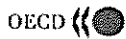


附件六——專題報告

OECD 專題報告

Overview of Cash Intensive Business



1

OECD

Organisation for Economic Co-operation and Development

Overview of Cash Intensive Business

Matthijs Alink, OECD

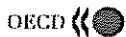
5th SGATAR Joint Training Programme
Thailand, 18 – 22 June 2007



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Cash economy is a significant and complex problem for many countries

- The cash or underground economy is economic activity which is not accounted for as required by the law.
- Estimates (by academics) of the size of the cash economy in OECD and other countries show an consistent upward trend. There are serious doubts however on if accurate estimates can be made realistically
- Governments are increasingly concerned to understand the drivers of this growth and find mechanism for its containment



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A growing cash economy challenges governance in a number of ways

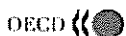
- It reduces the legitimacy of the taxation system
- It distorts macroeconomic policy
- It threatens the social contract between government and the community



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Difficulty to measure the size of cash economy

- Different definitions, different assumptions and different calculation methods produce different results in the size of cash economy
- Many revenue bodies strongly question the extent to which accurate measurement of the entire tax gap are realistically attainable, given that a fair amount of income goes unrecorded in economic terms as part of the cash/hidden economy and is difficult to readily quantify through traditional tax verification process



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Definitions of cash economy

- There is no commonly agreed or used definition of the underground, or cash economy
- Terms such as "underground", "grey", "hidden", "shadow" and cash economy are often considered to represent the same thing, but their definitions generally include or exclude different activities



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Different definitions of cash economy

- "all economic activities that contribute to the officially calculated (or observed) gross national product but are currently unregistered" (Schneider and Enste)
- "all production, both legal and illegal, that is hidden from income tax. Restricting the concept to production excludes such activities as theft and extortion, which produces no added value in the economy and may be regarded as transfers (Lafliche)

Narrow definition from tax evasion perspective (Bajada, Tanzi)

- Underground economy consists of activities which would normally be measured in the national accounts, but because of the failure to report income in whole or in-part are neither measured nor taxed
- All forms of criminal activities, such as theft, drug trafficking and prostitution, are generally not part of the underground economy
- All types of do-it-yourself activities, such as household repairs and maintenance by the homeowner as well as non-market activities, do not form part of the underground economy

Different terminology – different meaning

- **Unreported economy:** tax evasion, benefit fraud
- **Unrecorded economy:** income-producing activities are concealed and not included in national income accounts, accounting conventions are violated
- **Illegal economy:** corruption, extortion, financial fraud, smuggling, (organized) crime, theft
- **Informal economy:** activities circumvent the burdens and are excluded from the benefits and rights incorporated in the laws and regulations covering property relationships, commercial licensing, labour contracts, financial credit, and social security systems

Overall Tax Gap

The total amount of tax not collected resulting from all forms of non-compliance for all taxes administered by a revenue body

Methodologies for calculating the size of the cash economy

3 main methods:

- Direct or micro approaches: random auditing methods and survey methods
- Indirect or macro approaches: based on national accounts (discrepancy between legitimate income and expenditure, relationship between volume of transactions and official GNP, participation rate on labour market) and (most popular among academics) monetary methods (variations on currency demand)
- Model approaches with multiple indicators

Tax gap estimates by revenue bodies

- Many revenue bodies strongly question the extent to which accurate measurements of the entire tax gap are realistically attainable, given that a fair amount of income goes unrecorded and is difficult to readily quantify through traditional tax verification processes
- To the extent that global estimates can be made they may not really help the revenue body pinpoint what are the major specific compliance risk areas to be addressed by them
- Most revenue bodies that undertake research are quite reluctant to make their results public

Random audit programmes

- Properly-executed random audit programs can identify important elements of non-compliance
- The conduct of such programmes on a broad scale is very expensive in terms of resources
- Random audit programs lay an extra compliance burden on taxpayers, many of them being compliant taxpayers
- Neither random audit programs or any other method do fully accurate measure the entire tax gap

Published estimations by tax authorities

- Sweden has published an overall estimate of its tax gap of around 9% of the theoretical revenue base (consisting of 60% informal sector, 15% international transactions, 15% large companies and 10% others)
- UK has measured and published its compliance rate for VAT (87%). They have also done research on the income tax gap, but have not published the results
- US has also published estimates of compliance levels. Most recent estimates suggest an initial compliance rate of 84% (and 86% after the results of various enforcement efforts are included)

US Tax Gap

- **Gross Tax Gap**
Difference between the taxes that tax payers should pay and the taxes they actually pay before the IRS enforcement actions are taken
- **Net Tax Gap**
Difference after enforcement actions

Gross tax gap comprised of 3 components:

1. Non-filing (failure to file a return), accounts for 8% of total tax gap
2. Underreporting (understating income, overstating deductions), 82% of total tax gap
3. Underpayment (failure to fully pay reported taxes owed), 10% of total tax gap

Swedish analysis of tax audits

- Established self-employed business owners compared with employees in the same sector have considerable lower "white" declared income
- Other living standard indicators, including home size and car ownership show that entrepreneurs have a standard of living that is commensurate with a considerable higher income than is officially declared
- An estimate of the true income in an entrepreneur household, compared with that for a wage earner based on foodstuff consumption, provides results in respect of under-declaration among business owners

More useful approach (reflected in tax administration work at the OECD)

- Well-developed compliance risk management processes for the identification, assessment and treatment of major compliance risks for each of the major groupings of taxpayers
- Risk assessment approach entails an element of estimating the revenue potential of a particular risk (e.g. undeclared business income of self-employed persons, over claimed employee work-related expenses)
- Once the major risk areas are assessed and prioritized, treatment strategies are developed

Classical examples of Cash intensive business(1)

- Street markets
- Home production workers (cloth, shoes, liquor, cigars)
- Small undertakers assemblage work
- Agriculture (temporary workers)
- Building and construction
- Fishery and related work
- Hotels/restaurants/ café's
- Tourism (renting beach chairs, diving schools, guides)

Classical examples of Cash intensive business(2)

- Real estate
- Car sales
- Artists / musicians
- Sportsmen
- Taxi drivers
- Shoe cleaners
- Housekeeping, baby sitting
- Cleaning
- Painting, plumbing, gardening

Mega trends with deep impact on the structure of society

Mega trends such as Globalization, developments in Technology (especially ICT) , Citizens' Norms and Values, and Demographic shifts will likely have a significant impact on tax compliance issues

- Small companies are becoming increasingly global
- Non-harmonized tax regimes and non-harmonized administrative procedures are rapidly increasing risks
- International trends and cross-border risks have an increased impact on domestic taxation risks

Globalization

- Today even small companies are able to compete and exploit global niche markets. An important driver for this trend is communication through the internet
- Yet small companies face the same complex regulatory tax environment that larger companies do, however with much less resources to comply with international tax regulations
- The existence of global intermediaries and "low tax" jurisdictions have increased the possibility of non-compliance

E-commerce

- The absence of physical location makes it difficult to identify the tax jurisdiction for a particular source of income
- Traditional forms of control, such as physical border controls are not feasible in virtual settings
- Websites can be controlled remotely from anywhere in the world and may easily be moved across tax regimes
- Proof of identity can be very weak on the Internet and it may even be protected by privacy laws
- New payment systems can potentially be operating outside the existing banking systems in electronic environments

Economic importance of SME

- SME potentially the most dynamic sector of economy
- SME growth is key for overall economic well-being
- SME represents 99% of all companies in EU
- Due to their small size and lean structures, SME are potentially more dynamic than big enterprises, which make them particularly important for job creation
- But SME are also more vulnerable, lacking often access to capital and to funding sources
- SME are suffering from the administrative burden, especially SME doing cross-border business

OECD's policy brief of January 2007 Cutting Red Tape: National Strategies

- Cutting red tape is a priority on the political agenda
- Business spend to much time to activities such as filing out forms, applying for permits and licences, reporting business information, notifying changes
- This is particularly burdensome to smaller business, and may even discourage people from starting up a new business
- WB Doing Business annual report includes administrative burdens as a key variable in competitiveness

The field of taxation places a significant administrative (compliance) burden on business

- At the Forum on Tax Administration (FTA) meeting held in Seoul 2006 both the Netherlands and UK tax commissioners noted the significant efforts underway to reduce administrative burdens on business
- The OECD Secretariat is working on a report for the FTA Taxpayer Services Subgroup to identify details of the key strategies of revenue bodies and of their impacts to be presented to the CFA in January 2008

Reducing the Compliance Burden for SME

- The compliance burden created by the complexity of tax law and administration is of special concern to SME
- The fixed component of start-up and compliance costs can place SME at a competitive disadvantage, and may also have an adverse distributional impact
- Governments must strive to find measures that reduce the compliance burden, without undermining the quality or availability of the information needed to enforce compliance

Challenge to seek the minimum necessary information for effective control

- What are the major burdens that SMEs face in complying with the tax system, and how large are they?
- What strategies have been most effective in reducing the compliance burden (simplifying tax legislation, improving forms and procedures, streamlining processes, intergovernmental co-operation)
- What role can information technology play in reducing the compliance burden

Measures taken by governments

- Harmonizing/standardisation of definitions and language in (tax) legislation
- Use of single (Tax) Identification Number across government
- (Electronic) single business information point delivering government wide information
- Reuse of information
- Standardisation of electronic information (processes, architecture, infrastructure)

Taxation and small and medium-sized enterprises (SMEs):

Overview of key tax policy issues for SME

OECD's policy work on tax and SMEs

"Taxation and small business" (1994) report by WP2 of the OECD Committee on Fiscal Affairs

"Taxation and SMEs": subject of the global forum of the International Tax Dialogue (Buenos Aires, October 2007)

- IMF / World Bank Survey: developing countries
- OECD Survey: OECD Member countries

- Which aspects of tax systems / tax policies and tax administration practices are unfavourable for SME creation and their growth?
- Which obstacles discourage the SME sector from paying their fair share of tax revenues?
- What are the best practices in designing tax policies and tax administration systems to reduce impediments and obstacles to these goals?

Six policy reasons for SME tax relief

1. Positive externalities from vibrant SME sector:
 - creation of knowledge
 - overall dynamism
 - growth in self-employment runs counter-cyclically
2. Relatively high costs (compliance costs) for SMEs in complying with tax policy and administration (PIT, CIT, VAT, environmental and other regulations, etc.)
3. The high administrative costs for governments of imposing particular tax rules might exceed corresponding tax revenues

4. Relatively higher cost of capital for small firms than for larger firms due to financial market imperfections
5. If the tax system favours large businesses (e.g., accelerated depreciation allowances), providing additional tax relief to small businesses might restore neutrality
6. Other cost disadvantages of small relatively to large businesses:
 - Economies of scale in production
 - Economies of scale in innovation

But government intervention would entail an economic loss to the economy if less profitable firms that operate at higher average costs are supported

How to provide relief for SMEs: tax and non-tax issues

1. Addressing tax compliance cost disadvantages:
 - Direct way
 - Indirect tax relief
2. Addressing capital market imperfections:
 - Direct way
 - Creation of a financial, macroeconomic, institutional and legal climate that reduces financial market imperfections
 - Provision of public funds as loans to finance capital
 - Direct subsidies to SMEs, for instance in areas with high unemployment
 - Indirect tax relief
 - Reduced tax rates/schedules
 - Additional tax assistance (tax deductions, tax credits, etc.)

3. Improving technological and economic environment:
 - Financial aid or other schemes to improve (labour) skills and know-how of SMEs
 - Schemes to promote innovation and quality of SMEs
 - Schemes to promote productivity and competitiveness through diffusion of technology and skills
 - Schemes to facilitate access to research findings
 - Tax credits for expenditure on research
 - Schemes to diffuse the use of computers and automated processes
 - General export promotion
4. Assistance in the establishment stage:
 - Schemes to ensure availability of capital for new start-ups
 - Alleviation of tax burdens for new enterprises (time-limited tax holidays)
 - Information and counselling assistance
 - Training in entrepreneurship

The choice for either tax or non-tax instruments and the choice for a particular instrument should be based on the criteria of economic efficiency, fairness, administrative simplicity, transparency and minimisation of costs in terms of revenue foregone.

In what follows: for small unincorporated or small incorporated businesses

DIFFERENT WAYS OF PROVIDING TAX RELIEF FOR SMEs

Tax relief for small unincorporated businesses

Definition: an unincorporated business is usually owned by a single person (= sole proprietorship), typically a self-employed person (an own-account worker), who might hire other workers as well.

Different tax characteristics of unincorporated and incorporated businesses:

Determination of tax base:

- Taxable business income (labour income and capital income) included in total taxable income of the owner of the unincorporated business and taxed at progressive PIT rates
- Incorporated business: wages deductible in calculating corporate profits; profits taxed at CIT; labour and return on capital taxed at personal level

Tax rates/schedule

Tax payment: labour income in corporation is taxed at source => periodical labour taxes (or at end of year) for self-employed.

