intervention or review before they are paid (refer Box 26). This raises the potential for conflict between a taxpayer's expectation of repayment service and their actual experience where their refund is delayed. This conflict results in increased levels of taxpayer enquiry about the progress or current status of repayment claims (increased interaction) and potential increased risk of complaint.

Box 26. Repayment Service Standard Statements

Direct quotes of participating revenue bodies' refund service standards that illustrate they apply to straight forward repayments

Australia (Income Tax & GST (VAT)): If you lodge an income tax return or fringe benefits tax return, we'll aim to process:

- electronic returns for individuals within 14 days of receipt in the ATO
- paper returns for individuals within 42 days of receipt in the ATO
- electronic returns for taxable non-individuals within 14 days of receipt in the ATO
- paper returns for taxable non-individuals within 56 days of receipt in the ATO.

If your return is incomplete, incorrect, needs checking or relates to a prior year, it may take us longer to complete the process.

If you lodge an activity statement, we'll aim to process:

- credits within 14 days of receipt in the ATO
- electronic debits within 14 days of receipt in the ATO
- paper debits within 42 days of receipt in the ATO.

If your activity statement is incomplete, incorrect or needs checking, it may take us longer to process.

Canada (Personal Income Tax): We usually process paper returns in **four to six weeks** and EFILE, NETFILE, and TELEFILE returns in **two weeks**. (**Some exceptions apply**. Please see our Web site at www.cra-arc.gc.ca/reviews/ for more information.)

Ireland (Online services): We will deal with claims for tax credits or tax refunds or offsets made through ROS within 5 working days (except where a claim is selected for routine checking).

United Kingdom (VAT): HMRC aims to authorise payment of at least 90 per cent of correct repayment returns within ten working days of their receipt.

United States of America (Personal Income Tax): If you file a complete accurate tax return, your refund will be issued within six weeks from the received date.

147. Service risks can be further exacerbated where revenue bodies do not have a defined service standard for repayments subject to manual intervention or review. This appears to be the situation in the majority of participating revenue bodies. Mitigation usually involves issuing prompt advice to taxpayers advising that their repayment claim is under review.

148. Repayment service standards vary with the type of tax. The standards for VAT refunds are generally higher than those for income tax reflecting the higher frequency of filing and the direct impact they can have on business cash flow.

Electronic Functionality and Technology

149. There are two key streams in the electronic and technological service initiatives implemented by participating countries. Specifically, they are electronic channels for service, and pre-filled returns.

150. The use of technology and electronic service to improve service delivery is common practice among participating countries. The majority of service initiatives target general administration and interaction with the tax system and are not specific to repayments. However, the shift to electronic services allows improvements in the processing of returns. This improves service delivery by enabling revenue bodies to deliver higher levels of service at a lower cost to taxpayers and to revenue bodies. This progression was originally presented in the OECD report on electronic services and the responses received from the countries participating in this project regarding the take up rate of electronic services.

151. At a general level, effective service delivery is reliant on the ability to provide taxpayers with timely access to information and assistance. The use of electronic technology enhances accessibility to information and assistance, developing capacity to provide more advanced information and services over time, .ultimately integrating service and compliance improvement efforts.

152. Advancements in electronic filing channels have broadened the scope for interactions with taxpayers considerably. In Spain, pre-populated returns can be confirmed over the internet, via SMS, through a call centre or in person at their offices. Personal income tax returns can be submitted over the internet, in banks or in public registers.

153. Similarly, the Canadian online filing service ‘My account’ allows individuals to track their refund, view or change their return, check their benefit and credit payments and set up direct deposits

154. The move towards electronic returns for income tax provides opportunities for achieving compliance and integrity priorities in a timely manner, shortening the applicable service window. In Australia, electronic returns require taxpayers to verify their identity through provision of personal details, compared with returns filed in paper format which require verification post filing by the revenue body. Electronic filing also allows for income tax returns filed by agents to be verified through use of their professional accreditations and provides digital certificates to securely log onto the Tax Office systems to file returns.

Electronic Filing for Income Tax

155. Across revenue bodies electronic initiatives implemented in respect of personal income tax demonstrate a clear intent to progress pre-filling of personal income tax returns as a strategy to improve service delivery. Absence of large scale withholding means pre-filling activities have limited scope for corporate income tax populations and services.

156. The success of various revenue bodies in encouraging taxpayers to adopt electronic channels is highlighted in Table 14 below:

Table 14. Use of electronic filing for Personal Income Tax

COUNTRY	Year begun	Rate of e-filing		% move in e-filing 2004/2008	e-filing target & year
		2008	2003/4		
Australia	1990	88	80	8	95(2009)
Canada	1992	54	48	6	+2%/year
France	2001	19	4	15	24(2009)
Ireland	2001	75	40	35	
Korea	2004	81	35	46	
The Netherlands	1996	85	80	5	100
Spain	1999	41	9	32	43(2009)
Turkey	2005	99	0	99	100
United Kingdom	2000	66	13	53	75(2010)
USA	1986	58	40	18	80

Full Tables at Annex 2

157. Participating revenue bodies, within their respective legislative environments, have implemented initiatives to encourage the use of electronic filing channels and payment options. In advancing towards a streamlined process which minimises administrative impositions on taxpayers, participating revenue bodies are exploring the introduction of pre-filled tax returns. The efficacy of this approach is subject to administrations' timely access to the data in order to provide it to the taxpayer.

158. The potential for electronic services to reduce costs of compliance and administration is a significant driver of their increasing use. Those services often go through a series of iterations, each aimed at making improvements to lower cost of compliance and administration settings. This path is illustrated in the maturity model of pre-filling capabilities contained in the OECD Survey of Trends and reproduced below (Figure 7).

Figure 8 - Pre-fill maturity model

Diagram 3. Maturity model of pre-filling capabilities

LEVEL OF PREFILLING		CAPABILITY DESCRIPTION	LEVEL OF BENEFITS
BASIC (LIMITED)	1	A paper form pre-filled with limited taxpayer identity &/or history information	MINOR
	2	An electronic form pre-filled with limited taxpayer identity &/or history information	
	3	A paper form pre-filled with taxpayer identity &/or history information & limited income/deduction & credits information	
	4	An electronic form pre-filled with taxpayer identity &/or history information & limited income/ deduction/ credits information	
	5	A paper form pre-filled with taxpayer identity &/or history information & most/ all income/deduction & credits information	
	6	An electronic form pre-filled with taxpayer identity &/or history information & most/ all income/deduction/ credits information.	
ADVANCED (COMPLETE)	7	Full automation (enabling elimination of original process)	MAJOR

Source: 'Survey of Trends and Developments in the Use of Electronic Services for Taxpayer Service Delivery,' (March 2010), p.31

159. The level of pre-filling occurring across OECD nations is continuing to mature, with revenue bodies implementing more sophisticated methods by which to provide reliable information to taxpayers at the beginning of the return filing process to assist in the preparation of their returns.

160. Analysis of responses provided shows a broad spectrum of maturity in relation to pre-fill technologies. For example, the Canadian Revenue Agency utilises pre-fill technology to make information available to a taxpayer to use in the preparation of their return. The pre-fill framework utilised in Spain by comparison, is sufficiently advanced to prepare a pre-populated return without input from the taxpayer, resulting in the filing requirements being limited to checking and submitting the pre-populated return. This clearly delivers a significant reduction in the administrative costs for taxpayers and enhanced service through improving the accuracy and certainty attributed to information contained in filed returns. Box 27 presents The Netherlands' approach to pre-filling.

Box 27. Netherlands Pre-fill approach

Improving the quality of tax returns

The established process of levying income tax starts with a tax return that has to be completed and filed by the taxpayer. In this return NTCA asks for data regarding the taxpayer's income. Third parties would be able to supply this data to the NTCA, thus reducing the burden on taxpayers and the risk of incorrect data (fewer errors).

Therefore the NTCA is developing a process of obtaining data from third parties and putting this data before taxpayers in order to check. Third party data is no longer used as contra-information but is presented to the taxpayer as a service. The NTCA is developing the pre-completed tax return (see below) and intends to increase the level of quality regarding third party data.

Good practice: Pre-completed tax return

In 2009 the income tax return (2008) has been made available to private taxpayers, for the first time, in a pilot project encompassing all taxpayers concerned, using pre-completed data. Only a limited amount of data was deemed to be of sufficiently high quality to be pre-filled. These are data on wages and the value of private homes. In future years this will be extended to other data, such as data from banks, insurance companies etc.

The pilot project has yielded excellent results. As the pre-completed tax return is still under construction no definite data exists yet regarding capacity-issues. The expectation is however that capacity currently used to correct calculating errors and other mistakes in tax returns can and will be put to more effective use in assisting taxpayers who need supervision. It should be kept in mind though that effort also has to be employed towards gathering high quality data from third parties.

161. There is a critical dependency on the timely availability of relevant data for revenue bodies to pursue pre-fill initiatives. The provision of any third party data must be managed within the privacy constraints of each jurisdiction, impacting on the availability and timeliness of accessing such information.

162. Revenue bodies are also investigating other sources of third party data which may add value to the pre-filling process, including details of consumption or purchases, sales and capital transactions.

163. The use and maturity of pre-filling is mainly evident in income tax rather than in VAT given the nature of VAT regimes generally and the associated requirements. The availability of third party data for VAT purposes is challenged by the collection of such a vast array of data and the associated timeliness of any data collected. In addition, VAT returns are, by nature, more frequent (often monthly or quarterly rather than yearly for income tax) so present a more difficult challenge regarding data collection and use.

164. One example of a development in this area is Korea's Simplified Year-End Settlement system for wage and salary earners (introduced in 2009). This allows eligible taxpayers to settle their tax withholdings and claim refunds at the end of the year. For their deductible items, taxpayers were previously required to collect the information and documents themselves to submit to the NTS. Now, these are provided via the NTS internet and taxpayers can log into their NTS web accounts and download the records relating to all their deductible spending from a single webpage. In 2009, 91.9% of all filers of wage and salary returns used this service to claim refunds.

Electronic Filing for VAT

165. Although the take-up rate is much lower, the trend toward increased electronic filing is also present for VAT. Table 15 provides an overview of the use of electronic filing for VAT and the level of take-up for VAT returns.

Table 15. Use of electronic filing for VAT

Country	Year begun	Rate of e-filing		% move in e-filing 2004/2008	e-filing target & year
		2008	2003/4		
Australia	2000	46	26	20	50(2009)
Canada	2002	22	2	20	-
France	2001	19	3	16	20
Ireland	2000	40	6	34	-
Korea	2000	75	24	51	-
Netherlands	2005	100	0	100	-
Spain	1999	71	9	62	
Turkey	2005	99	0	99	100(2009)
United Kingdom	2003	14	1	13	37(2010)
USA	not applicable.				

Source: Abridged table from *'FTA Survey of Trends and Developments in the Use of Electronic Services for Taxpayer Service Delivery (March 2010)'*

166. It should be noted that some of the high take-up rates for VAT can be attributed to mandatory electronic filing. Turkey's high result may be attributed to the move towards mandatory filing in 2008. In Turkey 99% of taxpayers now present their returns (income, corporate, withholding and VAT) electronically with 25 banks and post offices enabling electronic filing.

167. Whilst the advancement of pre-filling is central to personal income tax service delivery there are very few examples of movement towards pre-fill within VAT. Generally speaking, given the high volume and business-to-business nature of transactions relevant to VAT regimes, revenue bodies are unlikely to have ready access to a reliable and common source of relevant data. The lack of availability of comprehensive information in real time is a barrier to most countries in advancing pre-fill technologies for VAT returns.

168. Korea has had some success in implementing an e-file facility for the electronic recording of invoices which provides some facility for taxpayers to draw on the data to assist in their return preparation. Korea provides a number of financial and non-financial incentives to encourage taxpayers to adopt the facility. The use of direct financial incentives combined with very high levels of technology literacy and use across their taxpayer populations is unique to Korea and probably limits the opportunity for other revenue bodies pursuing an equivalent approach.

Alternative Payment Options

169. Another key development area within repayment service delivery is the availability of alternate repayment methods. Whilst electronic repayment methods were preferred by all of the participating revenue bodies, there is significant breadth in the alternate destinations for repayments.

170. All countries involved in this project, to varying degrees, have offsetting of refunds against other liabilities, including other government agency debts. However, some participating countries have implemented structures to enable dispersal of refunds to alternate accounts nominated by the taxpayer.

171. The USA allow taxpayers to request refunds in the form of US savings bonds or direct refunds into separate bank accounts and retirement accounts. The benefit of these alternative options from a service

perspective is that they provide a degree of flexibility and choice and may improve the timeliness of the repayment due to payment being made to a less risky destination.

172. Similarly in the United Kingdom, income tax self assessment customers can nominate charities to receive their repayments, or indeed any nominee they choose. The UK advises that the use of nominees presents risks that require management.

