

# Tax Administration Diagnostic Assessment Tool

## OVERVIEW OF TADAT

**Bill Remington** – Former Director, Delaware Division of Revenue

**Munawer Khwaja** - TADAT Secretariat, International Monetary Fund

**Bill MacLachlan** – Delaware Division of Revenue, retired

**Stu Vos** – Senior Consultant, CGI Technologies and Solutions

# What is TADAT?

## (and Why it Should Interest You)



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# What and Why?

- TADAT = Tax Administration Diagnostic Assessment Tool
- We will describe:
  - What it is
  - How it was developed
  - How it has been used
  - How it might be employed in state government
- Fixed Criteria
- Trained Assessors
- The TADAT Secretariat's role (Represented by Munawer Khwaja)
- Secretariat has trained two state participants – Stu Vos and Bill MacLachlan
- 'Assisted self-assessment.'
- International Practice? What's that have to do with state government?

# What and Why (continued)

- Tax administration is very generic:
  - Taxpayers need to know what is required of them
  - They have to do what is required (file returns accurately, pay what is due on time)
  - Tax authorities have to enforce requirements, using risk mitigation strategies and IT tools to allocate scarce enforcement resources.
- International good practices are clearly relevant to sub-national governments, especially those that in a federal system have nearly sovereign taxation authority

## What it Won't and Will Do

- It's not a benchmarking tool, except with regard to one set of benchmarks: good, fair, and not so good practice.
- TADAT won't tell us how to fix the deficiencies.
- It won't identify the low-hanging fruit or the most urgent.
- BUT it will tell us where we need to spend time and attention.
- There will be new Commissioners in 2017.
- And Current ones?

# What and Why (continued)

- Personal experience tells me you should attach importance to this presentation and to considering an assessment using something like TADAT
- When I became a tax commissioner, I wish ...

- TADAT would have told me about:
  - Routine, Regular versus ad hoc. Undocumented processes.
    - Audit Manual. What's that?
  - Strong, disciplined risk mitigation approach –
    - Based on research.
    - Coherent public education and enforcement approaches.
    - Corporate risks.
  - Rule-based differentiation among field audits, desk audits, issue audits.
  - Taxpayer accounting issues: inaccurate accounts, distinction between active and defunct taxpayers, no attention to suspense account.
  - Active program to detect unregistered taxpayers.
  - Lack of (and then less than fully regimented) internal audit function.

- If I had recognized these deficiencies ...
  - More Effective Commissioner.
  - Stronger Institution ... Less catching up, fixing shortcomings left to my successor, Pat Carter.



# Tax Administration Diagnostic Assessment Tool

## OVERVIEW OF TADAT

Munawer Khwaja

TADAT Secretariat, International Monetary Fund

# What Really is TADAT

A diagnostic tool to provide an **objective** and **standardized** performance assessment of a **system of tax administration**.

Key words: (i) **objective**; (ii) **standardized**; (iii) **system of tax administration**.

**Objective** - It is objective in the sense that it measures the strengths and weaknesses of a tax administration against a set of benchmarks of good international practices that are commonly accepted and are laid out in the TADAT Field Guide.

**Standardized** –standardized in the sense that the TADAT methodology provides a scoring system that would score similarly a given performance indicator for two tax administrations that are similarly placed and have similar levels of development.

**System of tax administration** – Looks not just the tax administration in isolation but at all the core revenue functions, even if, some of these functions may be delegated to other agencies. For example, while TADAT does not evaluate the judicial system, it does look at how the dispute resolution mechanism is structured.

# Origin and development of TADAT

- May 2011 PEFA partners commissioned a feasibility study which compared 8 existing diagnostic tools/approaches
- Study concluded that a diagnostic tool for tax administration is feasible and should have the following characteristics:
  - Comprehensive
  - Straightforward and understandable—focus on the critical aspects of tax administration
  - Based on standardized data sets
  - Consistent and common measurement structure
  - Evidence-based (specific data, documents or observed activities)
  - Benchmark-based and scored
  - Targets tax administration reform areas

