COVID-19: Tax Policy and Revenue Administration Implications
Potential Tax Policy, Tax Administration, and Customs Measures to Respond to the Crisis
This note brings together current thinking among global and regional teams on governance and institutional approaches to dealing with COVID-19. With a focus on tax policy and revenue administrations, it presents governance and institutional reforms that could support revenue administration responses to the pandemic. COVID-19 has brought about a new normal in which work practices should change. Shocks usually trigger responses, and a productive response here would be to automate tax and customs services over the medium term and to massively accelerate the use of digital and virtual technologies.

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COVID-19 Fiscal Impact Analysis


The coronavirus disease (COVID-19) pandemic has resulted in a sudden, sharp recession in the global economy. Many fear that even if a good policy response limits its duration, its effects will be felt for a long time. Two main factors support this fear. First, many major economies were already ill-equipped to handle adverse exogenous shocks. Second, this sudden economic disruption is especially destructive because, in many cases, it has destroyed both supply and demand. Current health responses to the pandemic impact drivers of economic growth, likely leading to economic shutdowns across sectors. Governments must think about second-phase fiscal policy interventions to restart a globalized economy once the health challenges of COVID-19 have been met.

The COVID-19 crisis presents unprecedented challenges to domestic revenue mobilization (DRM). From past crises we know that the effect on taxes (especially direct taxes) exceeds the economic impact in scale and duration. The unprecedented cash flow and income hit for businesses and individuals creates a dual challenge for revenue systems: to provide relief for affected taxpayers and to manage a sudden large drop in collections.

The COVID-19 pandemic and related economic slowdown will lower government revenues as a share of GDP as (i) some tax bases are disproportionately affected by a growth slowdown, including profits, capital gains, items with excises, and imports; (ii) commodity prices and related revenues decline; and (iii) countries take steps to lower the tax burden, for example, by lowering tax rates or scaling up incentives. Revenue performance may be further harmed by operational restrictions in revenue administrations due to health measures and the related risk of worsened taxpayer compliance.

It is still too soon to assess the impact on revenues, although insight can be gained from looking at specific aspects of the revenue system that will likely affect collections in client countries:

- **Customs and trade taxes.** In open economies, the interruption in global value chains has a direct and immediate negative impact on the revenue collected by customs (excises, import duties, and VAT). For African and other client countries, China’s slowdown in economic activity has already translated into a drop in manufacturing imports. These problems deepened as advanced economies entered crisis mode and COVID-19 spread across the globe.

- **Consumption taxes (inland).** A large share of goods consumed in developing countries are imported or include parts from China and other countries where production has been affected. As supply chains have been interrupted, local traders selling imported items such as textiles, electronics, or household goods are not supplied. The widening impact from COVID-19 will likely cause further deterioration that will be compounded as demand responds to supply shocks.

- **Direct taxes.** Over the next years, revenues from Corporate Income Tax (CIT) and Personal Income Tax (PIT) are likely to decrease as income generating activities

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slow down. The most immediate effects will likely be felt in the collection of payroll and wage taxes, which have a shorter lag.

- **Revenue from natural resources.** COVID-19 coincides with a major drop in the price of oil and other commodities as the world economy slows. Oil price declines were reinforced by disagreement between Russia and Saudi Arabia on production cutbacks in response to declining world demand. Commodity importing nations generally benefit from oil price drops, but revenue from taxes based on the value of oil products (i.e., ad valorem instead of specific rates for fuel and other products) could be adversely affected.

- **Tax administration and compliance.**4 As noted above, health measures disrupt revenue administration operations, including enforcement and taxpayer services. (Some tax administrations have already suspended audit and collection activities.) Reduced enforcement activity would likely increase taxpayers’ risk tolerance for tax avoidance and evasion and thereby reduce tax compliance. Moreover, tax arrears may increase as taxpayers divert constrained cash flows to their business operations. Businesses may also protect their cash flows by suspending or delaying payment of salaries, supplies, loans, and other obligations, which could further reduce taxes collected.

Designs for fiscal (revenue and expenditure) responses to the COVID-19 pandemic can be assessed through specific aspects of individual revenue instruments that indicate their efficacy and efficiency in achieving their goals, both short and long term. These aspects include the **efficiency** of a specific instrument to achieve targeted objectives; **cost and fiscal sustainability; flexibility** to adjust to changing circumstances; and **administrative feasibility**.

The relative weight of these aspects in each country’s choices will depend on circumstances. For example, countries with solid fiscal buffers will be less constrained by costs, and countries with strong administrative capacity will be able to deploy more complex instruments than countries with limited capacity.

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4. Revenue administration aspects are only touched on in this note. A detailed assessment can be found in the GGP/MTI companion note “Revenue Administration Implications from COVID-19.”
When analyzing the fiscal impact and potential revenue administration measures for responding to the COVID-19 crisis, it is useful to differentiate three phases:

• **Phase One: Containment.** The immediate crisis response to soften the economic downturn and protect businesses, jobs, and citizens from undue economic hardship.

• **Phase Two: Recovery.** Recovery measures as the health crisis stabilizes but the economy has yet to regain its footing.

• **Phase Three: Stabilization.** Measures to increase resilience and sustainability as the economic situation stabilizes and attention can turn to applying lessons from the crisis and to sustaining gains made.

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**BOX 1 - Framework for Assessing Fiscal (Revenue and Expenditure) Policy in Response to COVID-19**

Fiscal policy measures in this note are assessed using a framework derived from the traditional timely-targeted-temporary model for assessing responses to crisis situations, with a focus on the following aspects:

**Efficiency.** The efficiency of a specific fiscal instrument to achieve particular objectives cost-effectively will be influenced by:

- **Targetability:** The extent to which the instrument allows direct targeting of specific businesses, population groups, or activities.
- **Speed:** The time elapsed between adopting the instrument and achieving the desired impact.
- **Abuse resistance:** The ease with which abuse by eligible beneficiaries and other parties involved with the measure can be controlled.

**Cost and fiscal sustainability.** Containing the cost of fiscal measures is another important aspect of the fiscal response. This involves considering costs and benefits of specific instruments and their interactions. For example, measures to reduce layoffs may generate benefits by reducing unemployment and social security payments.

- **Affordability:** The extent to which the use of the instrument impacts fiscal stability. For example, instruments that provide support in the form of credits or through deferred payments will have lower cost implications than instruments in the form of outright grants and expenditure.
- **Predictability and control of cost:** The extent to which upper limits of program costs can be established and actual costs reasonably well predicted.

**Flexibility.** The high uncertainty regarding the duration of the pandemic and the intensity with which individual countries will be affected puts a premium on the flexibility with which an instrument can be deployed, including the ability to scale up or stop the use of an instrument as needed.

- **Scalability:** The extent to which the instrument can be expanded or replicated for additional groups of beneficiaries in accordance with needs.
- **Reversibility:** The ease with which the response can be withdrawn without causing economic and behavioral distortions.

**Feasibility.** Measures may not have their intended effect if they are difficult to implement due to administrative constraints or their impact is blunted by health measures, such as social distancing and lockdowns.

- **Administrative ease:** The extent to which the instrument can be implemented within existing administrative capabilities.
- **Impacts of the pandemic and containment measures:** The COVID-19 pandemic has direct impacts on deployment of fiscal instruments. For example, scaling up health expenditure may be constrained by a lack of qualified personal; measures involving human contact (especially in groups) will be less desirable than instruments that limit such exposure; and scaling up consumption and investment may face supply side constraints as suppliers and contractors may be in lockdown mode.
1.1 Alleviate Cash Flow to Entities

The COVID-19 crisis will trigger negative economic shocks that cause liquidity crises for both businesses and households, leaving many without the cash or easy-to-convert assets with which to honor their public debt.

Cash management stands out as a critical function for businesses’ strategic planning, with implications for investment and employment strategies. Businesses must understand the extent of future cash generation and necessary expenditures, with a focus on short-term needs for day-to-day operations. Daily cash forecasts are driven by receipt and payment data from accounts receivable and payable ledgers; tax information and net profit or performance; cash surpluses retained in the business; and short-term liquid investments. Tax payment obligations play a critical role in a business’s overall treasury strategy and risk management. Cash forecasts include tax estimates, and businesses typically consider optimizing their resources to ensure enough liquidity to pay taxes on time and make smart use of refund requests.

During challenging economic times, when cash becomes a vital commodity as unanticipated shocks affect businesses’ short-term receipts and payments, fiscal authorities play a fundamental role in adjusting the tax system to ensure taxpayers improve their cash flow. Fiscal authorities and revenue administrations can provide valuable sources of liquidity, either through accelerated tax refund processes (based on risk-management parameters) or deferral of tax payments (akin to interest-bearing loans from the treasury). Adoption of a well-designed package of tax mitigation measures has the potential not only to mitigate liquidity constraints, but also to strengthen collaboration between taxpayers and revenue administrations at a time when it is most needed.

Cash management considerations are similarly relevant to fiscal authorities and revenue administrations during unanticipated economic shocks. Revenue shortfalls to treasury accounts materialize through different channels, mainly lower turnaround levels of tax payments from cash-constrained taxpayers, shrinking tax bases due to lower economic activity, and sudden declines in overall tax compliance. Revenue collection is also likely to be affected by short-term and temporary policy measures to improve cash management for distressed taxpayers and to protect vulnerable populations from adverse health and economic effects.

During the containment phase of the pandemic crisis, revenue administrations and fiscal authorities should adopt comprehensive compliance and receipt management strategies to mitigate adverse economic effects and introduce healthy revenue performance and budget practices. Most early measures will target affected taxpayers, often requiring them to prove they are qualified to receive relief. While eligibility criteria are necessary to prevent abuse, in practice use of the criteria can burden both taxpayers and tax administrators. Tax administrators will need to spend significant resources approving and monitoring taxpayer requests, while already struggling to cope with the pandemic. Tax administrations should therefore avoid cumbersome procedures likely to delay or prevent taxpayer compliance and to increase the risk that policy objectives will fail. For example, because most tax revenue come from very large taxpayers, in many cases a government could offer relief to all small and medium taxpayers without risking its overall revenue intake.
A comprehensive set of recommended short-term mitigation measures to assist businesses and household taxpayers’ cash management concerns during the pandemic’s containment phase appear in the World Bank paper COVID-19 and Taxation: Between the Devil and the Deep Blue Sea, addressing the dilemma of using budget expenditures to alleviate taxpayers’ cash flow constraints, given the need to generate revenues to create fiscal space.

Measures that tax administrations can use to improve businesses and individuals’ cash flow and liquidity include tax refunds, interest-bearing loans, smooth-out effects for economic losses, and incentives for critical investments. Most of these measures require tax authorities to adjust processes and regulations, while others require temporary changes in tax policy tailored to specific social and economic objectives during the containment and recovery phases of the pandemic health and economic crises. Delaying payments by a quarter or two gives immediate breathing space to the private sector while keeping intact fiscal balances intact. Extending filing and payment deadlines for individuals would provide much needed relief and reduce possible work backlogs for the tax administration.

Payment deferrals and installment agreements for customs duties can also be an important tool by supporting businesses exporters to stay resilient through tough economic times. Such measures could replace and/or complement temporal policy actions such as granting (i) a temporary zero-rate policy to specific tariff codes; (ii) limited or provisional tax/tariff exemptions to relevant sectors; or (iii) more flexible tax deferrals. These measures can help traders increase their international competitiveness, face trade costs during the global recession, and secure their participation in the global value chains.

Accelerating tax refunds in whole or part can provide vital cash-flow relief to financially distressed taxpayers, as can speeding up value-added tax (VAT) rebates for exporting businesses or delaying VAT collection from importing companies. Countries that provide less frequent filing for small and medium businesses (SMEs) can allow SMEs with excess VAT inputs to opt for monthly filing, to enable more frequent VAT refunds (monthly rather than quarterly). Best practice for improving timeframes for processing income tax refunds or releasing VAT refunds uses automated risk assessment. Effective, timely implementation greatly depends on tax authorities’ capacities, however, which widely vary across countries. Therefore, a simplified refund process should balance agility and control.

1.2 Monitor Compliance Risk

The pandemic will have a substantial impact on tax compliance and revenue collections. Businesses classified as nonessential may consequently lay off or furlough many employees. COVID-19 has affected people across the world—it does not distinguish between rich or poor or spare people by country or ethnicity. Taxation issues arising from COVID-19 similarly do not distinguish between businesses or individuals or taxpayers of different sizes (large, medium, small/micro); they do not spare taxpayers or traders in different economic sectors.

The COVID-19 crisis requires revenue administrations to understand emerging compliance risks and to strike an effective balance between assistance interventions and enforcement interventions, formulating or reformulating compliance strategies for each phase of the crisis. This list summarizes the key aspects applying to both high- and low-capacity tax administrations:

- Taxpayers not affected by the crisis may nonetheless decide not to pay.
- Distressed taxpayers may be unable to file and pay.
- Growing numbers of taxpayers may be unable to pay arrears.
- Large taxpayers’ noncompliance may increase.
- Timely processing of refunds is crucial.
- Delays in releases of imported essential goods, such as medical supplies, must be avoided.