173. The provisional assessment for income tax in The Netherlands can result in the payment of refunds during the tax year. These provisional refunds, upon application, result in repayments on a monthly basis and apply to deductions and credits such as mortgage interest for principal residence, alimony payments, monetary gifts, general and specific tax credits. Once a provisional assessment has been applied for, the NTCA will automatically continue to issue this refund, also in following tax years, unless taxpayer circumstances change. The provisional refunds are then taken into account at the end of each tax year when the tax return is lodged.

174. In France, for VAT credits, businesses can choose to carry a VAT credit over to subsequent tax periods. As soon as possible, the credit is then offset against a VAT balance due on the basis of future tax returns.

175. In Ireland, a tax relief at source policy/process reduces the number of refund claims received so that more attention can be given to verifying claims. This system allows credit for two of their most common credits (mortgage loans and medical insurance payments) to be applied to the benefit of the taxpayer at the time they make such payments.

176. In Australia, the ATO issues ‘pre-printed’ business activity statements to business taxpayers personalised to the extent of identifying the specific tax obligations relevant to the taxpayer and, in some instances, pre-populating the instalment liability. The Business Activity Statements (BAS) incorporates a number of taxation filing obligations and, as such, where a net GST (VAT) credit arises it is offset against any other tax liability reported on the statement.

177. The composite return of the BAS enables taxpayers to interact for multiple tax obligations in a single transaction for the relevant period. This provides an improved service experience by reducing the number of filing and payment interactions for the taxpayer. The offsetting of credit arising in one tax type with liabilities in others in the same period likely minimises short term impacts on business cash flows.

178. Whilst the benefits of composite business taxation reporting and filing are apparent, the BAS requires the taxpayer to do the preparatory calculations for all their business tax obligations at the same time. This and the potential for a composite return to be seen as more complex can see taxpayers view it as increasing their administrative costs and potentially seek the services of a tax intermediary to prepare the BAS on their behalf.

Compliance activities and programs

179. Contributing revenue bodies acknowledged that their approach to repayment compliance risk management is aligned to the standard compliance risk management process of the OECD.

Repayment Compliance Operating Context

180. Revenue bodies reported that their repayment compliance philosophy was consistent with their organisation’s overall tax compliance perspective. It is one based on self-assessment and voluntary compliance and a belief that the majority of taxpayers are honest and should be treated accordingly. Canada, as part of their contribution to the study, noted the linking of rights (i.e. refund) to obligations (i.e.

filing a return) as an example of reciprocal responsibility between the taxpayer and revenue body that underpinned the self-assessment system.

181. Taxpayer obligations are summarised into four basic categories:

- registration in the tax system
- filing or lodgement
- reporting of complete and accurate information, and
- paying tax liabilities on time.

182. In the context of repayments the primary obligation of compliance focus is on the taxpayer reporting complete and accurate information. As a general rule, registration and filing obligations are accepted as pre-requisites to a taxpayer being able to access a repayment. The registration obligation is also cited by the contributing revenue bodies as a key risk component, but not in its usual context of taxpayers failing to register. In repayments, compliance concerns with registration are associated with ensuring that only valid, eligible and authentic taxpayers have access to repayments.

183. A contextual element that distinguishes repayment compliance from the more traditional compliance approach is the presence of compliance activities, involving reviewing or verifying filed claims prior to release of the payment (pre-issue activities). These activities feature as the key repayment compliance treatments of all of the participating revenue bodies.

184. Centralised management of the major repayment compliance functions is a common organisational arrangement across participating revenue bodies. However, where revenue bodies reported regional offices engaged in the delivery of repayment compliance activities, they identified as a benefit increased awareness of unique economic or demographic circumstances. An example of this is provided by France, where they reported that parameters in their repayment risk models which are used to determine the major risk targets can be adjusted according to each regional peculiarity.

185. In those participating revenue bodies with responsibility for VAT it was not uncommon for the organisation to have a designated area having responsibility for VAT's overall compliance management. In some instances this was attributed to revenue bodies identifying that tax type as one that required specific attention because of the relative level of risk it posed to their administration.

186. Technology features as critical infrastructure enabling the participating revenue bodies to operate effectively and manage and improve their repayment compliance efforts; in particular, the ability of technology to be used to draw disparate and large scale datasets together and assist rapid sophisticated risk analyses.

III. SIGNIFICANT PRACTICES AND SYNERGIES IN REFUND AND CREDIT ADMINISTRATION IN SELECTED COUNTRIES

187. Those significant practices and synergies that contribute to balancing repayment service delivery and compliance are those which yield improvements or enhancements in both domains.

188. In the more integrated approaches, seeking a balanced outcome is an overt aim from conception through design, implementation and maintenance of repayment improvement initiatives. In those instances where change is driven more from one or other of the service or compliance domains the more significant improvement practices show a sequence or iterative cycle through which balance is fine-tuned.

189. Both approaches are evident across participating revenue bodies' efforts to maintain and improve their repayment practices. Ensuring engagement and direct involvement of both service and compliance areas in such initiatives is the common strategy employed.

Balancing service and compliance risks

190. The repayment compliance aim is to intervene only for claims that are invalid or otherwise incorrect and is difficult to achieve in practice. In pursuing a balanced approach administrations develop risk based repayment detection systems to identify higher risk cases where further verification is required, while minimising impact on lower risk, compliant taxpayers. In a number of participating countries initiatives are aimed at reliably identifying compliant taxpayers who are subject to reduced, and in some instances no pre-issue verification of repayment claims (refer example in Box 28).

Box 28. Differentiating service based on risk

Turkey – differentiating service based on risk (VAT)

For taxpayers who act lawfully, the aim is to render service with the least procedure and in a short timeframe. A special refund/repayments system has been developed for taxpayers who fulfill certain conditions.

If conditions are met, a certificate (Accelerated VAT refund/Repayment system/ARS Certificate) is issued to the taxpayer and the refund claim (cash and/or on account) of the owner of the certificate is carried out without the request of any guarantee, inspection report or sworn Fiscal Consultant full certification report.

191. Revenue bodies report the use of cross-organisation groups as governance mechanisms employed in pursuing balance. Cross- organisational groups include those temporarily established to deliver major repayment initiatives, as well as more permanent committees. Revenue bodies with more permanent cross-organisation repayment governance arrangements look to those committees to influence the repayment systems at the strategic, tactical and operational levels.

192. Service initiatives which advance both service and compliance outcomes are being pursued. The recognition of the new business segment as presenting both service and a compliance repayment risk was reported by a number of participating revenue bodies. The Netherlands' approach is demonstrated in Box 29 below. Canada, specifically commented that they see their new business strategy as a deliberate integrated approach.

Box 29. Netherlands and New Business

The NTCA undertakes a large number of visits to companies, particularly start-up companies, recognising that information in advance helps new businesses in preparing correct tax returns and saves the revenue bodies in administrative time and effort dealing with incorrect returns.

New business is a growth area and this poses a considerable challenge for the NTCA as the quality of their returns is often insufficient due to a lack of knowledge resulting in mistakes. Visits to companies address issues of service provision and prevention. They are informed of their obligations and are often carried out in collaboration with other parties such as Chambers of Commerce and other fiscal intermediaries.

193. One of the more common examples of achieving both service and compliance aims is the collection and use of third party data for repayment verification purposes. In a number of countries the availability of third party data has been used as supporting infrastructure for providing income tax pre-fill services.

194. The tax repayment environment is neither static nor insulated from changes in the tax environment. A key challenge identified by participating revenue bodies in maintaining balance is ensuring that repayment processes remain contemporary. As the risk or service environment changes, revenue bodies' repayment processes need to be sufficiently flexible and adaptable to change.

195. Participating revenue bodies reported that, in the context of responding to changes in the character of repayment fraud, the ability to detect shifts in fraud methods and to determine and implement appropriate responses in a timely manner, was a significant test of an organisations' capabilities.

196. An example that reflects an adjustment of balance in repayment systems as a result of changes in the wider economic environment was provided by France (refer Box 30). During the recent global financial crisis, France reported implementing accelerated payment of refunds for certain business tax credits as part of economic stimulus packages. In addition, applications for VAT credit refunds and corporation tax refunds were given greater priority handling.

Box 30. France responses to changes in economy

As part of the "stimulus package" announced by the French president on 4 December 2008, various tax measures have been adopted to strengthen companies' cash positions, including the early repayment of credits owed by the State:

- Since 1 January 2009, businesses that file monthly VAT returns can apply for a refund every month if their returns show a deductible tax credit.
- Businesses liable for corporation tax have been able to apply for the refund of any unallocated loss carry-back credits as well as credits claimed for the financial year ending no later than 30 September 2009.
- Companies have been able to apply for the refund of the research tax credit earned in 2008, as well as unallocated credits for 2005, 2006 and 2007. The measure has been extended to 2010.
- The refund of overpaid corporation tax installments has been speeded up. Companies may apply for a refund within one day of the financial year-end. This measure has no impact on the amount of spending for the year but requires an infra-annual effort.

197. These examples illustrate a key method for pursuing balance between service and compliance objectives through progressing opportunities which deliver simultaneous improvements in both compliance and service. This is equally applicable in the implementation of new or major repayment initiatives as well as incremental changes derived from revenue bodies' continuous improvement of their repayment systems.

Legislative & Policy Settings

198. The magnitude of repayment service and compliance risks is significantly influenced by the underlying legislative and policy settings of the associated taxes. Adopting legislative or policy settings that realise a reduction, or minimise the volume and value of repayments, can assist in minimising both repayment service and compliance macro level risks.

199. The use of legislative or policy change to bring effect to shifting or adjusting the repayment balance is not a common method employed by participating revenue bodies. Where it has been employed it has usually focussed on addressing significant issues where administrative solutions have been either unavailable or not as successful as hoped, in bringing about the required change.

Personal Income Tax

200. In the personal income tax realm the regime offering the greater potential for lower repayment risks is where a cumulative withholding system is operating. This can deliver significant reduction in the volume and value of repayments.

201. The related comprehensive third party reporting associated with the effective operation of this type of regime makes it possible for revenue bodies to more readily progress faster and further along the path of the pre-filling maturity model, delivering substantial service improvements to large segments of their individual taxpayer populations. This includes the end-state of that model which removes the necessity for individuals to lodge returns.

Third-party data - effective access and application

202. In administration of personal income tax there is a heavy reliance on comprehensive, credible and timely third party income and credit information as a primary pre-requisite to minimising repayment risks. There are two personal income tax policy approaches used that directly influence the timely access and use of third party information in repayment risk mitigation activities.

203. The first is the use of a designated gap between the end of a fiscal year and the earliest time that revenue bodies commence processing of repayment claims (Spain, Netherlands, Korea, and Canada). The second is the mandated date by which the third party reporters are required to provide that information to revenue bodies. Intuitively, the lowest repayment risk setting is where the mandated date for the reporting of information is earlier than the date revenue bodies commence repayment processing (Spain, Netherlands, Korea, and Canada).

204. Australia and the USA both present the higher risk personal income tax scenarios of: non-cumulative regimes, commencement of repayment processing claims either immediately (Australia) or shortly after (USA) the end of the relevant fiscal year and a mandated date for third party data supply later than repayment processing commencement date.

205. In both countries there is additional investment in encouraging third party data providers to provide information earlier than the prescribed due date. Australia has had sufficient success in securing a significant volume of third party data early enough to enable them to offer pre-fill options to taxpayers. In the USA the notion of potential legislative change to ensure that employment third party data is available to the revenue body prior to the commencement of the repayment cycle has been recommended by the Taxpayer Advocate as an issue warranting consideration.

206. In personal income tax the adoption of a cumulative withholding regime presents as an example of an integrated approach. The balance between service and compliance risks is an overt feature inherent

in the fundamental design and operation of a cumulative system. It leverages economies of scale by use of withholders to provide benefit and reduced administrative burden on individual taxpayers.

207. Developments in the access and application of third party information represent a more iterative approach. The presence of comprehensive high integrity withholding data is fundamental in supporting revenue bodies' effective administration of personal taxes. The use of this withholding data in support of pre-filling solutions, and subsequent iterations are aimed at leveraging incremental improvements in service and compliance generally, including those allied to repayments of personal income tax.

Value Added Tax

208. The impact of VAT registration thresholds on minimising the number of participants yields some macro level repayment risk mitigation as a consequence. However, the existence of voluntary registration for businesses below the mandatory thresholds probably reduces this impact as it is reasonable to assume that access to repayments is a major factor in the decision of those businesses voluntarily registering.

209. The frequency of filing required of VAT registrants does impact the repayment environment but predominantly, as it is linked to size of business turnover, it is a setting associated with the collection of VAT revenue rather than repayment cycles.