Directly addressing the compliance costs disadvantages:

- Simplified accounting: cash accounting rather than accrual accounting, often when turnover is below a given threshold.
- Forfaitaire arrangement: taxation of approximation of actual profits (simplified tax base), often under a simplified tax schedule and with simplified reporting requirements

Indirectly addressing capital market imperfections and tax compliance costs through the tax system:

- Basis of assessment: self-employed might choose a tax year commencement date that differs from 1st of January; tax gain if tax brackets and other provisions are indexed for inflation. Additional tax gain if final date for payment of tax is delayed
- Other tax reliefs (in addition to forfaitaire arrangement): additional tax allowances, tax credits, special tax treatment of capital gains

Tax relief for small incorporated businesses

Simplified accounting directly addresses the compliance costs disadvantages: cash accounting rather than accrual accounting, simplified tax returns (lower information requirements)

Indirectly addressing capital market imperfections and tax compliance costs through tax system:

Preferential business tax rates/schedules: tiered, progressive rate schedule to corporate income of all corporations OR lower corporate tax rate only if profits are below a threshold

General tax incentives (more generous than those provided to large corporations) and additional targeted tax incentives (e.g., targeted at SMEs undertaking R&D, for investments in certain regions)

Reducing tax compliance costs w.r.t. VAT

• (Optional) relief from registration for VAT

Advantages:

No need to account for tax on sales and purchases: reduced record keeping
No need to periodically pay VAT

Disadvantage:

Inability to claim a tax credit for the VAT paid on intermediate inputs

• Modified administration requirements

- The option to submit returns and VAT payments less frequently
- The option to account for tax on a cash "payments basis", with VAT computed on aggregate receipts (sales) less aggregate payments (purchases)
- The calculation of VAT liability on an estimated basis (e.g., a fixed percentage of purchases and/or sales)

• Reduction in net tax payable: waiving all or some fraction of the net VAT payable

Reducing tax compliance costs w.r.t. other taxes

Transfer taxes:

To facilitate inter-generational transfers of businesses or other assets (either at death or gifts): most countries levy rather low tax rates. These provisions generally are not targeted at small businesses, but tend to provide greater percentage tax relief if the value of the transfer is relatively low.

Capital gains taxes, property taxes, wealth taxes and SSC:

All of these taxes might provide certain relief for small unincorporated and incorporated businesses.

Tax distortion of choice of legal form

Tax system should be neutral over the choice of organizational form of a business. The tax system should not provide small businesses with a tax-induced incentive to choose for the incorporated legal form (and vice versa).

Relevant tax considerations:

- Differences in the determination of the tax base (general rules and special provisions)
- PIT rates/thresholds and CIT rates/thresholds
- Shareholder level treatment of distributed profits and retained profits
- SSC rates and thresholds
- Treatment of business losses
- Rules for liquidation or transfer of the ownership of the business

Cash intensive economy

Tax administration

Core Task Tax Administration

- Core activities of a Tax Administration are concentrated around the implementation and enforcement of tax legislation and regulations
- Core activities include:
 - Registration of taxpayers
 - Assessing, collecting and auditing taxes
 - Preventing and combating fraud
 - Service delivery to taxpayers

Administering tax laws should serve the public interest

- The revenue service and its employees must have the confidence of the public they serve
- The tax agency should collect the proper amount of tax due to the law at the least possible cost
- There should be public confidence in the efficiency, effectiveness and fairness of the agency
- Consistent and equal treatment of taxpayers
- Good value for money

Voluntary compliance

Critical factors:

- Public perception of the fairness of the tax system
- Public perception of the fairness of the public expenditure policy and practice
- Public perception of the fairness and performance of the tax administration

Improvement of compliance

- Simple and understandable legislation
- Transparent and clear procedures
- Fast and efficient processes
- Low costs to comply
- Treatment of the taxpayer as a client
- Taxpayer service
- Visible supervision and fraud detection
- Use of third party information (banks etc)
- Enforcement communication

Mission statement Tax Administration

Mission statements describe the strategic direction of the organization, common elements in mission statements include:

- Improving (voluntary) compliance
- Service providing in accordance with compliance goals
- Strengthen public's confidence in Tax Administration's integrity and fairness
- Ensuring fairness, equity and equality
- Improving productivity and quality
- Optimal prevention of fraud in society
- Motivated, competent and well-trained staff
- Efficient and proper use of resources

Public confidence

- Rights and obligations of taxpayers
- Clear guidance in dealing with the revenue authority
- Ethical standards and rules of conduct
- Confidentiality of information
- Professional staff
- Feedback from stakeholders
- Performance measurement

Tax administrations don't make the laws

Most Tax Administrations are not responsible for Tax Policy and Tax Law Design and drafting.

Tax administrations however should promote that tax legislation can be implemented and enforced efficiently and effectively, that tax laws strike the right balance between the detail of legislation and its applicability, that is sufficiently stable and constant in its general rules and mis-use proof.

Selected list of criteria enforcement ability of tax legislation

- Contribution tax payer in proportion to aim of rule
- Reasonable burden of proof for taxpayer
- Legal protection taxpayer (including the right to appeal)
- Reasonable compliance burden for the taxpayer
- Use of clear definitions and criteria (simple, clear and objective)
- Avoidance of unnecessary thresholds / exemptions / limitations / different options
- Availability of (third party) information for verification
- Sanction possibilities available
- Availability of resources for implementation (staff / IT support / money)

Organisational Structures of revenue bodies, trend over the last 30 years(1)

The Type of tax model

- Inefficient duplication of functions
- Inconvenient for taxpayers dealing with different departments on similar issues
- Difficult compliance management with separate audit and collection functions
- Increased likelihood of uneven and inconsistent treatment of taxpayers across taxes
- Complicated planning and lack of coordination

Organisational structures of revenue bodies, trend over the last 30 years(2)

The functional model

- Functional groupings include registration, assessing, information processing, audit, collection, appeals etc.
- Greater standardization of work processes across taxes
- Simplified computerization
- Unified taxpayer registration system
- More effective management of tax audit and debt collection
- Weaknesses: fragmentation by function and standardisation may lead to poor/inconsistent service and enforcement

Organisational structures of revenue bodies, trend over the last 30 years(3)

The Taxpayer segment model

- Service and enforcement functions primarily organized around segments of taxpayers (large taxpayers, small/medium businesses, private individuals, etc.)
- Different strategies for different groups of taxpayers with their own characteristics and tax compliance behaviours, and as a result different risks to the revenue
- Many countries have partially applied this approach by creating dedicated large taxpayer divisions/units

Voluntary compliance

- In most OECD countries, the tax system is designed on self-assessment principles.
- The objective is to achieve the highest possible level of voluntary compliance with the laws, at minimal cost.
- Why "voluntary" compliance?
 - Revenue bodies cannot enforce compliance from each & every taxpayer; they don't have the resources.
 - Governments will not provide more resources, which are both costly and intrusive.
 - Voluntary compliance is the cheapest & most efficient means of administering a tax system.

Barriers to achieving voluntary compliance

- There are many barriers to achieving voluntary compliance:
 - Taxpayers' ignorance of the law- *I did not know! You did not tell me what I needed to do!*
 - Tax laws are often complex – *I made an error!*
 - Tax laws & rules may put a high compliance burden on taxpayers- *Its too costly/ difficult to comply!*
 - Some taxpayers have poor/ no records – *They don't know how to keep good records or can't be bothered.*
 - Some citizens and business are not prepared to comply- *They deliberately don't comply & are prepared to take a risk of being caught.*

Taxpayer services

- Effective taxpayer services help achieve voluntary compliance by:
 - Improving taxpayers' understanding of the law
 - Making it easier and less costly to comply
 - Informing taxpayers on what they need to do to properly comply
 - Discouraging taxpayers from non-compliance

Complexity of (non-)compliant behaviour

Academic research.....

- Academic research over last two decades has led to increased awareness of the complexity of tax compliant and non-compliant behaviour.
- The research has largely shifted from the "persuasion versus punishment" (or service versus enforcement) debate to what is the right mix of the two.

SERVICE + ENFORCEMENT = COMPLIANCE

- Emphasis on a regulatory model: Attempting co-operation remains the best first choice for achieving compliance in most situations.

Classification of determinants of tax compliance

- **Political perspective (fiscal policy)**
Tax system (complexity, tax rates, etc)
- **Social psychological perspective**
Mental (social) representations
Tax knowledge and mental concepts
Attitudes: beliefs and evaluations
Norms:
Personal norms
Social norms and identity
Societal norms

Classification of determinants of tax compliance (2)

- **Mental (social) representations (2)**
Perceived opportunity to evade
Fairness perceptions:
Distributive fairness
Procedural fairness
Retributive fairness
Motivation to comply
Motivational postures
Tax morale

Classification of determinants of tax compliance

- **Decision making perspective**
Rational decision making
Audit probability, fines, tax rate and income
Psychological aspects of decision making
Sequence of audits: learning processes
Heuristics, biases, frames
Withholding phenomena
- **Self-employment (paying out of pocket)**
- **Interaction between tax authorities and taxpayers**
(*Cops against robbers versus service for clients perspective*)

Interaction with taxpayers the crucial variable that determines tax climate

- Tax authorities who perceive taxpayers as *robbers* rather than as *clients* are likely to establish a command and control climate with taxpayers engaging in escaping the authorities by taking extensive (rational) decisions. Tax behaviour depends on audit probability and fines
- Tax authorities who perceive taxpayers as *clients* and governments committed to responsive regulation are likely to establish a climate of cooperation and trust. Voluntary compliance depends on the taxpayers' social representations of taxation.

Emergence of 'Taxpayers' Rights

- Increasing acknowledgment that taxpayers have rights
- Examples of (basic) rights:
 - to be informed, heard, and assisted;
 - to pay no more than the correct amount of tax due;
 - to appeal decisions of the tax body; and
 - to have certainty, privacy, and confidentiality
- Examples of (advanced) "rights"
 - Services are comprehensive, easily accessible, low cost to taxpayer, & timely.

The purpose of compliance risk management in tax administrations

To use resources in the most efficient way so that the actions of the tax administration in the long run have the best possible effect on the size of the tax gap

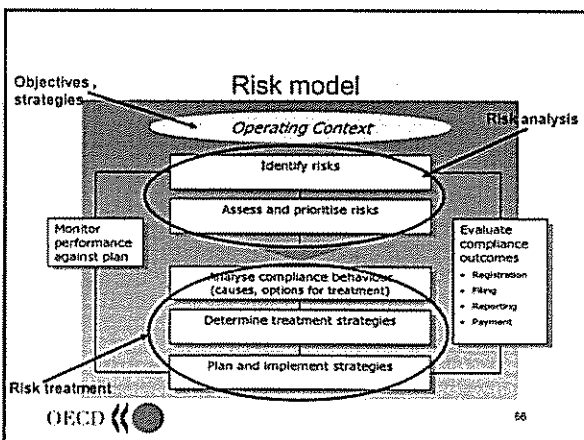
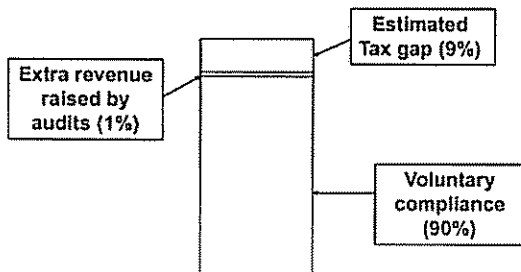
Compliance Risk management is more and much broader than better selection of cases for audit

What is compliance risk?

- Risk is understood in a negative sense:
 - Risk means being exposed to the possibility of a bad outcome
 - For tax administrations risk is related to events that could make the achievement of established goals more difficult
- A tax administration's major goal should always be to close the tax gap by addressing:

Errors made (on purpose or by mistake) by taxpayers that results in a tax gap

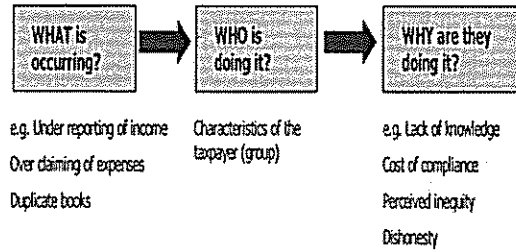
The tax gap defined through an example



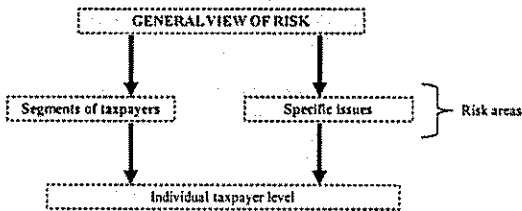
Risk identification

- Identify all types of behaviour that have a negative influence on the tax administration's objectives
- Full risk identification typically requires brainstorming sessions and subsequent categorisation to lead forward into a systematic analysis of risky behaviour

Identification of non-compliant behaviour or tax gap risk



Risk identification on different levels



Major risk issues

- No registration as a taxpayer
- No filing of returns
- None or poor payment record
- Careless filing
- Poor compliance record
- Poor bookkeeping
- Evasive behaviour when interviewed
- Certain types of businesses
- Ratios out of line

The dimensions of risk

- Probability for the event occurring
- The negative consequences for the tax revenue of the event occurring

