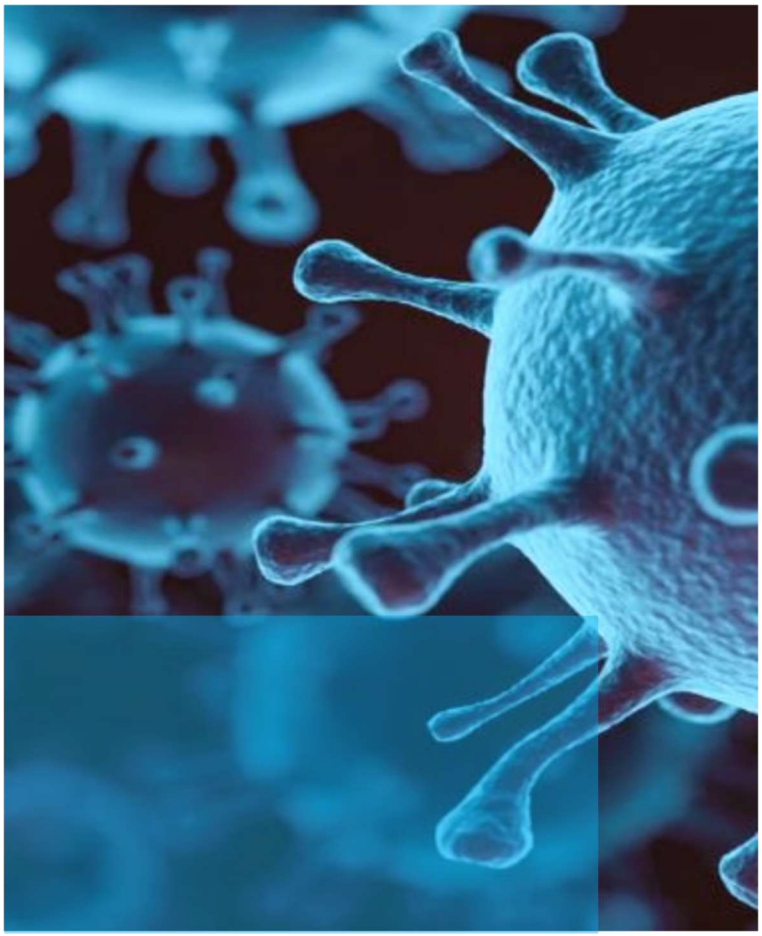
COVID-19:

REVENUE ADMINISTRATION IMPLICATIONS

POTENTIAL TAX ADMINISTRATION AND CUSTOMS MEASURES TO RESPOND TO THE CRISIS.

WORLD BANK GROUP



This note brings together the thinking that is occurring in global and regional teams on governance and institutional approaches to dealing with COVID-19, with a focus on Revenue Administrations. It presents the governance and institutional reforms that could support Revenue administration responses to COVID-19[2]. The pandemic will bring a new normal where work practices should change. Usually, shocks trigger responses, and one of the responses here could be automatization of tax and customs services over the medium term, and a massive acceleration in the use of digital and virtual technologies.

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[1] This note is a joint effort between MTI and GGP colleagues. The note and its annexes were prepared by a Task Force overseen by Chiara Bronchi, led by Raul Junquera-Varela and comprising Ana Cebreiro Gomez, Anna Custers, Daniel Alvarez, Dialigué Ba, Viet Anh Nguyen, Rajul Awasthi, Roel Dom, Rick Fisher, Paola Arce, Claudia Lucia Vargas Pastor, Alfredo Revilak, and Ivan Krsul, MTI-EMFTX. Contributions and comments received from Jim Brumby (EPSDR), Gael Raballand (EA1G1), Marijn Verhoeven (EMFTX), Mohan Nagarajan (ESAG2), and Oleksii Balabushko (EA1G2).

[2] This note and its annexes focus on revenue administration measures only. For a discussion on broader governance issues, please visit https://www.worldbank.org/en/topic/governance/brief/governance-institutions-covid-19-response-resources

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CURRENT FRAMEWORK

WORLD HEALTH CRISIS

An outbreak of the coronavirus disease (COVID-19) has been spreading rapidly across the world since December 2019. The World Health Organization (WHO) declared a global pandemic on March 11, 2020. COVID-19 has significant public health and economic impacts. Although countries are now far more prepared for a pandemic than in the past, the world is also far more interconnected, making the contagion particularly dangerous. While 6.6% of the people worldwide confirmed as having been infected have died, WHO has been careful not to describe that as a mortality rate or death rate[3]. Given that the actual prevalence of COVID-19 infection remains unknown in most countries, it poses unparalleled challenges with respect to global containment and mitigation. These issues reinforce the need to strengthen the response to COVID-19 across all IDA/IBRD countries to minimize the global risk and impact posed by this disease.

ECONOMIC RECESSION

It is a fact that this pandemic will result in a sudden and sharp recession for the global economy starting this year. It is feared that even though a good policy response can limit its duration, its effects will be felt for a long time. Two main factors support this fear. First, many major economies are already ill-equipped to handle adverse exogenous shocks. Second, this sudden economic disruption is especially destructive because it is, in many cases destroying both supply and demand.[4] Current health response to this pandemic is impacting the drivers of economic growth, leading most probably to economic shutdowns across sectors. That entails that Governments need to think of the second phase of fiscal policy interventions aimed at restarting a globalized economy once the health problem has been fixed, which is challenging.

FISCAL IMPACT

While it is too early to assess the impact, revenues are expected to decline faster than GDP due to the COVID-19 pandemic and related economic slowdown. The impact on revenues will likely exceed the hit on economic growth, as the fiscal multiplier during economic downturns historically has exceeded 1 (one). As the world works to manage the COVID-19 crisis and a possible economic slowdown, several governments have announced preliminary measures in recent days and weeks, ranging from providing automatic rollovers of debt to small businesses (for example, Italy and Germany) to extending unemployment insurance equivalent to nearly 100 percent of wages to all laid-off workers (France). These actions are generally aimed at assisting businesses and individuals with cash flow, so that liquidity shortfalls do not become solvency crises.

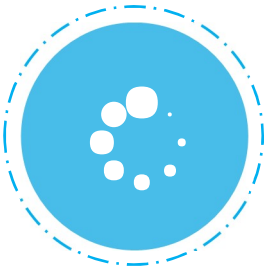
[3] https://www.who.int/emergencies/diseases/novel-coronavirus-2019, 3/26/2020
[4] Mohamed El-Arian, Foreign Policy, 2020.