210. The UK report their selected use of shortening the VAT filing period for some taxpayers. Taxpayers are identified via the registration risk based screening process to enable early scrutiny of VAT compliance generally. This provides the opportunity to subject those taxpayers to greater scrutiny early in the business life cycle and assess and build their compliance profile more rapidly to support VAT compliance strategies, including those related to repayment.

211. France employs a minimum VAT repayment threshold below which amounts are carried forward into the next filing period. This approach reduces the volume of repayments disbursed and reduces administrative costs.

212. In the operation of VAT, the equivalent to personal income tax third party withholding data sources are not readily accessible to revenue bodies. Consequently, verifying VAT repayment claims usually involves on-demand collection of substantiating information from external sources. Korea's recent implementation of their e-Tax Invoice System is unique amongst participating revenue bodies in bringing third party data relevant to VAT within day-to-day operations. While this specific approach may not transfer readily into other revenue bodies the underlying concepts may warrant consideration.

213. The operation of VAT and the primary sources of information associated with its administration are more closely aligned with standard business records generated and referenced by businesses in their normal operations. The Korean e-Tax Invoice business model is one of replacing all business invoice record keeping systems however the broader concept of integrating access to business information of this type could be a consideration in advancing 'natural system' or other business oriented technology driven service initiatives into the future.

Data privacy considerations

214. Revenue bodies' ready access to third party data can be subject to constraints such as information privacy considerations. There is considerable variation across participating revenue bodies of the extent to which this is a factor. However, all participating revenue bodies report seeking to expand access to a more diverse range of third party data for use across repayment processes. This will see the management of information privacy and security considerations become more significant.

215. Beyond large scale 'whole of government' data sharing strategies, revenue bodies are using an iterative approach in advancing their third party data strategies. This is similar to the path taken to support pre-fill initiatives. The usual pattern involves initially gaining adhoc access to a third party data set to support a specific compliance initiative.

216. As part of that initiative, revenue bodies are able to consider potential viability of data for future ongoing use. This approach offers an easier path within information security and privacy constraints as revenue bodies can be specific about the data use and application in the first instance and then use that experience to more reliably assess the costs, benefits and viability for ongoing use.

217. Over time, third party data sets subsequently established as part of the revenue bodies ongoing requirements, are integrated via technology solutions into the organisation's normal operations. This begins with bringing them in scope of the revenue bodies' risk and information management cycles to support risk assessment generally, and case selection specifically. At the more mature end of the cycle, information from acquired third party data sets is applied to assist taxpayers directly as occurs in the pre-fill solutions.

Repayment Governance and Balance

218. All participating revenue bodies readily agreed that their major overall repayment challenge was in ensuring maintenance of the 'right' balance between delivery of repayment service and ensuring payment of bona-fide claims. It was conceded that significant influencing factors including taxpayer expectations, expectations of revenue bodies themselves and the repayment risk landscape were all changing and would continue to change over time making the notion of prescribing a definitive 'right' balance unattainable.

219. However, participating revenue bodies' initiatives deliberately aimed at delivering improved service and compliance outcomes simultaneously provide the best potential for the organisation to promote 'balance'. As alluded to earlier in this chapter, this is much more likely to be viable with larger scale repayment improvement initiatives. For example, Ireland's 2009 Lean Six Sigma review of its repayment processes.

220. The majority of revenue bodies' improvement initiatives impacting on repayment systems are smaller scale and tend to be initiated from within existing service or compliance areas of the organisation. In these situations deliberately delivering the initiative via a cross-organisational group or project team promotes the pursuit of mutually advantageous outcomes and potentially integrated solutions. Canada's new business strategy is an example of one such ongoing program initiative, with an impact on repayment service and compliance that operates as a deliberate integrated approach.

221. Iterative cycles of improvement, that oscillate between a primary focus on service or compliance improvement, are not ideal for an orderly pursuit of balance in repayment systems. However, they are the most common in practice and often reflect the reality that one type of outcome can be sufficiently compelling on its own and can subsequently act as a catalyst or a pre-requisite for subsequent reforms.

222. The collection and use of third party withholding data in personal income tax is an example of the iterative cycle approach. Third party withholding data availability is underpinned by a legislated requirement for withholders to report that information to revenue bodies. It is applied directly in compliance matching and risk assessment processes, including those associated with repayment claims. Advances in electronic filing services subsequently enable the collection of withholding data via electronic means and this in turn allows revenue bodies to also provide the reported information as a return pre-fill service to taxpayers.

223. Understanding previous iterative cycles can provide revenue bodies with a model to guide their future improvements in similar areas of initiative. For example, as additional third-party data is bought into use within revenue bodies for compliance purposes, the revenue bodies' previous experience with withholding data would encourage its consideration for use in an extended pre-fill service.

224. Some participating revenue bodies have established longer-term, cross-organisation committees or management groups to provide on-going monitoring and influence of their repayment systems. These more formal arrangements, such as the USA's Pre-refund program and Australia's Credit Refund Integrity Steering Committee monitor, assess, review and otherwise exercise influence over significant repayment system and work practice improvement initiatives.

225. The continuity of involvement of these cross-organisation governance groups enables them to exercise more strategic influence over the revenue bodies' repayment processes as they mature. This ability to maintain a cross-organisation contemporary view and provide a longer term outlook is an advantage in revenue bodies dealing with the challenge of maintaining the 'right' balance in their repayment systems.

Repayment Service Practices

Repayment Service Standards

226. All of the participating revenue bodies have repayment service standards or an equivalent. These are presented as the timeframe in which taxpayers' straightforward claims can be expected to be processed. There is considerable variance in the stated repayment service standards across participating revenue bodies and in actual performance against them. In addition, in personal income tax, for the majority of the participating revenue bodies there is a period between the end of the fiscal year and their commencement of the processing cycle which presents as a further complication in any attempt to directly compare repayment performance.

227. These substantially different settings across revenue bodies' repayment service environments suggest that good repayment service is more than the single dimension of timeliness. Differences in the expectation of taxpayers are clearly a significant factor. It is proposed that good repayment service is better considered as meeting or exceeding taxpayers' expectations in delivering both timeliness and certainty.

228. An area of repayment service identified as an opportunity to improve is revenue bodies managing taxpayers' expectations where their claim is not straightforward. The highest profile example of these claims is those that the revenue bodies select for pre-issue validation. Participating revenue bodies all identified these repayments as the source of greatest service tension and in the majority as not being subject to their normal repayment service standard.

229. In the absence of advice to the contrary, it is reasonable for a taxpayer to assume that their repayment claim is 'straightforward' and expect a repayment service in line with the revenue bodies' stated repayment service standard. In some instances revenue bodies have implemented methods to inform taxpayers when their claim has been selected for pre-issue verification. This approach does, to some extent, manage the taxpayer's expectation (their claim is not a straightforward one) but an improved practice would be one that also provided advice on the revised timeframe. This would ensure a greater sense of both timeliness and certainty for the taxpayer.

Promoting Electronic Services

230. Across participating revenue bodies the trend towards greater use of electronic services was a common characteristic of general tax administrations. Improvements and benefits for taxpayers and revenue bodies in accessibility, timeliness and cost effectiveness are routinely cited as the attraction of

moving to electronic services. Repayment service is rarely cited as the specific driver of the organisation pursuing its electronic take-up strategies.

231. However, Australia, Canada, Ireland and the USA offer differentiated repayment service standards across their personal income tax as part of their incentive to encourage taxpayers' migration to electronic filing methods. In those countries' experience this is seen as successful, all show improved electronic filing rates over recent years.

232. Notably, except for Ireland, these countries have above average proportions of their personal income tax populations receiving refunds under a non-cumulative system. The conclusion drawn is that under these circumstances a differentiated service standard strategy (offer faster refunds via electronic filing) has wider appeal and is likely more influential as a consequence.

233. Mandating use of electronic services is another strategy common to a significant number of participating revenue bodies. The strategy is targeted to specific taxpayer sectors, predominantly corporate and business segments. However, there is no evidence to suggest that repayment service is a dominant influence in revenue bodies' selection of taxpayer segments; rather it would appear to be driven more by a revenue collection orientation.

234. The use of Electronic Funds Transfer (EFT) for revenue bodies to disburse repayments is seen as the preferred approach where direct refunds are an outcome of the repayment service. In most of the participating countries the strategy appears to parallel that of electronic filing. This sees the use of EFT being encouraged across the personal income tax environment and limited mandating across corporate and business sectors, particularly for VAT.

235. Minimising the necessity to issue direct refunds is a desirable service aim which can also reduce some of the attraction of repayment systems to fraudulent attack. The offsetting of credit outcomes from one tax against liabilities arising in another is common place across many participating revenue bodies. In most instances this occurs within the internal processes of revenue bodies, although in Australia VAT (GST) filing is via a composite return (Business Activity Statement) where the range of business' recurrent tax obligations are reported.

236. Ireland's implementation of tax relief at source for two of its most common credits (mortgage loans and medical insurance payments) is a notable alternate approach. The administrative arrangements provide taxpayers with very timely access to a tax repayment (specific credit) as a consequence of it being delivered via the third party provider as part of the financial transaction that gives rise to the credit. Where there is a direct nexus between eligibility to tax credit relief and a distinct financial transaction administered by a small number of established third parties, this type of arrangement presents as a very efficient and effective approach.

237. Offering taxpayers alternate methods for receiving their repayments can also provide dual service and compliance benefits. The option to have repayments paid into taxpayers' accounts which are not as readily accessible, such as their retirement saving account (personal income tax in USA), or taxpayers electing for revenue bodies to retain a repayment to be applied against future liability (VAT in France) are examples of these types of repayment service options.

238. The evolution of e-filing and electronic services generally has an initial focus on enabling and supporting taxpayers to interact easily with revenue bodies. In later, more mature electronic service methods there is support for a more interactive, two-way use of these facilities (e.g. taxpayer portals). In the service context this provides a mechanism for delivering tailored or personalised information relevant

to the taxpayer's circumstances. Enabling the taxpayer to 'pull' that information as required is one option – such as the pre-fill data facility used in Australia's e-tax service for personal income tax.

239. The other option is for revenue bodies to 'push' tailored information, advice or messages via the electronic service. Most of the participating revenue bodies report their use of targeted 'push' strategies prior to the filing period as means of influencing correct return preparation or flag key areas of risk. Traditional mail-out methods are still the norm in the majority of instances but the use of electronic channels can offer improved timing of the message (eg at the time the specific taxpayer is preparing their return). Consistent use of the taxpayer preferred electronic channel may also be a positive influence on electronic take-up and retention rates.

240. There is a note of caution offered by participating revenue bodies regarding the advances and growth in their use of electronic repayment services. The benefits to taxpayers of the use of electronic filing services in particular, are at least equally attractive to those that attempt repayment fraud. Taking an integrated service and compliance approach to implementing enhanced or expanded electronic services is seen as the most desirable strategy for revenue bodies to deliver appropriately balanced repayment risk outcomes.

Repayment Compliance Activities

241. A feature in repayment compliance across all participating revenue bodies for both income tax and VAT that distinguishes it from other areas of compliance attention is the presence of a pre-issue verification treatment as a standard component. While there are marked differences in the scale of repayment risks across revenue bodies, the risk of repayment fraud is identified as the principal reason for their maintaining a continuous and ongoing pre-issue compliance strategy.

Pre-file initiatives

Registration

242. Registration is increasingly an area of focus allied to revenue bodies' repayment compliance strategies. Attention centred on the initial registration of an individual or entity remains a very important pre-requisite but increasingly, the broader concept of identity risk is of growing relevance.

243. This is being driven by concerns with repayment fraud risks arising from creation of fictitious identity and identity take-over and managing those risks across the different modes of interaction between taxpayer and revenue bodies arising from advances in electronic services. Canada's GST Enhanced Registration Review (GERR) and the risk based registration screening conducted by the UK are examples of resultant registration compliance treatments.

Relationships

244. The capability to identify, maintain and understand relationships between taxpayers is an area of growing attention with relevance to managing repayment compliance risk. This includes direct relationships between registered entities as well as the ability to surface indirect or inferred relationships.

245. These are perspectives revenue bodies are incorporating into their identity risk profiles. In some instances this will result in direct leveraging to validate taxpayer' eligibility for specific offset or credits such as those associated with partner, dependent or family unit arrangements. The methods employed are very much data driven and especially in the discovery of inferred relationships are reliant on application of data integration, analysis and mining technologies.

Pre-file treatment

246. Preventative strategies aimed at mitigating correct filing risks are common across revenue bodies. Targeted strategies deployed prior to the filing period are used to prompt, remind and otherwise encourage taxpayers to file accurate returns. Repayment specific initiatives like that employed by the US Frivolous Filer Program are triggered at the time of filing where identified frivolous filers are immediately advised and given an opportunity to re-file a compliant return. The opportunity to use equivalent just-in-time 'pre-file' or 'at filing' compliance strategies is a potential area of future attention particularly where revenue bodies are progressing technology enabled filing channels which support greater interactivity.