Revenue administrations must develop tax compliance strategies to address these challenges, specifically measures to:

- Assist taxpayers to cope with the pressures of the COVID-19 crisis.
- Adjust taxpayer service and enforcement programs to address emerging risks.
- Contain and manage the rise in noncompliance.

Because the COVID-19 crisis has broad impact on compliance, it differs substantially from the 2007/2008 financial crisis. COVID-19 impacts all types of taxpayers (large, medium, small), more economic sectors and industries (beyond banking), and both businesses and individuals. The main priority for responding, therefore, is to target interventions to address the greatest risks.

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• Existing tax compliance strategies are likely out-of-step with the new context. A typical compliance strategy assumes that most taxpayers are or will be compliant, given some assistance. The COVID-19 crisis may upend such assumptions, and tax administrations must deal with more widespread noncompliance with changed tax compliance strategies.

• Governance arrangements may need strengthening to ensure an effective tax compliance risk management team is ready to design, implement, and monitor the strategies.

• Data analysis and risk assessment should drive all major decision making. One major game-changer since the 2007/2008 crisis is the evolution in technology; tax administrations can now make more effective use of internal/external data to identify compliance risks.

• There is no need for sophisticated software: Excel can do the job!!!!

• A small data analytics team can analyze data to identify possible compliance risks; thus only a few staff will need proficiency with advanced Excel features (e.g., PowerPivot).

• Smaller administrations may not have resources for a formal data analytics team, but even one or two officers can further the use of data to identify compliance risks. For example, comparing the taxpayer register to the companies and customs registries could identify potentially unregistered taxpayers, and analysis of return and payment data can easily measure on-time filing and payment compliance levels, which are crucial. This analysis could be done by type of tax or by economic sector.

These priority risks and treatment strategies should be considered for each phase:

• During the containment phase it is paramount that revenue administrations build trust and confidence with the taxpayer/trader community. Revenue administrations must take the lead in understanding the challenges faced by businesses and individuals.

• Focus should be on providing assistance to taxpayers who are substantially affected by the COVID-19 crisis and therefore unable to comply. Tax administrations could, for example, relax filing and payment requirements or speed up refund claim processing.

• Enforcement should focus on essential businesses in sectors that might be experiencing growth (e.g., large supermarkets, pharmacies, health sector businesses, or businesses selling goods online).

• Emphasis should be placed on monitoring the compliance of the largest taxpayers (particularly large businesses not impacted by the crisis), many of which should not receive relief from filing, payment, accurate reporting, or payment of arrears.

Table 1 provides guidance on preparing a Taxpayer Compliance Strategy during the containment phase. Its two sections acknowledge differences in tax administrations’ maturity in designing and implementing taxpayer compliance strategies, core tax administration business processes, and ICT development.

<p>| TABLE 1 - Phase One: Containment of Risks to Revenue and Suggested Responses |
|-------------------------------------------------|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| Revenue Administrations with Mature Compliance Strategies/Business Processes/ICT | Risks | Treatment Strategy |
| 1. Taxpayers who have not been affected by the COVID-19 crisis decide not to comply. | • Review the taxpayer register to identify taxpayers that should not be provided relief from registration, filing, and payment, as they have been unaffected by the crisis and some may be thriving. | • This will likely include many large taxpayers but not necessarily all (e.g., in normal circumstances, a large hotel might be classified as large, but this sector has been substantially impacted by the crisis). |
| 2. Distressed taxpayers are unable to file and pay. | • Develop simple communication materials to make taxpayers aware of government and revenue administration COVID-19 responses and measures. | • Establish a small team to develop communication materials and maintain contact with taxpayers electronically (including dedicated staff to contact |</p>
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| 3. A growing number of taxpayers are unable to pay arrears.         | • Encourage use of installment agreements for taxpayers who cannot make full and timely payment.  
• Priority should be placed on collecting new arrears from taxpayers not impacted by the crisis and whose operations may be thriving. Firm and prompt recovery actions should be taken to collect arrears from businesses that are doing well. | • Inform taxpayers of policies and procedures for paying arrears, as they may not be aware of them.  
• More staff should be assigned as needed to stay current with collection of potentially collectible large arrears.  
• Definitions of essential businesses vary by country, so staff must review taxpayer registers to find those meeting the local definition (e.g., parts of Canada classify businesses selling alcohol or marijuana, which have had revenue spikes, as essential). |
| 4. Noncompliance by large taxpayers (classified as essential businesses) increases during the crisis. | • On-time filing and payment for all core tax types should be closely monitored to ensure compliance levels do not deteriorate.  
• Audit programs for large taxpayers unaffected by the crisis must be stepped up (focus should be on accurate reporting of VAT and reporting of net operating loss). | • The large taxpayer office (LTO) might need additional resources for timely monitoring of on-time filing and payment, audits, and collecting arrears.  
• A small number of KPIs should be adopted and reported on regularly to senior management (e.g., revenue collected, on-time filing %, on-time payment %, audit results, and changes in stock of arrears, broken down by sector and tax type). |
| 5. Timely processing of refund claims must be maintained.            | • All refunds should be centrally processed.  
• Use risk-based assessment criteria to process refunds within 30 days.  
• Priority should be given to issuing refunds to SMEs, exporters, and individuals.  
• Estimate the amount of refunds to be claimed during the crisis and ensure government allocates an appropriate budget. |                                                                                                                                                                                                          |
<p>| 6. Release of imported essential goods and medical supplies is delayed. | • Steps should be taken to expedite the clearance process for essential goods and medical supplies (e.g., establish a fast-track clearance facility). | • Businesses and citizens rely on the timely importation of goods and medical supplies during the containment phase. |</p>
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<td>1. Taxpayers not affected by the COVID-19 crisis decide to not comply.</td>
<td>• Review the taxpayer register to identify taxpayers that should not receive relief from registration, filing, and payment because they are unaffected by the crisis, and some may be thriving.</td>
<td>• If the register is not automated or is inaccurate and unreliable, establish a small group who can use local knowledge to determine the essential businesses.</td>
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| 2. Distressed taxpayers are unable to file and pay.                  | • Develop simple communication materials to make taxpayers aware of government and revenue administration COVID-19 responses and measures.  
• Generate a list of nonessential businesses and suspend filing/payment compliance monitoring and any audits. | • Establish a small team to develop communication materials.  
• Staff should use traditional channels to keep taxpayers informed (e.g., print media, phone calls to key taxpayers) and should consider using social media to inform taxpayers. |
| 3. A growing number of taxpayers are unable to pay arrears.          | • If taxpayers are unable to make full and timely payment, encourage use of installment agreements but maintain focus on collecting any large arrears. | • If IT support is limited, focus on reviewing filed returns and/or completed audits to identify essential businesses with large arrears. |
| 4. Noncompliance by large taxpayers (classified as essential businesses) increases during the crisis. | • If the tax administration does not have a specific LTO or large taxpayer program, staff should take time to identify the businesses that paid the largest amounts of tax in previous years and ensure that businesses unaffected by the crisis are closely monitored to ensure all returns and payments are made on time. | • A small team at the central, regional/provincial, and/or district level should monitor the largest taxpayers in the geographic area (e.g., each office could start by closely monitoring the top 50 or 100 taxpayers in amount paid).  
• A small number of KPIs should be adopted and reported on regularly to senior management (e.g., revenue collected, on-time filing %, on-time payment %, audit results, and changes in arrears). |
| 5. Timely processing of refund claims must be maintained.            | • A small team focus on processing any refund claims. Dedicated staff should deal with any large refund claims.  
• If the taxpayer has any outstanding arrears, the amount to be refunded should be offset first.  
• A very simple risk-based selection process should be used to issue refunds. | • Any refund claim from a distressed SME should be immediately issued and checked later.  
• Large refund claims should be carefully reviewed; if the taxpayer has a good compliance history, the refund could be issued. A fast-track method should be used when exporters request a refund. |
| 6. Release of imported essential goods and medical supplies is delayed. | • Steps should be taken to expedite the clearance process for essential goods and medical supplies. | • Businesses and citizens rely on the timely importation of goods and medical supplies during the containment phase. |
1.2.1 Allow but Monitor Growth in Tax Arrears
Tax agencies should identify risks of noncompliance as quickly as possible and monitor tax arrears. In many countries, close monitoring of large taxpayers’ arrears, the bulk of tax revenue, is necessary to avoid a sharp decline in revenue collection.

1.2.2 Increase Reporting of Net Operating Loss (NOL)
Taxpayers in businesses affected by overall economic conditions are likely to file NOL increases, but some businesses consider economic downturns opportunities to claim sham NOLs. Close monitoring of NOL filling is needed to avoid wiping out short-term CIT revenues.

1.2.3 Increase Monitoring of Inaccurate VAT Reporting
Businesses affected by economic conditions might incorrectly report amounts of VAT paid at importation or increase the amount of zero-rated and/or under-report sales. The tax administration must closely monitor VAT reporting.

1.2.4 Soften & Speed up Responses
Refund processes should be monitored as distressed taxpayers may engage in fraudulent refund claims as a source of cash flow, especially VAT refunds (often a rather weak operational performance area).

Additional measures to improve and monitor compliance risks from fiscal authorities include:

- **Strengthen tax compliance monitoring within tax administrations.** Special task forces within revenue administrations can help mitigate short-term effects of economic shocks. The task force should closely monitor potential tax base erosion or the exposure of higher levels of compliance risk. It could also be instrumental in establishing effective feedback loops with the ministry of finance economic team tasked with monitoring revenue collection and preparing budgets for the midterm economic framework.

- **Monitor monthly receipts.** In addition to developing revenue forecasting and estimation tools (mostly tailored to macroeconomic management and tax policy objectives), countries should have a reliable monthly revenue receipt model. When appropriately calibrated, with reliable tax elasticity and buoyancy coefficients (in relation to underlying tax bases, such as gross domestic product (GDP) or private consumption), these models can help revenue administrations determine the effects of revenue shortcomings in the short term and estimate those effects against the annual revenue budget.

- **Enhance transfer pricing audits.** Any adjustments made to transfer pricing arrangements should be closely audited to ensure they are applied with extreme diligence, both in transfer pricing documentation and in the underlying analytics; a framework for intertemporal evolutions of the transfer pricing model should be provided. In post-crisis tax audits, tax administrators should also analyze and challenge any COVID-19-induced group losses to ensure they would not have arisen even without the crisis and to verify alignment with reviewed transfer pricing policies to allocate group profits and losses. Tax officials may take into account the exceptional current situation for comparability analysis purposes and, if necessary, adjust the pre-crisis comparability analysis and review related-party transactions.

- **Audit compliance for conditional tax benefits and subsidized loans.** Many companies and entrepreneurs may benefit from tax advantages (e.g., tax rebates or postponements) and subsidized loans at beneficial or zero-interest rates if they comply with certain conditions and commitments (for example, they do not distribute dividends, buy back shares, or, for large companies, establish operations in noncooperative states or territories). Tax authorities should expend extra care and resources on auditing and verifying that taxpayers benefiting from such special aid measures appropriately qualify.

- **Suspend statutes of limitations for tax authorities.** All statutes of limitations should be suspended until the end of the COVID-19 crisis to prevent expiration of ongoing tax audits and to allow initiation of new tax audits that would have expired during the pandemic, impairing audit and revenue procedures. Suspensions would be applicable to both the taxpayer and the tax authority, and no tax audit would be initiated during the suspension period. Identical provisions should be applied to rules for all time limitations applicable to recovery, inspections, and tax rulings under customs regulations.
1.3 Manage Business Continuity

Business Continuity Management (BCM) ensures that all critical processes in an organization are available at all times to tax and customs officials, taxpayers, trade partners, and other entities that must access them by creating continuity strategies to recover and continue critical processes in the event of an interruption or disaster like the COVID-19 pandemic. BCM is illustrated in the figure below.

The BCM thus aims to have ready a Disaster Recovery Plan (also termed a Continuity Plan) providing strategies and procedures to return operations to an acceptable level of performance as quickly as possible after the disruptive event. The speed with which the organization’s assets can return to normal or near-normal performance will impact the time the organization requires to return to business as usual (BU).

1.3.1 Analyze Business Impact

The BCM process begins by identifying critical operational areas and ends with a disaster recovery plan (1 and 2 in Figure 1). Business Impact Analysis identifies the most important business areas and the resources necessary for their operation. Risk analysis examines internal and external threats and vulnerabilities that may negatively impact the most important business areas.

1.3.2 Restore Critical Functions

By investing now in a viable BCM program, tax and customs authorities can develop the most effective approach to restoring and resuming critical and essential functions and processes. Focus should be on developing, implementing, and maintaining a credible BCM program that implements the complete cycle shown in Figure 1 and, most importantly, provides a layer of protection for the organization’s most important assets: people, information, cash flow, and reputation.