FISCAL IMPACT

When analyzing the fiscal impact and potential revenue administration measures to respond to the COVID-19 crisis, it is useful to differentiate into three phases:

PHASE ONE. RELIEF /CONTAINMENT

The immediate crisis response to soften the economic downturn and protect businesses, jobs and citizens more broadly from undue economic hardship.



PHASE TWO. RESTRUCTURING/ RECOVERY

Recovery measures as the health situation stabilizes but the economy is yet to regain its footing.

PHASE THREE. RESILIENT/ STABILIZATION

M easures aiming to resilience and sustainability as the economic situation stabilizes and attention can turn to applying lessons from the crisis and the need for sustainability.

The remaining sections of this note organize the potential tax administration and customs measures to respond to the crisis around these three phases. It is important to note that some of the identified measures apply to more than one phase. Appendix 1 contains a high-level overview of the three phases, which could be useful in moving forward. The note is supported by several Annexes that provide further guidance (differentiated by high-capacity and low-capacity administrations and whether a country is facing a large disruption or small disruption).

1. RELIEF/CONTAINMENT PHASE

ALLEVIATION OF CASH FLOW TO ENTITIES

An important measure to adopt is alleviation of cash flow pressures to taxpayers especially entrepreneurs and SMEs (correction of advanced payment rules, installment arrangements, payment deferrals, VAT refunds).

MONITORING COMPLIANCE RISK

Revenue Administrations should aim at identifying as quickly as possible potential risks of non-compliance. Robust assessments should focus on tax arrears, reporting of net operating loss, VAT reporting and tax refund requests.

BUSINESS CONTINUITY MANAGEMENT

Having a plan for continuity of tax administration and customs operations during the COVID-19 period is essential, especially given the spatial distancing imperative at a time when authorities will need to take action.

CREATION OF A TASK FORCE

A task force, comprised by officials from the tax policy department (MOF) and revenue administration, should be created and made responsible for the implementation and monitoring of the emergency Domestic Revenue Mobilization (DRM) package.

COMMUNICATION STRATEGY

Internal and external communication is critical for an efficient management of the crisis. Authorities need to timely and clear communicate in simple terms the measure packages to all population.

PLANNING & MONITORING

The task force should establish a COVID-19 project plan outlining all key tasks and timelines regarding the design and implementation of the DRM package. Key performance indicators (KPIs) should be adopted and regularly monitored.

1. 1 ALLEVIATION OF CASH FLOW TO BUSINESSES & INDIVIDUALS, IN PARTICULAR SMALL AND MEDIUM

The COVID-19 crisis will trigger negative economic shocks that will cause businesses and household liquidity crises. Therefore, many businesses will face a financial situation characterized by a lack of cash or easily-convertible-to-cash assets on hand. That will impact revenue collection, as these companies will not be able to honor their public debt. Similar risks apply to individuals as they might not be in a position to pay the amount of taxes which they have self-assessed. Annex 2 cash flow management provides more detailed guidance on this topic

1.1.1 CORRECTION OF ADVANCE PAYMENT RULES

- Some advance payment programs may exacerbate taxpayers' cash flow problems during an economic downturn. To mitigate this problem, advance payments could be adjusted to better approximate the taxpayer's final tax liability. For example, payments could be calculated as the product of current period sales and the ratio of the previous year's tax liability to sales. Alternatively, taxpayers could be permitted to calculate their advance payments, not based on the previous year's liability, but instead by estimating revenue and expenses for the current year. [4]

1.1.2 INSTALLMENT ARRANGEMENTS

- Installment arrangements provide an important tool for collecting tax revenue from cash-strapped taxpayers. Such arrangements help promote compliance by allowing the tax agency to bring a tax debt quickly under control and usually requiring the taxpayer to stay current with all future tax payments; failure to do so results in the plan's termination and severe collection actions. During a crisis, when increasing numbers of taxpayers face serious cash-flow problems, a case can be made for greater use of installment arrangements for viable businesses.[5] Tax administrations may adjust fines, penalties, interest etc. on delayed tax and delayed filing charges for the period of the crisis or shortly thereafter to improve the chances of compliance and liquidity.

1.1.3 FILING AND PAYMENT DEFERRALS

- Extended payment periods and payments in installments provisions represent useful temporary relief measures to keep taxpayers afloat during low profitable periods and cash flow constraints. To be effective, those need to be enacted using clear eligibility criteria under risk management considerations and designed to the specific group of taxpayers affected by the economic downturn.
- Deferrals of tax filing and payments (in addition to measures on the policy side such as tax incentives for not laying off employees, tax rebates, or exemptions) can also help businesses to cope with the crisis. Delaying corporate income tax payments is the most immediate measure. In most countries, corporate income taxes account for only a few percentage points of tax revenue.

[4] John Brondolo, Collecting Taxes During an Economic Crisis: Challenges and Policy options, IMF staff position note, 2009
[5] Op. cit.

Yet delaying payments by a quarter or two gives immediate breathing space to the private sector while keeping intact fiscal balances. Extending filing and payment deadlines for individuals would provide much needed relief and reduce possible backlogs of work for the tax administration.

Payment deferrals and installment agreements for customs duties could also constitute an important tool to support businesses exporters to stay resilient through tough economic times. They 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 to increase their international competitiveness, face trade costs during global recession and secure their participation within the Global Value Chains.

1.1.4 ACCELERATE TAX REFUND

Tax refunds can provide vital cash flow relief to financially distressed taxpayers. Issuance of all or part of tax refunds could be accelerated to help companies and individuals. Speeding up value-added tax (VAT) rebates for exporting businesses and conversely helps delay the collection of VAT from companies that import from abroad. This measure leaves more liquidity in the hands of traders. The best practice to improve the timeframe for the release of VAT refunds is to implement a process based on an automated risk assessment. The same concern relates to timely processing of income tax refunds. However, effective and timely implementation highly depends on the capacity of the authorities, which widely varies across countries. Therefore, a simplified refund process should be implemented balancing agility and control

1.1.5 VAT FILING SCHEDULE ADJUSTMENT

In countries that provide less frequent filing for small and medium businesses (SMEs), allow SMEs with excess VAT inputs to opt for monthly filing to enable more frequent VAT refund (monthly rather than quarterly).