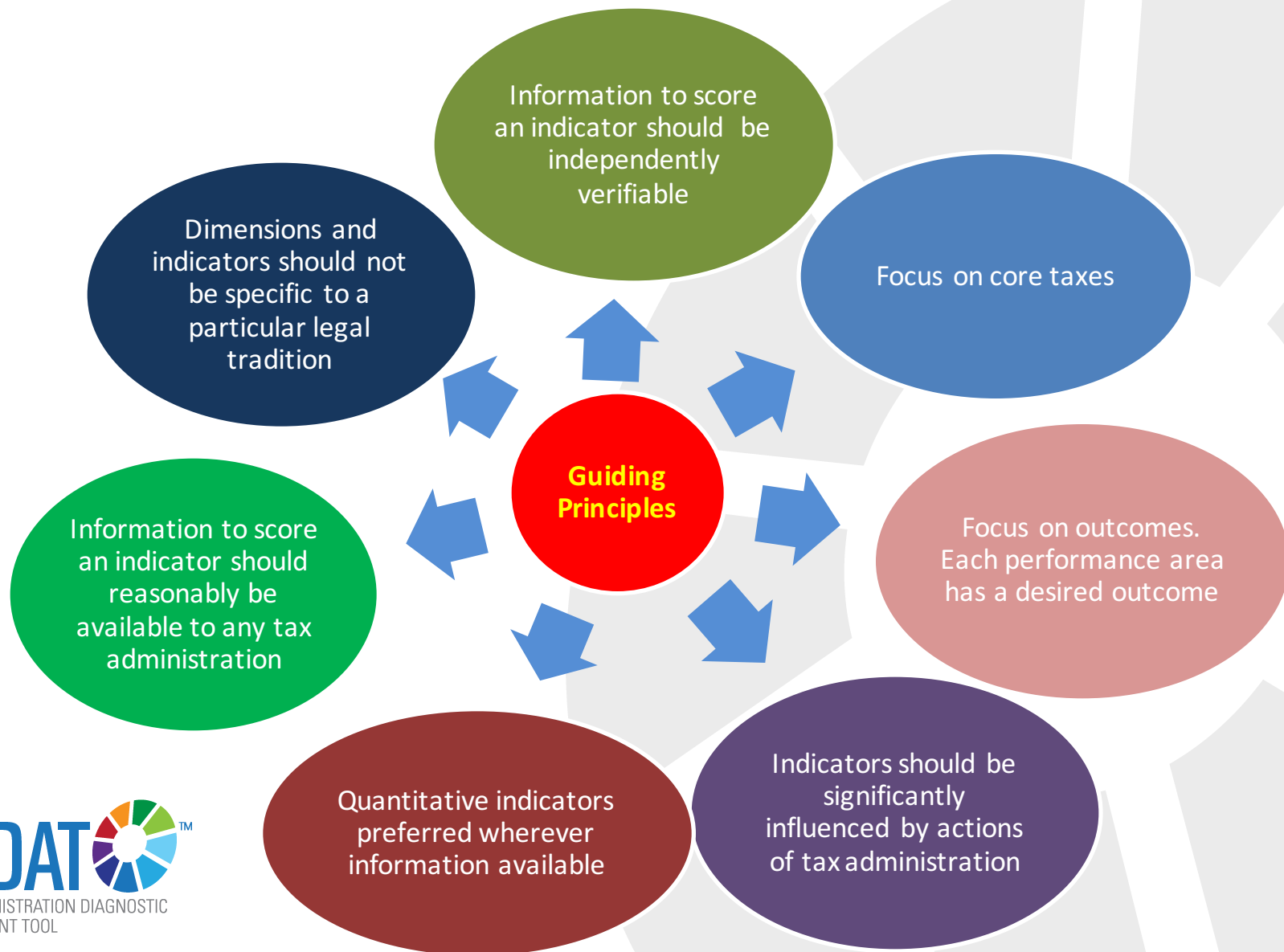
# Why should TADAT matter to a revenue agency

- Tax collection is a central—even a defining—function of government
- Weak tax administration compromises growth and basic trust in government
- Challenges faced are remarkably similar across tax administrations at all levels of development
  - finding taxpayers, ensuring filing, ensuring payment, ensuring accuracy
  - helping taxpayers meet their obligations
  - identifying and addressing compliance risks
  - fair and speedy dispute resolution
  - achieving more with less resources
- Because TADAT provides an objective and standardized assessment, it allows a better identification of the relative strengths and weaknesses in a tax administration.
- Understanding the strengths and weaknesses help revenue agencies focus on improving performance in areas that are weak.