1.3.3 Apply Mitigation Strategy

In the context of COVID-19, the tax and customs authorities’ recovery plans should include specific mitigation strategies that enhance their ability to rapidly coordinate responses to adapt to unpredictable change, because the strategies needed are strongly influenced by how the organizations define their most
critical areas and highest risks. Emphasis should be placed on creating clear, secure operational guidelines and procedures for employees taking decentralized initiative.

### 1.3.4 Support Social Isolation

The COVID-19 pandemic differs from most business and IT risks identified in traditional risk analysis because it prevents employees and taxpayers from visiting tax and customs authorities’ facilities. Earthquakes, floods, fires, tornados, blackouts, riots, civil unrest, equipment failure, hackers, etc., all affect infrastructure, but COVID-19 prevents employees, taxpayers, and trade partners from reaching facilities and carrying on normal operations: infrastructure and systems operate normally, but people cannot use them.

Tax and customs authorities must develop business continuity plans that identify critical business processes and mitigation measures. Having a continuity plan for tax administration and customs operations during the COVID-19 period is essential, especially given the spatial distancing imperative in place while authorities need to take action.

One big lesson that governments learned from the COVID-19 pandemic is how critical internet-based compliance is for taxes and customs. Where such platforms were operating, COVID-19’s negative impact on revenue was a function not of administrative but of economic factors such as sharp declines in consumption (impacting VAT), increased unemployment (impacting PIT and PAYE), and the fall in profits (ultimately reducing CIT).

A revenue administration’s ability to maintain business continuity during the pandemic emerged as a critical element of successful operations. This went far beyond the availability of ICT platforms; it included maintaining staff and taxpayer safety, creating an emergency task force, providing continuous critical services to taxpayers and government, making clear and timely decisions in a rapidly changing environment, communicating promptly and effectively with taxpayers and staff, preserving confidentiality of tax records, expediting customs inspections, and reassigning personnel (e.g., to focus on taxpayer services) or institutions (e.g., tax administration to customs) as needed.

**Workforce safety.** Revenue authorities’ pandemic-related business continuity plans must deal with large-scale staff absences, as more and more people report sick or avoid their offices due to social distancing. While proper business continuity plans may take time to develop and implement, simple measures undertaken on an urgent basis can make a big difference; these include limiting public service users, providing hygiene products, fostering safety-first attitudes, etc. In the context of COVID-19, risk-based inspections/audits become even more critical to limit physical interaction. To decrease in-person interactions, authorities may need to temporarily close physical offices and/or reduce office-based activity to a minimum. While replacing office visits with ICT might be ideal, however, that option may be unavailable to some revenue administrations.

**Shift to digital.** To date, much of the focus of government responses to COVID-19 has been on prevention and mitigation. But signs are emerging of adaptation actions with possible long-term consequences for government structure and operation. Governments might move to automation or e-services (including tax services) and limit close physical interactions, often legacies of the predigital era, to reduce future viral contagion risk. While some countries have closed their tax administrations, others are rapidly shifting onto digital platforms, allowing users to access some services remotely to limit the risk of exposure and spread.

### 1.4 Create a Task Force

Cooperation is critical in this new environment. A task force comprised of officials from the tax policy department, from the ministry of finance, and revenue administration, from tax and customs departments, should be created and made responsible for the design and day-to-day implementation and monitoring of the emergency DRM package. The task force could also regularly update information on emerging risks and adjust the emergency plans (including the business continuity plan, the compliance strategy, etc.) as needed. It could also play a key role in properly planning and resourcing the corresponding agencies and regularly monitor results achieved. In addition, the task force should cooperate closely with representatives from the taxpayer community to engage them in the design and implementation of the DRM package.

Revenue administrations should aim to have a centralized high-level team design, implement, and monitor their COVID-19 tax compliance strategy. Since the 2007/2008 financial crisis, a growing number of tax administrations have some form of compliance risk management organization in place that has responsibility for designing, implementing, and monitoring compliance improvement strategies; a number of tax administrations are in the process of introducing such arrangements. In the short term some tax administrations may not have the option of establishing a formal centralized team. However, the principles laid out below could still be achieved by...
appointing a small team to develop preliminary tax compliance strategies (perhaps in the form of a project). The following good practices for tax compliance governance frameworks are recommended for tax administrations’ consideration:

• A central compliance risk management team should be established with responsibility for identifying emerging risks and possible treatment strategies.
  • The team would include a small group of data analysts with access to all internal/external data to identify risks and, if possible, sector/industry specialists.
  • The risk management team will review the risks, identify treatment strategies, and present their findings to the Compliance Risk Management Council/Committee.

• A compliance risk management council or committee comprised of senior tax administration executives should be established to review proposals presented by the central compliance risk management team and to make decisions regarding what priority actions to take.
  • This could include the head or deputy head of the tax administration.
  • Other members might include senior management from headquarters departments/units in-charge of core tax administration functions (e.g., registration, filing, payment, audit, arrears management, and taxpayer services) and support functions such as HR and ICT.
  • Finally, operational managers from selected field offices (e.g., head of the LTO, regional/provincial heads) should participate.

Internal and external communication is critical for the efficient management of the crisis. On the one hand, it is important to have a communication strategy to coordinate messages related to policy objectives, instruments, and institutions within the government (the above-mentioned task force should play a critical role) before tax measures are announced, to help manage expectations. Authorities also need to clearly communicate, in a timely manner and simple terms, the measures being taken and the packages available to taxpayers. Revenue administrations should use the full set of service channels (website, e-mail, telephone contact centers, walk-in offices, radio, TV) and products to publicize available policy measures and compliance strategies to the public.

1.5 Take Customs and Trade Measures

1.5.1 Secure Border Crossings

Temporary travel and border restrictions. The objective of this measure, like other resolutions adopted under the current public health emergency, is to protect citizens’ health and safety. Implementing temporary restrictions on “nonessential” travel, such as tourism, may help curb the spread of the COVID-19 virus. Borders can remain open only for citizens or residents, cross-border workers performing “essential activities,” or other urgent essential reasons.

Preserve supply chains. The security and integrity of the supply chains must be preserved in the interest of both citizens and economies. Keeping borders open for cargo flows, especially flows across common borders, responds to the need to avoid disruptions of supply chains, particularly of essential goods such as food, imported medicines, disinfection articles, protective supplies, and medical equipment.

Monitoring strategy for counterfeit goods. Customs administrations should actively and aggressively monitor any shipments that could present a threat to public health. This measure is crucial, as counterfeit products will continue to expand during the outbreak. Due to ongoing efforts by some customs administrations, seizures of unauthorized or fraudulent test kits are rising. Increased engagement and collaboration with industry on intellectual property rights also matters.

1.5.2 Prioritize and Expedite Essential Goods

Publicize HS classification reference for COVID-19 medical supplies. Customs administrations can make available the WCO’s updated HS Classification Reference for COVID-19 Medical Supplies to assist importers in determining the appropriate HS classifications. Entities and operations related to the referred commodities should be allowed to use green lanes and receive pre-arrival processing. The eligible six categories are as follows:

i. COVID-19 test kits and instruments and apparatuses used in diagnostic tests
ii. Protective garments (gloves, face and eye protection, textile masks, gas masks, protective garments)
iii. Thermometers

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iv. Disinfectants and sterilization products
v. Other medical devices (ventilators, oxygen, tomography scanners)
vi. Medical consumables (needles, syringes, intubation kits, bandages, paper bed sheets)

Green lane system for essential goods. To the extent legally possible, new customs prioritization procedures should be implemented to address issues that could delay access to essential goods. A “green lane” system helps streamline the release of cargo by expediting and prioritizing inspection and clearance formalities to ensure timely access to crucial supplies such as medicines and medical equipment, food, energy (fuel), and applicable personal hygiene goods, to minimize shortages.

Expedite reception of international emergency donations. To expedite international donations without compromising the population’s health, customs authorities and ministries of health will need to work jointly to immediately issue the necessary import permits for donated medicines and health supplies that meet quality standards. Within this framework, these shipments can be exempt from advance electronic filing requirements (if applicable), approved for waiver of formal entry, and released by submitting the cargo manifest. Foreign shipments released under these guidelines are usually subject to proper screening upon arrival, and records are logged according to existing policies.

Advance ruling mechanism to expedite imports for medical supplies. To coordinate inquiries regarding importation of medical supplies and personal protective equipment, best practice is to establish a resolution unit or specialized team to promote clear and consistent application of regulations, facilitate requests from other government bodies, and coordinate with the ports to avoid unnecessary delays in releasing cargo. This unit can also coordinate binding ruling requests through a specific email account created for this purpose.

1.5.3 Enable Alternative Document Forms

Flexible submission of supporting documents. Customs administrations may extend deadlines and temporarily accept submission of scanned supporting documents for transits and other customs procedures subject to this facilitation measure. If irregularities or fraud is suspected, customs authorities may require the original paper documents for control.

Ease formalities related to certificate of origin. Obstructing requests for preferential tariff treatment during the outbreak is the impossibility of obtaining proof of origin according to established formalities because infections have caused delays and limited contact. Foreign trade operators forces may be immobilized, affecting SMEs particularly. Acceptance of scanned or hard copy certificates will help streamline the import process and should not restrict controls over tariff preference.

Use of digital/electronic signature as a facilitation measure. Preventive isolation orders due to COVID-19 significantly limit carrying out customs and trade procedures. In this context, the use of a digital or electronic signature can be considered for forms with instructions requiring an original handwritten signature for formalization. In customs where digital signatures are not yet used, electronic signatures using scanned images of a person’s ink signature are recommended to preserve the operation and continuity of procedures (e.g., invoices, transportation of hazardous materials declarations, guarantees, and powers of attorney).

1.5.4 Reinforce Simplified Customs Procedures

Authorize emergency temporary admission of equipment. To support actions to address large-scale emergencies, any medical and surgical equipment that will be used temporarily and exclusively in the context of the crisis (including ambulances) should be subject to an emergency relief consignment clearance and temporary admission procedure with total relief from import duties and taxes. This alternative may entail simplified customs formalities, reduced document submissions, and exemption from the requirement to guarantee temporary importations.

Extend deadlines for customs formalities. Terms for filing entry and supporting documents, amendments, notifications, appeals, and control results should be extended, along with periods for re-exportation of goods under temporary admission and for submitting documentation regarding audits. Cargo-overstay deadlines should be considered with no penalties due. Terms should resume at the end of the emergency period.

Presentation of goods at approved places. In case of a fortuitous event or for justified cause, some customs authorities have the legal power to approve delivery of goods to a place other than that authorized. For the duration of the pandemic, this may be considered case by case to facilitate submission
of cargo related to essential goods directly at the economic operators’ facilities. Such arrangements should be disclosed to the competent authorities and trade entities.

1.5.5 Enable Safety Measures for Enforcement Actions

Minimize exposure of front-line staff to COVID-19. Social distancing and personal protective equipment (PPE) are necessary to minimize exposure and protect customs’ and other port agencies’ workforce and staff from COVID-19. Social distancing should be used to the maximum extent possible, but if personnel cannot telework, administrations may need to provide PPE including gloves, masks, respirators, eye protection (face shields or goggles), and/or disposable garments. Use of equipment and sanitary measures should be clarified through standard operating procedures to ensure most staff members are trained in PPE use, staff safety, and sanitation.

Reduce physical interactions during cargo inspections. To reduce physical interaction during customs clearance processes, consider exemptions from sanctions on entities not attending physical inspections. Instead, entities may authorize logistics operators to appear for cargo examinations on their behalf or inform authorities (electronically) that inspections can be carried out in their absence.

Explore virtual audit mechanisms. Current COVID-19 restrictions and related public health measures have complicated continuing scheduled audits. Special mechanisms must be developed to regulate exceptions arising from interrupted audits. Suspended and extended administrative terms are regular practice for customs audits and other compliance interventions on traders’ premises. While suspension on control operations for small or medium (SME) businesses may last longer, compliance formalities for high-risk cases should continue to the extent possible. Alternative means of communication, such as video conferences, secure file transmission, or other telework technology, can be used to continue such processes.

1.5.6 Consider Tax Relief, Duties Exemptions, and Non-Tariff Barriers

Recommended preventive and containment measures under in this framework include policy contributions by authorities of trade and commerce or relevant trade policy executive agencies.

Import VAT and duties exemptions for medical supplies and equipment. Medical supplies to prevent or control the virus, such as oxygen, compresses, disinfectants, soaps, antibacterial gel, PPE (gloves, masks, respirators, disposable garments), diagnostic reagents, and medical equipment could be considered for exemption from import duties and import VAT until the health emergency subsides. Before the COVID-19 outbreak, according to a report based on WTO data sources, 7 89 countries collected taxes on imported medical devices; 63 countries (3 percent to 15 percent) charged taxes on imported medicines; 100 nations still tax disinfectant imports; and 79 countries charge import tariffs of 15 percent or more on imported soap.8

Excise duty relaxation on denatured alcohol. To meet local and global demand for hand sanitizers and disinfectants, administrations should ease restrictions on companies producing such supplies. Excise duty exemptions on imports of denatured alcohol (or non-denatured, in case of shortage) used as raw materials in manufacturing sanitizers should be granted.