1. 2. MONITORING COMPLIANCE RISKS

1.2.1 ALLOW GROWTH IN BUT MONITOR TAX ARREARS

Tax agencies should aim at identifying as quickly as possible risks of non-compliance and monitor tax arrears. In many countries close monitoring of large taxpayers' arrears, which represent the bulk of tax revenue, is needed to avoid a sharp decline in revenue collection.

1.2.2 INCREASE OF REPORTING OF NET OPERATING LOSS (NOL)

Whereas an increase of NOL is expected to be filed by taxpayers engaged in business affected by overall economic conditions, some businesses perceive economic downturn periods as opportunities to claim sham NOLs. Close monitoring of NOL filling is recommended to avoid whipping out CIT revenues in the short term.

1.2.3 INCREASE INACCURATE VAT REPORTING

Businesses affected by economic conditions, could choose to incorrectly report amount of VAT paid at importation, increase amount of zero-rated, and/or under-report sales. The tax administration needs to closely monitor VAT reporting.

1.2.4 SOFTEN & SPEED-UP RESPONSES TO TAX REFUND REQUEST

Refund processes should also be monitored. Distressed taxpayers can also engage in fraudulent refund claims as a source of cash flow, especially in the case of VAT refunds (already a rather weak operational performance area across most countries).

1.3. BUSINESS CONTINUITY

Tax and Customs Authorities need to develop business continuity plans that identify critical business processes and mitigation measures. Having a plan for continuity of tax administration and customs operations during the COVID-19 period is essential, especially given the spatial distancing imperative at a time when authorities will need to take action.

If there is one big lesson governments have learned from the COVID-19 pandemic it is the criticality of internet-based compliance and business for taxes and customs. Where such platforms existed and were operational, the negative impact of COVID-19 on revenues was not a function of administrative factors but restricted to economic factors such as sharp declines in consumption (impacting VAT), increases in unemployment (impacting PIT and PAYE), and the fall in profits (ultimately reducing CIT). The ability of revenue administrations to maintain business continuity in a pandemic emerged as a critical element of a successful institution. This went far beyond the availability of ICT platforms; it included maintaining the safety of staff and taxpayers, creation of an emergency task force, continuous provision of critical services to taxpayers and government, clear and timely decision-making processes in a rapidly changing environment, clear and timely communication with taxpayers and staff, preserve confidentiality of tax records, expedite customs inspections, consider temporary re-assignment of personnel to different roles (e.g., focus on taxpayer services) or institutions (e.g., from tax administration to customs) to fill urgent needs. Annex 4 Business Continuity Plan provides more detailed guidance on this topic.

01 WORKFORCE SAFETY

Revenue Authorities must oversee business continuity plans to deal with large scale absences of staff, as more and more people report sick or are required to avoid attending offices due to social distancing. While proper business continuity plans may take time to develop and implement, some simple measures undertaken on an urgent basis can make a big difference, like limitation of public service users, hygienic products and attitude, etc. In the context of COVID-19, risk-based inspections/audits become even more critical to limit physical interactions. As an immediate action, the authorities could decide to temporally close physical offices and/or reduce activity to a minimum decrease in-person transaction.

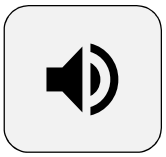
02 SHIFT TO DIGITAL

To date much of the focus of governments responses has been on the prevention and mitigation aspects of dealing with COVID-19, but there are emerging signs of adaptation actions that may have long term consequences for the structure and operation of government. Governments might move to automation or e-services (including tax services) and limit close physical interactions, which often are the legacy of the predigital era, to reduce viral contagion risk. While some countries have closed their Tax Administration, others are looking to rapidly shift onto a digital platform, allowing users to access some services remotely to limit the risk of exposure and spread.

1.4. CREATION OF A TASK FORCE

Cooperation is critical in this new environment. A task force, comprised of officials from the tax policy department (MOF) and revenue administration (tax and customs), 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 the emerging risks and, consequently, adjust the emergency plans (including the business continuity plan, the compliance strategy, etc.). It could also play a key role in properly plan and resource the corresponding agencies, as well as regularly monitor results. In addition, the task force should work in close cooperation with representatives from the taxpayer community to engage them in the design and implementation of the DRM package.

1.5. COMMUNICATION STRATEGY



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 for coordination of 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, which will help to manage expectations. Authorities also need to clearly communicate, in simple terms, the measures being taken and the packages available to the population in a timely manner. Revenue Administrations should use their full set of service channels (website, e-mail, telephone contact centers, walk-in offices, radio, TV) and products in publicizing both available policy measures and the compliance strategy to the public[8]

1.6. PLANNING AND MONITORING

The task force should establish a COVID-19 project plan outlining all key tasks and timelines regarding the design and implementation of the DRM package. In developing the project plan the task force will need to keep in mind that the COVID-19 pandemic is impacting revenue administrations in different ways. For some, this might mean larger disruptions and for others this might mean smaller disruptions – the actions to be taken need to be in-line with the countries situation. Several key performance indicators (KPIs) should be adopted and regularly monitored.

[8] Op. cit.

2. RESTRUCTURING/ RECOVERY PHASE

As soon as the immediate health crisis abates and disruptive health measures such as lockdowns are scaled-down, countries will need their revenue administration systems to get on the rails again (i.e., withdraw rules that were introduced to deal with the immediate crisis—perhaps with some exceptions where they turned out to be a good thing also in the absence of crisis) and raise revenues while taking account of the likely event of an economic recession and residual damage as businesses and households get back on their feet.

2.1 Revenue forecasting and budgeting

When it comes to domestic resource mobilization, this global health crisis, combined with an economic and social crisis, will lead to a substantial decline in revenues. The overall fiscal implications of a global economic crisis are described in a 2009 IMF paper, which highlights three salient factors that could cause revenue to decline in relation to GDP. These factors are 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 taxpayers' compliance.[8]

During phases 1 and 2, governments deal with budgeting of economic and pandemic response activities. To fill the gaps, they are shifting budgetary resources within the approved budget and identifying additional resource needs. Governments are also taking actions for liquidity assessments to ensure the availability of resources. They assess the periodicity and depth of liquidity assessments in ensuring the availability of fiscal resources in the short-term to ensure economic and pandemic response actions. To that end, it is necessary to estimate the cost of restarting the economy. Moreover, developing countries have already started to request IFIs and postponement of debt payments to creditors, as they seek to manage their cashflows.