Pre-issue Initiatives

247. The common pre-issue theme highlighted by participating revenue bodies is continuous attention to improving their ability to correctly detect anomalous repayment claims. The threats associated with higher volume, low value fraudulent claims that have been reported as growing over recent years continue to present detection challenges within an increasing technology dependent filing and claiming environment.

248. Involvement of organised groups, collusion between affiliated persons and third parties inappropriately influencing at risk taxpayers continue to require more sophisticated detection methods drawing on a greater diversity of data and information well beyond that of the repayment transaction itself.

249. In Figure 4, expanded in Annex 10, is a schema of the perspectives being brought to bear by revenue bodies' repayment risk identification and assessment processes. The taxpayer identity and transaction pattern elements reflect particular areas of focus with relevance to the higher volume, low value and organised group, collusion and unscrupulous third party influencers in the repayment risk environment.

250. The registration compliance strategies of Canada and the UK are activities that both contribute to and use the taxpayer identification domain, as are efforts in identifying and understanding relationships between taxpayers. Innovations in Australia across the identity and transaction pattern perspectives, have delivered very high confidence detection methods of income tax repayment fraud associated with identity theft, unregistered preparer, skimming and group based collusion or influence.

251. At the other end of the repayment compliance spectrum the use of multiple risk perspectives also supports the identification of taxpayers assessed as compliant. This has enabled Canada, Australia, Turkey and The Netherlands to implement differentiated repayment strategies which provide fast track or reduced levels of pre-issue treatment of repayments claimed by those taxpayers. In the Netherlands this concept is extended into the intermediary risk perspective via their 'horizontal monitoring agreements' initiative.

252. Ireland, United Kingdom and Canada make use of a component of random sampling in their pre-issue repayment compliance risk management activities. This provides a base to compare existing pre-issue detection performance and potential earlier identification of significant shifts in repayment risks than those flowing from post-issue and intelligence activities. There is an additional cost associated with employing this type of program.

253. Greater levels of sophistication in the revenue bodies' analysis capability and technology infrastructure are being used to support the integration of diverse and large scale data and information sources that enable multiple risk perspectives to be considered and applied to repayment compliance risks.

Evaluation of repayment compliance efforts

254. Measures of repayment compliance performance across the participating countries were reasonably consistent. There is a strong orientation towards reporting and monitoring for trends in metrics such as volume and value of repayments and proportion of interventions that resulted in adjusted outcome and their value.

255. Longer term effectiveness measures weren't a feature highlighted by participating revenue bodies although a number remarked on the difficulty of making such assessments objective in such a volatile compliance environment. However, at the macro level the UK have an established and sustained use of Tax Gap measurement as part of their overall monitoring and evaluation of their administration of VAT.

IV. KEY OBSERVATION, FINDINGS AND RECOMMENDATIONS ARISING FROM THE SURVEY OF SELECTED COUNTRIES

256. The study was confined to a small number of revenue bodies who all identify as having reasonably mature repayment systems in operation. The survey responses, complemented by reference to related research, has highlighted that the tension between providing timely refunds to taxpayers and adequately addressing risk management issues is a constant quest, regardless of the level of maturity of the repayment system in place. This is driven by revenue bodies seeking continuous improvement in the efficiency and effectiveness of their internal operations and responding to changes in the external environment, including taxpayer service expectations.

257. During dialogue between the participating revenue bodies 'A Good Repayment Features Summary' was drawn together as an aid to the task group's discussions. It is presented in full at Annex 1 and reflects views and opinions contributed from across revenue bodies on aspects of repayment administration considered to be preferable or desirable. The following key observations and findings summarise the more significant of those features of repayment systems present amongst participating revenue bodies.

Key observations and findings

Governance

258. Tax repayment working or management groups are an effective governance arrangement. They influence the balance between service delivery and compliance risk, through the formulation, implementation, assessment and review of integrated service and compliance strategies across tax repayments. There are differing stages of maturity across participating countries in this area. Some have groups charged to progress specific tax repayment initiatives, reviews or improvements and others have more established and lasting working arrangements.

Legislative and policy settings

259. Legislative and policy settings have a major impact on the size and behaviours of taxpayers in the tax repayment markets, although repayment is not normally the dominant driver in the choice of such settings. For example, variations in the number of active VAT registrants across the participating revenue bodies are directly influenced by the presence and level of a registration threshold.

260. In relation to personal income tax, the operation of a cumulative system of withholding presents as a preferred mechanism for minimising the number and value of any year end adjustment of tax liability. However, it places a heavy reliance on the role and responsibility of the withholders. Further, with changes in employment trends (eg contract arrangements, multiple jobs with multiple employers) it is likely to require further tuning to ensure it remains current.

Service delivery considerations

261. Improvements in technology have enabled revenue bodies to reduce costs of service by interacting with taxpayers through electronic channels. This also produces service improvements for taxpayers requesting repayments by reducing the processing time, providing better certainty of accuracy and outcome and reducing the administrative burden. Revenue bodies can encourage the shift to electronic channels for repayments through differentiating service standards for electronic interactions as compared to paper, or mandating the use of electronic channels for selected segments or groups of taxpayers.

262. The timely collection of third party data allows revenue bodies to use this data in refund verification activities before the payment of the refund. Where revenue bodies have access to reliable third party data that forms the basis of a return or a part of a return, the opportunity is presented to progress to a pre-fill service. Where revenue bodies are confident of the accuracy and completeness of this third party data, the progression is towards the pre-population of returns where the taxpayer only needs to check and confirm the completed return.

263. The challenge of accessing third party data to ensure it is available for pre-filling or pre-populating return information is being experienced by several of the participating revenue bodies. Where a lodgment gap (period between the end of a fiscal year and the earliest date that either returns can be filed or the processing of repayments commences) is not present, consideration of either shortening the timeframe in which withholders and suppliers provide information to revenue bodies or increasing the time gap between the end of the financial year and the start of the revenue bodies' processing or lodgment period, may be beneficial.

264. Removal of the requirement to lodge returns by certain segments of the population is an attractive final state in pre-fill, pre-populate progression with several of the participating revenue bodies not requiring returns for certain segments of their population. The significant reduction in the personal income tax population lodging has an obvious flow on to reducing repayment exposure. Allied with progressing towards that state:

- The use of third party data to pre-fill or pre-populate returns is a feature in personal income tax yielding allied benefits to repayment service and compliance.

- Those with a cumulative withholding system have the greater opportunity to progress along the path of not requiring certain segments of the population to lodge personal income tax returns. The scope of withholding and reporting mechanisms in cumulative systems provides an extensive and reliable source of data to assist in repayment risk identification and validation.

265. Participating revenue bodies all have published standards of service relating to the provision of repayments. For those repayment claims that are selected for verification, most revenue bodies' published service standards are overt in stating they do not apply. Some mitigation of potential service risk is delivered by revenue bodies providing early advice to taxpayers that their repayment claim is under review. Ultimately, increasing repayment service expectations may require revenue bodies committing to specific timeframes for deciding the outcome of claims subject to review.

Compliance risk considerations

266. The development of more sophisticated risk profiling tools across participating revenue bodies is enabling more accurate and timely identification of repayment risks. These tools are enabling the expansion of the range of comparative perspectives used in repayment risk identification processes and supporting their application in the pre-issue treatments.

267. The widespread growth and use of technology has facilitated the movement to assessing and addressing repayment compliance risks at the pre-lodgment and/or pre-issue stages. Combined with robust risk strategies, this has enabled revenue bodies to differentiate treatments to ensure compliant taxpayers receive their repayment in a timely manner while identifying at risk taxpayers and transactions before any repayment is made.

268. Better identification of at risk taxpayers, segments, patterns and transactions also minimises delays to repayments for compliant taxpayers. Revenue bodies' enhancements in their repayment risk identification are increasingly looking to use their capability to specifically identify compliant taxpayers who can be provided with ongoing, reduced levels of pre-issue repayment scrutiny.

269. Revenue bodies are also addressing repayment fraud risk through continual improvements to registration processes to increase the level of confidence in the identification of taxpayers. This includes leveraging existing high integrity registration or identification processes across other agencies and organisations to enhance or validate their own processes. Revenue bodies also report increasing capability in surfacing or discovering methods to identify relationships between entities and associated "natural persons" operating or controlling non-individual entities.

270. In those countries where tax intermediaries are a significant segment, their registration is seen as a positive step in enabling revenue bodies to more readily assess and understand their influence, build and leverage data driven differentiated risk treatments (including repayment risk treatments).

Recommendations

271. All OECD countries are encouraged to identify opportunities to enhance the administration of their repayment systems. The legislative and policy frameworks that revenue bodies operate within vary considerably and provide different opportunities and constraints in advancing repayment systems. Revenue bodies should consider the context of their own legislative and policy settings in reflecting on the findings of this study.

272. As a practical reference, Chapter IV and the associated Annex 1 provide key prompts for revenue bodies to consider in the design and operation of their repayment systems.

273. Methods, techniques and approaches employed by participating revenue bodies to improve their detection and treatment of fraudulent and otherwise non-compliant repayment claims are a major focus of attention. The sensitivity of these topics poses a barrier to the free exchange of the detail of the approaches which would otherwise enable revenue bodies to learn more rapidly from each others' experiences. It is recommended that the FTA consider how relevant expert representatives from revenue bodies could be supported in secure information sharing and dialogue in this area.

274. Due to the interest in, and value gained from, discussions among participating revenue bodies, representatives would benefit from engaging in post-project dialogue to identify, assess and share views on resultant actions derived from the application of this Information Note. A follow up round of informal discussions with the task group approximately 6 months after the publication of this Information Note is recommended.

ANNEX 1 - GOOD REPAYMENT FEATURES SUMMARY

Features of Good Practice

The following information aims to provide advice on best practice conduct and characteristics based on contributions from a group of OECD revenue bodies. It is noted that the participating revenue bodies in this project group all administer relatively advanced taxation and repayment systems providing a sound source of information and options for those countries developing their taxation and repayment administration.

In considering the application of the information it is to be emphasised not to consider elements in isolation but in combination suited to the structure and level of maturity of the repayment system being adapted.

Policy Considerations

The policy and legislative framework of revenue bodies sets the context for the administration of repayment systems.

Simplification of tax laws

- Reduce the uncertainty and complexity of the components of the taxation system that may lead to a repayment. This will reduce the risk of error in claims and the cost of complying.

Personal Income Tax

Instalment regime

- In the absence of a withholding regime, the instalment regime is the preferred method by which taxpayers make provision for their end of year liability.

- An instalment regime reduces risk from repayment as credit is only derived from payment by the taxpayer themselves.

- Exposure to rebate/offset and deduction over-claims will still need to dealt with in risk processes.

Withholding

- Integrating deductions into the withholding regimes is seen as an attractive mechanism for aligning the end of year position for taxpayers.

- Integrating offsets into a withholding regime may provide a greater level of certainty of taxpayer identity but may be limited in providing better validation by the third party withholder.

- Dependence on withholding does increase exposure to the compliance behaviour of the withholder, relying on their honesty for accurate payment and reporting.

- Risk factors relating to the withholders should be incorporated into your repayment risk processes.

- If there is an increase in the burden on the withholder, this may require the revenue bodies' assistance to decrease administrative costs.

Requirement to file returns

- Taking opportunities to remove significant segments of the taxpayer population from the necessity to file income tax returns will dramatically reduce the likelihood of repayment risk (especially fraud). From a service perspective, this provides a major improvement for the targeted segment by removing the need to file.

- Indicators of this as an option could be where the value of the individual repayments are reasonably low, income sources are covered by reliable withholding and reporting regimes and the allowable deductions are limited.

- The risk of taking people out of lodging is that you may lose sight of them. It is necessary to mitigate this risk but it might be that the information necessary to support moving to no lodgment being required is sufficient.

Timing gap between when returns can be filed and processed

- If data systems do not allow for the timely access to third party data, one solution may be to introduce a delay between end of fiscal year and the time of filing or processing of returns.

- Alternatively, or in conjunction with a filing or processing delay (gap), introducing an earlier requirement to report third party data can also assist.

- This may require implementation through a legislative process and will require the management of taxpayer expectations, especially in the first year of implementation.

- Revenue bodies will also need to give consideration to work scheduling and resourcing to accommodate any change.

Corporate Income Tax

- Instalment systems are an effective method of providing ongoing payment towards end of year liability for companies.

- Instalments also reduce the repayment risk since any end of year refunds are only repayments of overpaid tax.

Valued Added Tax

- Repayment risk in VAT is higher than that for income tax for all entities including companies. This is due to the reliance on the taxpayers as the initial primary source of claim of credits.