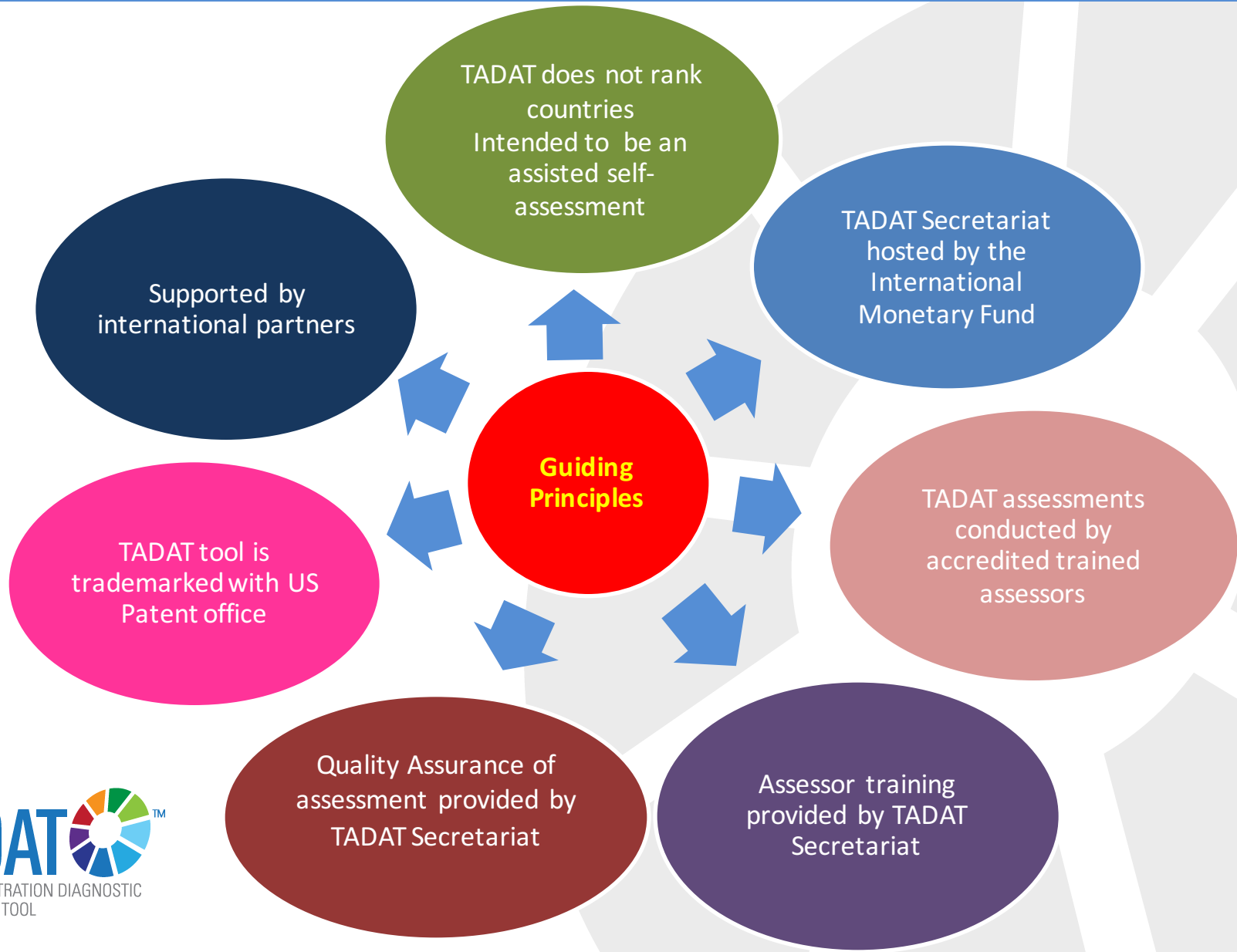
# Wide applicability of TADAT

- Extensive field trials - 17 pilots conducted before roll out in November 2015
  - high income, developed revenue administration – Norway
  - middle income, fairly developed revenue agencies – Malaysia, South Africa, Paraguay, Egypt, Kosovo, Philippines,
  - island states – Fiji, Jamaica
  - low income, weak revenue agencies - Uganda, Rwanda, Cote d'Ivoire
- TADAT proved robust under all conditions
- Demonstrated wide applicability across countries with different levels of development, e.g.,
- Nordic Council of States have adopted TADAT as a peer-to-peer benchmarking tool – Norway, Sweden, Finland, Denmark, Iceland
- Five assessments after roll out: Serbia, Jordan, Tanzania, Ethiopia, Comores
- Subnational TADAT tool under development – issues facing revenue agencies at federal and subnational levels are identical