2.2 Support to implement tax incentives to key sector

While some policy measures, including certain tax reliefs, can be counterproductive and should be avoided, certain temporary tailored stimuli could be considered. Neutrally-designed tax incentives could be granted to strategic sectors/industries, preferably through the immediate expenditure of investments aimed at lowering the after-tax rate of return. Tax administrations play a key role in the management of these incentives (in particular on the control side, grant process, and monitoring, to avoid miss-use). In addition, by contributing to their evidence-based analysis (in most cases, this will happen during phase 1), tax administrations should also support the government in their design to ensure that these incentives are well-targeted. These actions would help to contain the revenue loss in terms of unintended incentives as well as its miss-used.

[8] International Monetary Fund (IMF), 2009, Fiscal Implications of the Global Economic and Financial Crisis, IMF Staff Position Note.

2.3 Simplification of regulation and procedures underlining key operations

Simplification of 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 the implementation of a self-assessment for all taxpayers (businesses and individuals) as this would reduce interactions between taxpayers and tax officials. Introducing well-designed simplified tax regimes to reduce the tax administration burden for struggling enterprises, new enterprises, and closing enterprises could also be considered. In addition, in countries where there is monthly and quarterly filing of VAT returns, consideration could be given to changing VAT filing frequency for SMEs as this will reduce their cost of compliance. These measures could be introduced right at the end of the health crisis to accompany economic recovery.

Improving trade facilitation conditions should also be considered to reduce trade costs and sustain high rates of economic growth. Quick and low-cost measures can be introduced to improve specific conditions for trade facilitation, such as reducing the inventories of abandoned goods in order to boost trade flows by increasing warehouse capacity. Significant reductions in release times and costs savings can be achieved through a different approach to customs controls. A focus on risk management techniques and audit-based controls, rather than the traditional physical inspection that is still in place in many countries, has demonstrated to be effective. They allow customs authorities to offer immediate cargo release, and companies to save in storage and inspection fees. Addressing unnecessary costs such as consular fees can also help to decrease trade costs. All these cost-saving measures can be reflected in companies' profits, cash flow, and, moreover, in an increase in revenue collection.

2.4 Strengthen tax compliance strategies

After the health crisis is contained, it is vital to design a tax compliance strategy to help mitigate the growing risk of non-compliance associated with an economic downturn (including the temptation to not remit to the government withheld taxes and VAT or income payments). There are also risks related to a deep shift in economic activity from the formal to the informal sector, which undoubtedly will increase rates of non-compliance. During the recovery phase, activities to identify possible risks of non-compliance related to the economic downturn and tax evasion (e.g., enhancing the scrutiny of cross-border transactions and offshore evasions) need to be intensified. In many countries, close monitoring of large taxpayers, which represent the bulk of tax revenue, is a key priority. Annex 5 Tax Compliance Strategies and Annex 6 Innovations in Tax Compliance provide more detailed guidance on this topic.

2.5 Prioritize automation enhancement

The automation of processes and procedures in tax administration and customs not only facilitates compliance to the largest number of taxpayers but also contributes to the reduction of administrative costs. COVID-19 could give a push to revenue administrations to reach the full potential of ICT capabilities in the short term.

Automatization is also a win for reduced viral contagion risk, as fewer revenue administration officials will have to work side-by-side, as well as for reduced corruption risk associated with nontransparent discretion from revenue administration officials.

The main limit of automation is the limit of technology; in other words, the human nature of some functions. There are functions in tax administration and customs that cannot be handled automatedly; for example, audits and litigations. These functions require human activities due to the need for personal analysis and subjectivity. However, even those human functions can be eased by electronic systems, which, for example, can allocate non-filer cases to filing enforcement staff via a case management system and generate assessment notices, including estimated assessments.

Automation of the trade facilitation formality with the largest effects on reducing trade costs and, time, leading, thus, to larger trade flows in low- and middle-income countries. To the extent possible, the implementation of e-initiatives related to simplification of documents and procedures (e.g., single-window) should be treated with high relevance as an instrument to promote economic activity.

2.5.1 EXTEND THE SCOPE OF e-FILING / e-PAYMENT

Many tax administrations are already using modern technology to transform operations, namely in areas of filing and payment. These electronic services contribute to reduce taxpayer costs of doing business with the tax administration.

A Electronic filing involves facilities that enable taxpayers to complete tax declarations online and file those declarations via the Internet. Methods of electronic payment include credit cards, debit cards, and electronic funds transfer (where money is electronically transferred via the Internet from a taxpayer's bank account to the Treasury account). Mobile phones can also be used as electronic payments of tax liabilities, as it is the case in Rwanda. [9]

B The COVID-19 crisis will push some countries to quickly develop their IT systems and provide and promote the use of electronic operations facilities for all core taxes. IT systems should be able to reduce at its minimum the intervention of human beings. They should also facilitate enforcement by allowing, at the time of filing, automatic checks of the taxpayer's identity against the registration database, recording the date of filing, performing arithmetic checks, recording the tax liability, and storing declaration data. An automatic system should also receive electronically filed declarations and generate an electronic receipt for each e-filed declaration, provide a consolidated picture of a taxpayer's filing history across all core taxes, and report on all instances where a tax declaration is expected from the taxpayer.

C On the administrative side, another major advantage of electronic systems is to automatically produce management information (e.g., statistical reports by core tax/region/taxpayer segment etc. including: the number of declarations expected from registered taxpayers; the number of declarations filed on-time; the number filed late; the number that remain to be filed; and the age of outstanding declarations).

[9] For DIAMOND and TADAT measurement purposes, payments made in-person by a taxpayer to a third-party agent (e.g., a bank or post office) that are then electronically transferred by the agent to the Treasury account are accepted as electronic payments.

2.6 Seek World Bank operational support

Seek World Bank operational support to accelerate the implementation of an effective compliance risk management framework, shift to increased use of Big-Data to identify compliance risks, streamlining core business processes, and automation. Higher automation, meaning more e-services, requires a large investment, which is not easy as Countries Are Facing fiscal difficulties, now and after the pandemic. World Bank financing could support countries on this move towards automatization.