Risk = probability of event * (numerical) consequences

High product = high risk
Low product = low risk

Sample Compliance Risk Likelihood Matrix

Rating	Likelihood Description	Illustrative definitions to help determine the likelihood rating	
		Subjective definitions	Objective definitions
1	Rare	'May occur only in exceptional circumstances'	'Likely to occur once in 25 years'
2	Unlikely	'Could occur at some time'	'Likely to occur once in 10 years'
3	Moderately likely	'Might occur at some time'	'Likely to occur once in the next three years'
4	Likely	'Will probably occur in most circumstances'	'Likely to occur more than once in the next three years'
5	Almost Certain	'Is expected to occur in most circumstances'	'Likely to occur this year or at frequent intervals'

Risk assessment - estimation of probability of non-compliance

- Inferential statistics
 - Based on random sample of taxpayers

- Intuitive method
 - Based on the judgement of "experts" (e.g. people with field experience)

Estimation of consequences

- Inferential statistics
 - Based on the size of the adjustments made during the random audit
 - For the estimate to be reliable a large sample is needed which is expensive in terms of opportunity costs
- Analysis of Internal data
 - databases
- Intuitive methods
 - Expert judgements

Risk matrix

Probability	Consequences				
	Extreme	Serious	Harmful	Minor	Negligible
Almost certain	Critical risk	Severe risk	High risk	Major risk	Important risk
Very likely	Severe risk	High risk	Major risk	Important risk	Moderate risk
Possible	High risk	Major risk	Important risk	Moderate risk	Low risk
Unlikely	Major risk	Important risk	Moderate risk	Low risk	Trivial risk
Rare	Important risk	Moderate risk	Low risk	Trivial risk	Trivial risk

Risk assessment and trends

- Tax bodies must identify trends in the environment relevant to the future tax gap
 - demographic trends
 - economic changes
 - globalization
 - advanced financial engineering
 - technological development,
 - changes in the organisation of work
 - etc
- This can be a very challenging task and demands both information collection, analysis and even building of scenarios

Risk assessment in practice

There is a real danger of creating an illusion of accuracy that does not exist

Often our estimates of risk are going to be subjective and experienced judgement will always be an essential part of the risk assessment process


A structured and systematic approach incorporating conscious choices are main benefits from the risk model

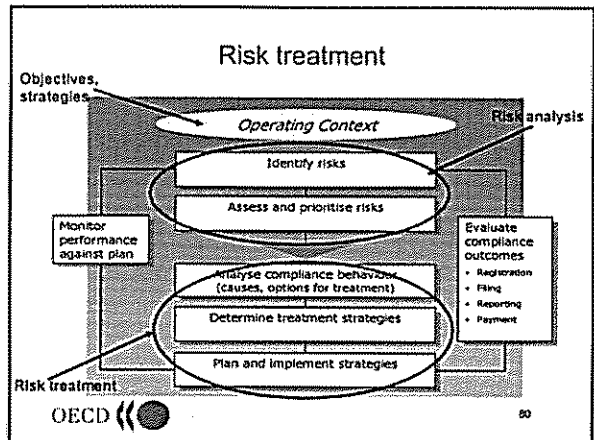
Factors to consider when making priorities

- Limited resources can make it impossible to deal with an existing, high-ranked risk
- Lack of staff competencies may be an obstacle to risk treatment of an important risk at least in the short run
- Cost-efficiency considerations are always relevant when contemplating to address a risk area
- Different types of risk must be given priority at the appropriate level in the organisation
 - Example: systemic risks can only be reduced through action by executive management and eventually through new legislation

Major conclusions


1. Risk assessment is not a precise science and sound judgement is always needed
2. Risk prioritization should always be influenced by the resource situation

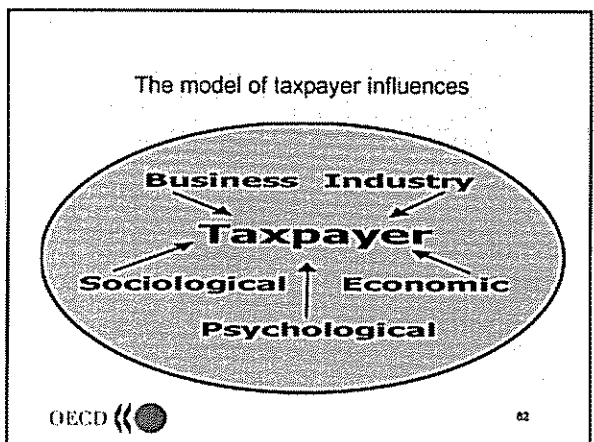
OECD  79



Analyse compliance behaviour: four categories of taxpayers


		Willingness	
Ability	Understands the rules and wants to follow them (supporters) "The perfect taxpayer"	Understands the rules but is un-willing to follow them (resisters) "Force to compliance through close attention"	
	Does not understand the rules, but wants to follow them (tiers) "With a little help from my friends"	Does not understand the rules and is un-willing to follow them (disengaged) "Saboteur that must be put out of circulation"	

OECD  81




Factors influencing the compliance behaviour of businesses, part 1

Category	Generic characteristics	Partial Example – Small Business Building & Construction Industry in Australia
B	Business profile <ul style="list-style-type: none"> Structure – sole trader, partnership, company, trust Site and age of the business The type of activities it carries out Focus – local versus international Its financial data – capital investment Its business intermediaries 	Over 80% of taxation returns are prepared by tax agents Variable record keeping quality
I	Industry factors such as: <ul style="list-style-type: none"> The definition/site of the industry Major participants in the industry Profit margins Cost structures Industry regulation Working patterns Industry issues such as levels of competition, seasonal factors and infrastructure issues 	Highly unorganised Flexible working patterns Highly competitive Low education Low barriers to entry

OECD  83

Factors influencing the compliance behaviour of businesses, part 2

S	Sociological factors such as: <ul style="list-style-type: none"> Cultural norms Ethnic background Attitude to government Age, Gender Educational level 	Low levels of literacy Commonly held view that not paying tax is OK Very large male populations
E	Economic factors such as: <ul style="list-style-type: none"> Investment Demographic Interest rates The tax system Government policies International influence Inflation Markets 	Peaks and troughs of work Industrial disputes
P	Psychological factors such as: <ul style="list-style-type: none"> Greed, Risk, Fear, Trust Values Fairness/Equity Opportunity to evade 	Fear of the tax authority

OECD  84

Knowledge is essential

"Know the enemy and know yourself, and in a hundred battles you will never be defeated. If you know only yourself, not the enemy, your chances of winning and losing are equal. If you are ignorant of either the enemy or yourself, you will surely be defeated in every battle."

Sun Tzu, 500 B C



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Strategic approach

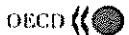
- **Starting point:** the taxpayer's future compliance is influenced by the way we treat him
 - Wrong treatment makes bad matters worse
- **Traditional approach:**
- **Punish non-compliance in all cases, but**
- **Punishment turns out to not always being the most efficient weapon against potential rule breaking**
 - Creates unnecessary hate towards the tax system
 - Taxpayer believes he will be left alone for some time after having been punished
- **Newer approaches:** tax authorities must when having detected non-compliance not necessarily punish but alternatively assist the taxpayer to comply with the rules



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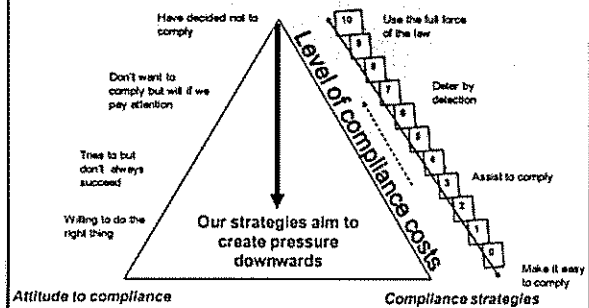
Research results

- **Compliance improves when**
 - Persuasion has been tried before tough enforcement methods are deployed
 - Both parties at the beginning show mutual trust
 - Most efficient when the taxpayer's misuse of the tax administration's trust is met by unambiguous, firm sanctions (« if you mess with me, I'll mess with you »)



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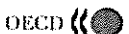
Determining treatment strategies – the compliance pyramid



88

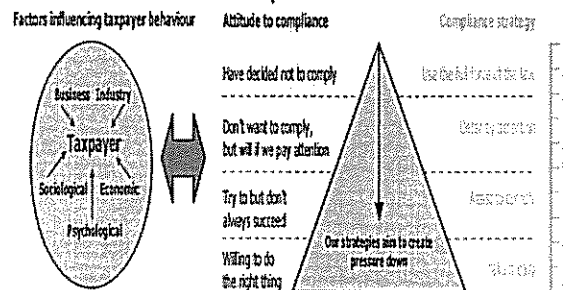
Practical use of the compliance model

- The model actually provides us with several directions:
- **When detecting a case of non-compliance behaviour find out what lies behind**
 - Misunderstandings of the law, deliberate misinterpretation of the law, cunning falsification of documents etc
- **It also tells us to look for the factors that have caused the non-compliant behaviour since that will influence our choice of treatment**
 - Low levels of literacy, wide spread non-compliance within the group, fear of tax authority, returns not prepared by tax agents etc



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The full compliance model



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Advise: pursue a flexible treatment approach

- Information activities and individual assistance
- Change rules that easily opens for non-compliance
- Audits
 - Guidance and support
 - Sanctions
- Alliances and network building
 - Cooperation with interest organisations
- Goodwill building
 - Explain why we pay taxes
 - Effective and targeted taxpayer services

Risk treatment based on openness and trust building

- The tax administration make public the risk areas and which taxpayer groups that are in focus
- Tell the taxpayers openly in advance what will not be accepted
 - The whole spectre of sanctions in cases of non-compliance is announced to the taxpayers
- The tax authority signalises in a clear way that they are willing to cooperate with the taxpayer
 - The taxpayer must be told in firm terms if he is not cooperating the tax administration will follow a tough, no-nonsense, line

Some weaknesses in the compliance model

- Too focused on non-observable attitudes rather than observable behaviour
 - Neglects the importance of keeping track of the taxpayer's compliance history
- Lacks an analysis of the interaction between the taxpayer and the tax authorities
 - In the taxpayer's self-interest to appear as more loyal than what he in reality is thereby hoping for milder sanctions
- The danger of compliance deterioration by wrong treatment is still present although to a lesser extent than under the old « penal regime »

Effective implementation of the treatment strategies.

- Building treatment capability
 - Resources
 - Training of staff
 - Design
 - Collaboration with stakeholders
 - Execution
 - Correct behaviour
 - Perceived fairness

Compliance strategy implementation - summary

- Organisation structure should be adjusted to the (new) strategy
- Resource planning and allocation must reflect (new) strategies
- People and systems
 - Cultural change
 - Control and feedback systems
 - Incentive and reward systems
 - Training schemes
 - Change management etc

Strengthening Tax Audit Capabilities General Principles and Approaches

The audit programme of a revenue body performs a number of important roles:

- Promote voluntary compliance
- Detect non-compliance at individual taxpayer level
- Gather information on the "health" of the tax system (including patterns of taxpayers' compliance behaviour)
- Gather intelligence
- Educate taxpayers
- Identify areas of the law that require clarification

Key principles audit programmes

- There should be a comprehensive documented set of audit policies and procedures that is readily accessible to all audit staff
- Audit policies and procedures should be based on principles of accuracy, efficiency, fairness, objectivity, transparency, completeness, consistency, and defensibility
- Revenue bodies require a systematic approach to the planning of individual audits
- Necessary support tools include industry benchmark data, business specific guidance materials, IT facilities, and the use of indirect income measurement techniques

Indirect income measurement methods

- For many taxpayers there is a considerable risk that some income will not be reported by them in their returns in order to minimise their taxable income.
- Especially where it is easy to conceal income, as the income is not subject to any systematic third party reporting to the revenue body and/or it is difficult for auditors to otherwise directly verify such income with third party sources
- There is also a risk that expenses against business income may be overstated by taxpayers
- There is also a risk of poor quality, or non-existent, books and records

Formal indirect methods used by revenue bodies to varying degrees

- **Source and application of funds method**
(comparison of expenditures and receipts for the period; the excess of expenditures over the sum of reported and non taxable income is unreported taxable income)
- **Bank deposits and cash expenditure methods**
(computing income by showing what happened to a taxpayer's funds based on the idea that what a taxpayer receives can either be deposited or it can be spent)
- **Mark-up method**
(reconstruction of income based on the use of percentages or ratios considered typical for the business under examination)

Formal indirect methods used by revenue bodies to varying degrees(2)

- **Unit and volume method**
(gross receipts determined or verified by applying the sales price to the volume of business done by the taxpayer; volume might be determined from taxpayers cost of goods sold or expenses)-
- **Net worth method**
(increases in a taxpayer's net worth during a taxable year, adjusted for non deductible expenditures and non taxable income, indicate taxable income)

When to use a formal indirect method

- A taxpayer's known business and personal expenses exceed the reported income per the return and non-taxable sources of funds have not been identified to explain the difference
- Irregularities in a taxpayer's books and weaknesses in internal control
- Gross profit percentages differ significantly from year to year or are unusually high or low for that market
- Bank accounts show unexplained items of deposit
- A taxpayer does not make regular deposits of income, but uses cash instead
- A significant increase in taxpayer's net worth not supported by reported income
- No book and records available

Enforcement communication targeted on consumers

- Consumers also play a role in cash economy
- Explain to consumers the risks of cash deals hiring contractors who don't issue receipts and don't prepare contracts (accidents, mistakes, losing advance payments, poor quality or incomplete work and no assurance)
- Explain to consumers that if they participate in the underground economy, they affect the governments ability to provide services such as education, health care, pensions and infrastructure

WORKSHOPS 5 x 5 x 5 x 5 x 5

- Create 5 groups of people from different countries
- Each group consists of (around) 5 people
- Work on 5 different topics related to cash intensive economy
- Select 5 cash intensive branches per topic
- Develop a strategy on 5 relevant aspects per topic

Group 1 Taxpayer identification and registration

- Choose 5 cash intensive branches where taxpayer identification and registration forms a serious problem
- Develop 5 different tools / methods to improve taxpayer identification / registration for the 5 chosen branches
- Develop a strategy to implement these 5 measures

Group 2 Compliance burden reduction

- Choose 5 cash intensive branches
- Select 5 items per branch causing significant administrative compliance burdens
- Identify possible solutions to minimize these burdens (simplification, cooperation with other bodies, IT solutions etc)
- Develop a strategy to implement these solutions

Group 3 Taxpayer rights and service delivery

- Choose 5 cash intensive branches
- Select 5 basic taxpayer rights that you see as most relevant for these 5 chosen branches
- Identify also 5 advanced taxpayer rights that you see as highly relevant for these branches
- Develop a strategy for service delivery (in particularly related to these taxpayer rights) for these branches

Group 4 Non-compliance detection and audit

- Choose 5 cash intensive branches
- Identify 5 types of signals / indicators for non-compliance behaviour by taxpayers belonging to these branches
- Develop an audit strategy (including indirect income measurement methods) to tackle these forms of non-compliance

Group 5 Communication strategy

- Choose 5 cash intensive branches
- Identify 5 different compliance factors that you see as highly relevant to communicate to taxpayers belonging to these branches
- Develop a communication strategy targeted at the taxpayers belonging to these branches and also targeted at their clients being the consumers of their products and services.