- Korea appears to be addressing this through their e-Tax Invoice system which is providing third party data in real time. However, this opportunity is related to Korea's unique administrative setting.

- Revenue bodies should consider how they might gain access to credible and timely third party information that could assist in their verification processes.

Governance & Organisational Settings

External Governance arrangement

- It is advantageous for revenue bodies to have access to external scrutiny from independent bodies providing guidance on conformance with legislative requirements and advocacy of taxpayers.

Internal Governance arrangement

- Repayment issues impact both service and risk perspectives and consequently require integrated responses.

- Internal committees or groups within tax administrations are therefore best placed to address governance issues from an integrated perspective to address the strategic, tactical and/or operational aspects.

- Revenue bodies should consistently look at all dimensions of performance across repayment activities in order to form a view of current 'balance' and areas for improvement.

- A useful start is assessing the current state of the repayment system and an example of a self assessment tool for that purpose is provided at Annex 5 (ex UK HMRC).

Administration

New To Business

- This group represents a large and growing risk to repayments due in part to the lack of information available being a barrier to determining a complete risk profile.

- The general lack of understanding of repayment rights and obligations requires additional service resources devoted to this group in order to reduce this risk.

- Factors associated with new taxpayers can be taken into account in repayment risk models. eg age of registration, industry or occupation, source of registration and demographics.

Large Taxpayers

- The existence of specialist teams/groups who deal with large taxpayers across their complete tax obligations provides an opportunity to leverage different approaches in the repayment regime for this group.

- The benefit to the repayment system is in reducing the service risks associated with repayments to this market segment.

Intermediaries

— *Withholding agents*

- There is a significant dependence on withholders in providing reliable and accurate taxpayer credit information.

- This dependence is greater under a cumulative withholding regime. Revenue bodies need to provide close support and services to withholders to minimise the burden and support them meeting their obligations.

- There are risks associated with the compliance of withholders that will require management.

— *Tax Agents*

- Dealing with registered tax agents provides benefits to the repayment system as we can have greater certainty about who we are dealing with.

- Revenue bodies should expect an improvement in accuracy in preparation of returns and understanding of any complexities.

- Where registered agents receive repayments on behalf of taxpayers, this provides a less risky account.

- Dealing with agents provides a target group for the influencing of many.

- There are risks with agents controlling the repayments inappropriately and this requires management via risk profiling and treatment.

— *Software providers*

- To ensure the accuracy of the repayment claims processed through their software, revenue bodies need to ensure that software providers are kept up to date on changes that effect repayment entitlements and their software configurations.

Electronic Filing & Refunding

- This provides a means of reducing error in the return preparation and lodgment chain, enabling pre-filling/pre-populating options, improving the speed of processing and reducing the administrative burden on the taxpayer. Overall this results in a reduction in the risk of the return process, including the repayment segment.

- Electronic filing provides positives in cost of administration, timeliness and additional lodgment information available to revenue bodies.

- Electronic filing and refunding may provide better identity and integrity opportunities for revenue bodies.

- The preferred channel for payment of refunds is Electronic Funds Transfer (EFT). This provides a more timely service, lowers costs and provides information for risk identification.

- The relative ease of electronic filing and refunding may pose additional risks. The positive features and potential for greater arms length operations also attract the fraudulent claimers.

- Revenue bodies should continue to identify taxpayer segments that can be moved readily to electronic filing and repayment.

Service Standards

- Differentiating repayment service standards is one way of influencing the take-up of electronic channels.

Alternate Payment Options

- Enabling repayments to be paid to alternate destinations where the benefit is not immediately available or realised will reduce the repayment risk.

- Where the choice of the alternate destinations is selected by the taxpayer it delivers flexible service options. eg Superannuation Account, US bonds, registered charities.

Skilled resources

- The skills required to identify emerging repayment risks may require a greater investment in data analysts/miners and economists. As investment increases in the use of sophisticated tools, this requires a parallel investment in the people who will use and apply them.

Third Party Data Provision

- The pursuit of partnerships with other agencies (whole of government strategies) can leverage intelligence and potential access to credible data sources for application in the identification and treatment of repayment risk.

- Revenue bodies can investigate other sources of third party data (e.g. data on consumption or purchases, sales, capital transactions etc) to leverage intelligence and potential access.

- For significant risk areas, consideration could be given to mandating the provision of relevant data.

- The provision of third party data has to be managed within the privacy constraints of each jurisdiction.

- The challenge is to ensure the data is available and accessible in timeframes that enable timely provision of repayments to taxpayers.

- Revenue bodies may address the timely access to and application of third party data by either:

  – changing the time gap between the end of the fiscal year and the start of the revenue bodies' processing or filing date, and/or

  – bringing forward the timeframe for the data to be provided to revenue bodies.

Identity Registration and Maintenance

Identity Control at Registration

- Revenue bodies should continually improve the registration processes to increase the level of confidence in identification of taxpayers.

- Leveraging existing high integrity registration or identification processes across other agencies and organisations can enhance or validate the revenue bodies own.

- Registrations that are key to employment, benefit or operating a business drive organisations to deliver faster registration processes. This increases the pressure to have real time access to information to verify or confirm the bona-fides of taxpayer identity.

- Capturing, linking and maintaining information of the 'natural' persons operating or controlling non-individual entities is a preferred position.

Third party data – identification, certification, validation and authentication

- The use of whole of government strategies provides service benefits to taxpayers whilst ensuring higher levels of identity integrity.

- Third party data such as births, deaths and marriages, immigration, business registration and licenses may be valuable sources to ensure the integrity of revenue bodies' registration and maintenance processes.

Risk based approach to registration and maintenance of identity related transactions

- Revenue bodies should create and maintain identity risk profiles of registrants.

- Risk treatments should be applied to registrations and maintenance transactions based on the risk profile of taxpayers.

- There is an increasing interest in risk profiling from a behavioural perspective to anticipate future behavioural trends and deliver differentiated service and compliance treatments.

Separation between registration maintenance/update from the return or claim

- Revenue bodies may consider separating the opportunity to register or maintain registration information from the return or claim process.

- Having multiple interactions gives revenue bodies more opportunity to gauge the behaviour of the taxpayer, potentially without the pressure of refund standards.

- Detrimental impacts on the taxpayer can be mitigated through efficient service processes covering registration and maintenance activities.

Pre-Lodgment Activities

Education – General

- Delivering basic level guidance and education information can mitigate the risk of error, omission and/or misunderstanding. On-line facilities to deliver general education material are time and cost effective for taxpayers and revenue bodies.

- Revenue bodies can provide infrastructure to enable taxpayers and intermediaries to engage and access educational/guidance material.

- Maintaining multiple channels for the delivery of information to taxpayers provides choice for the taxpayer but carries a cost to revenue bodies.

- Revenue bodies may continue to move toward electronic channels for education delivery and look to taxpayer segments that can be readily moved.

Education – Targeted

- Advice to targeted groups (eg by occupation, industry, rebate eligibility) can be influential on repayment behaviour.

- Targeted education strategies should generate from revenue bodies' risk assessment and planning activities.

- Additional costs are associated with the delivery of targeted pre-lodgment strategies so a robust evaluation of their performance should be undertaken regularly.

- Strategies based around known information are likely to be the most effective.

- Timely provision of relevant information to target groups should be based on characteristics or history of the taxpayer to maximise leverage of the compliance action.

Intelligence gathering

- In order to place revenue bodies in the best position prior to the lodgment phase, they must manage the collection of information preparatory to the repayment cycle. This includes risk intelligence and third party data.

- This phase should be used to re-assess and reset repayment risk identification and treatments.

- These activities need to be fit within the time between repayment cycles and may vary depending on tax types.

Pre-fill / Pre-populate

- Where revenue bodies have access to reliable data that forms the basis of a return or parts of return, it presents the opportunity to move to a pre-fill service.

- Where revenue bodies are confident in the accuracy and completeness of the data necessary to complete a return then the pre-populating of a complete return becomes a viable option.

- Both options are dependent on having access to the necessary data in advance of the start of the lodgment period.
- There is a sequence of moving from taxpayer prepared returns, to assisted return preparations (pre-fill), through to pre-populated returns simply requiring confirmation by taxpayer and the potential for no return being required for some segments of taxpayer population.

Pre-Issue Activities

Receipt acknowledgement

- Where a filing channel is operating that provides immediate response to the lodging taxpayer, it offers the potential to be leverage for other compliance messages, warnings/alerts, claim types or subsequent action by the revenue bodies.
- It is easier to do this via electronic filing channels and particularly those directly controlled by revenue bodies.

Error Checking

- One of the major benefits of electronic filing channels is the opportunity to reduce the risk of errors in information provided.
- The aim is to get error checking as close to the people inputting the data as possible. ie in the pre-lodgment stage.
- Where there is reliance on software providers, communicating the revenue bodies' error checking requirements forms part of keeping them abreast of changes.

Risk Identification and Treatment of Repayments

Risk Rules & Models

Development methods

- Risk models and associated rules should be based on intelligence, a theory or hypothesis of risk. The development process is enhanced where the skill of business experts is combined with data analysis technical expertise.
- Confirmation or validation of the repayment risk rules or models should occur prior to deployment of associated new or adjusted pre-issue rules.
- The trend is towards increasing sophistication in models and methods of detection but this can have a long lead time for the initial development stage.
- Less sophisticated alternatives may provide the base from which higher levels of sophistication are added.

Implementation considerations

- Pursuing more innovative methods of repayment risk detection in order to respond to more sophisticated manifestations of risk scenarios has to retain the ability to implement solutions within the repayment process infrastructure currently available to revenue bodies.

- Consideration should be given to identifying components of the risk rules or models that can be completed or prepared in advance of any repayment claim.

- Risk rules and models differentiating taxpayers should be automated in their operation and maintenance to keep them contemporary.

Forms or constructs

- At the time of processing, greatest focus is placed on repayments that are not recoverable (fraud).

- While the trend is towards the use of greater levels of sophistication in identifying risky repayments, basic level rules and tests should not be discounted. eg known individuals or groups – identifiers, sources, addresses, contacts, bank accounts that need to be monitored.

- The basic logic of risk rules and supporting risk models applied to repayments and/or the type of credit being claimed include use of:

  – basic threshold and/or ratio calculations

  – the cumulative sum of claims over time

  – a comparison of taxpayers’ current claims with prior or historic claims

  – comparison to a like population.

- Taxpayers new to the repayment process are identified as potentially higher risk and consequently risk rules that target the first significant repayment are common.

- Taxpayer identity risk is increasingly a concern and specific models or rule sets are required.

- Identifying those taxpayers and their associated repayments that are not high risk cases can enable them to be processed quickly.

Review and Revision Process

- Revenue bodies should regularly review and update their repayments processes.

- There is a need to be able to identify and respond rapidly to changes in repayment risks.

- It is advantageous to share detailed knowledge and skills across the organisation and tax products through cross-line internal repayment committees or groups.

- A formal repayment (refund) plan for revenue bodies might be restrictive so the use of an internal cross-line committee (working group) can provide greater responsiveness than a formal repayment plan.

Response to assessed risk

- It is preferable that the output from risk rules provides insight into the source of the underlying repayment risk (credit, deductions, identity risk). This supports the rapid application of treatment for straightforward risks.

- To deliver timely and consistent treatment of repayment risks, a defined sequence of treatments may be required for the more common cases.

- The complexity of the identified repayment risk should be used to identify the required experience level of the actioning officer where automated treatments are not appropriate.

Treatment strategies

- Developing and defining treatment strategies in parallel with the associated risk rules and models ensures that a practical treatment is available for all output from the pre-issue risk identification process.

- Technology provides opportunity to automate treatments of repayment risk. Where there is a standard procedure that officers follow in dealing with repayment risk cases this presents an opportunity to consider automating the process.

- Decision rules can be used to apply levels of automation to address the risk.

- Revenue bodies should access a library of treatments aligning the appropriate treatment to the nature of the repayment risk identified.

Voluntary disclosure and penalties

- Application of penalties should operate on a taxpayer risk framework differentiated by demonstrated compliance behaviour.

- Penalty decisions should not be based just on the current repayment transaction.

- Where risk is attributed to error, revenue bodies should provide opportunity for the taxpayer to self amend without penalty as a low cost solution.

Access to third party data enabling 'real time' application to verify claims

- Real time access to third party data is recognised as an important element in confirming repayment claims.

- A benefit of the provision of the third party data is that it allows revenue bodies to provide more certainty to the taxpayer regarding the repayment.

- There are stages of improvement in trying to ensure all available information is accessible to assist in making a decision about the repayment risk. This can be integrated into the risk rules themselves, the assessment or treatment phases.

- The initial efforts would result in supporting the pre-issue reviewing officer (eg manual look-up and check) and then progress to use in automated profiling and ultimately be integrated into the risk rules and treatments.