3. RESILIENT/STABILIZATION PHASE

3.1 ACCELERATE THE MOVE TO A DIGITAL REVENUE ADMINISTRATION

The lessons of the COVID-19 pandemic point in one direction: all revenue administrations need to move to a digital future. The end-game is a **modern taxpayer-friendly digital revenue administration providing world-class online services, characterized by efficient paperless operations, equipped with sharp, ICT-enabled risk-based enforcement to optimize revenue mobilization.** The pathways to this end will vary from country to county

The digital revenue administration of the future will be "**digital by default**." It will provide a high-quality taxpayer user experience, for example, using Artificial Intelligence to run its call centers so that taxpayers are instantly recognized, and their records accessed seamlessly. All tax assessments would be algorithm-based E-assessments. Predictive data analytics would be used for risk analysis, enabling a sharp focus only on risky taxpayers and leaving the vast majority out of any active verification, saving them time and compliance costs. The design of such revenue administrations would be user-centric, and engagement with taxpayers will be tailored. Such administrations will incorporate smart portal solutions, use mobile apps wherever possible, and blockchain solutions and cloud services where possible.

3.2 MONITOR AND EVALUATION OF THE EFFECTIVENESS OF THE TAX RELIEF PACKAGES

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, those tax reliefs need to 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.

3.3 REFORMULATE COMPREHENSIVE COMPLIANCE STRATEGIES

During phase 3 of the crisis, it is important for the revenue administration to reformulate a comprehensive compliance plan with revisited risk management post-crisis considerations to readjust compliance strategies as well as objectives towards full recovery of pre-crisis compliance levels. Tax administrations might need to review its strategic plan and make adjustments where needed. Annex 5 Tax Compliance Strategies and Annex 6 Innovations in Tax Compliance provides more detailed guidance on this topic. Revenue administrations will need to develop realistic strategies that take into consideration their capacity level and how the pandemic has impacted their operations (e.g., large disruption or small disruption).

In the particular case of customs, revenue administrations need to develop a solid risk management mechanism based on promoting risk profiling. This profiling should not only consider the usual potential risks to avoidance of customs duties (customs value, origin, and misclassification of goods) but also contemplate elements that can trigger the detection of 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 detect transactions that fall in an under/over the 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. See Annex 3 Customs Administration & Trade Measures for more detailed guidance.

3.4 FORMULATION OF A COMPREHENSIVE BUSINESS CONTINUITY PLAN

Phase 3 is also a good time for revenue administrations to review lessons learned and enhance their business continuity plan to be ready for follow-up health pandemics or disasters. This would include continued review and identification of critical functions/services, staff and taxpayer safety, HR, communication, and ICT measures. Annex 4 provides further guidance to be considered by high-capacity and low capacity revenue administrations.

3.5 STRENGTHEN VAT MANAGEMENT

In a post-COVID-19 situation, VAT management should be strengthened, considering its higher buoyancy coefficient relative to income taxes. Its expected contribution to revenue collection as economic activity resumes should increase accordingly; authorities need to prioritize the design of administrative measures to ease registration, filing, payment, and refund. Emphasis could be placed on the development of a VAT Compliance Monitoring System that uses all VAT data from buyers and sellers to identify compliance risks.

3.6 PRIORITIZE MEASURES TAILORED FOR THE TAXATION OF THE DIGITAL ECONOMY

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 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 crisis is expected. Governments will have further pressure to embrace good practices and international standards on digital taxation, especially related to VAT.

These reforms require wide international cooperation. The World Bank could lead the thinking in association with the IMF, OECD, and UN. The digital sector poses a lot of challenges to tax administration, in particular, those related to the higher compliance risks usually associated with tax avoidance schemes.

3.7 FIGHT CORRUPTION IN A POST-CRISIS CONTEXT

As a response to the pandemic requires swift actions, it also offers potential opportunities and risks 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 put many people in need, including tax officials and taxpayers.

Generally, an independent investigation of taxpayer complaints concerning wrongdoing and maladministration by the tax administration 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, amongst its broader responsibilities, oversees tax administration anti-corruption policies and investigates alleged corrupt conduct of tax officials. It would also be important for revenue authorities to have an internal unit in charge of corruption and ethics that deals with agents' wrongdoing. Such a unit should be able to do regular monitoring and recommend actions to senior management.

Some actions to mitigate the heightened risk of corruption in revenue administration as a result of the crisis:

- Reinforce the internal control body or establish a new task force to develop new risk-based compliance strategies.
- Strengthen monitoring customs/tax staff from vulnerable areas (i.) taxpayer/trader services (e.g., customs clearance), (ii.) enforcement activities (customs inspections, audits) and (iii.) administration's budget/expenditure management, by incorporating the following elements into the risk analysis process:
  - Declaration and monitoring of assets.
  - Administrations with access to bank accounts data can include financial activities as a risk element to identify anomalies and red flags. The same monitoring could be expanded to their close relatives' banking transactions.
  - Electronic Invoicing data and Declaration of Operations with Third Parties (if applicable) are also relevant sources to highlight unusual transactions.
  - Analysis of activity logs to identify suspicious activity or patterns
  - To monitor enforcement actions efficiency for conducting a more in-depth investigation of staff with low rates. Constant monitoring is essential.
  - To conduct reverse audits. Create a record-keeping based on the staff related to verified positive cases from enforcement actions (audits/inspections) and identify if there are recurrence cases that will need to be subject to further investigation.

For a more detail discussion and measures against the corruption risks, a WBG note is available at http://documents.worldbank.org/curated/en/801501588782665210/pdf/Ensuring-Integrity-in-Governments-Response-to-COVID-19.pdf

3.8 EXTENDING USE OF ADMINISTRATIVE DATA TO OTHER STAKEHOLDERS

Taxpayer administrative data has proven a valuable source of information for both tax and non-tax analysis purposes. Beyond compliance objectives, administrative data brings in unique insights on how taxes are levied across households and firms, drawing key implications for fiscal and social policy-making purposes. However, the use of this data source is typically limited by its intrinsic confidential status, making it hardly available for internal and external parties beyond revenue administrations. Also, quality assurance is typically needed for its validation, correction, and updating purposes so that it serves intended policy-making objectives. The skillset to perform the quality statistical analysis is most likely scarce in most tax administrations.

The COVID-19 pandemic is highlighting the need for revenue administrations to become data-centric organizations where data is used to make informed decisions. As the crisis has evolved, health experts have continued to emphasize that decisions should be data-driven and not political. This is now becoming the new norm, and revenue administrations are using data analysis to identify compliance risks. As revenue administration begins to use additional Big-Data, it provides an opportunity to allow external stakeholders to have more regular and systematic access to revenue administration data. In this modern ICT era, this can be achieved while preserving the confidentiality of taxpayer information.