Relief on non-tariff barriers for medical supplies. To the extent possible, offer temporary exemptions on non-tariff measures affecting essential medical supplies and hygiene items. Many medium- and high-income countries have restrictive trade policies affecting epidemic supply imports. Medicines, soaps, and disinfectants confront such barriers as import bans, license requirements, anti-dumping measures, internal taxes on foreign supplies, or regulations favoring local companies.

1.5.7 Consider Cash Flow Management

Deferrals of customs debt. Due to the severity of the COVID-19 crisis, customs authorities should approve extended payment periods and allow payments in installments as temporary relief measures to keep traders afloat during low-profit periods and cash-flow constraints. To be effective, these options must use clear eligibility criteria based on risk management considerations and should address specific groups of traders affected by the economic downturn.

8. WTO, Tariff Download Facility (latest year available). Unweighted mean applied MFN import tariff rate. Note: Countries not reporting import tariff data to the WTO are marked in grey.
Deferrals of customs debts and related tax payments (in addition to measures on the policy side, such as exemptions) can also help businesses cope with the crisis. Delaying corporate income tax payments is one immediate measure. In most countries, corporate income taxes account for only a few percentage points of tax revenue. However, delaying payments by a quarter or two gives breathing space to the private sector while keeping fiscal balances intact. Extending filing and payment deadlines for individuals would also provide much needed relief and reduce possible backlogs of work for the tax administration.

**Customs interests and penalties adjustments.** During a crisis, when increasing numbers of businesses face serious cash-flow problems, customs administrations may refrain from charging credit interest or interest on arrears or may adjust fines and penalties on delayed customs debt payments until the crisis ends or shortly thereafter to improve companies’ opportunities for compliance and liquidity.

**Accelerate VAT refund processing.** Tax refunds can provide vital cash-flow relief to financially distressed taxpayers. Accelerated issuing of all or part of a tax refund can help both companies and individuals. Speeding up value-added tax (VAT) rebates for exporting businesses, conversely, helps delay the collection of VAT from importing companies, leaving more liquidity in the hands of traders. Automated risk assessment is best practice for improving the timeframe for releasing VAT refunds. The same concern applies to timely processing of income tax refunds. Effective and timely implementation depends on the authorities’ capacity, however, which varies widely across countries. Therefore, a simplified refund process that balances agility and control should be used.

### 1.6 Update DRM Policy Responses

The task force should establish a COVID-19 project plan outlining all key tasks and timelines for designing and implementing the DRM package. Several key performance indicators (KPIs) should be adopted and regularly monitored.

Revenue policy focus will shift over the phases of the crisis. During Phase 1, emphasis will be on ensuring that health care is available for those in need, providing relief to those affected most (e.g., through deferment of tax obligations and cash transfers to vulnerable households), lowering advance payments, and keeping core government agencies operational, including revenue administrations. In Phase 2 key moves will be to roll back initial measures, step up compliance enforcement, and implement tax policy measures to restore revenue performance. Windows of opportunity may emerge to strengthen taxes that benefit the environment (e.g., fuel taxes) and health (e.g., taxes on tobacco, alcohol, and sugary drinks and foods) or that reduce tax avoidance by multinational corporations (e.g., using a diverted profit rule). During Phase 3, countries must consider lessons from the crisis to be better prepared for future adverse events and to deepen commitments to sustainability. A holistic, cross-country approach to green taxes, international tax system reforms, and reform of weaknesses in countries’ revenue systems will be the focus during this stage.

**Protecting Businesses**

**Deferral of tax obligations.** Extended payment periods, installment payments, and accelerated VAT refunds are useful temporary relief measures to keep taxpayers afloat during low profitability periods and cash-flow constraints. To be effective, clear eligibility criteria and risk management are required. The fiscal cost of these measures can be contained by targeting affected businesses—but this may not be feasible in all cases, especially if the economic effect of the COVID-19 crisis becomes more widespread in client countries.

An alternative approach focuses on advance CIT payments. Typically, advance payments are based on the previous year’s income. During a downturn, advance payments are too high and the mismatch between (high) advance tax payments and (lower) final liability causes a cash-flow crunch. The fiscal impact of this measure is short lived; firms pay the full amount due for their CIT at the end of the fiscal year.

Caution should be exercised with measures that allow taxpayers to escape taxes, such as suspended audits and tax amnesties, which can hamper revenue recovery after the crisis and drive up short-term fiscal costs.

**Lower taxes for vulnerable businesses.** The impact on revenue of lowering the CIT rate for SMEs could be offset

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9. For comprehensive compilations of jurisdictional tax measures and government relief in response to COVID-19, please refer to the following publicly available online databases:

by phasing out tax incentives for some sectors following the crisis. But this measure risks creating strategic sorting around the threshold, and rate reductions are generally difficult to target and reverse after the crisis.

Reducing compliance costs by simplifying tax obligations, especially for SMEs, has been widely proven effective at increasing compliance levels. During periods of economic distress and increased noncompliance risk, simplified taxes become particularly relevant, opening opportunities for tax authorities to make serious efforts to identify complete sets of regulations imposing high compliance costs on taxpayers. Accelerated or immediate expense of fixed assets is an appropriate policy tool for providing tax relief to adversely affected taxpayers. It can also provide an incentive for bringing forward investments needed in critical economic sectors, such as health providers or pharmaceutical firms. The approach should be seen as a temporary mitigation measure. It requires well-defined tax periods, simple eligibility criteria, and close monitoring by a special task group within the tax administration. Extending loss carry forward rules will support businesses in future years when the tax relief becomes operable. This may not provide immediate relief but many businesses gain certainty that their crisis losses can be expensed against future tax payments.

To support exporters, particularly SMEs, to stay resilient through tough economic times, administrations should reduce trading costs affected by taxes and customs duties. This can be done short-term through, among other options, (i) a temporary zero rate policy to specific tariff codes; (ii) limited or provisional tax/tariff exemptions to relevant sectors; or (iii) more flexible deferral or installment agreements for customs duties. These mechanisms can help exporters increase their international competitiveness, handle trade costs during the global recession, and secure participation in global value chains.

Tax incentives and holidays should be avoided as they can decrease mid- to long-term tax compliance.

**Protecting vulnerable households.** Payments for Personal Income Tax (PIT) may be deferred for low-income earners. Also, countries may introduce cuts in social security contributions. These cuts may bring substantial relief and disposable income to workers. This is expected to help businesses retain workers and support consumption and economic growth.

Well-targeted tax credits and lower taxes for specific vulnerable groups can provide cost-effective relief quickly. But targeting tax relief measures to affected and vulnerable households is often challenging.

**Boosting consumption.** A number of countries may implement temporary reductions in VAT rates and other indirect taxes, often focused on affected sectors such as aviation and tourism. Reversing lowered tax rates may be difficult, however, especially if the post-crisis recovery is slow, which would drive up their fiscal cost. The effect of such measures on consumption is also in doubt. Even with more money available, people may not spend it during the pandemic from caution or because businesses are shut down and movement is restricted.
Phase Two: Recovery

As soon as the immediate health crisis abates and disruptive health measures such as lockdowns are scaled back, countries must get their revenue administration systems back on the rails by withdrawing rules introduced to deal with the immediate crisis (perhaps with some exceptions for new approaches that might be beneficial beyond the emergency). The need to raise revenues must be balanced against the need to respond to the likely event of an economic recession and the residual damage to businesses and households.

2.1 Revenue Forecasting and Budgeting

When it comes to domestic resource mobilization, this global health crisis, combined with the economic and social crisis, will lead to a substantial decline in revenues. Three salient factors could cause revenue to decline in relation to GDP: the tendency of some tax bases to decline faster than GDP in the face of an economic downturn (profits, capital gains, excises, and imports tend to decline faster than GDP during a recession); a decline in commodity prices and related revenues; and discretionary changes in tax policy. It is also important to consider a fourth factor: the increased risk of worsened taxpayer compliance.

During phases 1 and 2, governments must deal with budgeting their economic and pandemic responses, filling gaps by shifting budgetary resources and identifying additional resource needs. Governments’ periodic liquidity assessments look at the availability of fiscal resources to cover economic and pandemic responses in the short-term. They also require an estimate of the cost of restarting the economy.

When analyzing alternative policy options from the revenue side, country characteristics are important. The most fundamental determinants for the choice of instruments will be the country’s available fiscal space and capacity to design and implement specific fiscal interventions. In addition, each country’s economic and fiscal structure will require different combinations and intensities of response. This section discusses how these factors affect fiscal instruments’ efficacy in responding to the pandemic and its economic impacts. It also shows the variation across countries with respect to these factors, which provide categories that facilitate the choice of fiscal instruments best aligned with specific country circumstances.

The success of fiscal (revenue and expenditure) measures depends on the country’s capacity to design and implement them and on its fiscal space to adopt measures at the needed scale. While countries with high capability and fiscal space will be able to choose from the entire menu of reforms, countries with lower capability or lower fiscal space will be more constrained and will have a much more limited set of options.

The political and institutional capacity to design and implement fiscal responses to an external shock also affects the choice of instruments. In a broad sense, capability includes both the technical capacity to implement particular fiscal measures and institutional and political arrangements that can either facilitate or hinder an adequate fiscal response. Institutional capacity, including the Ministry of Finance, the Revenue Administration, and Social Protection systems, is of particular importance for some measures. Broader capabilities relating to the quality of policy coordination and government decision processes will also be important. Table 2 summarizes the features of fiscal measures according to capacity and size of fiscal space.
TABLE 2 - Fiscal (Revenue and Expenditure) Strategies to Address COVID-19 Impacts Aligned with Country Capability and Fiscal Space

<table>
<thead>
<tr>
<th>More Fiscal Space</th>
<th>Less Fiscal Space</th>
<th>Higher Capability</th>
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</thead>
<tbody>
<tr>
<td>Focus on less complex fiscal measures.</td>
<td>Focus on interventions with manageable cost control and that are easily reversible with limited capability.</td>
<td>Seek fiscal instruments most suited to the specific country circumstances, including economic and fiscal structure.</td>
</tr>
<tr>
<td>Clearly prioritize objectives.</td>
<td>Clearly prioritize objectives.</td>
<td>Clearly prioritize objectives.</td>
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<tr>
<td>Seek to expand fiscal space.</td>
<td>Seek to expand fiscal space.</td>
<td>Seek to expand fiscal space.</td>
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For countries with limited fiscal space, focusing on easily reversible interventions with limited cost implications will be particularly important. Credit instruments such as tax deferrals and short-term loans may be particularly appropriate. Having less fiscal space also forces countries to set clear priorities. In most cases, health interventions will clearly have the highest priority, followed by interventions to protect people and businesses.

Countries with limited fiscal space will also find it important to expand that space as possible. Limited access to funding from reserves or borrowing will force countries to reallocate funds toward COVID-19 priorities. However, disruption of the programs from which resources are reallocated can have significant economic cost in terms of delayed development. Development partners of developing countries will play an important role in expanding the fiscal space through increased development assistance, debt forgiveness or deferral of debt service payments, or reprioritization within existing programs of support.

Limited state capability imposes a different set of constraints on the implementation of fiscal measures, and scope for increasing such capacity in the short term will be very limited. Using nonstate actors, faith-based organizations, or the private sector in the response may help broaden capabilities and the set of interventions that can be used. Without such help, the focus will need to be on selecting administratively less complex instruments within the country’s capability.

2.2 Tax Incentives and Trade Facilitation Measures

While some policy measures, including certain tax relief, can be counterproductive and should be avoided, some temporary, tailored stimuli could be considered. Neutrally designed tax incentives could be granted to strategic sectors or industries, preferably through the immediate expenditure of investments to lower the after-tax rate of return. Tax administrations are key to managing incentives (particularly on the control side with grant processing and monitoring for misuse). In addition, by contributing to evidence-based analysis (in most cases, during Phase 1), tax administrations can also support the government by ensuring that incentives are well-targeted. These actions can help contain revenue losses from unintended incentives and misuse.

Improving trade facilitation conditions should also be considered to reduce trade costs and sustain high rates of economic growth. Quick, low-cost measures can be used to improve specific conditions. These include:

- **Registration processes.** Simplified customs processes and procedures such as registration or filing, payment, and refunds will reduce both compliance costs (especially for SMEs) and administrative costs.
• **Risk-based customs controls.** Significant reductions in release times can be achieved using risk management techniques and audit-based controls rather than traditional physical inspection regimes. Customs can offer immediate cargo release, so companies save on storage and inspection fees.

• **Non-intrusive methods (NII).** Use of non-intrusive methods improves customs control, reduces inspection time, and increases the number of shipments that can be examined. Modern technologies such as X-ray and gamma-ray scanners, radiation and echo detectors, pulsed fast neutron analysis, and thermal neutron analysis, for example, allow customs administrations to inspect high-risk containers or cargo quickly without disrupting the flow of legitimate trade.