Disbursement

Electronic Funds Transfer

- There is a clear trend towards electronic payments into taxpayers' accounts as the preferred method of disbursement.

- While providing a more efficient service and additional intelligence for risk assessment, EFT does present repayment risks. The speed of this channel reduces the opportunity for remedial action.

Alternate payment options

- Consideration of alternate payment options offers a greater level of choice for taxpayers and also lowers the risk associated with repayments.

- Alternative options include:

  - small balance roll over

  - voluntary offset against other agencies liabilities

  - retirement savings accounts.

Post-Issue Activities

Ensure alignment between post-issue compliance activities and pre-issue treatment of repayment risk

- Revenue bodies should ensure the complementary targeting of risk areas that are not addressed in pre-issue activity.

- Post-issue is a more appropriate place to action lower risk error and over-claim repayment risks through adjustment and education activities.

- Post-issue activities can be used to assess the effectiveness and targeting of service strategies in reducing repayment risk.

Employ random / or stratified audits to provide feedback on contemporary broad repayment risks/issues

- Conducting a random sample selection of cases provides confirmation that the risk rules and models are set at the right level and targeting contemporary risks.

Adaptation & Continuous Improvement

- The balance between service and repayment risk is a delicate one that requires constant attention.

- The following methods are means of assessing the balance:

  – Use the post-issue environment to test emerging risk hypothesis and fine tune identification and treatment processes.

  – Risk strategies (service and compliance) need to account for changes in the risk landscape and accommodate these in risk and service responses.

  – This may involve considerations of business, industry, social, economic and political environments eg natural disasters, global financial crisis.

ANNEX 2 – PERSONAL INCOME TAX REGIMES

Country	Withholding regime	Employee requirement to file return	Requirement to file other return	Percentage required to file (other return)	Percentage received refunds	Average Refund $US value	No. refunds issued	Refund service standard	
								Paper	Electronic
Australia	Non-cumulative	Yes	No	n.a.	81%	$1,840	10,227,002	90% in 42 days	82% in 14 days
Canada	Non-cumulative	Yes	No	n.a.	69%	$1,410	17,309,794	100% in 4-6 weeks	100% in 2 weeks
France	none	Yes	No	n.a.	32%	$784	11,700,000	n.a.	
Ireland	Cumulative	No	Yes	<5%	44%	$4,056	1,191,155	80% in 10 working days; 100% in 200 working days	100% in 5 working days
Korea	Cumulative	Yes	Yes	18%	5%	$5,807	866,164	100% in 30 days	
Netherlands	Non-cumulative	Yes	No	n.a.	78%	$2,381	7,500,000	Minimum of 3 months (all paid prior to 1 July of same year)	Minimum of 3 months (all paid prior to 1 July of same year)
Spain	Cumulative	Yes	No	n.a.	81%	$1,197	15,761,540	Legislated period is 100% in 6 months with corporate objective of 1 month	
United Kingdom	Cumulative	No	Yes	20.4%	13%	$3,089	6,070,000	60% of tax credit payments in 15 calendar days	
United States	Non-cumulative	Yes	No	n.a.	83%	$3,297	111,064,486	100% in 2 weeks (1 week less if direct deposit of refund)	100% in 6 weeks (1 week less if direct deposit of refund)

Source: Respondent survey; OECD Comparative Information Series (2008); Netherlands Ministry of finance website (http://www.minfin.nl/english/Subjects/Taxation/Income_tax/Income_tax_return), United Kingdom HMRC website (http://www.hmrc.gov.uk/about/autumn-report-2008.pdf)

ANNEX 3- MANDATED E-FILING REQUIRMENTS

(Notes to Table 10)

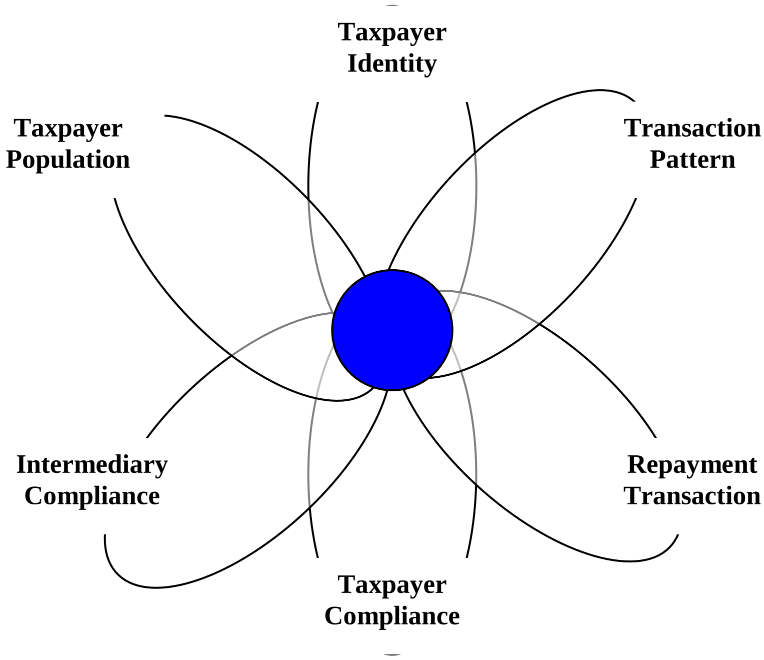
Thresholds are typically applied to varying degrees for most return categories in the countries reporting use of mandated requirements

Australia/*- reported that it is investigating options to increase electronic uptake. Presently; businesses with annual turnover over $20 million are required to lodge and pay their BAS (incl. VAT) electronically; 2) businesses who participate in the deferred GST scheme are required to lodge BAS electronically; and 3) large PAYG withholders (more than $1 million withheld) are required to pay electronically. Some third party information is mandated for electronic reporting based on record type and market segment. The greatest majority of data is still received on physical (magnetic or optical) media with many small clients still reporting on paper. Various initiatives in capabilities and marketing are in progress to shift clients to full electronic reporting.
Canada/* - reported that starting with taxation year ends in 2010 Internet filing will be mandatory for corporations with gross revenue greater than $1 M. Expectations: non-profit Organizations, insurance corporations, non-residents.
France/*—reported that mandatory e-filing for CIT where turnover is >€4M and that current threshold for VAT reporting (i.e. turnover > €760,000) is likely to be lowered (to turnover > €500,000) from 2010.
Ireland/*—reported that mandatory e-filing and e-paying was announced by the Revenue Commissioners in September 2007 on a phased basis. Phase 1 commenced January2009 and included Large Corporations (general turnover greater than €7.3 million) and Government Departments. Phase 2 will commence in January 2010 and will apply to large corporates, other Public Bodies and Local Authorities. The existing due dates to pay and file have been extended to the 23rd of the month for customers/agents who makes the relevant returns and associated tax payments via Revenue Online Service, under the new mandatory regime. Other planned mandatory reporting relates to e-RCT (Relevant Contracts Tax) – development to commence in 2010, and Vehicle Registration Tax.
Netherlands/*—reported that The use of the electronic channel is mandatory for businesses. Free software is provided to private individuals for filling and filing their tax return. For really small businesses it is possible to get an exemption for electronic filing. Given the fact that those small businesses nearly always make use of the services of tax practitioners the number of these exemptions is insignificant.
Spain/*—CIT mandatory for most; VAT mandatory for large companies and limited liability companies; EIR mandatory for large companies, public entities, limited liability companies and those companies with more than 15 records.
Turkey/*—noted that all taxpayers are subject to mandatory e-filing. Most PIT and VAT taxpayers are subject to mandatory e-filing.
UK/*—reported that for the PIT, self assessment customers have a choice of differential filing dates. If they want to file using paper, they must do so by 31st October. However, if they choose to file online, they have an additional 3 months in which to file – the filing date being 31st January. Thus, while e-filing is not mandated per se, there is a strong incentive for taxpayers to file electronically. From April 2011 Company Tax Returns to be filed online and companies to pay electronically. From April 2010 traders with an annual VAT exclusive turnover over £100,000 and all newly registered traders are required to file online and pay electronically. This requirement may be extended to all VAT traders, regardless of turnover in the run up to 2012 (pending policy/Ministerial decision). From April 2010 employer annual returns (P35 and P14s) to be filed online by employers with fewer than 50 employees (currently more than 50). From April 2011 Employer in-year forms (e.g. P45/46) to be filed online by employers with fewer than 50 employees (currently more than 50). From 1 January 2010, the method for reclaiming VAT incurred in another EU country is changing. Customers will have to make claims for refunds online using the VAT EU Refunds online service. Reported that, to support mandating of online services they have: 1) invested heavily (both financial, design and people resource) to ensure that secure and robust IT services that meet the needs of customers are in place, and 2) an intense programme of activity in place which focuses on customer research and stakeholder engagement, ensuring that services are designed and developed around the needs of customers. Multi-media advertising campaigns in place to publicise the changes to customers and direct them (especially more vulnerable customer groups, for example customers that are less IT literate) to support materials helping them to make a smooth transition to using online services.

An independent review of HMRC Online Services concluded that well-designed online services could bring benefits to taxpayers and the Government. The review set out a number of recommendations (all accepted by Government) to increase take-up of key online services (Individuals, Employers, Companies and VAT) and set an aspirational goal for HMRC: to aim for universal electronic delivery of tax returns from businesses and IT literate groups by 2012. Currently draft legislation covering mandating of online filing and electronic payment for Corporation Tax, VAT and online filing for PAYE is with Parliament and awaiting approval – this is likely to be received over the next few months.
USA/*—noted that this is the first year that an administration has included a mandate for individual returns in their Fiscal Year Revenue proposal. The new administration and the Advancing e-file Study may change the context for achieving more mandates and in particular preparer mandates. Also reported that their E-Channel Initiative will allow the electronic submission of approximately 500 identified non-tax returns into the IRS through various electronic means (i.e. portal, secure e-mail). These forms fall under the categories of applications, claims, supporting documentation, and informational forms. After electronic receipt and validation, these forms will be routed to the appropriate back-end systems for further processing.

'Forum on Tax Administration: Taxpayer Services Sub-Group, Survey tabulations
Survey of Trends and Developments in the Use of Electronic Services for Taxpayer Services Delivery, March 2010'

ANNEX 4 - REPAYMENT RISK COMPARATIVE PERSPECTIVES



As repayment fraud methods increase in sophistication most countries report applying multiple perspectives in determining repayment risk. In each of these perspectives it is likely that multiple factors or variables are taken into account in order to form an assessment of potential risk at any point in time.

The perspectives draw from a revenue authority's whole of taxpayer view. Only the Repayment Transaction and Transaction Pattern Risk elements would have a focus on the specifics of the particular tax type.

Taxpayer Identity Risk – this perspective brings into consideration the certainty or lack of certainty of the identification of the taxpayer. This needs to be assessed both at the initial time of registration and also with each subsequent interaction with the tax system.

The creation of fictitious identities and the use of stolen identities are reported as continually increasing areas of concern in revenue authorities' efforts to combat repayment fraud.

Taxpayer Population Profile Risk – this perspective is associated with the risk posed by the taxpayer as a member of a representative population or populations. One common example is the taxpayer as compared to others in the same industry or occupation.

Most revenue bodies have well established methods of segmentation of taxpayer populations that support their differentiation of overall active compliance activities. Many of these existing methods of identifying out-of-norm behaviour are readily applicable to the treatment of repayment risks provided the underlying population is not itself prone to significant fluctuations or volatility.

Intermediary Compliance Risk – this perspective reflects the risk derived from the taxpayer who is known to be represented or assisted by an intermediary in their dealings with the tax system. An example could include a risk profile of tax agents derived from a comparison of returns lodged by those agents.

It is possible to consider this perspective as a specific type of Taxpayer Population Profile. However, the potential level of influence of an intermediary is likely markedly different to that of a taxpayer's membership of a more traditional market or industry segment. It also presents a different leverage potential for risk treatments – the ability to influence many through attention to one (the intermediary).

Taxpayer Compliance Risk – this perspective is an assessment of the risk of compliance associated with the specific taxpayer. A common example would examine multiple factors of the taxpayers' historic interaction with the tax system to draw a conclusion of their risk of compliance currently and into the future.

This is another common and traditional area of attention within revenue bodies active compliance efforts. The extent to which historic behaviour can be used as an indicator of likely future compliance behaviour is one aspect. Where this perspective is absent, as is the case for a newly registered taxpayer, it is generally accepted that the uncertainty presents an increased level of risk.

Repayment Transaction Risk – this perspective is the risk posed by the actual transaction itself. For example, traditional approaches such as considering the size of the credit claimed the nature or source of the credit being claimed.

The ability to isolate and independently validate the elements within the transaction that present the repayment risk is a significant factor. For example the use of employee withholding information in personal income tax repayment transaction processing systems serves as a primary risk mitigation of the credit claimed.