ANNEX 1. COVID-19 - HIGH-LEVEL OVERVIEW OF THE THREE PHASES

PHASE 1 – RELIEF/CONTAINMENT PHASE		
ACTIONS	GOOD PRACTICES /ADVICE	OUTCOMES/OUTPUTS
1.1 Alleviation of cash flow to businesses and individuals, in particular SMEs.		
1.1.1 Correction of advance payment rules	• Advance payments could be adjusted to better approximate the taxpayer's final liability	• Adjustments to advance payment policies provide immediate relief
1.1.2 Installment arrangements	• Installment agreements provide an important tool for collecting tax revenue from cash-strapped taxpayers	• Review and updating of installment agreement policies and procedures and communicate these to taxpayers
1.1.3 Filing and payment deferrals	• Deferrals of tax filing and payment deadlines can help taxpayers to cope with the crisis • Payment deferrals and installment agreements for customs duties can help exporters	• Review and update filing and payment policies and communicate these to taxpayers and exporters
1.1.4 Accelerating processing of VAT and Income Tax Refunds	• Tax refunds can provide vital cash flow to financially distressed taxpayers	• Implementation of a risk-based refund process
1.1.5 VAT filing schedule adjustment	• A voluntary monthly VAT filing schedule for SMEs to allow for more frequent VAT refunds	• Revised VAT filing frequency for SMEs
1.2 Monitoring compliance risks and key variables		
1.2.1 Allow growth in but monitor tax arrears	• Tax administrations need to identify arrears on a timely basis and take prompt action to collect arrears from those taxpayers that have the ability to repay (focus on monitoring large taxpayer arrears)	• The administration needs to closely monitor growth and trends in stock of arrears
1.2.2 Increase of reporting of Net Operating Loss (NOL	• Close monitoring of net operating loss to detect taxpayers that have incorrectly reported	• A risk-based approach to detect abusive claims of net operating loss
1.2.3 Increase in inaccurate VAT reporting	• Close monitoring of inaccurate VAT reporting is important to detect taxpayers that have incorrectly reported	• A risk-based approach to detect inaccurate VAT reporting

1.2.4 Soften and speed-up responses to tax refund requests	• Refund claims should be closely monitored to detect abusive claims	• A risk-based approach to detect abusive VAT refund claims
1.3 Business Continuity Plan		
1.3.1 Ensure the safety of the workforce	• Revenue administrations have to prepare for possible large ale absence of staff	• Decrease in-person contact to protect staff • Introduce a risk-based audit program to limit physical interaction
1.3.2 Shift to digital	• Revenue administrations are looking to rapidly shift to a digital platform, allowing users to access services remotely	• Automate E-Services and limit close interaction
1.4 Creation of a Task Force	• The task force should consist of officials from the MoF tax policy department and revenue administrations (tax/customs)	• Establish a task force to be responsible for day-to-day implementation and monitoring of DRM package
1.5 Communication Strategy	• Authorities need to ensure there is regular and timely communication regarding COVID-19 response measures	• Communication strategy to inform external/internal stakeholders
1.6 Planning and monitoring	• COVID-19 response should be seen as the most critical project	• Action plans and effective monitoring of these plans
PHASE 2 – RESTRUCTURING/RECOVERY PHASE		
2.1 Revenue forecasting and budgeting		• Estimate cost of restarting the economy
2.2 Support to implement targeted tax incentives to key economic sectors	• Neutrally designed tax incentives could be granted to strategic sectors/industries	• Identification of targeted tax incentives
2.3 Simplification of regulation and procedures underlining key operations	• Simplified regimes to reduce the tax administration burden for struggling enterprises, new enterprises, and closing enterprises could be considered • Improving trade facilitation conditions could be considered to reduce trade costs and sustain high rates of economic growth	• Simplification of tax processes and procedures (e.g., registration filing, payment) • Improved trade facilitation conditions (e.g., reduction of abandoned goods)
2.4 Strengthen tax compliance strategies	• During the recovery phase, activities to identify the possible risk of non-compliance need to be intensified	• Revised compliance strategies to contain the growing risk of non-compliance associated with the economic downturn
2.5 Prioritize automation enhancements		• Further automation of tax and customs operations will

		reduce administrative costs and reduce cases where taxpayers and importers/exporters need to interact
2.5.1 Extend the scope of e-filing/e-payment	• To address this and future crisis, the tax administration needs to shift to E-services for registration, filing, and payment	• Prioritize shift to E-Services (e.g., registration, filing, and payment)
2.6 Seek WB operational support to accelerate the implementation of an effective compliance risk management framework, streamlining core business processes, and automatization		• Request WB assistance to support the three phases of COVID-19 responses
PHASE 3 – RESILIENT/STABILIZATION PHASE		
3.1 Monitor and evaluation of the effectiveness of the tax relief packages		• Evaluation of the effectiveness of the COVID-19 relief measures
3.2 Reformulate comprehensive compliance strategies		• Revised Compliance Improvement Strategy • Revised Corporate Strategic Plan if needed
3.3 Formulation of a comprehensive business continuity plan		• An enhanced business continuity plan
3.4 Strength VAT management		• Strategy and action plan for strengthening VAT management (e.g., design of administrative measures to ease registration, filing, and payment and refund)
3.5 Prioritize measures tailored for the taxation of the digital economy		• Strategy and action plan for the design and implementation of measures to deal with the digital economy
3.6 Fight corruption in a post-crisis context		• Strategy and action plan to identify and address tax and customs administration (includes measures and campaigns) • Independent unit established to address corruption issues

COVID-19

POTENTIAL TAX ADMINISTRATION AND CUSTOMS MEASURES TO RESPOND TO THE CRISIS.

ANNEX 2.

TAX MEASURES TO ALLEVIATE CASH FLOW CONSTRAINTS FROM TAXPAYERS

WORLD BANK GROUP

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Equitable Growth, Finance & Institutions

INTRODUCTION

The objective of this annex[7] is to provide additional guidance on practical measures available to tax authorities to strengthen cash management and alleviate cash flow constraints on taxpayers. Most of those measures are mostly applicable during the Containment Phase of the current health and economic crisis. Still, there are also some others well positioned to support the Recovery Phase. This annex drills down on some of the recommendations profiled in the main World Bank's note entitled "COVID-19: Revenue Administrations Implications - Potential Tax and Customs Administrations measures to respond to the crisis". The scope of this annex is to flush out specific measures designed to improve in practice cash management of businesses and households to cope up with liquidity constraints faced during this period. It also provides some recommendations to revenue administrations to improve compliance and receipt monitoring during the Containment Phase.