• **Unnecessary costs.** Addressing unnecessary costs such as consular fees can lower trade costs, which will be reflected in companies’ profits and cash flow and in increased revenue collection.

• **Trade flow boosts.** Initiatives such as (i) Trusted Partner or Authorized Economic Operators, (ii) pre-arrival processing, (iii) nonmandatory use of agents for submitting import declarations, (iv) use of simplified declarations, and (v) reducing inventories of abandoned goods can help boost trade flows by easing bottlenecks and expediting customs processing.

• **Automation enhancements.** Automation can have the largest effect on lowering trade costs, reducing time costs, and increasing trade flows for low- and middle-income countries. Completing e-initiatives to simplify documentation and procedures should be a high priority. Countries with limited funding should sequence ICT modernization.

Customs administrations should start with a comprehensive customs management system covering most foreign trade procedures. With this foundation, they can move to automate heavy processing functions such as a single-window platform, manifest declarations, accounting procedures, transit and suspense procedures, guaranteed management, e-payments, and refund processing. Following this, automating compliance operations and other advance features will be useful. More mature customs administrations should aim for a full suite of automation supporting all functions and regulations with common case management and workflow applications. In both cases, it is important to undergird ICT modernization with a comprehensive risk-management framework and simplified and reengineered business processes.

While reinforcing administrative measures instead of relying on tax relief and exemptions is an effective policy, foreign trade fosters participation by small- and medium-sized enterprises, which are key players in low-medium-income countries’ productivity. SMEs can be important drivers of employment growth, reduce gaps in average salaries between SMEs and larger firms, and expand total value-added of exports.

• **Reduced trading costs affected by taxes and customs duties.** To support SME exporters in staying resilient through tough economic times, it is important that administrations help reduce trading costs affected by taxes and customs duties. Short-term approaches include (i) a temporary zero-rate policy for specific tariff codes; (ii) limited or provisional tax/tariff exemptions to relevant sectors; (iii) more flexible deferral or installment agreements for customs duties; etc.

• **Prioritized domestic production (trade policy and customs).** Several countries have measures in place to support SMEs, including by encouraging large enterprises to cooperate with SMEs regarding raw material supply chains. Focusing on domestic production of necessary goods or on relevant sectors by operating in regional (or cross-border) supply chains can be a good start. SMEs expect serious supply chain disruptions and a considerable decrease in sales due to current and upcoming economic impacts. Governments that strengthen incentives to ramp up domestic production of high-demand products in short supply during crises foster local manufacturers or suppliers’ continued participation.

• **Accelerated customs formalities for raw materials.** Given the specific circumstances SMEs currently face, customs administrations may accelerate import procedures and inspections in the main productive sectors where most SMEs are active. Machinery equipment and raw materials critically needed for domestic production could be prioritized.

• **Export restrictions and export expansion.** Many countries place trade restrictions (including required authorizations or licenses) on exports of medicine and medical equipment; however, these measures may do more harm than good. Raw materials and some items should flow unrestricted to efficiently replenish global supplies of essential goods. To expand exports that benefit SMEs, customs administrations should optimize pre-export inspection procedures and expedite certification services (certificate of origin, health certificates).
2.3 Simplified Regulations and Procedures for Key Operations

Simplifying tax processes and procedures such as filing, payment, and refunds will not only reduce compliance costs, especially for SMEs, but also administrative costs. For example, tax administrations should prioritize self-assessment for all taxpayers (businesses and individuals), which reduces interactions between taxpayers and tax officials. Well-designed, simplified tax regimes to reduce the tax administration burden for struggling, new, or closing enterprises could also be considered. In addition, countries with monthly and quarterly VAT filing consider changing VAT filing frequency for SMEs to reduce compliance costs. These measures can be introduced at the end of the health crisis to aid economic recovery.

2.4 Strengthened Tax Compliance Strategies

After the health crisis is contained, a tax compliance strategy will be essential to help mitigate the growing risk of noncompliance associated with economic downturns (including the temptation not to remit to the government withheld taxes and VAT or income payments). Other risks relate to a deep shift in economic activity from the formal to the informal sector, which undoubtedly will increase rates of noncompliance. During the recovery phase, activities to identify possible risks of noncompliance related to the economic downturn and tax evasion (e.g., enhancing scrutiny of cross-border transactions and offshore evasions) must intensify. In many countries, closely monitoring large taxpayers, which represent the bulk of tax revenue, will be a key priority.

The tax compliance strategy should be devised using key design and monitoring principles. The following list highlights principles (expanded on in later sections) essential to consider when developing a COVID-19 tax compliance strategy.

- Risks should be assessed by taxpayer size (large, medium, small), economic sector/industry (identified by data analysis), and core tax administration functions (on-time-filing, on-time payment, stock of arrears).

  • For each identified risk, treatment strategies or measures can usually be broken down as follows:

    - Expand assistance to taxpayers (e.g., e-services for registration, filing, and payment).
    - Target enforcement actions to address noncompliance (e.g., additional resources to address the growing stock of potentially recoverable arrears).
    - Address legislative and business process changes relating to emerging risks (e.g., changes to alter advance payment rules or standard operating procedures to improve efficiency and effectiveness in processing VAT refunds).

    - Make the accuracy, reliability, and currency of the taxpayer register a priority.

    - Ensure the accuracy of each taxpayer’s economic activity code (e.g., ISIC (International Standard Industrial Classification)), so risks can be broken down by economic sector/industry and the taxpayer’s obligation is listed accurately (i.e., the tax types for which the taxpayer is registered will affect compliance level monitoring).

    - Adopt or adjust performance management criteria so actions taken to improve compliance can be effectively measured. (i) The revenue collection target should be adjusted to realistically reflect the impact of the COVID-19. (ii) Criteria should go beyond (adjusted) collection targets to measure the quality of tax administration operations.

Key Guiding Principles

- Continue building trust, confidence, and partnerships with the taxpayer/trader community throughout the recovery phase. The health crisis may be improving, but countries may still be at a fragile stage as the economy has yet to regain its footing.
- Focus on providing assistance to taxpayers who are still distressed but beginning to work and to taxpayers able to comply with filing and payment requirements.
- Expand enforcement programs to focus on the growing number of taxpayers no longer entitled to COVID-19 relief measures.
- Emphasize monitoring compliance of the largest taxpayers unaffected by the crisis, expanding it to additional large and medium taxpayers from sectors now in their own recovery phase.
<table>
<thead>
<tr>
<th>Risks</th>
<th>Treatment Strategy</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Growing noncompliance (e.g., on VAT)</td>
<td>• Use Big-Data to identify compliance risks and improve service delivery.</td>
<td>• Revenue administrations are beginning or expanding use of Big-Data to identify compliance risks (e.g., Russia, China, Australia).</td>
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<tr>
<td></td>
<td>• Prioritize development of a VAT Compliance Monitoring System that uses all VAT data from buyers and sellers to identify compliance risks</td>
<td>• For example, the Federal Tax Service of Russia is using Big Data technologies to monitor “real-time” VAT compliance.</td>
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<tr>
<td></td>
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<td>• For further guidance on using Big-Data, refer to the OECD’s “Technologies for Better Tax Administration.”</td>
</tr>
<tr>
<td>2. Taxpayers who are no longer subject to COVID-19 emergency relief measures decide not to comply</td>
<td>• Review the taxpayer register to produce an updated list of which taxpayers are now required to comply with traditional compliance requirements (e.g., filing, paying, and accurately reporting).</td>
<td>• During this phase, adjustments to COVID-19 measures might increase the number of taxpayers that should resume normal compliance requirements; some sectors of the economy might be required to resume normal operations (e.g., certain hotels, manufacturing, airline industry, transportation).</td>
</tr>
<tr>
<td>3. Confusion/uncertainty regarding revised COVID-19 measures impedes resumed filing and payment compliance</td>
<td>• Communication materials shift from informing taxpayers/traders about COVID-19 emergency measures to increasing awareness of the withdrawal of certain COVID-19 relief measures.</td>
<td>• The communication team will need to clarify educational materials on who is still entitled to relief measures and what the measures are.</td>
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<td></td>
<td>• Time in Phase 1 may have been too limited to update websites, so during this phase steps should be taken to ensure all COVID-19 materials are available on the revenue administration website (including emerging Frequently Asked Questions).</td>
<td>• Tax administrations will need to further build on partnerships with the taxpayer community to prioritize increasing awareness of changes (e.g., targeted partnership with sectors such as the hotel and manufacturing sectors).</td>
</tr>
<tr>
<td></td>
<td>• Tax administrations with contact centers could expand their use to focus on handling ongoing inbound calls about COVID-19 measures (e.g., a dedicated team could handle COVID-19 taxpayer inquiries).</td>
<td>• Communicate clearly on “transitional rules” for restarting certain businesses (e.g., dealing with losses of certain goods during the crisis for which deductions will be allowed).</td>
</tr>
<tr>
<td></td>
<td>• Increase use of social media to inform taxpayers.</td>
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<tr>
<td>Risks</td>
<td>Treatment Strategy</td>
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| 4. As additional taxpayers resume operations, the number of taxpayers who do not file or pay could increase | • Review filing/payment data by type of tax and identify any economic sectors or industries that might have a substantial percentage of non-filers; the problem might be acute in several sectors, so the treatment strategy should include communicating with these taxpayers to address this risk.  
• For taxpayers that should still be filing returns but have decided not to, the tax administration should make greater use of default assessments to determine tax liability for a given tax period, reserving audits for larger non-filing cases.  
• Restart the automatic generation of stop-filer reminder and warning letters for businesses that are back in operation. | • Data analysis and risk assessment can assist in targeting filing noncompliance. Tax administrations might not have sufficient resources to deal with the growing number of taxpayers that do not file returns or pay during this phase. Priority should be given to taxpayers presenting the greatest risks to revenue. This will likely include large taxpayers and possibly a portion of the medium taxpayers. |
| 5. A growing number of taxpayers are unable to pay arrears           | • During this phase, administrations should continue to encourage the use of installment agreements for taxpayers still unable to make full and timely payment. However, the administration should resume “firm action” to collect arrears from taxpayers able to pay.  
• Taxpayers must demonstrate, using simple reporting requirements, that they are in a distressed position. A simple form or mechanism should be used to make this easy for taxpayers. The LTO staff should be in immediate contact with any large taxpayer with outstanding debt.  
• During this phase, special attention should be given to collecting arrears from bankrupt companies. This could include having dedicated staff focus on these cases and increasing cooperation between the tax administration and the bankruptcy court. | • If needed, the tax administration should assign more staff to stay current with the collection of potentially collectible large arrears.  
• Arrears management staff should return to using the full suite of collection enforcement actions provided by tax laws (e.g., garnishment, recovery from a third party).  
• Although Phase 1 may not have allowed sufficient time to validate if a taxpayer had a legitimate cash flow problem, this should be evidence-based during Phase 2.  
• Given the potential risk to revenue, the LTO should handle collection of arrears from bankrupt companies. |
| 6. Noncompliance by large taxpayers                               | • During this phase, the LTO should continue to focus on closely monitoring large taxpayers’ compliance, including those resuming operations.  
• Audit programs need to expand coverage during Phase 2; audit risk | • Proactive and collaborative arrangements should be established with key sectors/industries affected by the crisis to foster voluntary compliance (e.g., meetings with businesses involved in online sale of goods and services |
1. Taxpayers no longer subject to COVID-19 emergency relief measures decide not to comply
   • In the absence of an accurate and reliable taxpayer register and given limited IT solutions, the most practical option is to have a small team compile an updated list of taxpayers required to resume meeting compliance requirements (e.g., filing, paying, and accurately reporting).
   • Audits should be targeted interventions dealing with identified issues versus comprehensive audits.
   • During this phase, a practical step would be to resume or expand the use of third-party data to detect noncompliance risks.
   • As withholding taxes present a high risk to revenue collection during a crisis, the audit program should include increased audits of withholding taxes.

2. Confusion/uncertainty regarding revised COVID-19 measures impedes the resumption of filing and payment compliance
   • Communication materials shift from informing taxpayers/traders of COVID-19 emergency measures to increasing awareness of the withdrawal of certain COVID-19 relief measures.
   • Smaller tax administrations should consider establishing a COVID-19 Small Business Assistance Program to provide targeted assistance?