But first: for all 5 groups Research

- Choose 5 cash intensive branches
- Select 5 items you see as highly relevant indicators to identify the tax obligations of taxpayers belonging to these branches. What you need to know to assess their real turn over / profit / cost etc.
- Develop a strategy / methodology to research these selected items.

What to do?

1. Gather with your group
2. Select a chair person and a reporter
3. Discuss the topics (both research and the topic belonging to your group number) with your group
4. Prepare a brief report
5. Present this to the whole group

Australian Government
Australian Taxation Office

Australia 專題報告

Audit and verification strategies and the use of risk management techniques

Audit and verification strategies and the use of risk management techniques www.ato.gov.au

GENERAL 5th SOGATAR Joint Training Program 18-22 June 2007

Australian Government
Australian Taxation Office

Audit and verification strategies and the use of risk management techniques

Presented by:
Darryl Richardson
Australian Taxation Office

Audit and verification strategies and the use of risk management techniques www.ato.gov.au

Australian Government
Australian Taxation Office

This session will cover:

Audit and verification strategies and the use of risk management techniques www.ato.gov.au

Australian Government
Australian Taxation Office

What is the Cash Economy?

"The cash economy arises from that area of business activity which takes advantage of the opportunity offered by cash transactions to evade taxation obligations. Typically, this involves the under-reporting or non-reporting of cash income or cash surrogates (for example, through barter activities) by businesses or individuals."

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Australian Government
Australian Taxation Office

The cash economy in Australia

- Since the cash economy is a 'hidden' activity, it is difficult to quantify exactly, but the introduction of the GST has certainly ensured that nearly all people pay at least some tax
- The cash economy is a significant issue because it results in lost tax revenue and unfairness to those who are paying tax
- The Tax Office aims to optimise revenue and maintain community confidence whilst avoiding excessive costs on taxpayers

Population of Australia % of tax revenue paid	
\$\$\$ Tax Revenue	No tax paid (pre GST)
\$\$\$ Tax Revenue	No tax paid - post GST)

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The Australian tax system

- Income tax
- Capital gains tax
- Fringe benefits tax
- Goods and services tax
- Wine equalisation tax
- Luxury car tax
- Excise

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Overview: Self assessment in Australia

- Aim of the Tax Office is to efficiently raise revenue and distributed to the community in accordance with government priorities
- Collect revenue while reducing our administration and cost to the taxpayer
- Since 1986-87, Australia has operated a system of self assessment of income tax – we rely on taxpayers willingness to be part of the tax system called voluntary compliance

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Overview: Strategies supporting self assessment

The self assessment system is supported by a number of strategies

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ATO Compliance Model

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GST and its impact on the cash economy

- Consumers pay GST on purchases of a product or service
- Anti-avoidance

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Cash Economy – Risk management

Process for identifying and managing risks in the Cash Economy

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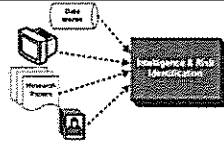
Cash economy

- Traditional cash economy industries
- Outliers cash identification process
- Omission of cash income
- Other non cash issues - misclassification, capital gains
- Outstanding lodgments
- Poor record keeping
- Risks to revenue

Audit and verification strategies and the use of risk management techniques www.ato.gov.au

Current activities

- Benchmarking
- Data matching
- Information from the public (Tax evasion referral centre)
- Conspicuous consumption
- Non-compliance across multiple obligations
- Interaction between approaches



Compliance products

- A number of different audit techniques are applied, audits range from:
 - simple, single issue audits to
 - very complex, in-depth audits

Conclusion

- No quick fix
- Industry-based approach was valuable in understanding industry behaviours
- The design of the Australian tax system is generally working as intended
- Change our focus to omission of income in the business-to-consumer area
- Use of third party information to aid in selecting case's that appear to involve the non-reporting of cash transactions

ELECTRONIC/PAPER

5TH STUDY GROUP ON
ASIAN TAX ADMINISTRATION
AND RESEARCH (SGATAR)
JTP

FORMAT

AUDIENCE

JUNE 2007

DATE

UNCLASSIFIED

CLASSIFICATION



Australian Government
Australian Taxation Office

HANDOUT 1

The Cash Economy in Australia

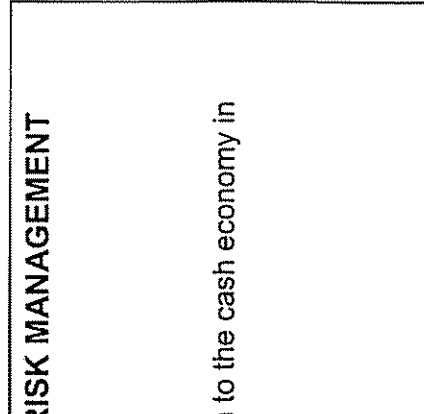
Presented by Darryl Richardson, Australian Taxation Office, 18 – 20 June 2007



UNCLASSIFIED

SGATAR JOINT TRAINING PROGRAM

18 - 22 JUNE 2007

	<p>AUDIT AND VERIFICATION STRATEGIES AND THE USE OF RISK MANAGEMENT TECHNIQUES</p> <p>Introduction</p> <p>Thank you for the opportunity to speak to you today about our approach to the cash economy in Australia.</p>
<p>This session will cover:</p> <ul style="list-style-type: none"> • Cash Economy in Australia • Brief Overview of Australian Tax System • The Compliance Model • The Goods and Services Tax and the Cash Economy • Risk Management approach to Cash Economy • What we are doing about the Cash Economy • We will include some case studies and examples of our audit activities 	<p>MY SESSION TODAY WILL COVER:</p> <ul style="list-style-type: none"> • how we define the cash economy in Australia • how the design of the Australian tax system helps us try to manage the cash economy • how we identify and manage risks • what we have been doing about the cash economy in Australia • what we found out about the cash economy • what worked and why • how we are expanding our focus from just business-to-business transactions to include business-to-consumer transactions, and why • what activities we will be doing in the area of business-to-consumer transactions

	<ul style="list-style-type: none"> the products we use to identify omitted income. <p>My focus is on the Australian experience of the cash economy:</p> <ul style="list-style-type: none"> there is no 'quick fix' <ul style="list-style-type: none"> the approaches we have taken in the past and the new approaches we are adopting will not solve the problem of undisclosed income we are not able to chase every dollar strategies we are adopting will develop over time <p>However, the design of the Australian tax system does include measures that help to minimise the impact of the cash economy.</p>
<p>What is the Cash Economy?</p> <p><i>"The cash economy arises from that area of business activity which takes advantage of the opportunity offered by cash transactions to evade taxation obligations. Typically, this involves the under-reporting or non-reporting of cash income or cash surrogates (for example, through barter activities) by businesses or individuals."</i></p> <p><small>Australian Government Treasury Department www.aao.gov.au</small></p>	<p>WHAT IS THE CASH ECONOMY?</p> <p><i>"The cash economy arises from that area of business activity which takes advantage of the opportunity offered by cash transactions to evade taxation obligations. Typically, this involves the under-reporting or non-reporting of cash income or cash surrogates (for example, through barter activities) by businesses or individuals."</i></p>

The Cash Economy in Australia

Since the cash economy is a 'hidden' activity, it is difficult to quantify exactly. The introduction of the GST has certainly ensured that nearly all people pay at least some tax, by maximising those people brought into the system and taxing consumers on goods and services those who are paying tax.

The cash economy is a significant issue because it results in lost tax revenue and unfairness to those who are paying tax.

The ATO aims to optimise revenue and maintain community confidence whilst avoiding excessive costs on taxpayers.

Population of Australia
% of tax revenue paid

11%	Tax revenue	No tax paid (pre GST)
89%	Tax revenue	No tax paid - post GST

11% Tax revenue

89% Tax revenue

www.ato.gov.au

THE CASH ECONOMY IN AUSTRALIA

- cash economy is a 'hidden' activity
- it is difficult to quantify exactly – this is a challenge recognised by all of us
- the introduction of the GST has certainly ensured that nearly all people pay at least some tax, by maximising those people brought into the system and taxing consumers on goods and services
- the cash economy is a significant issue because it results in lost tax revenue and unfairness to those who are paying tax
- the ATO aims to optimise revenue and maintain community confidence whilst avoiding excessive costs on taxpayers.

The Australian tax system

- Income tax
- Capital gains tax
- Fringe benefits tax
- Goods and services tax
- Wine equalisation tax
- Luxury car tax
- Excise

Types of taxes in Australia include:


- Income tax
- Capital Gains tax
- Fringe Benefits tax
- Goods and Services tax
- Wine Equalisation tax
- Luxury Car tax
- Excise (eg on tobacco)

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BRIEF OVERVIEW OF THE AUSTRALIAN TAX SYSTEM

Types of taxes in Australia include:

- Income tax
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- Excise (eg on tobacco)



Overview: Self Assessment in Australia

- Aim of the ATO is to efficiently raise revenue (which is distributed to the community in accordance with government priorities)
- We aim to collect that revenue whilst reducing our administration and cost to the taxpayer
- Since 1986-87, Australia has operated a system of self assessment of income tax – we rely on taxpayers' willingness to be part of the tax system (called 'voluntary compliance')

Audio and webcast versions of this presentation are available on the ATO website at www.ato.gov.au

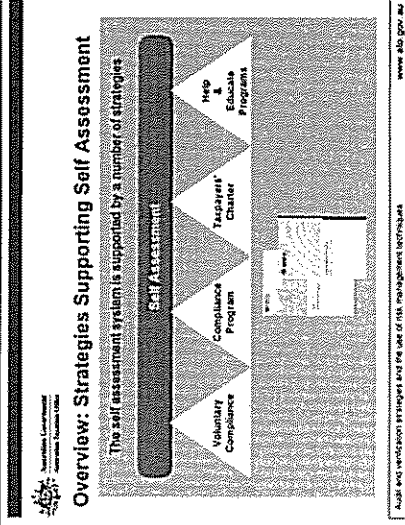
SELF-ASSESSMENT IN AUSTRALIA

Self Assessment

Australia has operated under a system of 'self-assessment' since 1986-87. This means that we rely on taxpayers' willingness to be part of the tax system – this is called 'voluntary compliance'. This system reflects that fact that the Tax Office does not have, and cannot have, sufficient resources to chase every dollar

Self Assessment is based on a Risk Management approach

- because we are not resourced to chase after every last dollar of tax we:
 - create an environment which supports high levels of voluntary compliance
 - manage risks in the system by focusing on those areas that pose the highest risks in terms of non-compliance with the tax law
 - the aim of the Tax Office is to efficiently raise revenue (which is distributed to the community in accordance with Government priorities) and we aim to collect that revenue whilst reducing our administration burden and the cost to the taxpayer
 - rather than examine every form sent to us, we use our compliance program, which is developed using risk management approaches, to identify those who may not be meeting their taxation obligations
 - taxpayers' returns are accepted at face value in the first instance, however the Tax Office may subsequently verify the accuracy of the information in the return within a prescribed period after that initial assessment
 - relies on the willingness of most taxpayers voluntarily be part of the taxation system
- Our efforts in respect of the cash economy are consistent with this approach.



Voluntary compliance through self assessment is supported by Tax Office strategies such as the Taxpayers' Charter, publishing our Compliance Program, and "help and educate" activities; all of which help to make it easier for the Australian community to comply.

Compliance Program booklet

Since 2002-03, the Tax Office annually releases its Compliance Program booklet which describes the tax compliance risks we are most concerned about, and what we are doing to address them.