From a business perspective, cash management stands out as a critical function for strategic planning purposes with implications on investment and employment strategies. Cash management is very closely linked to the treasury and financial strategy, investment appraisal, and risk management. In particular, the treasury function aligns with securing financing, maintaining funding, and managing risks to ensure sufficient liquidity is available to pay business' obligations and to secure funds to meet future obligations.

As part of cash management, businesses need to exert adequate insight into future cash generation and needed liabilities, with a focus on short-term needs arising from day-to-day operations. Daily cash forecasts are driven by receipts and payments data from accounts receivable and payable ledgers, tax information, and net profit/performance, cash surpluses retained in the business, and short-term liquid investments.

From a cash management perspective, payment of tax obligations plays a critical role within the overall treasury strategy and risk management assessment of businesses. Cash forecasts include considerations related to tax provision estimations, and from a cash management perspective, businesses consider options to optimize treasury resources to ensure liquidity to pay taxes in due time and to make smart use of refund requests.

During challenging economic times, especially in those cases where cash becomes a vital commodity as non-anticipated shocks affect forecasted short-term receipts and payments of businesses, fiscal authorities play a fundamental role in adjusting the countries tax system to ensure taxpayers improve their liquidity balance. In this context, fiscal authorities and revenue administrations might provide valuable sources of liquidity, either through accelerated tax refund processes based on risk-assessment criteria, or deferral of tax payments akin to interest-bearing loans from the fiscal treasury.

From the experience of countries facing similar economic shocks in the past, some additional policy options and administrative facilities are available to help cash-strained taxpayers to smooth out negative economic effects during the Containment Phase of the current global pandemic crisis, and to provide support to affected businesses and households through the tax system. The adoption of a well-designed package of tax mitigation measures has the potential not only to mitigate liquidity constraints but also to strengthen a closer and

[7] This annex was prepared by Daniel Alvarez with inputs from Raul Junquera-Varela under the supervision of Chiara Bronchi, MTI-EFMTX.

cooperative compliance collaboration between taxpayers and revenue administrations at a time when it is most needed.

Furthermore, cash management considerations are similarly relevant to fiscal authorities and revenue administrations during non-anticipated economic shocks. Revenue shortfalls to treasury coffers materialize through different channels, mostly from lower turnaround levels of tax payments from liquidity constrained taxpayers, shrinking tax bases resulting from lower economic activity, and sudden declines of overall tax compliance. Also, revenue collection is likely to be impacted as a result of the implementation of short term and temporary policy measures aimed at improving the cash management of distressed taxpayers as well as to protect a vulnerable population from adverse health and economic effects.

Therefore, revenue administrations and fiscal authorities are also required to develop a comprehensive strategy from a compliance and receipt management perspective to mitigate adverse economic effects during the Containment Phase of the pandemic crisis, introducing robust revenue performance and budget practices.

In the following section, a set of recommendations is presented in terms of short-term mitigation measures related to cash management considerations affecting businesses and households' taxpayers during the Containment Phase of the pandemic crisis. Also, a set of good international practices to be followed by fiscal authorities and revenue administrations are included with a view to improving short-term risk management strategies to mitigate erosion of compliance levels and to strengthen monitoring of monthly tax receipts as part of a healthy revenue monitoring and budgeting practice (Appendix 1 contains a receipt management model).

ALLEVIATE CASH MANAGEMENT AND MITIGATE ADVERSE ECONOMIC EFFECTS

Proposed measures to be taken by tax administrations to improve cash flow and liquidity are divided into five types of mechanisms: tax refunds, interest-bearing loans, smooth out effects of economic losses, incentives to critical investments, and other measures to alleviate cash flow management to businesses and households. Most of those measures entail actions within the authority of tax administrations to adjust some processes and regulations, while some others require temporary changes on tax policy tailored to address specific social and economic objectives during the Containment and Recovery Phase of the pandemic health and economic crisis.

01 Cash support through timely tax refunds

- **Acceleration of tax refunds due.** Usually, the obligation by law for tax administrations to refund taxes to taxpayers becomes critical in distressed financial times. On VAT administration, excess of input to output payments to exporters and other types of net credit taxpayers are to be paid within 30 days following good practices. Irrespective of the statutory timeline and current practices followed by tax administrations and special provisions need to be taken to accelerate risk-based backlog of tax refunds to improve the liquidity balance of distressed taxpayers while maintaining intact the nature of consumption tax of the VAT system. Furthermore, the VAT refund is to be preferred to carry-forward of excess credits during financial stress times. Albeit at a lower scale in nature, similar provisions are

needed for the refund of other taxes when applicable, such as PIT refund to households arising from an excess of periodic withholding taxes when assessing annual tax liabilities.

- **Refund of excess tax credits.** To compensate poorer households for the economic and financial impact of the pandemic, the PIT system could be effectively used to convert tax credits into cash transfers. Tax credits are granted by governments to provide social benefits as amounts deductible from tax liabilities could be designed either as wastable credits (i.e., limited to the amount of tax liability), or non-wastable credits, in a way that credit amount in excesses to tax liability can be paid in cash to qualified taxpayers. With a view to putting cash in the hands of taxpayers through existing tax benefits, or new relief mechanisms implemented in response to the economic crisis, governments might implement non-wastable tax credit mechanisms.
- **Shortening of tax return filing period for SMEs.** In some countries, the VAT filing period for SMEs is extended beyond the standard statutory monthly period in comparison to the rest of taxpayers in consideration to relatively lower administrative capacities and tighten cash flow profiles, among others. However, during pressing liquidity times, SMEs should be allowed to request a VAT refund following the first month after excess credit arises, instead of awaiting the next statutory filing season (i.e., end of a quarter).