### Risks Treatment Strategy Comments

<table>
<thead>
<tr>
<th>Risks</th>
<th>Treatment Strategy</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Taxpayers no longer subject to COVID-19 emergency relief measures decide not to comply</td>
<td>In the absence of an accurate and reliable taxpayer register and given limited IT solutions, the most practical option is to have a small team compile an updated list of taxpayers required to resume meeting compliance requirements (e.g., filing, paying, and accurately reporting).</td>
<td>• It will be difficult to get a perfect updated list, so the team should use “local knowledge” and closely monitor taxpayers; focus on bringing back the largest taxpayers (e.g., if the hotel industry resumes operations focus on monitoring the largest).</td>
</tr>
<tr>
<td>2. Confusion/uncertainty regarding revised COVID-19 measures impedes the resumption of filing and payment compliance</td>
<td>Communication materials shift from informing taxpayers/traders of COVID-19 emergency measures to increasing awareness of the withdrawal of certain COVID-19 relief measures. Smaller tax administrations should consider establishing a COVID-19 Small Business Assistance Program to provide targeted assistance</td>
<td>• The communication team will need to expand educational materials to clarify who is still entitled to relief measures and what the measures are.</td>
</tr>
</tbody>
</table>

**Revenue Administrations with Limited Experience with Taxpayer Compliance Strategies or Limited ICT Solutions**

<table>
<thead>
<tr>
<th>Risks</th>
<th>Treatment Strategy</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Timely processing of refund claims</td>
<td>Continue timely refund processing as advised in Phase 1; however, during this phase, tax administrations should review the effectiveness of risk selection criteria and automate this critical process.</td>
<td>• Continue timely refund processing as advised in Phase 1; however, during this phase, tax administrations should review the effectiveness of risk selection criteria and automate this critical process.</td>
</tr>
<tr>
<td></td>
<td>• Consider reviewing some of the “large” refunds issued in Phase 1 to determine if further action is needed (e.g., an audit).</td>
<td>• Consider reviewing some of the “large” refunds issued in Phase 1 to determine if further action is needed (e.g., an audit).</td>
</tr>
<tr>
<td></td>
<td>• Estimate the amount of refunds to be claimed during Phase 2 and ensure government allocates sufficient budget.</td>
<td>• Estimate the amount of refunds to be claimed during Phase 2 and ensure government allocates sufficient budget.</td>
</tr>
</tbody>
</table>

**Comments**

- During this phase, resumption of the audit program can be used to educate/inform taxpayers; desk audits with phone calls could be practical for building stronger relationships with taxpayers, given the need to continue some form of social distancing.
- Regarding third-party data, priority could be placed on matching customs data with tax data to identify inaccurate VAT reporting.
<table>
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<tr>
<th>Risks</th>
<th>Treatment Strategy</th>
<th>Comments</th>
</tr>
</thead>
</table>
| 3. As additional taxpayers resume operations, the number of taxpayers who do not file or pay may increase | • Hotline that taxpayers can call for answers to their questions. In addition, tax administrations could establish dedicated email addresses so taxpayers can send queries electronically.  
  • As a short-term measure, tax administrations without e-services could consider allowing larger businesses to conduct some services, such as updating registration details or email filing.  
  • Strategically located drop boxes provide another filing option to make submitting returns easier for taxpayers while respecting the need to social distance.  
  • If not already adopted, self-reported tax liabilities could be introduced during this phase to eliminate the need for taxpayers to visit tax offices to submit returns.  
  • Continue to increase the use of social media to communicate with taxpayers, especially small and micro businesses. | to small businesses. (Australia and New Zealand have launched such programs to assist taxpayers with their registration requirements and with complying with tax obligations.) During this phase, this concept could be tested or piloted using one or several business sectors. |
| 4. A growing number of taxpayers are unable to pay arrears          | • In the absence of IT solutions and limited staff, smaller administrations will need to keep things simple, practical, and focused on monitoring the filing and payment compliance of the largest taxpayers in their geographic area (e.g., each office could start with the top 100 taxpayers in terms of amount paid).  
  • Restart the automatic generation of stop-filer reminder and warning letters for businesses that are back in operations. |                                                                                                                                                                                                       |
|                                                                      | • During this phase, administrations should continue to encourage the use of installment agreements for taxpayers still unable to make full and timely payment. However, the administration must resume “firm action” to collect arrears from taxpayers able to pay.  
  • Administrations with a highly decentralized network of tax offices (regional/provincial offices and district/local offices) could group collection | • If needed, the tax administration should assign more staff to stay current with the collection of potentially collectible large arrears.  
  • During this phase, priority should still be given to collecting the largest arrears.                                                                                                                                                                                       |
<table>
<thead>
<tr>
<th>Risks</th>
<th>Treatment Strategy</th>
<th>Comments</th>
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</table>
| 5. Noncompliance among large taxpayers                              | • As mentioned in Phase 1, some tax administrations do not have a separate LTO, so the best option is to continue identifying large taxpayers in terms of the amount of taxes paid in previous years and allocate a few officers to monitor their compliance.  
• Steps should be taken to reestablish the audit program. However, during this phase, the focus could be on building simple audit risk selection criteria that identify issues to be verified; audits should not be comprehensive audits of all taxes but rather issue-based audits. | • During this phase, resumption of the audit program can be used to educate and inform taxpayers; desk audits with phone calls could be a practical way to build a stronger relationships with taxpayers, given the need to continue some form of social distancing.  
• Selecting taxpayers for audits can be practical and simple during this phase, as the idea is to pilot a new approach. For example, any taxpayer with a 50% increase in VAT zero-rated sales or amount carried forward from one tax year to another could be selected for audit. Regarding CIT, the criteria could select any taxpayer claiming an increase in a NOL greater than 100% from the previous year. Regarding PAYE, the selection could be based on a substantial reduction in the amount of taxes paid over one year; the focus should be on those businesses that were not in a distressed position during the crisis. |
| 6. Timely processing of refund claims                               | • Continue timely processing of refunds as advised in Phase 1; however, during this phase, tax administrations should review the effectiveness of risk selection criteria and automate this critical process.  
• Estimate the amount of refunds to be claimed during Phase 2 and ensure government allocates sufficient budget.                                                                 |                                                                                                                                                                                                       |

Maintaining taxpayer trust during the recovery phase will be crucial for eventually increasing taxation in the third phase. In this phase, tax administrations would gradually retighten enforcement but would try to avoid increasing tax burdens too steeply to prevent suffocating a recovering economy. While it will be tempting to focus on making up for revenue shortfalls, short-term revenue maximization could backfire over the medium term, especially if heavy-handed enforcement is used. To avoid harassing taxpayers, performance incentives linked to revenue collection should be monitored carefully—or temporarily ceased—and revenue targets should be adjusted to reflect economic realities. In addition, more consideration could be given to facilitating tax compliance—that is, making it easier for taxpayers to pay. Facilitation measures introduced in the first phase could be sustained if they make sense beyond the crisis, although vested interests will need to be watched closely. Expanding digitization could further reduce compliance costs, especially for SMEs. In addition, tax administrations could consider being more explicit in their communications with taxpayers by linking the relief measures of Phase 1 to the need for higher taxation in Phases 2 or 3 to rebuild the economy.
2.5 Prioritized Automation Enhancements

Automating processes and procedures in tax administration and customs both facilitates compliance by the largest number of taxpayers and lowers administrative costs. Automation can also reduce corruption from revenue administrators’ nontransparent discretion and protect against COVID-19 contagion by allowing revenue administration officials to work in less close proximity. Automation is primarily limited by technology in that some functions still require human intervention. Audits and litigation, for example, require analysis and subjectivity only possible from humans. Even those functions can be eased by electronic systems, however, such as by having an automated case management system generate assessment notices and allocate non-filer cases to enforcement staff. Automating trade facilitation formalities with the largest impact on reducing costs can increase trade flows in low- and middle-income countries. E-initiatives, such as simplified documents and procedures (e.g., single windows), should receive high priority to the extent possible.

Many tax administrations already use modern technology in their filing and payment systems. These electronic services help reduce taxpayers’ costs of doing business with the tax administration.

Electronic filing enables taxpayers to complete and file tax declarations online via the internet. Electronic payment can be made by credit or debit card or electronic funds transfer from the taxpayer’s bank account to the treasury account. Electronic payments can also be made using mobile phones.

The COVID-19 crisis will push some countries to quickly develop their IT systems and to provide and promote the use of electronic operations facilities for all core taxes. At minimum, IT systems will reduce human intervention, but at the time of filing it will also provide a check of the taxpayer’s identity against the registration database, record the date of filing, perform an arithmetic check, record the tax liability, and store declaration data. An automatic system should also receive and generate a receipt for electronically filed declarations, consolidate a picture of a taxpayer’s filing history across all core taxes, and report when a tax declaration is expected from the taxpayer.

On the administrative side, another major advantage of electronic systems is the automatic production of management information (e.g., statistical reports by core tax/region/taxpayer segment, etc., including number of declarations expected from registered taxpayers, filed on time, filed late, not yet filed, as well as the age of outstanding declarations).

2.6 World Bank Operational Support

Seek World Bank operational support to initiate an effective compliance risk management framework more quickly, to increase use of Big-Data to identify compliance risks, to streamline core business processes, and to automate. Increased automation, meaning more e-services, requires a large investment, which is not easy for countries facing fiscal difficulties, now and after the pandemic. World Bank financing could support countries in their move toward automation.
3.1 Accelerate the Move to a Digital Revenue Administration

For revenue administrations, the lessons of the COVID-19 pandemic point in one direction: the need to move into a digital future. The endgame is a modern, taxpayer-friendly, digital revenue administration providing world-class online services, characterized by efficient paperless operations and equipped with sharp, ICT-enabled risk-based enforcement to optimize revenue mobilization. The pathway to this end will vary from country to country. The digital revenue administration of the future will be “digital by default.” For example, call centers using artificial intelligence (AI) will instantly recognize taxpayers and retrieve and assess their records. Assessments will be based on algorithms, and risk analysis will be done using predictive data analytics that focus on risky taxpayers, saving time and compliance costs by leaving most taxpayers alone. Revenue administrations would be user-centric, and smart portal solutions, mobile apps, and blockchain solutions and cloud services will be used wherever possible.

Taxpayer administrative data has proven to be a valuable source of information for both tax and non-tax analysis. Beyond compliance objectives, administrative data provides unique insights useful for fiscal and social policy making into how taxes are levied across households and firms. Quality assurance will provide validation, correction, and updating to ensure the information serves its intended policy making objectives, and the skillset to perform quality statistical analysis is likely scarce in most tax administrations. Big-Data will allow external stakeholders more regular and systematic access to the data collected, however, while preserving the confidentiality of taxpayer information.

Finally, post-COVID-19, VAT management should be strengthened, considering its higher buoyancy coefficient relative to income taxes. VAT contributions to revenue collection should increase as economic activity resumes; authorities must prioritize administrative measures to ease registration, filing, payment, and refunds. Developing a VAT Compliance Monitoring System that uses all VAT data from buyers and sellers to identify compliance risks should be a priority.

3.2 Reformulate Comprehensive Compliance Strategies

During the stabilization phase of the crisis, revenue administrations will need to reformulate their comprehensive compliance plans given what they have learned about risk management. Compliance strategies and objectives should be readjusted to achieve full recovery of pre-crisis compliance levels.

In the wake of the crisis, opportunities will arise to boost (voluntary) compliance and reshape the fiscal contract for the better. As the economy stabilizes, governments will focus on reducing budget deficits, which in many countries will likely involve tax increases. Whether taxpayers will support these increases will depend on the government’s earlier actions. If governments used the first two phases to solidify their legitimacy and secure taxpayers’ trust, taxpayers will likely tolerate tax increases in this phase. This momentum could be
harnessed to pursue additional reforms to further improve tax system equity, for example, by increasing taxation of high-net-worth individuals and closing (international) loopholes exploited by large corporations, instead of prioritizing expanding the tax base into the informal economy. This approach would signal a new fiscal contract and improve system equity and taxpayer morale. In contrast, if government actions in earlier phases undermined its legitimacy by, for example, only bailing out large corporations, citizens are unlikely to support later tax increases—much like in the aftermath of the Global Financial Crisis.

Tax-based relief programs granted to taxpayers during the COVID-19 period should be assessed and monitored closely to avoid abuse. Designed as temporary mitigation measures, tax relief must be granted for well-defined periods, use simple and unambiguous eligibility criteria, and be closely monitored by a special task group within the tax administration.