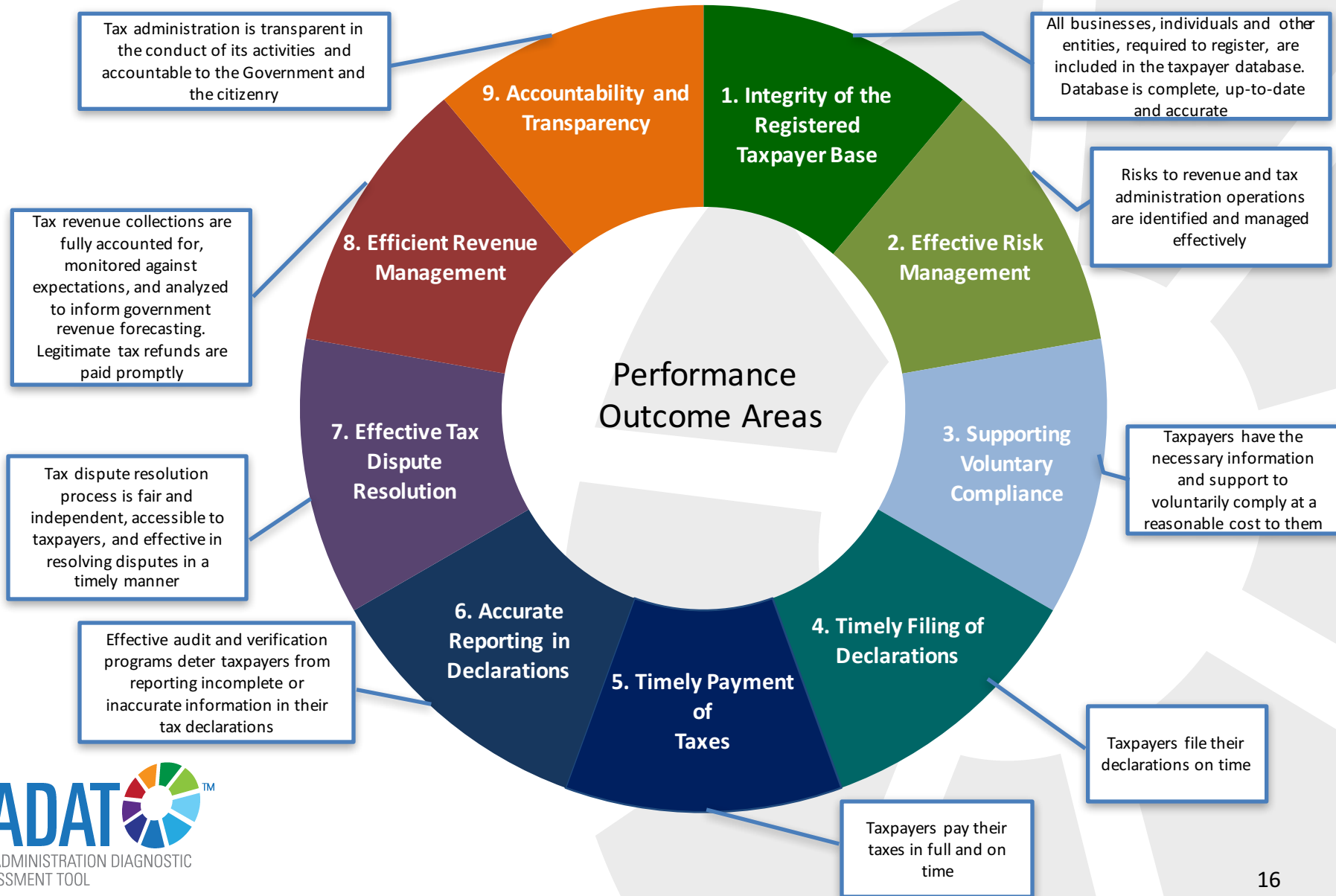
# TADAT Guiding Principles - Design



# TADAT Guiding Principles - Operational

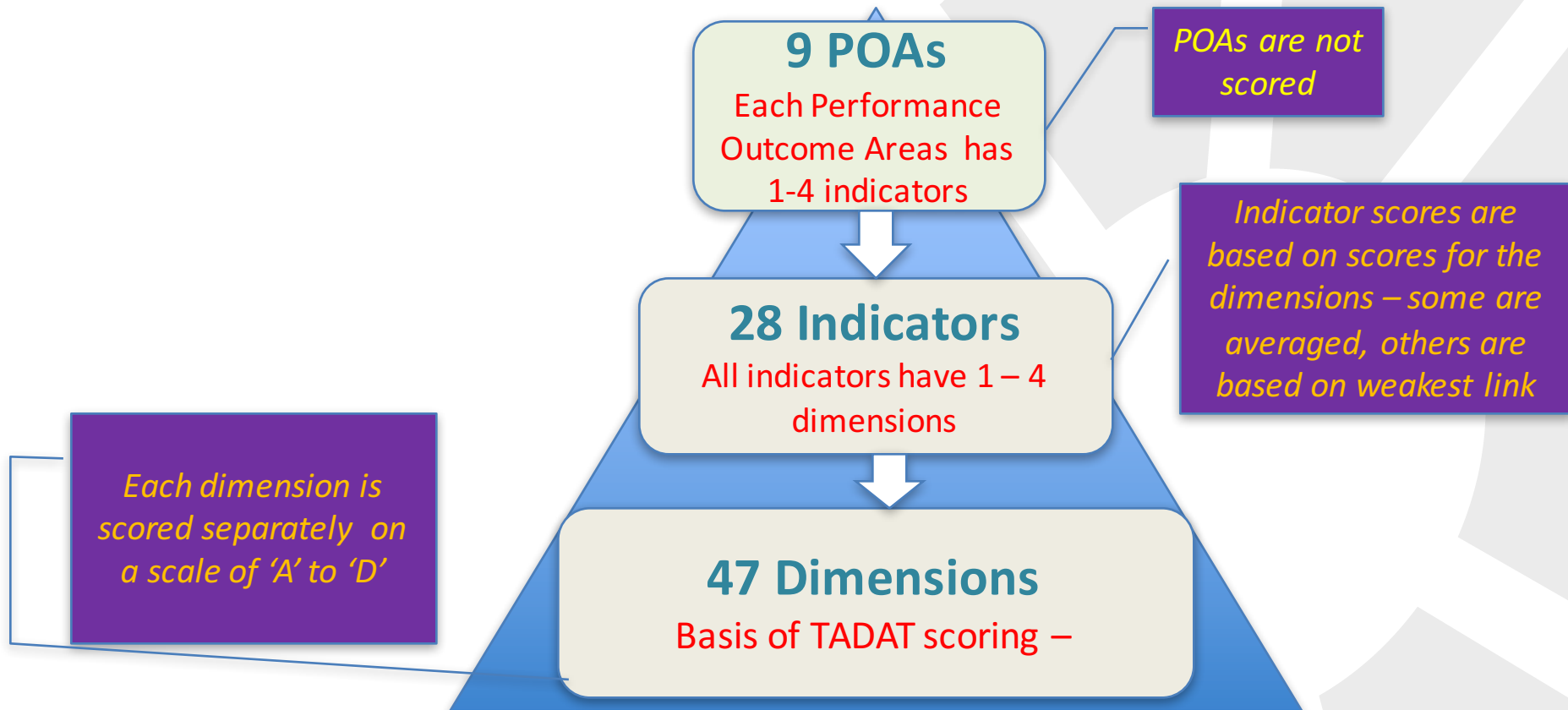


# TADAT Wagon Wheel





# Hierarchy of performance measurement



# TADAT Scoring Rules

**A**

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

**B**

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

**C**

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

**D**

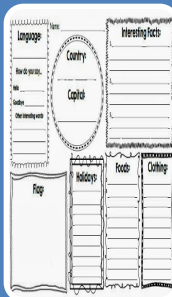
Inadequate performance, where the minimum standards set in 'C' are not met.  
OR  
Insufficient information to determine level of performance

# Pre-Assessment Work



## TADAT questionnaire

- Sent 3 weeks prior to the start of assessment.
- Requests for numerical data and other information critical to the TADAT process.
- Requests annual reports and other relevant documents.



## Country background research

- The team gathers background information on the country:
  - Websites of the tax administration and other related agencies.
  - Economic, political and social indicators.
  - Technical Assistance reports of development partners.