In contrast, the availability of a credible and readily accessible source of information by which Value Added Tax transactions can be subject to validation, has VAT repayments generally considered higher risk transaction overall.

Transaction Pattern Risk – this perspective is a risk view drawn from examination of groups of transactions to identify patterns or linkages that are unusual. For example, transactions lodged within single periods that have similarities that suggest possible collusion or a single guiding mind behind them.

This perspective most certainly brings into consideration multiple factors in an effort to identify groups of otherwise unrelated transactions that have a level of commonality that is unlikely to occur by chance. Its dependence on access to detailed multi-factor transaction data presents a greater challenge where the transaction itself does not itself is not data rich. E.g. personal income tax is likely a more viable candidate then Value Added Tax.

Whilst the ideal position is that each of these perspectives would be in an advanced state of application within the tax authority's repayment risk activities it is clear that this is not always going to be the case. Constraints in providing an optimum setting in one perspective though may well be compensated by greater level of investment or application of another.

ANNEX 5 - HMRC REPAYMENT SELF EVALUATION QUESTIONNAIRE

HM Revenue & Customs

HMRC Repayments Process Self Evaluation Questionnaire

The HMRC repayments model has been agreed as setting out the principles of best practice and is made up of nine components:

- Customer Verification and Registration
- Processing
- Pre repayment Risk selection
- Post Repayment Risk Assessment
- Active investigation
- Co-ordinated Governance
- Underpinning Support
- External support
- Change of circumstances

Business areas are asked to review their existing processes and compare them against the key stages and steps in the process. The following templates provide the basis for this self evaluation. The templates provide a basis upon which to make an assessment, but ultimately this will be a matter of judgement taking into account both the strength of the processes and the risks faced.

Please supply an overall evaluation, ***plus*** an evaluation against each (applicable) component using a RAG basis.

Summary RAG assessment: [*Business Area*]				
	COMPONENT	**RAG***	**Constraints:** (e.g. IT; issues around MIS; staff shortages or training needs; legal barriers)	**Comments**
1	Customer Verification and Registration			
2	Processing			
3	Pre repayment Risk selection			
4	Post Repayment Risk Assessment			
5	Active investigation			
6	Co-ordinated Governance			
7	Underpinning Support			
8	External support			
9	Change of circumstances			

*RED – Highly problematic, requires urgent and decisive action; AMBER\RED – Problematic, requires substantial action, some urgent; AMBER\GREEN – Mixed, aspect(s) require substantial attention, some good; GREEN – Good, requires refinement and systematic implementation.

1. CUSTOMER VERIFICATION AND REGISTRATION

Key Elements	Formal process Y/N/NA	RAG	**Constraints:** (e.g. IT; issues around MIS; staff shortages or training needs; legal barriers)	Comments
Legal or Voluntary Notification:				
Legal or Voluntary Registration				
Power to refuse				
Identity checked on 1st entry:				
Writing				
On-line				
Phone				
Done in own Business				
Identity checked on subsequent contact:				
Writing				
Phone				
On-line				
Done in own Business				
Bona fides checked:				
Internal checks				
Done in own Business				
External checks				
Intermediary can register:				
Checks on intermediary				
Done in own Business				
External dependencies				
Intermediary can notify:				
Checks on intermediary				
Done in own Business				
External dependencies				

2. PROCESSING

Key Elements	Formal process Y/N/NA	RAG	Constraints: (e.g. IT; issues around MIS; staff shortages or training needs; legal barriers)	Comments
Trigger for repayment:				
Formal claim				
Informal claim				
In a formal return				
In amended return				
Notification (VAT disclosure)				
Prompted by HMRC review				
Channel used:				
Correspondence				
On line				
Phone				
Who does:				
Own business unit				
Specialist unit				
External dependencies				
Inputs:				
Manual				
OCR				
Automatic				
Basic error resolution (clean data)				
Any checks in processing, e.g. data quality				
Query/validity resolution:				
Done in own business				
Done by phone				
Done by writing				
Done on-line				
Identity checked on input:				
Writing				
On-line				
Phone				
Risk Assessment				
Automatic				
Manual				
Payment made:				
Automatic				
Non-automatic				
Payment allowed to:				

Intermediaries				
Nominees				
Method of repayment:				
BACS				
CHAPS				
Manual				
Electronic				
Data stored to allow MIS to be obtained				
Any checks at final point of payment				
Bank wizard				
Bank account anomalies				
External feedback				

3. PRE REPAYMENT RISK SELECTION

Key Elements	Formal process Y/N/NA	RAG	**Constraints:** (e.g. IT; issues around MIS; staff shortages or training needs; legal barriers)	Comments
Risk Rules:				
Automatic				
Manual				
Based on risk rules				
Based on sampling				
Include random selections				
Rules Purpose:				
Aimed to detect internal fraud				
Aimed to detect external fraud				
Aimed at reputational risk				
Rules Flexibility:				
Capable of being changed				
Dependent on hard coded system changes				
Represent profiles of known frauds				
Clearly owned				
Regularly reviewed				
Linked to other compliance risk assessments				
Rules Timing:				
Rules select cases for further manual				
Repayment made after checks concluded				
Data stored – Usable in preparing MIS				

4. Post Repayment Risk Assessment				
Key Elements	**Formal process Y/N/NA**	**RAG**	**Constraints:** (e.g. IT; issues around MIS; staff shortages or training needs; legal barriers)	**Comments**
Post repayment checking rules:				
Same basis as pre-rpt,				
Different basis				
Specific cases risk selected				
Sample of cases				
If risk rules used then different risks than pre rpt cases				
Post repayment checking not done				
Other post repayment functions:				
Reconciliation				
Data collation				
Accounting functions				

5. Active investigation				
Key Elements	**Formal process Y/N/NA**	**RAG**	**Constraints:** (e.g. IT; issues around MIS; staff shortages or training needs; legal barriers)	**Comments**
Range of activity resolving errors with customers:				
Phone				
Writing				
On line				
Credibility Query				
Other activity				
Civil investigation				
Criminal Investigation				
Process for case selection:				
Risk Rules				
Other referrals, e.g. officer suspicions				
Informal process				
Whistleblowing				
Formal review process:				
By Specialist trained staff				
Part time or				
Full time role				
Training provided for role				
Potential review outcomes:				
Correction				
Investigation				
Prosecution				

6. Co-ordinated Governance				
Key Elements	**Formal process Y/N/NA**	**RAG**	**Constraints:** (e.g. IT; issues around MIS; staff shortages or training needs; legal barriers)	**Comments**
Clear Governance structure				
Clear Governance process				
Clear Accountability				

7. Underpinning Support				
Key Elements	**Formal process Y/N/NA**	**RAG**	**Constraints:** (e.g. IT; issues around MIS; staff shortages or training needs; legal barriers)	**Comments**
Effective Policies:				
Effective Legislation:				
IS/IT support:				
Training:				

8. External support				
Key Elements	**Formal process Y/N/NA**	**RAG**	**Constraints:** (e.g. IT; issues around MIS; staff shortages or training needs; legal barriers)	**Comments**
Use of agents\intermediaries				
Other Government Depts.				
Police fraud units				
Private sector – e.g. banks				

9. Change of circumstances (e.g. address, Bank a\c, significant details)				
Key Elements	**Formal process Y/N/NA**	**RAG**	**Constraints:** (e.g. IT; issues around MIS; staff shortages or training needs; legal barriers)	**Comments**
Effective Risk Assessment:				
Phone				
Writing				
On line				
Level of verification:				
Documentation check				
Own systems				
Third Parties				

ANNEX 6 - AGGREGATED DATA FROM SURVEYED COUNTRIES

Features of the personal income tax systems in the surveyed countries

Country	Withholding	Employees file return	Other return	Pre-filled returns	Lodgment gap	Refund assessment	Tax Gap
Australia	Non-cumulative	Yes	No	Yes	No	Self-assessed	No
Canada	Non-cumulative	Yes	No	No	Yes	Self-assessed	Yes
France	None	Yes	No	Yes	Yes	Assessed	No
Ireland	Cumulative	No	Yes	Yes	No	Self-assessed	No
Korea	Cumulative	Yes	Yes	Yes	Yes	Self-assessed	No
Netherlands	Non-cumulative	Yes	No	Yes	Yes	Assessed	No
Spain	Cumulative	Yes	No	Yes	Yes	Self-assessed	No
United Kingdom	Cumulative	No	Yes	No	No	Self-assessed	Yes
United States	Non-cumulative	Yes	No	No	Yes	Self-assessed	Yes

Personal income tax market in the surveyed countries

Country	Population Mln (2009)	Individual taxpayers Mln (2008*)	Taxpayers as a % of population^	No. of refunds (2008)	Change in no. (2006-2008)	No. refunds as % of taxpayers	Value of refunds (2008)	Value of refunds 2008 ($US)	Change in value (2006-2008)	Value of refunds as % of gross tax	2008 average refund (US currency)
Australia	22.2	12.6	57%	10,227,002	16%	81%	$22,429,195,628	$18,813,282,694	42%	18%	$1,840
Canada	34.0	26.1	77%	17,309,794	6%	66%	$26,039,527,797	$24,404,430,925	20%	19%	$1,410
France/1	65.4	36.4	56%	11,700,000	30%	32%	€ 6,266,000,000	$9,178,531,669	33%	10%	$784
Ireland	4.5	2.7	61%	1,191,155	39%	44%	€ 3,398,000,000	$4,977,441,847	11%	20%	$4,179
Korea – wage and salary /2	49.8	14.1	28%	5,774,784	15%	41%	KRW 4,240,915,000,000	$3,848,031,032	17%	30%	$666
Korea – non wage and salary /2	49.8	3.6	7%	14,805,790	2,653%	413%	KRW 3,212,569,000,000	$2,914,952,364	596%	79%	$197
Netherlands	16.6	9.6	58%	7,500,000	15%	78%	€ 12,190,000,000	$17,856,096,561	26%	23%	$2,381
Spain	46.0	19.6	43%	15,761,540	20%	81%	€ 12,880,531,000	$18,867,596,824	23%	18%	$1,197
United Kingdom	62.0	46.5	75%	6,070,000	-10%	13%	£10,200,000,000	$18,751,034,064	5%	6%	$3,089
United States /3	308.8	154.3	44%	111,064,486	5%	83%	$366,132,092,000	$366,132,092,000	51%	26%	$3,297
Average	**67.7**	**33.5**	**55%**	**20,733,196**	**15%**	**58%**	**-**	**$53,647,615,291**	**25%**	**19%**	**$2,094**

Source *'OECD population Statistics; OECD currency statistics (for $US conversion rate); survey data; US Internal Revenue Service Data Book.'*

/1. Figures are for the 2007 to 2009 financial years.

/2. Korea provided two sets of data corresponding with wage and salary taxpayers and non wage and salary taxpayers. In terms of the following analysis only the later is considered as we are unable to reconcile the two populations. The large percentages are a result of a government subsidy in 2008 (and 2009) distributed through the tax channel as a form of individual income tax refund. The subsidy assisted low-income citizens to offset the rising cost of oil and gas. Over the two years some KRW2,582 billion ($US2.34 billion) was delivery to 13,939,626 taxpayers.

/3. Refunds include a one-off economic stimulus payment of around $US96 billion in 2008.