During the stabilization phase, the economy will regain a more solid footing, and fewer taxpayers will turn to COVID-19 relief measures. Registered taxpayers will again need to comply with registration, filing, accurate reporting, and timely payment, including outstanding arrears. Tax administrations should evaluate the impact of the COVID-19 relief measures to ensure no substantial abuse occurred during the previous two phases. The possibility of future health pandemics and/or natural disasters is real, so steps should be taken during this phase to ensure gaps or bottlenecks identified during the current crisis are fully addressed.
### TABLE 4 - Phase Three: Stabilization of Risks to Revenue and Suggested Responses

<table>
<thead>
<tr>
<th>Revenue Administrations with Mature Compliance Strategies/Business Processes/ICT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Revenue administrations with relatively mature compliance strategies must continue expanding, improving, and strengthening their annual compliance improvement plans. The following are key approaches:</td>
</tr>
<tr>
<td>• Increase use of Big-Data to identify compliance risks and improve service delivery.</td>
</tr>
<tr>
<td>• Increase the capacity of Risk Management Units by assigning additional specialists (e.g., industry specialists, data analytics experts).</td>
</tr>
<tr>
<td>• Improve the effectiveness of risk-based compliance strategies by strengthening monitoring and evaluation.</td>
</tr>
<tr>
<td>• Build stronger partnerships with the taxpayer community to develop future strategies.</td>
</tr>
<tr>
<td>• Improve the ability to respond to future shocks impacting compliance; COVID-19 requires us to think differently.</td>
</tr>
<tr>
<td>2. Expand the compliance focus to target key taxpayer groups and/or economic sectors to identify and resolve compliance risks. In each case, revenue administrations will need to identify risks and treatment strategies (including increased use of third-party data to identify noncompliance risks and of cooperative agreements with taxpayer groups). The following groups/sectors/issues should be considered:</td>
</tr>
<tr>
<td>• Taxpayers involved in the digital economy</td>
</tr>
<tr>
<td>• Taxpayers involved in the extractive industry</td>
</tr>
<tr>
<td>• Financial sector</td>
</tr>
<tr>
<td>• High-net worth individuals</td>
</tr>
<tr>
<td>• Self-employed professionals</td>
</tr>
<tr>
<td>Following is an example of issues to consider when identifying risks related to the digital economy; several of these issues apply to the other sectors listed above as well:</td>
</tr>
<tr>
<td>• The COVID-19 crisis accelerated the shift toward online consumption, a trend likely to persist post-pandemic. Once a policy framework for indirect and direct taxation of the digital economy is in place, tax administrations must prepare an appropriate compliance strategy.</td>
</tr>
<tr>
<td>• Detection of noncompliance in digital transactions will require extensive use of third-party information. Foreign suppliers may not have an in-country physical presence, but their interactions with customers will leave a financial and electronic trail.</td>
</tr>
<tr>
<td>• Data from the main online platforms, and potentially from carriers, will be important in identifying potentially noncompliant suppliers.</td>
</tr>
<tr>
<td>• Other sources of data, including tax returns, information from treaty partners about online suppliers based in their territories, data about cross-border payments held by banks and credit card companies, and data from internet service providers, will be valuable for detecting noncompliance.</td>
</tr>
<tr>
<td>• Collaboration with digital marketplaces, platforms, and other stakeholders is needed to secure the data.</td>
</tr>
<tr>
<td>3. Administrations with a Large Taxpayer Office (or offices), should be addressing all of the following issues:</td>
</tr>
<tr>
<td>• Capacity to detect and address compliance risks in key sectors, including those listed above (e.g., digital economy, extractive industries, etc., as applicable).</td>
</tr>
<tr>
<td>• Further capacity to deal with transfer-pricing and APAs.</td>
</tr>
<tr>
<td>• Cooperative agreements with additional taxpayer groups.</td>
</tr>
<tr>
<td>• Expanded use of third-party data and mega-data to identify compliance risks.</td>
</tr>
<tr>
<td>• Effective and binding ruling systems.</td>
</tr>
</tbody>
</table>
4. Use automation priorities to support compliance strategies.
   - Aim for a full suite of automation that supports all core tax administration functions and taxes with common case management and workflow applications.
   - Continue to expand e-services (e.g., e-complaints and e-appeals systems).
   - Consider using IT support to shift to prepopulated returns.
   - Expand data warehousing facilities that support use of mega-data to identify compliance risks.
   - Expand use of mobile technology to facilitate compliance.

Revenue Administrations with Limited Experience with Taxpayer Compliance Strategies or Limited ICT Solutions

1. Administrations that have not institutionalized a comprehensive risk-based compliance management framework (discussed above under Phase 2) should introduce new organizational arrangements and support processes.

2. Build an effective data analytics function at the tax administration headquarters using internal data and increasing amounts of third-party data to identify compliance risks. For small tax administrations, a team of two staff with strong Excel skills would be a good start.

3. Expand compliance strategies to target key issues and taxpayer groups:
   - Risks related to a growing cash economy
   - Risks related to SMEs noncompliance

4. For administrations with no Large Taxpayer Office, now is the time to introduce this function. Closely monitoring compliance by the largest taxpayers in the country enables tax administrations to protect a majority source of revenue—typically 50 to 80 percent of total domestic revenue collection. An effective LTO includes:
   - A sound legal framework
   - Clear and simple criteria for selecting large taxpayers
   - Standardized, clearly stated operating procedures
   - LTO administration of all designated large taxpayers for all national domestic taxes
   - Responsible for all core tax administration functions (filing, payment, stop-filers, audit, and debt management), including ensuring an accurate register of all large taxpayers
   - Risk management principles applied across all core tax administration functions
   - Industry/sector specialization
   - Job descriptions that provide opportunities for specialization
   - Sufficient staff (typically 4 to 7 percent of total staff)
   - Staff with appropriate skill sets to handle large taxpayer compliance issues (e.g., accounting/legal background, client relationship skills)
   - Appropriate LTO job grading and remuneration
   - Effective LTO staff training programs

5. Accelerate the automation agenda of the tax administration. Countries with limited funding should sequence ICT modernization, starting with a comprehensive registration function and then including heavy processing and resource-intensive functions such as taxpayer accounting, filing and returns, payment, and refund processing. Automation of compliance operations and other advanced features can follow. ICT modernization should be based on a comprehensive risk-management framework and simplified, reengineered business processes.
3.3 Implement a Comprehensive Business Continuity Plan

By implementing a Business Continuity Management (BCM) Action Plan in the context of COVID-19, tax and customs authorities will create a common understanding among all stakeholders and enable them to prioritize and mitigate threats to their operations. A BCM system emphasizes the following:

- Understand the organization’s needs and the necessity for business continuity policies and objectives.
- Identify the operation and maintenance processes, capabilities, and response structures needed to ensure the organization will survive disruptions.
- Monitor and review the performance and effectiveness of the BCM system.
- Continually improve the plan based on qualitative and quantitative measures.

This document applies the Plan (establish), Do (implement and operate), Check (monitor and review), and Act (maintain and improve) (PDCA) cycle to implement, maintain, and continually improve BCM systems. Under the COVID-19 emergency, many of these steps must be expedited, and a project leader must ensure that all meetings, resources, and authorizations occur without delay to prepare a solid and comprehensive BCM.

Some components are likely to be present in some form in the organization already, so the project leader should be able to collect and update these (e.g., management support, risk assessment methodology, and communication strategy). The proposed Action Plan presented in Table 5 can serve as a template and be put to use straight away, facilitating the BCM project leader’s task. It also includes guidance and examples to help identify the main components and actions necessary for quick dissemination among the organization’s key resources. Each implementation phase is important and must be documented and communicated to ensure proper completion under the PDCA methodology. Nonessential activities (shadowed) may be deployed later; the priority is to meet the current emergency.

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**TABLE 5 - Action Plan for BCM Implementation**

<table>
<thead>
<tr>
<th>Implementation Phases</th>
<th>Action/Tasks</th>
<th>Guidance/Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtain management support</td>
<td>Research which BCM benefits apply to your company.</td>
<td>This step is a given under current circumstances.</td>
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<tr>
<td></td>
<td>Present the benefits to management and get its commitment.</td>
<td>State the expected benefits, such as adequate operations under the current emergency. It is essential to get commitment to support the plan.</td>
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<td></td>
<td>Get formal approval for the project.</td>
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<tr>
<td>Prepare for your project</td>
<td>Decide whether you are will use consultants or documentation templates.</td>
<td>If possible, use an experimented consultant to help get things done faster.</td>
</tr>
<tr>
<td></td>
<td>Educate your project team.</td>
<td>Assembling a project team of experienced people and make certain everybody understands the project’s importance and main requirements.</td>
</tr>
<tr>
<td></td>
<td>Write the project plan, including the descriptions for project manager, team, and sponsor; required resources; and milestones.</td>
<td>Distinguish responsibilities and define the resources needed for project success. Use milestones to assess performance and maintain clear team objectives.</td>
</tr>
<tr>
<td>Implementation Phases</td>
<td>Action/Tasks</td>
<td>Guidance/Comments</td>
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<td>----------------------------------------</td>
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<tr>
<td>Identify requirements</td>
<td>Define the stakeholders who must be informed about each step in the project.</td>
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<tr>
<td></td>
<td>Organize a kick-off meeting.</td>
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<tr>
<td></td>
<td>Identify interested parties.</td>
<td>Identify all stakeholders, including external ones such as taxpayers, the media, contractors, etc. Make sure you have contact information and create distribution lists for communication and status reports.</td>
</tr>
<tr>
<td></td>
<td>Identify interested parties’ requirements.</td>
<td>Clarify what all stakeholders need or expect. Some require only status updates, but others may require specific procedures to perform their work.</td>
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<td></td>
<td>Write the Business Continuity Policy</td>
<td>The goal of a business continuity policy is to document what is needed to keep the organization running on ordinary business days as well as in times of emergency. Well-defined and adhered to policies allow companies to set realistic expectations for business continuity and disaster recovery plans.</td>
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<tr>
<td></td>
<td></td>
<td>Key components of a business continuity policy include staffing, metrics, and standards. The business continuity policy should outline the staffing needed, including roles and responsibilities of department heads, corporate management liaisons, and members of the BC/DR team and may also include external personnel (e.g., vendors, stakeholders, and customers). Keeping track of everyone involved in or affected by the business continuity policy is key to ensuring compliance.</td>
</tr>
<tr>
<td>Define scope, management intention, and responsibilities</td>
<td></td>
<td>A business continuity policy and business continuity plan (BCP) have a lot in common; both address all unique requirements and preparations for an organization to maintain continuity. They serve different purposes within the organization, however: the policy outlines standards to be followed and benchmarks to be met, while a plan maps out from beginning to end how the organization will get through an event.</td>
</tr>
<tr>
<td>Implementation Phases</td>
<td>Action/Tasks</td>
<td>Guidance/Comments</td>
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<td>-----------------------------------------------</td>
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</tr>
<tr>
<td>Implement support procedures</td>
<td>Decide on the business continuity objectives.</td>
<td>Not all activities/objectives of the Tax and Customs Authority can be continued under emergencies, so a definition is needed of what must be done and what is not strictly urgent for the organization (example: delay hiring if possible; leave development of new services to the future, etc.).</td>
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<td></td>
<td>Write a procedure for document control.</td>
<td>Organize and control documents created and produced during the project development.</td>
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<td></td>
<td>Write a procedure for internal audit.</td>
<td>Maintain checkpoints to validate the actions and facilitate accountability and control.</td>
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<td></td>
<td>Write a procedure for corrective action.</td>
<td>Create a process for corrective actions during emergencies, and document how to follow it.</td>
</tr>
<tr>
<td>Identify the risks of disruptive incidents</td>
<td>Develop the risk assessment methodology.</td>
<td>A risk assessment is a reliable method for figuring out potential threats and determining their likelihood. It identifies potential hazards and provides ways to reduce their impact on the business.</td>
</tr>
<tr>
<td></td>
<td>Perform a risk assessment.</td>
<td>The general steps:</td>
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<tr>
<td></td>
<td></td>
<td>• Identify the hazards.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Determine what or who could be harmed.</td>
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<tr>
<td></td>
<td></td>
<td>• Evaluate the risks and create control measures.</td>
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<tr>
<td></td>
<td></td>
<td>• Record the findings.</td>
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<tr>
<td></td>
<td></td>
<td>• Review and update the assessment.</td>
</tr>
<tr>
<td>Identify continuity priorities and objectives</td>
<td>Develop a business impact analysis (BIA) methodology.</td>
<td>A BIA determines the effects of a potential disaster on an organization by finding existing vulnerabilities. It focuses primarily on business impact, recovery time, and recovery point objectives.</td>
</tr>
<tr>
<td></td>
<td>Circulate business impact analysis questionnaires.</td>
<td>BIA questionnaires collect experience from business owners regarding risks and vulnerabilities. This knowledge is the foundation of the Business Continuity Strategy.</td>
</tr>
<tr>
<td>Determine priorities, required resources, and</td>
<td>Compile a business continuity strategy (BCS).</td>
<td>The BCS is a conceptual summary of preventive (mitigation) strategies, crisis response strategies, and recovery strategies to be carried out between a disaster and restoration of normal operations.</td>
</tr>
<tr>
<td>mitigation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementation Phases</td>
<td>Action/Tasks</td>
<td>Guidance/Comments</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>--------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Define business continuity procedures</td>
<td>Compile a risk treatment plan (RTP).</td>
<td>A risk treatment plan documents mitigation options and controls for each unacceptable risk, specifying security controls needed, who is responsible for them, any deadlines, and required resources (i.e., financial and human).</td>
</tr>
<tr>
<td></td>
<td>Compile a preparation plan.</td>
<td>From the BCS and the RTP collect and make available all the resources needed to fulfill the needs described in those documents.</td>
</tr>
<tr>
<td></td>
<td>Compile a business continuity plan (BCP).</td>
<td>The BCP template will have prefilled sections and should be used for guidance and as an example; the project leader must incorporate the actual information from the Tax and Customs Authority.</td>
</tr>
<tr>
<td></td>
<td>Compile an incident response plan (IRP).</td>
<td>The IRP template will have prefilled sections and should be used as for guidance and as an example; the project leader must incorporate the actual information from the Tax and Customs Authority.</td>
</tr>
<tr>
<td></td>
<td>Disaster Recovery Plan (DRP)</td>
<td>The DRP template will have pre-filled and should be used for guidance and as an example; the project leader must incorporate the actual information from the Tax and Customs Authority.</td>
</tr>
<tr>
<td></td>
<td>Transportation plan(s)</td>
<td>Independently develop a transportation plan according to local conditions.</td>
</tr>
<tr>
<td></td>
<td>Communication procedure(s)</td>
<td></td>
</tr>
<tr>
<td>Perform training and awareness programs</td>
<td>Develop a training and awareness plan.</td>
<td>This training material should be prepared in tandem with the actions in this project.</td>
</tr>
<tr>
<td></td>
<td>Perform training for all employees who lack the required skills.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Perform awareness programs for all employees and third parties with roles in your BCM.</td>
<td>Be sure to update and revise the training frequently.</td>
</tr>
<tr>
<td>Implementation Phases</td>
<td>Action/Tasks</td>
<td>Guidance/Comments</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>---------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Exercising and testing</td>
<td>Exercise and test the plan.</td>
<td>Given the current context, expediting testing and corrective actions is advisable.</td>
</tr>
<tr>
<td></td>
<td>Exercise and test the reports.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Take any corrective actions needed.</td>
<td></td>
</tr>
<tr>
<td>In case of disruptive incidents</td>
<td>Undertake a post-incident review.</td>
<td>Documenting the most common incidents and critical disruptions and developing corrective actions is very important.</td>
</tr>
<tr>
<td></td>
<td>Take any corrective actions needed.</td>
<td></td>
</tr>
<tr>
<td>Regular review of plans and business continuity arrangements</td>
<td>Include a maintenance and review plan.</td>
<td>Regularly review the BCM system to make sure it remains effective. Plan to continually improve it. An experienced manager should be appointed to maintain a plan that will be adequate and responsive to new emergencies.</td>
</tr>
<tr>
<td></td>
<td>Take any corrective actions needed.</td>
<td></td>
</tr>
<tr>
<td>Measure the BCMS</td>
<td>Measure if you have achieved the objectives set for your BCM.</td>
<td>Meet with senior management to assess whether their goals were satisfied.</td>
</tr>
<tr>
<td>Perform internal audit</td>
<td>Develop an audit program.</td>
<td>To obtain unbiased results, appoint an external auditor.</td>
</tr>
<tr>
<td></td>
<td>Perform internal audit(s).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Write an internal audit report.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Take any corrective actions needed.</td>
<td>Act according to the findings.</td>
</tr>
<tr>
<td>Perform management review</td>
<td>Perform management review.</td>
<td>Review the performance of the people who supported the BCM system.</td>
</tr>
<tr>
<td></td>
<td>Maintain records from management review.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Take any corrective actions needed.</td>
<td></td>
</tr>
<tr>
<td>Certification audit</td>
<td>Obtain proposals from several certification bodies.</td>
<td>Validate and certify the plan and audit if possible.</td>
</tr>
<tr>
<td></td>
<td>Select the certification body.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Conduct Stage 1 certification audit.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Conduct Stage 2 certification audit.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Undertake surveillance visits.</td>
<td></td>
</tr>
</tbody>
</table>
3.4 Take Customs and Trade Measures