- Why? By openly telling the community where we are increasing our activities to address the causes of non-compliance, we aim to encourage people to voluntarily comply with their obligations.
- Then we actively tell people about the risks, what our position is and what they can expect from us.

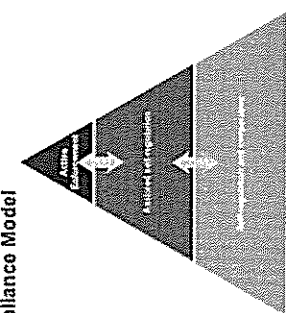
Taxpayers' Charter

The Tax Office also publishes a Taxpayers' Charter.

- Our Charter is about being open and fair in our treatment of people, within the framework set by the law
- The Taxpayers' Charter sets out:
 - our commitment to inform people of their rights, obligations and entitlements
 - the way we behave towards the community, and
 - what the community can expect from us.


Our general approach

- maximise the number of people who choose to voluntarily comply by helping taxpayers and their advisers to understand their rights and obligations
- making it as easy as possible for people to meet their obligations
- have strategies to deter, detect and deal with those who do not comply with their obligations
- have a balance of:

<ul style="list-style-type: none"> ▪ verification and enforcement activities (for example, audits, risk reviews and prosecutions) ▪ providing help (for example, education and advice) ▪ making it easy to comply (for example, pre-populating electronic tax returns). <p>This approach is founded on managing risk and responding quickly to changing circumstances. We also closely monitor the revenue system to identify risks and develop compliance strategies to prevent revenue leakage and tax avoidance.</p>	<p>TAX OFFICE COMPLIANCE MODEL</p> <p>The Compliance Model is a structured way of helping us to understand the factors that influence different compliance behaviours. This enables us to choose the most appropriate intervention for the circumstances. This model:</p> <ul style="list-style-type: none"> • outlines that when we deal with taxpayers we consider individual circumstances and why people are not complying, and that we develop appropriate responses (eg one method of intervention is not the best for everybody) • gives taxpayers every opportunity to get it right (education, record keeping and assistance) • applies compliance strategies with increasing severity when a taxpayer chooses not to cooperate • becomes more about keeping people on track with compliance at the lower end, eg for those whose behaviour rests at the bottom (<i>Self Regulation and Cooperation</i>) we use strategies such as 'real time' reviews, reminder letters, "soft" final notices and phone calls to arrange debt repayments. • applies a stricter strategy where a taxpayer chooses to be non-compliant (moving to the <i>Assisted Self-Regulation</i> section). After having been given reasonable opportunity to comply our actions increase in severity and intervention, and there is some penalty for non-compliance. Examples of action at this level might include audits, hard final notices, penalties and some legal action. • increases in severity for those at the top of the hierarchy (<i>Active Enforcement</i>) - our severest strategies will be applied to tackle our deliberate non-compliers. Examples of action at this level are prosecution, bankruptcy, cancellation of industry accreditation, and publicity.
 <p>ATO Compliance Model</p> <p><small>Audit and enforcement strategies and the use of our management techniques</small></p> <p><small>www.ato.gov.au</small></p>	

<p>GST and its impact on the cash economy</p> <ul style="list-style-type: none"> Consumers pay GST on purchases of a product or service Anti-avoidance 	<p>GST AND ITS IMPACT ON THE CASH ECONOMY</p> <ul style="list-style-type: none"> the introduction of a consumption tax (Goods and Services Tax) – reduces revenue leakage from undisclosed income by taxing consumption businesses must register for the GST if its annual turnover is \$50,000 or more can choose to register if their annual turnover is less than \$50,000 the Australian Government has announced that it intends to raise this registration threshold to \$75,000 tax invoices - business must hold a tax invoice to claim GST credits a single business identifier - the Australian business number (ABN) a withholding regime whereby businesses dealing with a business without an ABN must withhold 46.5% from the payment to the supplier and send the withheld amount to the Tax Office many businesses refuse to deal with businesses that do not have an ABN or are not registered in the GST system resulted in many small businesses registering in the tax system - in the past, they may have operated outside the system
<p>Cash Economy - Risk Management</p>	<p>RISK MANAGEMENT</p> <ul style="list-style-type: none"> the Tax Office has adopted an Integrated Risk Management framework this sets out a high level framework around risk processes involving: <ul style="list-style-type: none"> intelligence and risk identification risk assessment risk treatment risk planning and management <p>Intelligence and risk identification</p> <ul style="list-style-type: none"> this is the initial point in which a threat, identified as a potential risk, can be raised for a risk

	<p>assessment</p> <ul style="list-style-type: none">• tasks include:<ul style="list-style-type: none">▪ monitoring allocated data/information sources on an ongoing basis to identify information of interest for their segment▪ completing intelligence products as required▪ research support (for example, if as part of developing a treatment strategy, we wanted to understand how another country undertook this work, research would be conducted to gather information), and▪ collecting and analysing intelligence to form a base assessment of the potential 'value' of a risk <p>Risk assessment</p> <ul style="list-style-type: none">• test and further assess risks that have been determined as having a 'high value' impact on revenue, reputation or governance <p>Risk treatment</p> <ul style="list-style-type: none">• consider the assessed risk• ensure all key stakeholders (internal and external) have had input or been considered, and that the views of industry, tax professionals and government are understood• develop appropriate risk treatment strategies <p>Risk planning and management</p> <ul style="list-style-type: none">• monitor treatment strategies to ensure the risk is being treated in the manner intended whilst evaluating the effectiveness of the treatment
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Cash Economy - What we did


- Traditional cash economy industries
- "Outliers" cash identification process
- Some omission of cash income
- Other non cash issues - misclassification, capital gains
- Outstanding lodgments
- Poor record keeping
- Allowed us to better understand the industries and their approach to paying tax
- Gained an understanding of the risks to revenue

Audio and multimedia developed and the use of risk management techniques
www.ato.gov.au

CASH ECONOMY - WHAT WE DID AND WHAT WE FOUND

- concentrated on "traditional" cash economy industries – industries that, by their nature, have a high incidence of cash transactions and potential for not reporting those transactions
- cases were identified via the use of an "outliers" process
- although we did find cases of omitted of income, the majority of adjustments we made to taxpayers' returns were related to factors other than omitted income (ie. non-reporting of property sales, misclassification of supplies and acquisitions etc)
- we also found a high incidence of taxpayers with outstanding activity statements and income tax returns
- another significant finding was that small businesses were likely to have poor record-keeping practices, leading to accidental omissions of income
- industry-based approach also allowed us to better understand the industries and their approaches to paying tax

This work has been valuable in understanding the risks to the revenue from cash transactions in those industries and the community generally.



Current Activities

- Benchmarking
- Data matching
- Information from the public (Tax Evasion Referral Centre)
- Conspicuous consumption
- Non-compliant across multiple obligations
- Interaction between approaches

Audio and multimedia developed and the use of risk management techniques
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CASH ECONOMY - THE EVOLUTION OF OUR FOCUS AND APPROACH

- the Tax Office cash economy definition focuses on omission of income
- we are maintaining our efforts in business-to-business transactions – focusing on specific industries where appropriate (for example, we will continue with our industry approach to restaurants, cafes and takeaway outlets because the wider community believes that non-reporting of cash transactions in this industry is widespread)
- we have increased our focus on business-to-consumer transactions
- our strategies are designed to improve case selection, then allowing us to apply different actions to each case based on the level of risk, for example:
 - letters and information are addressed to taxpayers in low risk cases
 - more rigorous audit responses for cases that are higher risk such as those individuals who

continue to operate outside the system or endeavour to under-report income

CURRENT ACTIVITIES

Benchmarking [*Handout 2*]

- we develop benchmarks for occupations, professions or trades
- we use these benchmarks to:
 - communicate to taxpayers – advising them about what income levels are normal for their industry
 - identify taxpayers who do not fit within the benchmark
 - devise appropriate strategies to address the non-compliant taxpayers who do not fit within the benchmarks
- these are developed using basic inputs or factors which are used by tradespeople in developing their quote for services, for example:
 - litres of paint used by a painter
 - concrete used by concreters
 - fencing (type of material, length of fence, height of fence)
 - for restaurants/takeaway (number of tables/chairs, volumes of food supplies used, volumes of wrappers or takeaway containers used etc)
 - for taxis (average rate of income per kilometre on a regional basis, average kilometres travelled by a taxi in a year, amount of fuel used to generate income, use of other inputs such as tyres)
- we will make the benchmarks relevant by regularly publishing them so that:
 - taxpayers know what income levels are normal for their industry
 - compliant taxpayers have a level of certainty, and
 - those people outside of the benchmark can adjust their behaviour if necessary

Data-matching [Handout 3]

- unreported cash transactions by non compliant businesses are difficult to detect
- third party data is being increasingly used by the Tax Office as a case selection tool because it provides the opportunity to use a system-based approach to quickly review large numbers of businesses that operate in the cash economy for possible risk identification
- data sourced from third parties on business to consumer transactions in cash economy "hot spots" such as retailing, personal services and the operators in the residential building sectors, significantly increases our ability to identify possible under-reporting of income

Some examples include:

- State Government information regarding residential building approvals over a certain dollar amount can be used to identify builders and tradespeople who have reported income differing significantly to the estimated cost of projects.
- third party information can also be used to identify cash economy taxpayers with conspicuous lifestyles. For example, if a restaurateur spends many thousands of dollars on residential premises we would expect to see this supported by income levels reported for tax purposes.
- retailing is dominated by large shopping centres - turnover reported to shopping centre owners by businesses can be matched against the business income reported to the Tax Office.

Information from the public

- the Tax Office can influence community confidence in the tax system by the way it responds to allegations of tax evasion reported by the community
- the Tax Office established the **Tax Evasion Referral Centre (TERC)** in 1998, to receive and process allegations of tax evasion from the community
- around 25,000 allegations are received each year

- allegations are recorded and risk rated - depending on the rating of the risk the allegation might result in an escalation to an audit team, or softer activity such as an educational letter
- the TERC is designed to improve the community's perceptions around the Tax Office's effectiveness in dealing with the cash economy by:
 - improving the way the Tax Office receives and processes tax evasion referrals from the community and other agencies
 - responding to a greater percentage of referrals using a range of strategies including the telephone, letters and audit work
 - improving exchange of information with other Government agencies
 - communicating to the community our effectiveness in actioning tax evasion referrals
 - increasing community awareness of how to report tax evasion and the benefits in doing so

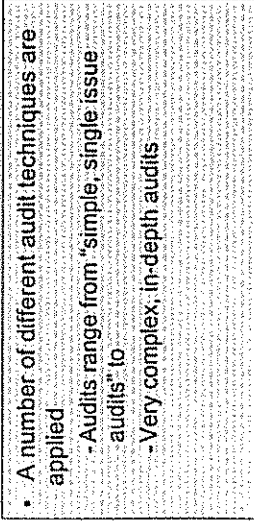
Conspicuous consumption [Handout 4]


This activity assists in identifying those people who appear to be living beyond their means, that is, their reported income is inconsistent with their lifestyle and spending patterns.

- we will undertake data-matching against information from State and Federal licensing bodies relating to individuals who have acquired luxury motor vehicles, boats and aircraft and are connected to a business enterprise
- those identified will be subject to a review to examine apparent discrepancies between their declared income and their apparent lifestyle

Non-compliant across multiple obligations [Handout 5]

- common characteristic of people who do not disclose all of their income is that they are likely to be non compliant across multiple systems - taxation, fair trading, industrial relations, immigration, social security, superannuation etc
- targeting businesses that not only fail to comply with their tax obligations but also fail to comply with a range of other government or community obligations.