### FIELD GUIDE – Appendix 2

#### TADAT Questionnaire

In preparation for the TADAT assessment to be undertaken from [date] to [date] it would be appreciated if the following general information and numerical data could be provided to the assessment team by [date].

Part I of this questionnaire requests a number of documents that are commonly prepared by tax administrations. These documents will assist the assessment team in familiarizing itself with the system of tax administration operating in [country].

Part II requests numerical data needed to compute a range of performance-related measures in areas such as filing, payment, collection, and so on.

#### Part I: Documents

Please provide the following key documents:

- The tax administration's two most recent annual reports.
- The tax administration's current strategic plan.
- The tax administration's current compliance strategy or plan (if one has been prepared).
- The tax administration's organizational chart, together with role descriptions (if available) of the main organizational units depicted in the chart.
- Taxpayer charter.
- VAT compliance gap analysis undertaken in the last 5 years.

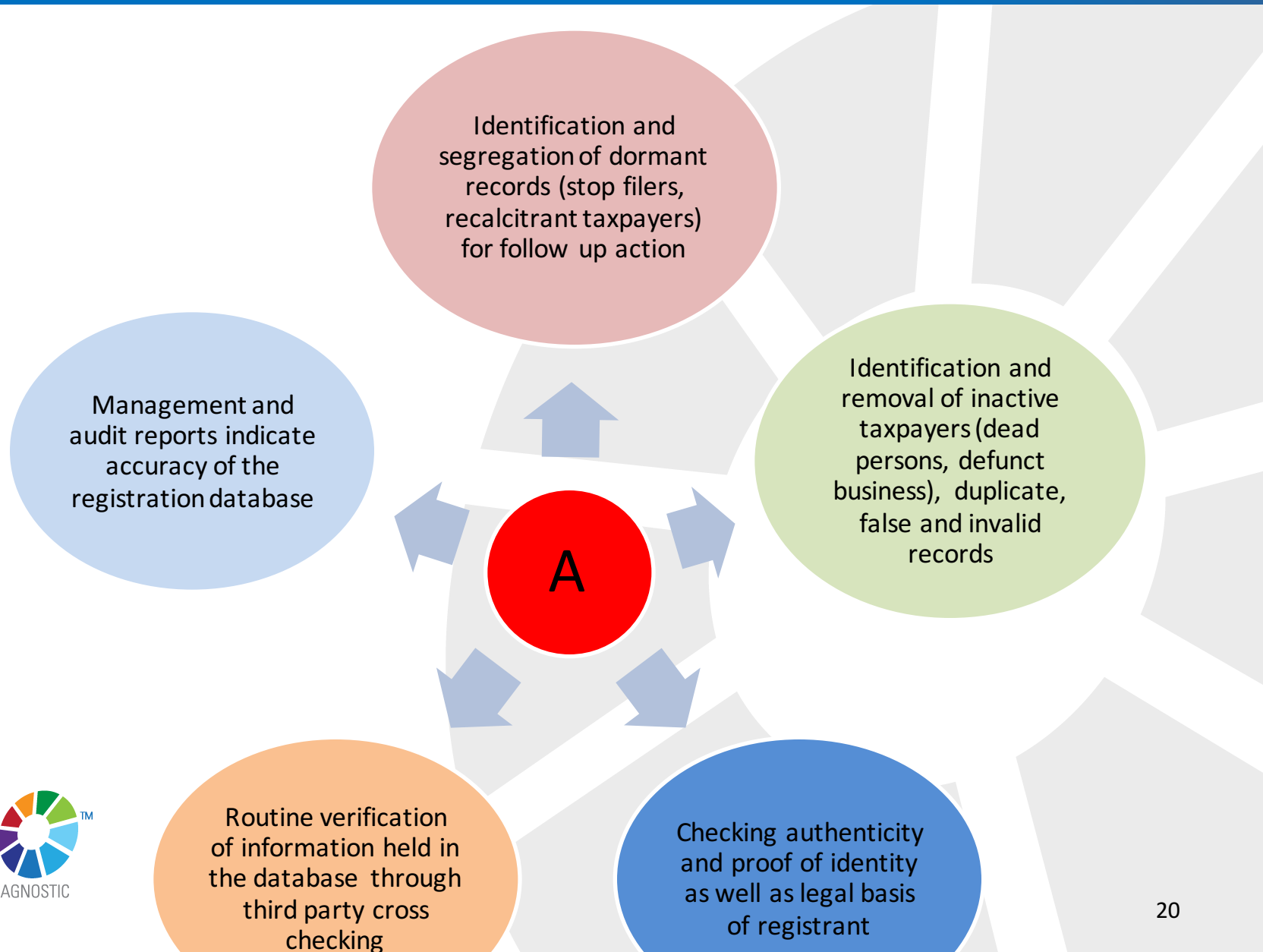
#### Part II: Numerical data

Please complete the attached tables, which are grouped as follows:

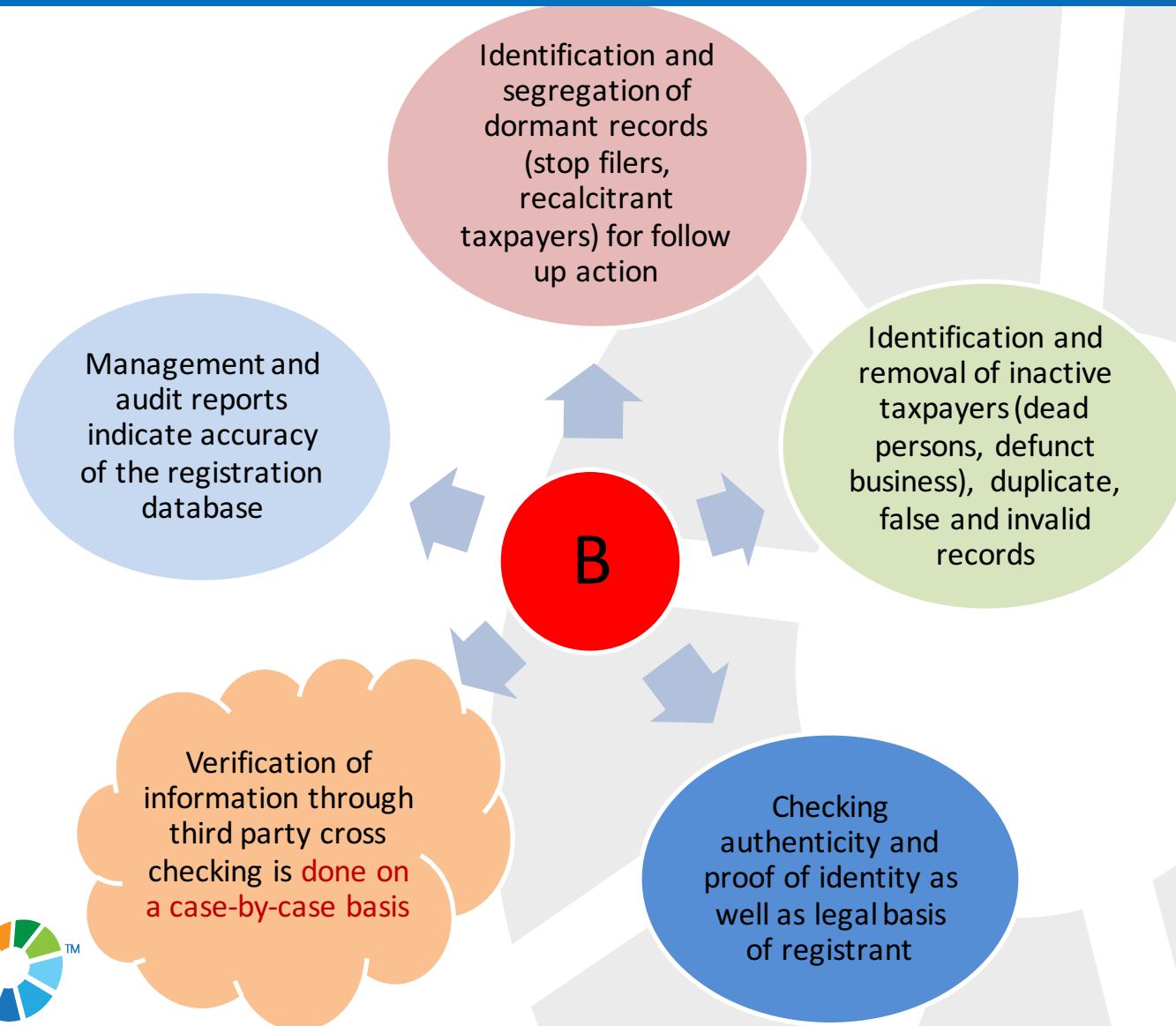
- Section A: Tax revenue collections.
- Section B: Filing of returns.
- Section C: Payments.
- Section D: Tax arrears.
- Section E: Audit and tax gap.
- Section F: Tax disputes.
- Section G: Operational efficiency.

Explanatory notes are provided at the foot of each table to assist completion. If further assistance or explanation is required in completing the tables, please contact [name and contact details of TADAT assessor].