Correlations between key measures and attributes

Measure	% change in number of refunds (2006-2008)	% change in value of refunds (2006-2008)	change in average refund (%)	Refunds as a % of tax (2008)	No. refunds as % of no. of taxpayers (2008)	Population	Taxpayers	Total refunds (2008 $US)	Average refunds (2008 $US)	No. refunds (2008)
% change in number of refunds (2006-2008)	**-**	0.05	**-0.65**	0.16	0.07	-0.35	-0.45	-0.30	-0.04	-0.29
% change in value of refunds (2006-2008)	0.05	**-**	**0.68**	0.30	**0.66**	**0.62**	**0.56**	**0.66**	-0.11	**0.70**
% change in average refund	**-0.65**	**0.68**	**-**	-0.06	0.43	**0.70**	**0.76**	**0.72**	0.13	**0.74**
Refunds as a % of tax (2008)	0.16	0.30	-0.06	**-**	**0.54**	0.25	0.09	0.34	-0.06	0.34
No. refunds as % of no. of taxpayers (2008)	0.07	**0.66**	0.43	**0.54**	**-**	0.25	0.15	0.39	-0.05	0.43
Population	-0.35	**0.62**	**0.70**	0.25	0.25	**-**	**0.98**	**0.97**	0.24	**0.97**
Taxpayers	-0.45	**0.56**	**0.76**	0.09	0.15	**0.98**	**-**	**0.95**	0.28	**0.95**
Total refunds (2008 $US)	-0.30	**0.66**	**0.72**	0.34	0.39	**0.97**	**0.95**	**-**	0.36	**0.99**
Average refunds (2008 $US)	-0.04	-0.11	0.13	-0.06	-0.05	0.24	0.28	0.36	**-**	0.28
No. refunds (2008)	-0.29	**0.70**	**0.74**	0.34	0.43	**0.97**	**0.95**	**0.99**	0.28	**-**
Withholding	-0.39	-0.20	0.11	0.45	0.37	0.01	-0.03	0.14	0.40	0.10
Withholding type	-0.41	0.36	**0.56**	0.46	**0.71**	0.22	0.20	0.39	0.27	0.37
Employees file return	0.02	**0.67**	0.33	0.45	**0.64**	0.21	0.13	0.20	**-0.71**	0.28
Other return	-0.02	**-0.73**	**-0.57**	-0.02	**-0.73**	-0.23	-0.23	-0.28	0.34	-0.36
Pre-filled	**0.78**	0.00	**-0.63**	0.19	0.11	**-0.54**	**-0.66**	**-0.53**	-0.31	**-0.53**
Lodgment gap	0.01	0.31	0.11	0.43	0.34	0.31	0.24	0.25	**-0.58**	0.33
Assessment	-0.29	-0.16	0.07	0.18	0.06	0.16	0.15	0.19	0.24	0.18
Tax Gap	**-0.78**	0.00	**0.63**	-0.19	-0.11	**0.54**	**0.66**	**0.53**	0.31	**0.53**

Company income tax

Table below details the survey data collected for company taxes. The immediate points of contrast between company and personal taxes are the smaller population, the smaller proportion that obtained a refund (20% on average), the smaller aggregate value of refunds (except for France, although this figure includes a short term economic stimulus program) but the much larger average refund and the much greater change in the value over three years (56% for company refunds compared to 25% for personal refunds). In terms of company taxes across the countries there are a number of notable contrasts. The change in the number of refunds between 2006 and 2008 sees two distinct groups: Australia, Canada, Ireland, the Netherlands and Spain will small or negative growth; and the rest with growth more than double the first group. In terms of the number of refunds as a proportion of taxpayers, Canada and the US stand out for their small percentages. In terms of the change in value France had a 150% increase compared to an average of 56%, which probably made a large contribution towards giving it the highest average refund among the group. Canada is notable for the relatively small numbers in terms of changes in value over time and proportional values.

Company income tax market in the surveyed countries

Country	Company taxpayers	No. of refunds	Change in no. 2006-2008	No. refunds as % of taxpayers	Value of refunds	Value of refunds ($US)	Change in value 2006-2008	Refunds as % of gross tax	2008 average refund (US currency)
Australia	772,435	196,367	-4%	25%	$6,912,497,809	$5,798,102,507	52%	10%	$29,527
Canada	1,671,521	55,100	5%	3%	$2,902,029,000	$2,719,802,249	8%	6%	$49,361
France /1	1,535,000	316,800	38%	21%	€ 24,754,200,000	$36,260,326,947	150%	28%	$114,458
Ireland	154,624	28,538	7%	18%	€ 975,000,000	$1,428,194,762	66%	16%	$50,045
Korea	398,331	81,061	20%	20%	KRW 4,657,615,000,000	$4,226,127,393	5%	12%	$52,135
Netherlands	791,000	269,000	5%	34%	€ 9,086,000,000	$13,309,310,365	30%	33%	$49,477
Spain	1,450,907	433,036	3%	30%	€ 7,721,841,000	$11,311,069,608	41%	28%	$26,120
United Kingdom /2	2,100,000	490,000	17%	23%	£7,800,000,000	$14,339,026,049	75%	17%	$29,263
United States	6,978,000	630,200	42%	9%	$53,569,392,000	$53,569,392,000	80%	15%	$85,004
Mean	**1,761,313**	**277,789**	**15%**	**20%**	**-**	**$15,884,594,653**	**56%**	**18%**	**$53,932**

/1. Refunds in 2008 include measures adopted from a stimulus package with an estimated cost of around €14.6 billion. Figures are for the 2007 to 2009 financial years.

2/. Figures are for the 2007 to 2009 financial years.

Source: *OECD population Statistics; OECD currency statistics (for $US conversion rate); survey data; US Internal Revenue Service Data Book.'*

Value added tax

Table Z details the value added tax markets of the nine countries. Most notable is the small change in the average number of refunds (9%) but the large proportion of refunds relative to taxpayers (79%), the latter partly reflecting the practice of multiple lodgments over the year (and the reason why some countries have percentages greater than 100%). While the change of value is lower on average than for the other taxes, the proportion of gross tax refunded is higher.

VAT market in the surveyed countries

Country	VAT taxpayers	No. of refunds	Change 2006-2008	No. refunds as % of no. TP	Value of refunds	Refund 2008 ($US)	Change in value 2006-2008	Refunds as % of gross tax	2008 average refund (US currency)
Australia	1,971,116	1,971,116	2%	100%	$41,587,000,000	$34,882,570,039	36%	50%	$17,697
Canada	2,800,000	2,604,000	-2%	93%	$30,991,000,000	$29,044,985,942	-13%	67%	$11,154
France/1	3,450,000	1,055,000	3%	31%	€ 45,965,000,000	$67,330,227,925	12%	32%	$63,820
Ireland	287,406	321,655	11%	112%	€ 4,560,000,000	$6,679,557,040	5%	25%	$20,766
Korea	4,714,227	926,667	7%	20%	KRW 38,967,500,000,000	$35,357,499,319	53%	47%	$38,156
Netherlands	1,408,000	2,110,716	15%	150%	€ 24,103,000,000	$35,306,439,327	24%	36%	$16,727
Spain	3,599,704	452,592	33%	13%	€ 31,745,848,000	$46,501,798,793	16%	27%	$102,746
United Kingdom/2	1,900,000	2,170,000	5%	114%	£59,000,000,000	$108,461,863,706	10%	41%	$49,982
United States	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average	**2,516,307**	**1,451,468**	**9%**	**79%**	**-**	**$45,445,617,761**	**18%**	**41%**	**$40,131**

1. Figures are for the 2007 to 2008 financial years.

2. Figures are for the 2007 to 2009 financial years.

Source: OECD population Statistics; OECD currency statistics (for $US conversion rate); survey data; US Internal Revenue Service Data Book.

The association between characteristics and tax outcome for the personal tax segment

The analysis in table below shows the average and median personal income tax refund outcome associated with the various tax system characteristics. Considering withholding type first, the countries with non-cumulative withholding generally have a larger market as given by the size of the population, number of taxpayers and number of refunds. However, these countries have experienced a smaller increase in the number of refunds over the period 2006 to 2008 (9% on average compared to 25% for countries with cumulative withholding and 30% for France which has no withholding) suggesting a more stable market although one in which a greater number of taxpayers receive refunds (on average 77% compared to 44%). Countries with non-cumulative withholding also have higher levels of refunds ($136.4 billion compared to $13.1 billion, although the medians show this figure is skewed by the large refunds in the US) and these have grown at a faster rate over the period (37% compared to 20%). They also return more of the gross tax back to taxpayers (21% vs. 16%).

Analysis of associations between features and refund outcomes in the surveyed countries

Country	Population - 2009	Individual taxpayers	No. of refunds - 2008	Change 2006-2008	Value of refunds - 2008 ($US)	Change 2006-2008	Refunds as % of tax	No. refunds as % of no. of taxpayers	2008 average refund (US currency)
Australia	22,183,000	12,640,767	10,227,002	16%	$18,813,282,694	42%	18%	81%	$1,840
Canada	34,029,000	26148,317	17,309,794	6%	$24,404,430,925	20%	19%	66%	$1,410
France	65,447,374	36,390,000	11,700,000	30%	$9,178,531,669	33%	10%	32%	$784
Ireland	4,459,300	2,715,038	1,191,155	39%	$4,977,441,847	11%	20%	44%	$4,179
Korea	49,773,145	14,145,580	5,774,748	15%	$3,848,031,032	17%	30%	41%	$666
Netherlands	16,595,700	9,600,000	7,500,000	15%	$17,856,096,561	26%	23%	78%	$2,381
Spain	45,989,016	19,545,751	15,761,540	20%	$18,867,596,824	23%	18%	81%	$1,197
United Kingdom	62,041,708	46,500,000	6,070,000	-10%	$18,751,034,064	5%	6%	13%	$3,089
United States	308,845,000	134,385,612	111,064,486	5%	$366,132,092,000	51%	26%	83%	$3,297
Mean	***67,707,027***	***33,563,452***	***20,733,196***	***15%***	***$53,647,615,291***	***25%***	***19%***	***58%***	***$2,094***
Median	***45,989,016***	***19,545,751***	***10,227,002***	***15%***	***$18,751,034,064***	***23%***	***19%***	***66%***	***$1,840***
Cumulative/non-cumulative withholding									
Non-cumulative (mean)	95,413,175	45,693,674	36,525,321	10%	$106,801,475,545	34%	21%	77%	$2,232
Non-cumulative (median)	28,106,000	19,394,542	13,768,398	10%	$21,608,856,810	34%	21%	80%	$2,110
Cumulative (mean)	40,565,792	20,726,592	7,199,370	16%	$11,611,025,942	14%	19%	45%	$2,283
Cumulative (median)	47,881,081	16,845,666	5,922,392	17%	$11,864,237,956	14%	19%	42%	$2,143
None	65,447,374	36,390,000	11,700,000	30%	$9,178,531,669	33%	10%	32%	$784

Employees filing responsibilities									
File return (mean)	77,551,748	36,122,290	25,619,658	15%	$65,585,723,101	30%	20%	66%	$1,654
File return (median)	45,989,016	19,545,751	11,700,000	15%	$18,813,282,694	26%	19%	78%	$1,410
Not file (mean)	33,250,504	24,607,519	3,630,578	15%	$11,864,237,956	8%	13%	28%	$3,634
Not file (median)	33,250,504	24,607,519	3,630,578	0	11,864,237,956	0	0	0	3,634
Other alternative tax returns									
No other return (mean)	82,181,515	39,785,075	28,927,137	15%	$75,875,338,446	32%	19%	70%	$1,818
No other return (median)	40,009,008	22,847,034	13,730,770	16%	$18,840,439,759	30%	18%	79%	$1,625
Other return (mean)	38,758,051	21,120,206	4,345,313	15%	$9,192,168,981	11%	19%	33%	$2,645
Other return (median)	49,773,145	14,145,580	5,774,784	15%	$4,977,441,847	11%	20%	41%	$3,089
Pre-filled returns									
Pre-filled (mean)	34,074,589	15,839,523	8,692,414	22%	$12,256,830,104	25%	20%	59%	$1,841
Pre-filled (median)	34,086,008	13,393,174	8,863,501	18%	$13,517,314,115	24%	19%	61%	$1,518
No pre-fill (mean)	134,971,903	69,011,310	44,814,760	0%	$136,429,185,663	25%	17%	54%	$2,599
No pre-fill (median)	62,041,708	46,500,000	17,309,794	5%	$24,404,430,925	20%	19%	66%	$3,089
Gap between end of financial year and lodgement period									
Lodgment gap (mean)	86,779,873	40,035,877	28,185,101	15%	$73,381,129,835	28%	21%	63%	$1,623
Lodgment gap (median)	47,881,081	22,847,034	13,730,770	15%	$18,361,846,692	24%	21%	72%	$1,303
No lodgement gap (mean)	49,890,694	31,843,589	9,332,334	12%	$15,580,949,476	27%	11%	42%	$1,904
No lodgment gap (median)	62,041,708	36,390,000	10,227,002	16%	$18,751,034,064	33%	10%	32%	$1,840
Self-assessed returns									
Self-assess (mean)	75,331,453	36,583,009	23,914,109	13%	$65,113,415,627	24%	20%	58%	$2,240
Self-assess (median)	45,989,016	19,545,751	10,227,002	15%	$18,813,282,694	20%	19%	66%	$1,840
Assess (mean)	41,021,537	22,995,000	9,600,000	23%	$13,517,314,115	30%	16%	55%	$1,583
Assess (median)	41,021,537	22,995,000	9,600,000	23%	$13,517,314,115	30%	16%	55%	$1,583
Measure tax gap									
Tax gap (mean)	134,971,903	69,011,310	44,814,760	0%	$136,429,185,663	25%	17%	54%	$2,599
Tax gap (median)	62,041,708	46,500,000	17,309,794	5%	$24,404,430,925	20%	19%	66%	$3,089
No tax gap (mean)	34,074,589	15,839,523	8,692,414	22%	$12,256,830,104	25%	20%	59%	$1,841
No tax gap (median)	34,086,008	13,393,174	8,863,501	18%	$13,517,314,115	24%	19%	61%	$1,518