<ul style="list-style-type: none"> • research tells us that this is what the community finds as the least acceptable elements of the cash economy • common examples are: <ul style="list-style-type: none"> ▪ businesses owners who don't report their cash sales in order to keep their reported income low enough to receive a social security benefit or to avoid child support payments ▪ unlicensed builders who demand cash payments and then provide sub-standard work • objectives will be to work jointly with the other agencies on cases of mutual interests • importantly, we will tell the community what we are doing and what we are finding <p>Interaction between approaches [Handout 6]</p> <p>In some cases, our actions will involve aspects of all of the above approaches.</p>	
<p>OUR ACTIVE COMPLIANCE PRODUCTS</p> <ul style="list-style-type: none"> • the Tax Office uses various "compliance products" to manage cases identified through our risk and strategy processes • products range from the examination of a single issue to complex audits of a taxpayer • an example of single issues review would be the consideration of possible omitted income identified through data-matching exercises • complex audits are more likely to be undertaken in conspicuous consumption cases 	 <p>Compliance products</p> <ul style="list-style-type: none"> • A number of different audit techniques are applied <ul style="list-style-type: none"> - Audits range from "simple, single issue audits" to - Very complex, in-depth audits <p><small>Audit and indication strategies and the use of risk management techniques www.aao.gov.au</small></p>



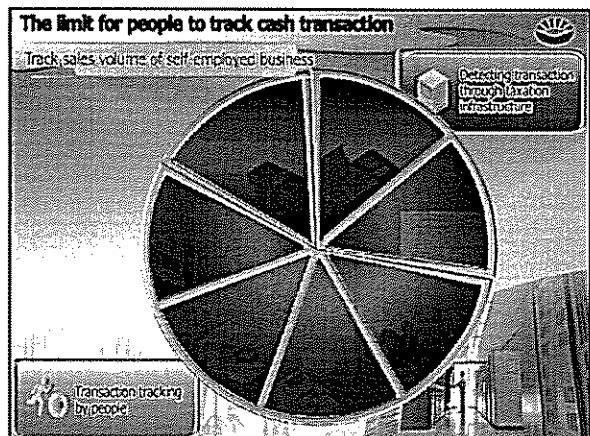
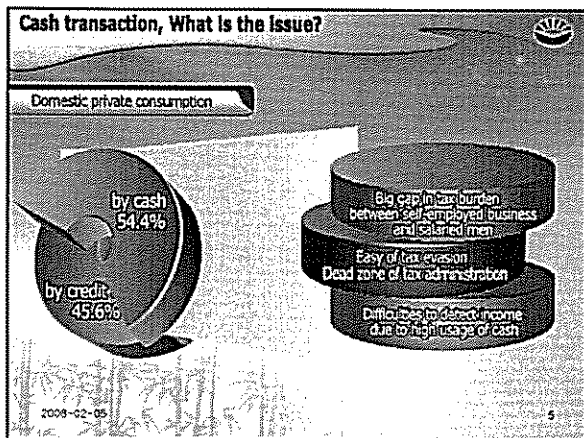
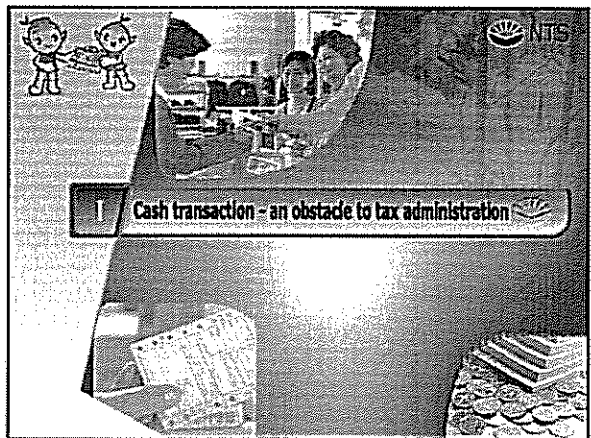
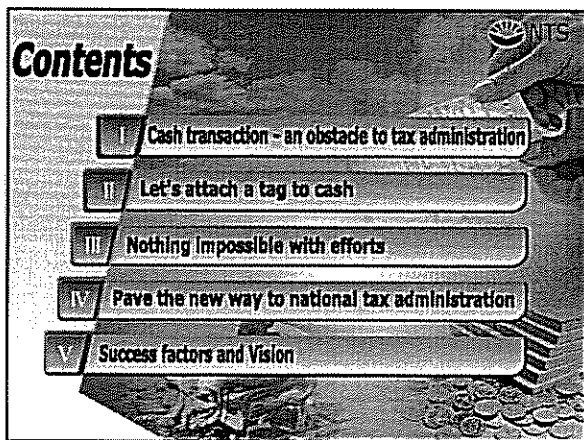
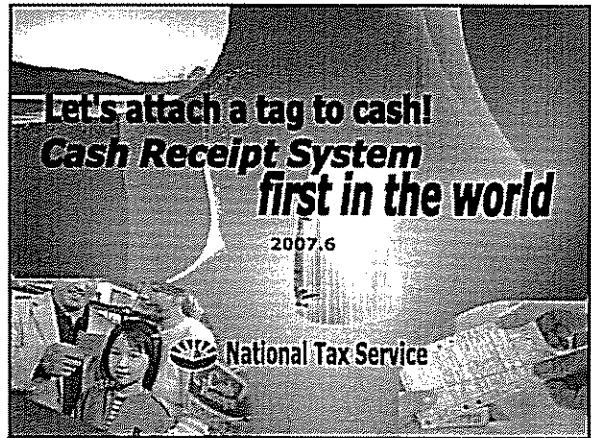
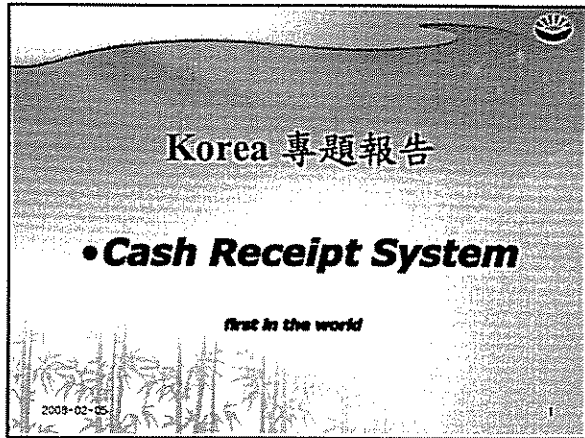
Conclusion

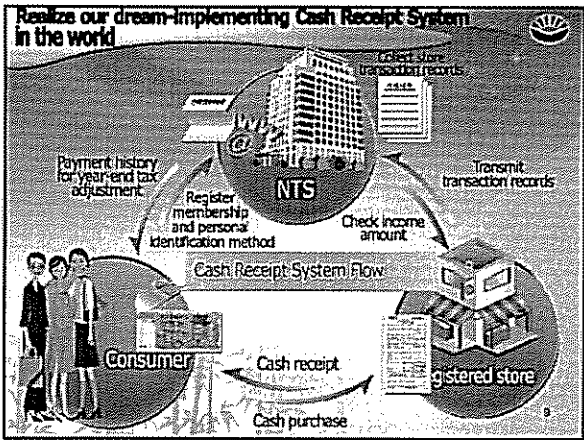
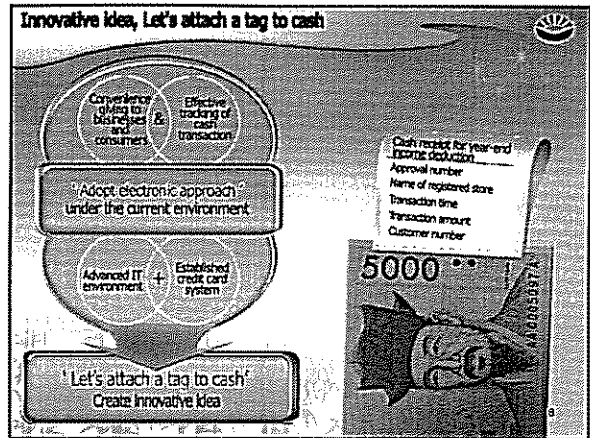
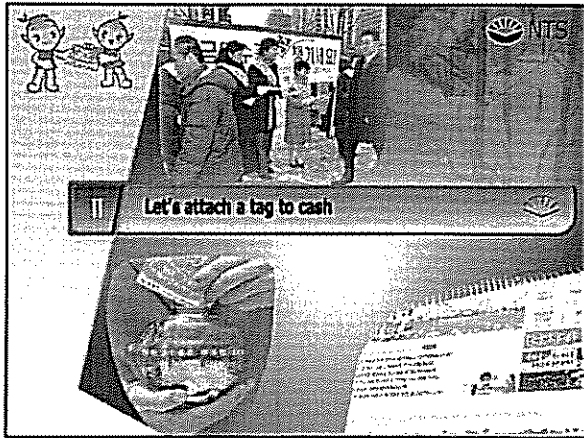
- No quick fix
- Industry-based approach was valuable in understanding industry behaviours
- The design of the Australian tax system is generally working as intended
- Change our focus to omission of income in the business-to-consumer area
- Using third party information to aid in selecting cases that appear to involve the non-reporting of cash transactions

Audit and risk management strategies and the use of risk management techniques
www.ato.gov.au

SUMMARY

- there is no quick fix in preventing the omission of income from cash transactions
- the industry-based approach was valuable in understanding industry behaviours
- it also helped us understand behaviours in wider business-to-business community and confirmed that the design of the Australian tax system was largely working as intended
- this allowed us to change our focus to omission of income in the business-to-consumer area
- we are making use of third party information to aid in selecting cases that appear to involve non-reporting of cash transactions





Japan 專題報告

Taxpayer Education Strategies

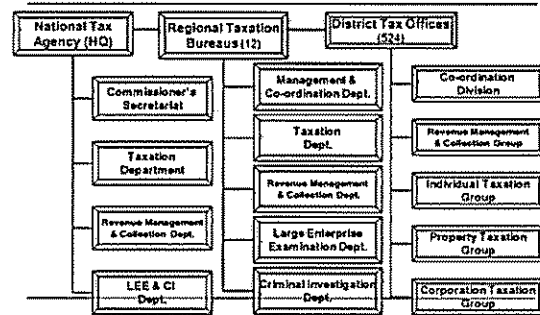
Taxpayer Education Strategies

June 20, 2007

Contents

- I. Organization
- II. Mission & Tasks
- III. Taxpayer Service in General
- IV. Taxpayer Management
- V. Blue Return System
& Bookkeeping Guidance

I. Organization



Tax Items & Taxpayers

- Fundamental Taxes:
(Self-assessed & Withholding) Income Tax, Corporation Tax, Consumption Tax
- Enterprise Taxpayers:
Corporations & Sole Proprietors
(Individuals)

Organization, Taxpayer, Tax Item

Group in Tax Office	Taxpayer	Tax Items
Individual Taxation	Individual	Self-assessed Income Tax, Withholding Income Tax, Consumption Tax, etc.
Property Taxation	Individual	Inheritance Tax, Gift Tax, etc.
Corporation Taxation	Corporation	Corporation Tax, Withholding Income Tax, Consumption Tax, etc.
Revenue Management & Collection	Individual & Corporation	All Kinds

Organization and Taxpayer Service

- No Departments/Divisions/Groups Specializing in Taxpayer Service in General
 - Taxpayer Service is Conducted by Many Tax Officials
-

II. Mission and Tasks of the NTA

Helping taxpayers to voluntarily fulfill their tax responsibilities, under the self-assessment system, properly & smoothly

- To Provide Favorable Environment for Taxpayers
 - To Promote Proper and Fair Taxation
-

III. Taxpayer Service in General

- Public Relations, Tax Education, Tax Consultations, and Information Provision
 - Making Filing Final Tax Returns More Convenient
 - Promotion of Taxpayer Service Using IT
 - Proper Payment of Taxes
-

1. PR, Tax Education, Tax Consultations, and Information Provision

- (1) Tax Education
 - (2) Taxpayer Briefings
 - (3) Tax Consultations at Tax Counsel Offices
 - (4) Responses to Taxpayer Inquiries
-

1. (1) Tax Education

- Establishing Tax Education Committee; publishing and distributing supplementary textbooks for tax education
 - Holding Tax Education Class for School Children
 - Setting Up Permanent Facilities Exclusively for Tax Education at some Tax Offices
-

1. (2) Taxpayer Briefings

- Briefings for Compiling Financial Statements for Those Filing a Final Return or a Blue Return
 - Year-end Adjustment Briefings for Withholding Agents
 - Briefings on Tax Law Revisions
 - Briefings for Newly Established Corporations
-

1. (3) Tax Consultations at Tax Counsel Offices

- Tax Counselors with Rich Experiences in All Aspects of Tax
 - Telephone and In-Person Consultation
 - Tax Answers
-

1. (4) Responses to Advance Inquiries

- Taxpayers who have questions about the detailed application of the tax law to their particular transactions may inquire in advance at the Tax Office and receive an oral answer
 - In September 2001, the NTA began to make and publish written responses to inquiries about tax-related treatment of individual transaction and facts as part of its taxpayer services
-

2. Making Filing Final Tax Returns More Convenient

- Online Tax Return Filing and Tax Payment System Using IT (e-Tax) or Filing Assistance on the NTA Website
 - Weekend Tax Consultation
-

3. Promotion of Taxpayer Service Using IT

- e-Tax
 - Filing Assistance on the NTA Website
 - Touch-Screen Computers
-

4. Proper Payment of Taxes

- Fostering a Cooperative Attitude Regarding Voluntary Payment
 - Tax Payment Call Center
-

IV. Taxpayer Management

- Detecting Changes in Corporations
 - Management Based on Grouping, etc.
-

Detecting Changes in Corporations

- through Notifications of Changes
- by Checking Registrations
- through Information from Other Groups, District Tax Offices and LEE Departments of RTBs
- through Final Tax Return, etc.
- through Field Audits, etc.

Management Based on Grouping, etc.

- Basic Management System
 - Sorting taxpayers by some factors
 - (a) Sales ranking
 - (b) Industry category, etc.
 - (c) Actual situation category
- Monitoring Family Corporation Groups/ Low Compliance Groups
- Excellent Return Filing Record

V. Blue Return System & Bookkeeping Guidance

- Enhancement of Bookkeeping Standard
- Self-Assessment System and Blue Return System
- Bookkeeping Guidance
- Private Organization

Enhancement of Bookkeeping Standard

Why is "Bookkeeping" Necessary?