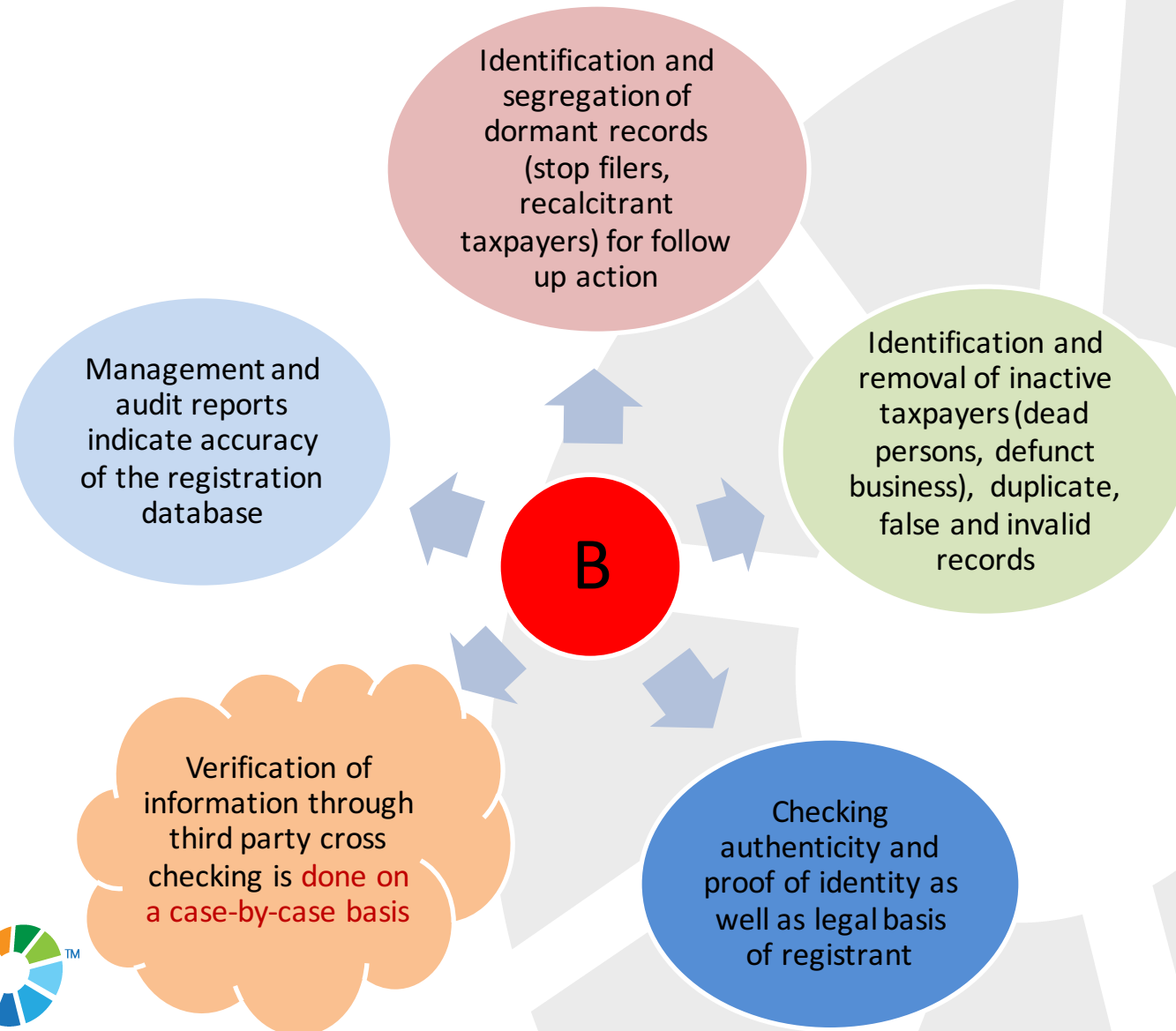
# Example of Scoring Criteria: Accuracy of Information



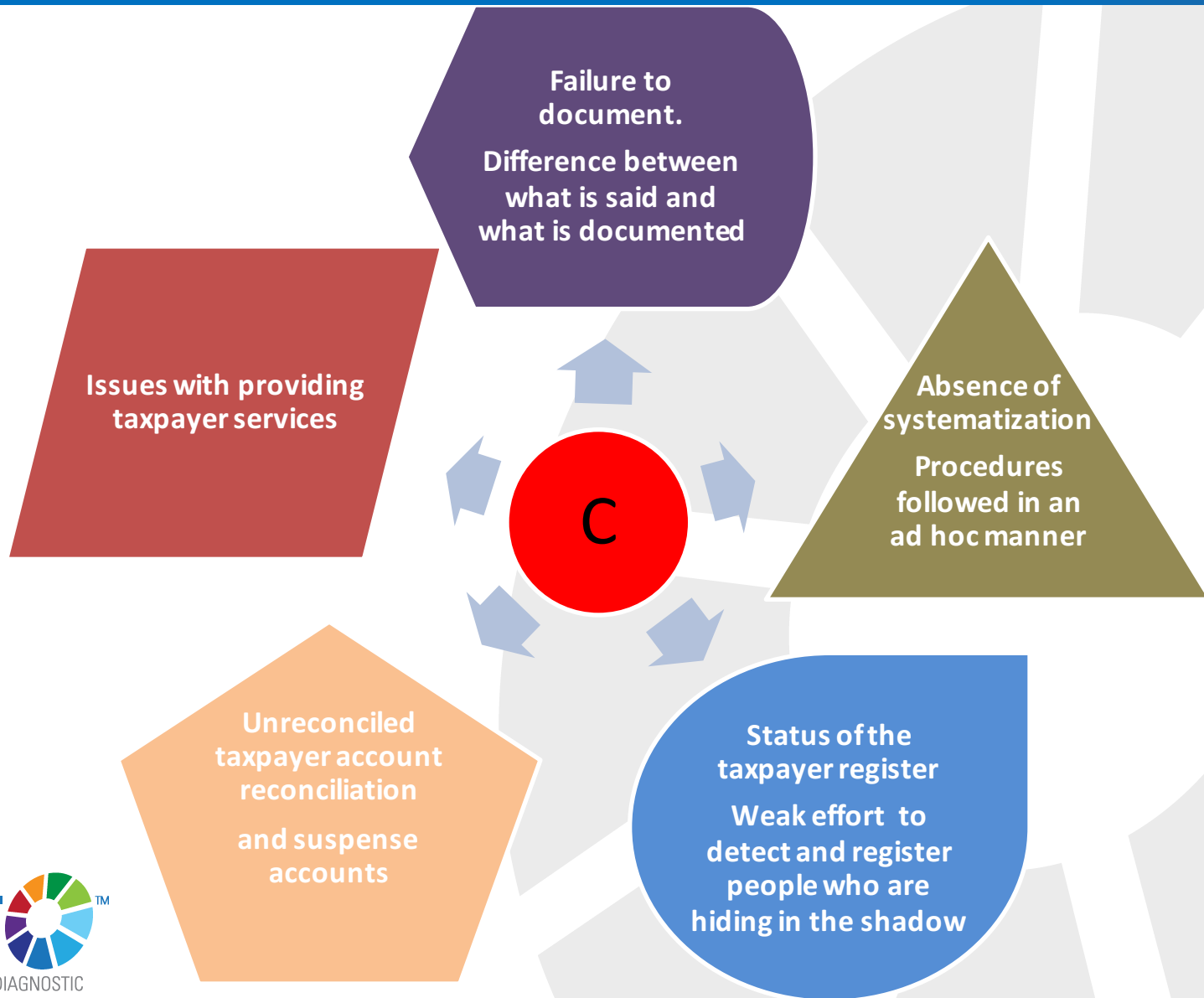
# Example of Scoring Criteria: Accuracy of Information