For customs, revenue administrations should develop a solid risk management mechanism based on risk profiling. This profiling should not only consider the usual potential risks of customs duty avoidance (customs value, origin, and misclassification of goods) but also elements to detect invoice fraud schemes, fictitious operations, underreported sales, bogus traders, etc. Conducting unit price analysis from different sources, such as customs declarations, e-invoice, and financial institutions (if applicable), is also critical to detecting transactions in an under-/over-invoiced scheme, which can reflect concealment of trade profit abroad, exploitation of export incentives (VAT refunds), or incorporation of illicit proceeds into the domestic legal and financial system.

Customs administrations should evaluate the impact of the COVID-19 relief measures to ensure no substantial abuse occurred during Containment and Recovery. The possibility of future health pandemics and/or natural disasters is real, so steps should be taken during this phase to ensure gaps or bottlenecks identified during the crisis are fully addressed.

- **Comprehensive risk-based compliance.** For administrations that have not institutionalized a comprehensive risk-based compliance management framework, now is the time to introduce these organizational arrangements and supporting processes.

- **Focus on large economic operators.** For administrations that have not categorized their economic operators based on size and risk level, now is the time to introduce this strategy. By closely monitoring compliance of the country’s largest traders — typically representing 50 to 80 percent of total customs revenue collection — administrations will be able to protect a majority source of revenue.

- **Data analytics for risk identification.** Build an effective data analytics function at customs administration headquarters using internal data and an increasing amount of third-party data to identify compliance risks. For small customs administrations, a team of two staff with solid Excel or Access skills would be a good start.

- **Increase voluntary compliance through risk assessment.** A solid compliance mechanism will increase the perception of risk within the trading community and ultimately be reflected in voluntary compliance behavior.

The effectiveness of enforcement actions is usually affected by how administrations conduct risk analysis and customs controls.

- **Incorporate proactive risk analysis mechanisms.** In many small administrations, risk analysis or audits are reactive, meaning they are performed on a case-by-case basis, revealing isolated cases of noncompliance. Although this is a good practice, a proactive approach through bulk data analysis strategies will identify more relevant cases and a higher number of fraudulent entities.

- **Increase the scope of risk elements.** Customs administrations must develop a solid risk mechanism that goes beyond traditional customs duty fraud to address invoice fraud schemes, fictitious operations, underreported sales, bogus traders, etc. Also important is unit-price analysis, which can detect under-/over-invoicing and other schemes.

Due to the pandemic, online transactions have increased, and in some countries, consumers exploit loopholes in VAT and tariff exemption thresholds for small-value consignments to make multiple small purchases overseas and avoid paying taxes.

- **Revamp courier arrangements.** New arrangements with postal/couriers are needed to improve monitoring of express consignments. Specific elements include:
  
  i. Small-medium economies not currently receiving advance information from couriers should begin requiring access to couriers’ databases for risk analysis. (Several countries have cooperative agreements with FEDEX, UPS, and DHL.)
  
  ii. Administrations can start exploring the possibility of removing the VAT import exemption on low-value consignments.
  
  iii. For non-dutiable consignments, administrations may want to transition from obliging carriers to send advanced entry summary declarations to a simplified customs declaration (reduced dataset). To avoid blocking the flow of very-small-value consignments, advanced submission of only the entry summary declaration can be acceptable. For shipments above the threshold value for duty exemption, both an entry summary declaration from the carrier and the regular customs declaration must be filed.
• **Electronic customs controls.**

  i. Administrations receiving advance electronic information for express cargo must establish guidelines and controls to improve the quality and integrity of the data (e.g., a Tax ID or coded entity registration and validation rules to avoid vague cargo descriptions or by requiring at least a four-digit HS code).

  ii. Rule triggers can be created based on quantity to identify consignees with prior multiple similar consignments or by placing lookouts on entities identified as high risk (based on audits/risk analysis) for potential tax evasion.

### 3.5 Improve Digital Economy Taxation

Taxation of digital transactions, a trend triggered by the increasing digitalization of the world economy during and after the COVID-19 crisis, has gone from being a novel and appealing government tax options to being an effective policy response. The increased use of new digital technologies following this crisis will change the way tax administrations go about their business. A tax reform priority will be to address the impact of digital economy development on tax enforcement and to design and implement measures tailored to it. At different levels, depending on the country context, a higher contribution of e-commerce to the global economy post-COVID-19 is expected. Governments will feel further pressure to embrace good practices and international standards on digital taxation, especially related to VAT. These reforms require wide international cooperation.

The following points highlight the main value-added tax (VAT) or general sales tax (GST) challenges related to the digital economy:

- The strong growth in the trade of services, digital products, and intangibles—particularly in sales to private consumers—is a challenge because often little or no VAT/GST is levied because of the complexity of organizing, administering, and enforcing VAT/GST payments on such supplies under traditional rules.

- Exponential growth in the volume of low-value imports from online sales presents a challenge because under traditional customs procedures, VAT/GST cannot be collected, leaving these imports to flow into jurisdictions untaxed. The resulting revenue losses are rapidly growing and putting unfair competitive pressure on domestic businesses, creating in turn a negative effect on domestic employment and other revenue, including personal income taxes and local business taxes.

Unlike previous financial downturns, the ongoing COVID-19 health and economic crisis will have a significant impact on VAT collection, the largest source of revenue for many low-income countries. Despite this, the accelerated pace of online commerce worldwide presents an opportunity for governments to use digital taxation as a VAT revenue buffer during the COVID-19 containment phase and as a revenue source during economic recovery as consumption levels regain strength.

Consequently, governments should focus on designing and implementing policy measures for efficiently and effectively collecting VAT on e-commerce sales of goods, digital products, services, and intangibles, based on internationally agreed-upon standards and best practices. Such policy measures would include:

- **Developing an analytical guide for country-specific e-commerce business models and processes, from a VAT policy and operational perspective.** This should include analysis of sales and delivery processes, the role of the relevant actors in these processes, and the infrastructure employed in digital trade.

- **Designing effective legislative measures for collecting VAT on e-commerce sales and digital trade,** covering domestic as well as cross-border trade of goods, services, and intangibles. This would cover all key areas of digital trade now challenging VAT policy and administration, including:
  - VAT collection on sales of services, digital products, and intangibles provided by foreign online vendors
  - VAT collection on imports of low-value goods from online sales (alternative mechanisms to traditional customs processes)
  - Regulating the role of online marketplaces and other digital platforms in collecting VAT, including measures to hold these platforms liable for sales they facilitate through data sharing
  - Designing policy and administrative measures for applying VAT to the sharing economy
• Implementing strategy and an operational roadmap for effectively collecting VAT on online trade. This would cover all key operational elements, including concrete steps for building registration and filing processes, VAT collection and remittance processes, communication and related taxpayer services, and information technology development and frameworks.

• Creating effective audit and administrative risk management strategies and processes, including concrete measures to tackle VAT fraud associated with online trade. This guidance can also include potential avenues for regional cooperation based on successful initiatives in other jurisdictions.

3.6 Fight Corruption in the Post-Crisis Context

While responding to the pandemic requires swift action, it also offers opportunities for corruption. The post-COVID-19 context should be favorable to the development of anti-corruption measures and campaigns in revenue (tax and customs) administration. The economic and social crisis that follows the health crisis will leave many people in need of support, including tax officials and taxpayers.

Generally, an independent investigation of taxpayer complaints concerning wrongdoing and maladministration exists in all countries. In this regard, many countries have an ombudsman or equivalent state official with powers to investigate taxpayer complaints of, for example, unfair treatment, poor service, and uncorrected administrative mistakes. Systemic problems and recommended actions to fix them are often reported to the minister and tax administration head. It is also common for countries to have an anti-corruption agency that, among its broader responsibilities, oversees tax administration anti-corruption policies and investigates alleged corrupt conduct by tax officials. Revenue authorities should also have an internal unit in charge of corruption and ethics to deal with agent wrongdoing. Such a unit should be able to do regular monitoring and recommend actions to senior management.¹⁰

Actions to mitigate heightened risks of corruption in revenue administration resulting from the crisis include:

• Reinforce the internal control body or establish a new task force to develop new risk-based compliance strategies.

• Strengthen monitoring of customs/tax staff in vulnerable areas, such as (i) taxpayer/trader services (e.g., customs clearance), (ii) enforcement activities (customs inspections, audits), and (iii) administration budget or expenditure management, by incorporating the following into the risk analysis process:

  • Conduct declaration and monitoring of assets.
  • If available, use employee bank account data on financial activities to identify anomalies and raise red flags. Monitoring could extend to close relatives’ banking transactions.
  • Use electronic invoicing data and declarations of operations with third parties (if applicable) as relevant sources for highlighting unusual transactions.
  • Analyze activity logs to identify suspicious activity or patterns.
  • Monitor enforcement actions and conduct in-depth investigation of staff with low rates. Constant monitoring is essential.
  • Conduct reverse audits. Keep records related to verified positive cases from enforcement actions (audits/inspections) and identify any recurring cases that should be further investigated.

  • Promote accountability and transparency through strategic mechanisms.

  • Allow more contact methods to report any customs officer engaging in corrupt practices.
  • Use automation to reduce red tape, allow customs officers to exercise discretion, and provide an audit trail for vulnerable staff monitoring.
  • Use algorithms in the customs selectivity mechanism to select, randomly and based on workloads, which officers conduct inspections. This reduces discretionary power and collusion.
  • Construct IT audit trails to address unauthorized use or manipulation of data and unusual levels of activity.