- From the Point of Management:
 - Help the development of the business
 - Promote the rationalization of management
- From the Point of Tax Matters:
 - Self-Assessment System

Enhancement of Bookkeeping Standard

History

- | | |
|------|---|
| 1947 | Introduction of Self-Assessment System |
| 1950 | Establishment of Blue Return System |
| 1984 | Enactment of Bookkeeping and Record-keeping Obligation for White Return Taxpayers |

Self-Assessment System and Blue Return System

- Reasons for Establishing Blue Return System

Proper Operation of the Self-Assessment System



Regular and Accurate Bookkeeping on the Part of Taxpayer

Classification of Bookkeeping Situation

Rank	Situation
A	- Keep books correctly - Calculate and keep books by oneself
B	- Bookkeeping is behind or lacks a part of it - Needs another 1 or 2 more instruction(s)
C	- Bookkeeping is behind considerable period (about 3 months) or lacks considerable amount - Needs other instructions for a certain period
D	- No bookkeeping at all - Needs other instructions for a certain period

Private Organization

- Blue Return Association**
- A voluntary organization of blue return taxpayers, aimed to achieve proper self-assessment, payment of taxes, and management's rationalization through spread and promotion of blue return to sole proprietor

- Certified Public Tax Accountant Association**
- Association of tax accountants organized under the Certified Public Tax Accountant Law

Private Organization


- The Japan Tax Association**
- Established to promote policies of the government concerning taxation affairs, provide assistance toward tax administration and expand and instill tax compliance in taxpayers

- Chamber of Commerce and Industry, Society of Commerce and Industry**
- A "regional general economic organization" with the aim of general improvement and development of commerce and industry and the improvement of public welfare

Thank you

Thailand 專題報告 (1)

Cash Economy & Cash Intensive Business in Thailand



Cash Economy & Cash Intensive Business in Thailand

Revenue Department of
Thailand

Topic

- Cash intensive businesses in Thailand
- Strategies and policies of RD toward CIB
- Supervision plan
- Taxpayers under Supervision Base
- Supervision regulations and procedures

What is Cash Intensive Business in our analysis ?

- Cash Intensive Business
 - market-based production of legal good and services (not mentioning illegal sector)
 - High percentage of cash transaction
 - Underreported or unreported income



Size & Importance

- No exact figure of the size of cash intensive business
- Look at the size of Shadow economy!!!
 - 54.1% of Thai GDP

RD's Strategies 2004-2008

Our general strategies to tackle CIB include:

- Build Sustainable Tax Base
- Proactive ICT Utilization
- Driving the Organization towards the Knowledge Base Society

Identification and registration of taxpayers

RD makes advantages of:

> Internal data:

- Data from tax return forms
- Information from intranet:

> External data

- information from other public and private orgs.: MOI. , MOC, Social security office

Identification and registration of taxpayers

> Center of investigating and tracking non-compliance business

> Call centre:

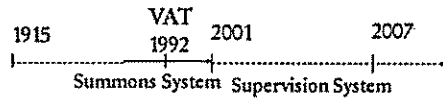
> Supervision system

RD Strategy : Build Sustainable Tax Base

Supervision Plan

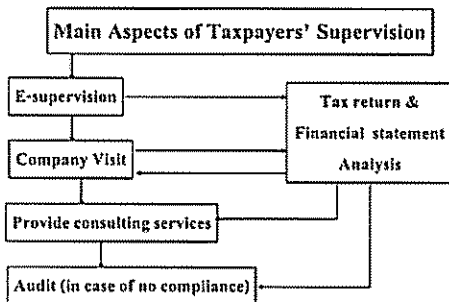
Regulations and Procedures

Comparing Audit System



- Reducing debt delinquency
- Decreasing time
- Increasing Taxpayer's willingness to pay tax
- Issuing a summons only if there is no co-operation

Main Aspects of Taxpayers' Supervision



Pay proper tax today and no back taxes tomorrow

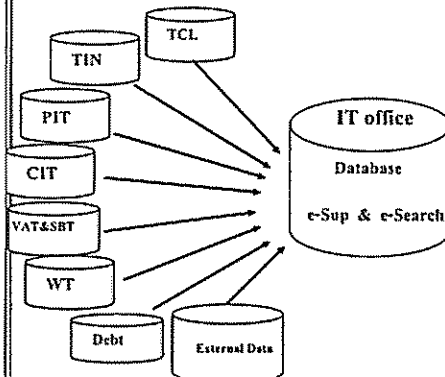
Policy of Supervision Base

"closely supervise each taxpayer"

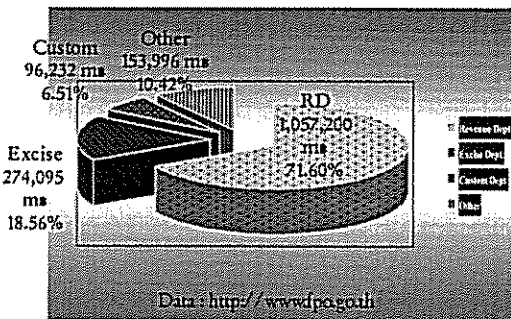
Taxpayers : "If tax is paid accurately today
No more penalty will be paid"

Tax officers : - Supervision team
- Ownership

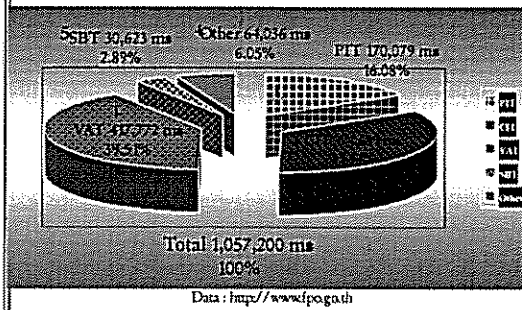
e_Supervision Database



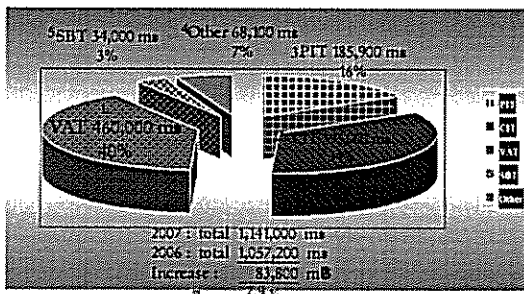
Government revenue in 2006



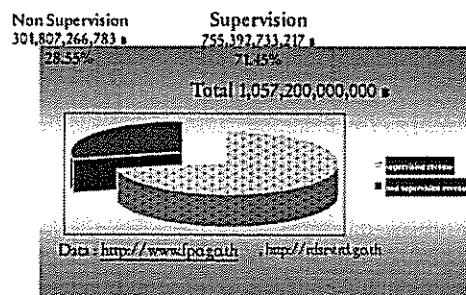
RD's tax collection in 2006



Target RD's tax collection in 2007



Supervision tax collection in 2006



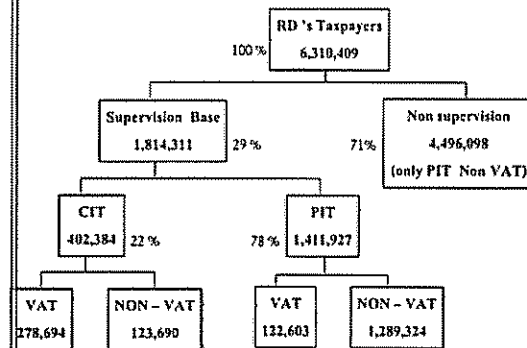
Who are taxpayers under Supervision Base?

- 1. CIT taxpayers : VAT and Non VAT
- 2. PIT taxpayers : VAT and Non VAT

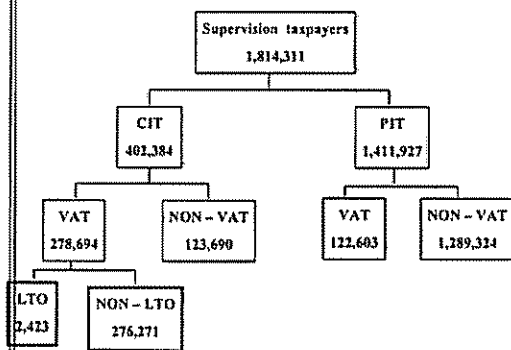
For PIT taxpayers : We pay more attention to individuals who receive income from

- rent of property
- liberal professions
- contract of works
- business, commerce, agriculture, industry etc.

RD 's Taxpayers



Taxpayer under Supervision Base

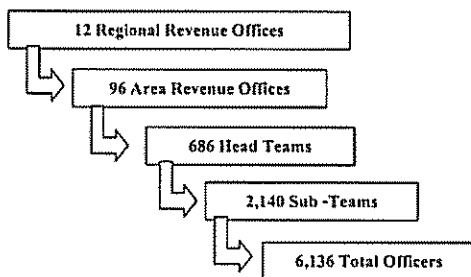


RD's officers

Officers		Taxpayers	
RD	Supervision	RD	Supervision
22,437	6136	6,310,409	1,814,311
100%	27.34%	100%	28.75%

Approximately 306 taxpayers (VAT + Non VAT)/ 1 officer

Supervision Team



Supervision Plan 2007

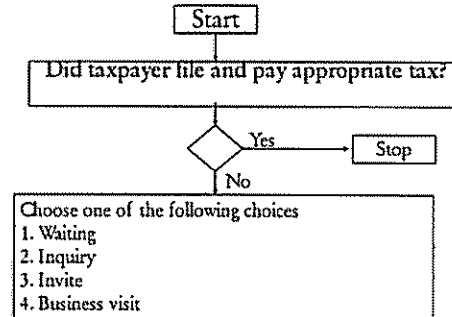
1. Tax payment monitoring
2. Business visit
3. Database adjusting

Supervision Plan 2007

1. Tax payment monitoring

- On the system
 - VAT : once in every two months
 - Non VAT : twice a year
- Criterions
 - filing or not ?
 - Income and taxes appropriate or not ?
- make decision :
 - what to do ?

How to make decision on the system? (Tax payment monitoring)



Supervision Plan 2007

2. Business visit

- Visiting and Recording any changes in a business once a year
- Two or more officers visiting at the same time
- Officers give advices about the type of tax return and other tax services

Supervision Plan 2007

3. Database Adjusting

Ex

- ISIC Code
- Tax identification number (TIN)
- Updating taxpayers' information ie., Name, Address, Office code

Who are the taxpayer that we should to visit?

1. Risky taxpayer
 - Low gross profit (G/P) and net profit (N/P) ratio
 - High purchase to sale (P/S) ratio
 - Decreasing tax revenue
2. Large VAT taxpayers
3. Good or registration exporter
4. New business
5. Growing business

Supervision Regulations and Procedures

What should we do *before* business visit?

1. Studying the types, rules and regulations of the business.
2. Analyzing tax return and identifying critical points
 - Filing tax or not
 - Examine income & expense and profit & loss
3. Preparing other taxpayer's descriptions
 - Asset
 - Business map
 - Concerned data

What do we do *after* business visit ?

- record the visit description
- attach business picture and map
- evaluate :
 - the appropriate income and tax payment
 - creditability of business

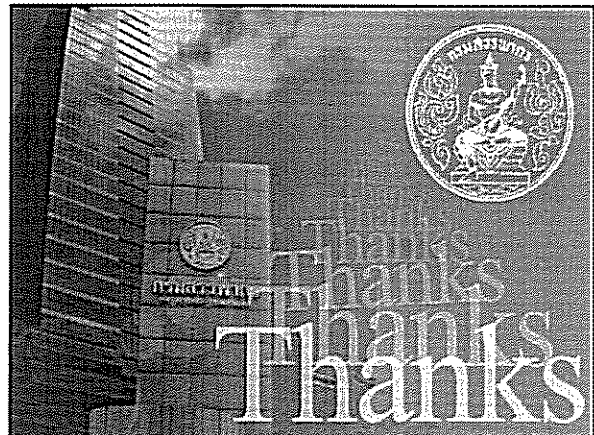
To conclude, our Audit and verification strategies involve:

- Business visit : to acquire the business information
- Income & expenditure analysis:
 - Compare the visited taxpayer with other taxpayers within the same business
- Estimation technique:
 - Estimate the business' income from expenditure information
- Information crosschecking:
 - Make use of available information in the withholding tax return forms

Next steps:

- Implementing GIS (Geographic information system and Tax map
- Information sharing

Case studies



Thailand 專題報告 (2)

Cash Economy & Cash Intensive Business in Thailand

Taxation of Cash Intensive Business in Thailand

“Case Studies in Supervision”

CONTENTS

- * Natures of cash intensive business
- * Types of cash intensive business
- * Tax collection methods
- * Tax collection Techniques

Natures of CIB

1. No record of tax payment
2. Normally SMEs
3. Implicit businesses
4. No registered location / address
5. No standard for accounting system
6. Payment normally through personal cheque
7. Rotation of income on day to day basis without recording

Types of CIB

1. Flea market , Bazaar , Caravan
2. Small - sized business on agricultural product :
 - Animal Farming : poultry, pig , etc.,
 - Sales of animal food
 - Sales of fertilizer
3. Sales of Electronic tools , Computers , Mobile phone

Types of CIB

4. Provision of services
 - Beauty Salon , Dress making service
 - Contractor , Subcontractors , other kinds of labor based services
 - Nightclubs , Pubs , Restaurants
 - Diving Business , Beach chair rental
 - Insurance Agent , Loan Business
5. Car dealer
6. Personal Taxi Services
7. Sales of gold and jewelry

Tax Collection methods

- **Horizontal Tax Collection**
- **Vertical Tax Collection**

7

Horizontal Tax Collection

Procedures :

1. Explore the targeted area
 - Daytime Businesses
 - Nighttime Businesses
2. Searching Information from other agencies

Performance :

Acquire new registrants to tax system

8

Vertical method

Procedures :

1. Business Analysis

- 1.1 Consider the number of businesses in each business sector
- 1.2 Identify the business by size :
 - Large - Medium - Small
- 1.3 Identify family Business or Partnership

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Vertical method

2. Consider :

Types of Tax payment

2.1 Individual

- no book keeping

2.2 Corporate

- Book keeping done by Accounting firm (no complete documents)
- Accounting system is not standard

Performance :

Tax amount increases

10

Tax Collection Techniques

1. Negotiation is appropriate for :

- 1.1 Large numbers of Taxpayers :
 - Local Mini - bus
 - Beach chair rental
- 1.2 Local Mafia

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Techniques used :

- Communicate with the group representatives
- Legal issues would be avoided (to reduce social pressure)
- Social welfare / benefit should be raised.