# Example of Scoring Criteria: Accuracy of Information



# Frequent observations in assessment



# How is a TADAT assessment carried out

- **Pre-Assessment Questionnaire**
- **3 – 4 Trained Assessors**
- **~ 2 Weeks**
- **Strong Commitment from Tax Authority**
- **Meet with Decision-makers in All 9 POAs.**
- **All Assessors Participate in all Dialogs**
- **Commitment to Follow up Demonstrated throughout Assessment**
- **Best with Strong Interest from Commissioner**



# Sample Scoring Exercises

- Excerpted from 'TADAT Field Guide' (November 2015)
- Field Guide & extensive other TADAT resources available at: <http://www.tadat.org/>



## POA 6: Accurate Reporting in Declarations

**Desired Outcome:** Taxpayers report complete and accurate information in their tax declarations

**Indicator:** P6-16: Scope of verification actions taken to detect and deter inaccurate reporting.

### Dimension 1:

The nature and scope of the tax audit program in place to detect and deter inaccurate reporting.

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Score	Scoring Criteria
<b>A</b>	<p>The tax administration's audit program:</p> <ul style="list-style-type: none"> <li>(i) Covers all core taxes</li> <li>(ii) Covers key taxpayer segments, weighted towards large taxpayers and other high-risk segments and economic sectors (e.g., high wealth individuals, construction sector)</li> <li>(iii) Selects audit cases centrally on the basis of assessed risks</li> <li>(iv) Uses a range of audit types, and audit methodologies (i.e. direct and indirect)</li> <li>(v) Routinely evaluates the impact of audits on levels of taxpayer compliance</li> </ul>
<b>B</b>	<p>The tax administration's audit program:</p> <ul style="list-style-type: none"> <li>(i) Same as A (i)</li> <li>(ii) Covers key taxpayer segments, weighted towards at least large taxpayers</li> <li>(iii) Same as A (iii)</li> <li>(iv) Same as A (iv)</li> </ul>
<b>C</b>	<p>The tax administration's audit program:</p> <ul style="list-style-type: none"> <li>(i) Same as A (i)</li> <li>(ii) Selects audit cases on the basis of assessed risks in a decentralized manner</li> <li>(iii) Uses a range of audit types</li> </ul>
<b>D</b>	The requirements for a 'C' rating or higher are not met



## POA 9: Accountability and Transparency

**Desired Outcome:** The tax administration is transparent in the conduct of its activities and accountable to the government and community.

**Indicator:** Internal assurance mechanisms.

### Dimension 1:

Assurance provided by internal audit.

## Dimension 1: Assurance provided by internal audit

Score	Scoring Criteria
A	<p>(i) The tax administration has an organizationally independent internal audit unit reporting directly to an audit committee.</p> <p>(ii) There is an annual internal audit plan comprising internal control checks, operational performance audits, information technology systems audits and financial audits The program provides wide coverage and scrutiny of key operations, revenue accounting, and internal financial management</p> <p>(iii) There is regular training of internal auditors in audit methodologies</p> <p>(iv) There is independent review of internal audit operations and systems at least every five years</p> <p>(v) There is a central repository of internal control policies, processes and procedures</p> <p>(vi) IT system controls are in place to detect incidents that threaten the confidentiality and integrity of tax administration data Specifically, audit trails of user access and changes made to taxpayer data exist, together with effective surveillance by internal audit, including through use of system-generated reports and other audit tools.</p>
B	<p>i) The tax administration has an organizationally independent internal audit unit reporting directly to the tax administration head or board</p> <p>(ii) Same as A (ii)</p> <p>(iii) Same as A (iii)</p> <p>(iv) There is an independent review of internal audit ops &amp; systems at least every 7 years</p> <p>(v) Internal control policies, processes, and procedures are adequately documented</p> <p>(vi) Same as A (vi)</p>

## Dimension 1: Assurance provided by internal audit

Score	Scoring Criteria
C	<ul style="list-style-type: none"><li>(i) There is an internal audit function but it does not report directly to the tax administration head or board</li><li>(ii) There is an annual internal audit plan covering, as a minimum, internal control checks &amp; financial audits (the plan may not include operational perf audits or info systems audits)</li><li>(iii) Internal auditors are given ad hoc training in audit methodologies</li><li>(iv) Audit trails of user access and changes made to taxpayer data exist.</li></ul>
D	The requirements for a 'C' rating or higher are not met

# Thank You

Questions?

Comments?

Discussion?

Please contact the panelists with questions, observations, etc.:

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