2. Small group meeting

Is appropriate for taxpayers who gathers in association.

12

MAIN BUSINESSES IN CHONBURI PROVINCE

1. Industrial Business
2. Agricultural Business
3. Tourism Business
4. Sales Business
5. Services Business

”

Examples on Case studies in Chonburi Province

”

PIG FARM

Before Investigation

1. Investigate the number of taxpayers
2. Identify the businesses according to annual income

Grouping

- | | |
|---------|------------------------------------|
| Grade A | annual income over 25 M.Baht |
| Grade B | annual income from 10 to 25 M.Baht |
| Grade C | annual income from 5 to 10 M.Baht |
| Grade D | annual income under 5 M.Baht |

”

During Investigation

1. Analyze information :
 - 1.1 numbers of barns
 - 1.2 numbers of breeding pigs (male/female)
 - 1.3 numbers of meat pigs
 - 1.4 numbers of pregation per year
(Avg. 2.2 times per years)

”

- 1.5 Fertilization rate per time
(Avg. 80% per time)
- 1.6 Number of piglets per 1 pregation
(Avg. 1 breeding pig = 9 piglets)
- 1.7 Survival rate
(Avg. 90% per 1 pregation)

”

2. Calculate the number of piglets from the formula as the following ;

No. of piglets

$$= \text{No. of female breeding pigs} \times \text{fertilization rate} \times 2.2 \times 9$$

”

After Investigation

1. Calculate the numbers of piglets according to the collected information
2. Calculate the number of survived piglets (by deducting the total number of piglets from the loss rate)

”

3. Calculate the farm's income = No. of piglets (Avg.weight 100 Kgs) market price per Kgs
4. Compare the income calculated by the tax officer with the income reported by the taxpayers

”

Example : Personal Income Tax Collection
Case : Mrs.Usa Chairaeratch
Type of business : Pig Farm

”

Information from Investigation

- | | |
|--|----------|
| 1. Area of Pig farm | 105 Rai |
| 2. No. of Barns (meat pig and piglets) | 20 Barns |
| 3. No. of Barns (Female Breeding pigs) | 5 Barns |
| No. of female breeding pigs | 500 Pigs |
| 4. No. of Barns (Male Breeding pigs) | 1 Barn |
| No. of male breeding pigs | 10 Pigs |

”

- | | |
|---|--------------|
| 5. Price per unit of piglets | 1,000 Baht |
| Price per Kg. of meat pig | 40 Baht |
| Price per Kg. of unfertilized female breeding pig | 32 Baht |
| 6. No. of employees | 50 mans |
| salary per month | 300,750 Baht |
| 7. Sales of female pigs per month | 20 pigs |
| Sales of piglets per month | 150 piglets |
| Sales of meat pigs per month | 700 pigs. |

Estimation of income

1st Method : Estimate from expenditure per month

- | | |
|----------------------------|-----------------------|
| - Salary | 300,750 Baht |
| - Cost of animal food | 3,374,390 Baht |
| - Medical cost | 54,168 Baht |
| - Electric bill | 200,000 Baht |
| - Fuel cost | 10,000 Baht |
| Total | 3,939,308 Baht |
| Gross profit margin | 15 % |
| Estimated income per month | 4,634,480 Baht |
| Estimated annual income | 55,613,760 Baht., |

2nd Method : Estimate from value of sales

Type	Sale/month (pigs)	Price (baht)	weight (kg.)	Income per month (Baht)
Female Breeding Pigs (FBP)	20	32 Baht / kg.	120	76,800
Piglets	150	1,000 Baht / Piglet	-	150,000
Meat Pigs	700	40 Baht / kg.	95 - 100	2,800,000

Income per month 3,026,800 Baht
Annual income 36,321,600 Baht

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3rd Method : (Estimate from No. of piglets)

$$\begin{aligned} \text{No. of piglets} &= \text{No. of FBPs} \times \text{fertilization rate} \times 2.2 \times 9 \\ &= 500 \times 80\% \times 2.2 \times 9 \\ &= 7,920 - \text{loss rate } 10\% \end{aligned}$$

No. of alive piglets = 7,128 piglets

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Annual Income from sale of meat pigs

$$\begin{aligned} &= \text{No. of alive piglets} \times \text{weight} \times \text{price per kg.} \\ &= 7,128 \times 100 \times 40 \\ &= 28,512,000 \text{ Baht} \end{aligned}$$

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$$\begin{aligned} \text{Annual Income from sale of FBPs} &= 76,800 \times 12 \text{ (months)} \\ &= 921,600 \text{ Baht} \end{aligned}$$

$$\begin{aligned} \text{Annual Income from sale of piglets} &= 150,000 \times 12 \text{ (months)} \\ &= 1,800,000 \text{ Baht} \end{aligned}$$

Total annual income 31,233,600 Baht

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Comparison on 3 methods of income estimation

Assessment of annual income 55,613,760 Baht
Annual Tax liability 500,300 Baht

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RESTAURANT

Before Investigation

1. Collect the number of taxpayers
2. Identify size of businesses as
 - Large
 - Medium
 - Small

30

During Investigation

1. Consider the type of business

1.1 Family Business / Partnership

1.2 Natures of service provided /

Services only at the store /

Home delivery / Office delivery

”

2. Appraise from assets , tools , Equipment :

- No. of Tables / chairs

- No. of Refrigerators or Quantity in Inventory

- No. of gas tanks / reserved gas tank

- No. of dishes / plates / bowls / spoons / forks

”

3. Consider the number of workers and number of shifts

4. Consider the cycle of customer turnover per table

5. Investigate taxpayers on all clues regarding to incomes

and Expenses

- Name list of the top three Suppliers

- Quantities and amount of fresh purchases pur month

”

- Quantities and amount of drinks purchased per month

- Quantities and amount of ice purchased per day

- Ratio of eat-in customers and take - home customer

- Numbers of holidays per month

- Service hours of restaurant

”

- Peak period

- Electric bill, water bill, telephone bill , and salary , ect.

- Personal and family expenses

- Social and charity expenses

”

After investigation

1st Method : Calculate gross profit margin using the income and expense information reported by taxpayers

2nd Method : Estimate restaurant 's income based on cost of sales

”

3rd Method : Estimate restaurant 's income based on the number of customers at the time of inspection

4th Method : Compare the taxpayer 's income with the income of other restaurants that have similar size and natures to calculate the average income

”

Sale of jewelry and gold

Before Investigation

1. Collect the number of taxpayers
2. Identify businesses by monthly sales of gold
 - Grade A Income over 400,000 Baht
 - Grade B Income between 200,000 – 400,000 Baht
 - Grade C Income under 200,000 Baht

”

During Investigation

1. Random check the inventory on the day of investigation
 - 1.1 Weight / Value of gold ornament and gold bar
 - 1.2 Amount and Value of jewelry
2. Analyze information on income
 - 2.1 Income from sales of gold ornament per month
 - 2.2 Income from sales of jewelry per month
 - 2.3 Income from pawn business per month

”

3. Analyze information on expenses
 - 3.1 Cost of buying new gold and jewelry
 - 3.2 Number of employees and salary per month
 - 3.3 Space rental
4. Analyze other information
 - 4.1 Number of holidays per month
 - 4.2 Office hours (opening - closing periods)
 - 4.3 Electric bill , water bill , telephone bill

”

After investigation

1. Calculate amount of income attributed to gold ornament
2. Calculate amount of income attributed to jewelry from the actual sale price

”

Local Mini - bus

Before Investigation

1. Search for list of taxpayers from any possible sources
2. Analyze by routes such as ;

Destination from Cholburi	Distance (Km.)	Fare (Baht)
Nongmon Market	17	17
Ang Sila Market	15	15
Ban-Puk Market	12	12

”

3. Income Analysis

Route : Chonburi Market – Ang Sila Market

1 month	=	30	days
No. of holidays	=	4	days
No. of working days	=	26	days
Seats per van	=	12	seats
No. of trips / day	=	4	trips
Income = fare 15 Baht per seat x 12 seats x 4 trips			
x 26 days			
= 18,720 Baht per month			..

Tax Calculation

1st Method :

Income from transportation service	=	224,640	Baht
Less deduction rate 80%	=	179,712	Baht
Income after deduction	=	44,928	Baht
Less Allowance (Single)	=	30,000	Baht
Net income	=	14,928	Baht
Exempted amount		100,000	Baht
Tax liability		-	Baht

2nd method

Income from transportation service	=	224,640	Baht
tax liability (.05% x 224,640)	=	1,123.20	Baht
(tax rate .05%)			

Procedures

1. Invite of manager of transportation cooperative and taxpayers , representatives for negotiation

2. Inform taxpayers about their incomes and tax liabilities :

Destination from Chonburi	Annual income (Baht)	Tax liability (Baht)
Nongmon Market	240,000	1,200
Ang Sila Market	220,000	1,100
Ban-Puk Market	200,000	1,000

3. Inform Taxpayers about their Interest from Public :

- Public services
- Infra structure
- road construction project . . .

4. Legal penalty issues should not be mentioned

Wholesale business on Animal food

Before Investigation

1. Search for information on truck 's owners from other government offices
2. Selection of owners

During Investigation

1. Consider the business information

- 1.1 number of storages
- 1.2 number of employees
- 1.3 number of grinding machines
- 1.4 number of packages (sacks)

..

2. Investigate information on income

- 2.1 number of deliveries per weeks
- 2.2 income on each delivery

3. Investigate expenditure information

- 3.1 Cost of materials
- 3.2 Salary per month
- 3.3 Salary of truck driver per month
- 3.4 Rent per month (land and offices)

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After Investigation

1. Consider the business information

- 1.1 Labor - intensive business
- 1.2 Trucks as delivery vehicles
- 1.3 High cost of electric (for grinding)

2. Tax Calculation

2.1 Estimation of income from expenditure information

- cost of material
- wages of employees / wages of truck drivers
- electric bill / fuel cost

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Example : Personal Income Tax collection

Case : Mr. Somnuk Inthithebpana

Type of business : Wholesale business on animal food

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Information from Investigation

- 1. Land area 1 Rai
- rent per month 5,000 Baht
- Storage condition : regularly used (fair / moderate)
- 2. No. of trucks : 6 trucks
- Truck drivers' wages : 200 Baht/driver
- 3. No. of permanent workers 13 workers
- No. of temporary workers 7 workers
- wages per day 150 baht / worker

..

- 4. Material per month 150 Tons
- By - product from rice Price per k.g. 6.30 Baht
- Corn Price per k.g. 5.30 Baht
- Broken rice Price per k.g. 7.60 Baht
- By - product from bean Price per k.g. 9.00 Baht
- Grinding fish Price per k.g. 21.00 Baht

..

5. Cost of material per month	1,100,000	Baht
6. No of deliveries per month	40 – 48	Trips
- Capacity of truck	50 – 60	Sacks
- Price per sack	300 – 600	Baht
- Income per delivery	20,000 – 30,000	Baht
7. Profit per k.g.	.05 - .10	Baht

”

Techniques on Estimation of income

1st Method : Estimate from expenditure per month

- Electric bill	60,000	Baht
- Telephone Bill	2,000	Baht
- Water Bill	1,000	Baht
- Rent	5,000	Baht
- Family expenditure	6,000	Baht

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- Wages	59,000	Baht
- Wages of driver	21,000	Baht
- Fuel bill	<u>144,000</u>	Baht
Total	<u>298,000</u>	Baht
Gross profit margin	20 %	
Estimated income per month	1,490,000	Baht
Estimated annual income	17,880,000	Baht

”

2nd Method : Estimate from cost of material

- Purchase of material per month	1,100,000	Baht
Calculate material cost	80 %	
Estimated income per month	1,375,000	Baht
Estimated annual income	16,500,000	Baht

Consider by comparing 1st Methods and 2nd Methods

Assessed income per year	17,880,000	Baht
Annual tax liability	317,000	Baht „

Conclusion :

- Generally investigation is used by the tax officers to get information on day to day business operations.
- Information from within and outside the agency have proved to be very useful to bring non-taxpayers into the tax system.
- Different businesses require different investigation techniques.
- By doing so, it will lead to the government to be able to collect taxes based on the actual business incomes.

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Thank you

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