02 Deferral of payments (interest-bearing loans)

- **Tax filing and payment due date extension.** From a cash flow perspective, extending the statutory due dates in which taxpayers are required to file tax returns and pay its dues is akin to an interest-bearing loan from the government, with the potential benefit to improve cash management, liquidity profile, and working capital stance of businesses and households affected by the pandemic economic and financial effects, without incurring in tax arrears. Similar provisions could be extended to other payments from taxpayers with fixed due dates, such as provisional and installment payments.
- **Installment arrangements for distressed taxpayers.** Extended payment periods and payments in installments represent useful temporary relief measures to keep taxpayers afloat during low profitable periods and cash flow constraints. To be effective, these need to be enacted using clear eligibility criteria under risk management considerations and designed to a specific group of taxpayers affected by the economic downturn.
- **Tax debt repayments.** Taxpayers may be able to refinance their tax debt through lower interest repayment options, or extended down payment periods, as a way to improve the cash profile of such payments to businesses in financial distress. Also, debt recovery applicable to taxpayers in arrears could be postponed for several months in tandem with tax filing and due payment extensions. However, tax administrations need to consider the taxpayers' ability to pay before entitling the taxpayer to this form of relief – in other words, some confidence that this is actually a distressed taxpayer.

03 Smooth out effect of economic losses

- **Adjustment of advance payments rules.** To avoid cash-flow crunch typically originated by mismatches between advance tax payments and final liability during economic downturns, a temporary adjustment

of advance payment rules applicable to businesses would allow taxpayers to estimate streams of advance payments based on profitability expectations for the current fiscal year, instead of using previous year's assessment as a baseline (applicable basically in the context of corporate income taxation).

- **Net operating loss (NOL) carry-forward provisions.** Most CIT systems include these provisions as income averaging mechanisms to induce neutrality in companies' decisions to undertake projects regardless of its level of risk, in a way that tax losses incurred in one fiscal year could offset profits from others. For those companies incurring an NOL as a result of this fiscal year's economic downturn, the application of the carry forward mechanisms (offset of losses against profits to be accrued in future years, in addition, to carry back provisions in place in most tax codes) will help to smooth out the financial impact of the ongoing systematic economic downturn throughout future fiscal years. The same income averaging mechanism to carry-forward NOLs is advised for ring-fenced application of CIT rules, such as capital gains.

04 Incentives to critical investments

- **Implementation of focused tax stimulus packages.** Tax-based relief programs during economic stress periods are usually implemented using a mix of instruments, such as tax exemptions granted to taxpayers located in emergency-zones; tax incentives to investments in focused regions; tax rebates, credits, and rate cuts, among others. Following tax policy neutrality principles and healthy compliance management principles for tax administrations, the immediate expense of fixed assets should be the preferable policy tool not, only applicable for affected taxpayers, but also as a tool to bring forward investments needed in critical economic sectors – such as health providers or pharmaceutical firms, in the case of the current global emergency. To be used as temporary mitigation measures, these need to be designed within well-defined tax periods, using simple and unambiguous eligibility criteria; and closely monitored by a special task group within the tax administration. Tax amnesties, audit deferrals, and similar measures should be avoided to the extent those tend to decrease tax compliance levels in the mid/long terms.

05 Other measures (businesses and households)

- **Wage subsidy paid to employers.** Businesses that withhold tax on employee's salaries and wages might be entitled to a tax credit equivalent to a fixed percentage of the amount withheld to employees. This measure aims at providing temporary cash assistance to businesses/ employers as an incentive to sustain their payroll and disincentivize layoffs in the margin. To attain a similar objective, tax authorities may also authorize a temporary double/triple dipping of the tax deduction on wages and salaries paid to employees.

- **Reduction of withholding tax to employees.** Tax relief could be delivered to wage earners through automatic relief of taxes withheld by employers by applying proportional reductions to the tax liability resulted from the application of each bracket of the PIT tariff structure. This relief mechanism is better positioned to target lower-income wage earners, in comparison with blanket relief measurements applicable to the critical mass of wage earners whose tax is withheld and paid to authorities by employers.

- **Tax waivers to cash transfers.** Grants provided to businesses and households from governments as relief measures could be tax-exempt. Those grants can be provided through cash transfers, or allowances and supplements paid to employees engaged in home-based work arrangements.
- **Temporary easing of thin capitalization rules.** Domestic subsidiaries relying heavily on borrowing from parent companies overseas to finance working capital could benefit from temporary suspension of thin capitalization rules.
- **VAT assessment based on cash flow.** In most countries, VAT is collected mostly based on the accrual-accounting basis. It can be explored as a temporary basis to shift, for some cases, from an accrual to a cash basis. The flipside of this approach is VAT included in stock/inventories of the companies, which could pose problems in the transition period. In any case, this would be a temporary measure to alleviate cash pressures during the initial period of distress. An alternative is to postpone the inclusion in VAT tax returns of unpaid invoices, which needs adequate control mechanisms in place.
- **Cash economy strategy.** It is worth mentioning that Australia developed and implemented in the early 2000's a cash economy strategy to improve compliance in the cash economy, including communication measures, incentives to encourage self-service, targeted assistance, strategic alliances, and focused enforcement (IMF, 2009). This is option revenue administrations can consider.
- **Industry partnerships.** New Zealand put in place in the 2000's an Industry Partnership Program to help small and medium-sized enterprises in selected cash economy industries to comply with their tax obligations.

IMPROVE COMPLIANCE AND BUDGET MANAGEMENT

- Strengthening of tax compliance monitoring within tax administrations. The formation of special task forces within revenue administrations could be a useful short-term institutional response within tax administrations to mitigate short term effects of economic shocks. The task force should be able to closely monitor the effect of potential tax base erosion or the exposure of higher levels of compliance risks in the face of economic emergencies. It could also be instrumental in establishing effective feedback loops with the economic team at MOF tasked with the monitoring of revenue collection and the preparation of the budget for the mid-term economic framework, with a view to better estimate the revenue effect of economic shocks. (Additional information on tax compliance strategies can be found in Annex 5 Tax Compliance Strategies).
- Monthly receipt monitoring. In addition to the development of revenue forecasting and estimation tools, mostly tailored for macroeconomic management and tax policy objectives, from the World Bank's own operational experience working on distressed countries, it became evident many countries need to have in place a reliable monthly revenue receipt model. When appropriately calibrated with reliable tax elasticity/buoyancy coefficients (in relation to underlining tax bases, such as GDP or private consumption) those models have the potential to help revenue administrations to be timely detect the effect of revenue shortcomings in the very short term, and to estimate its effect against the annual revenue budget.

TAXATION OF DIGITAL TRANSACTIONS OF GOODS AND SERVICES

Different from previous financial downturns episodes, the ongoing Covid-19 health and economic crisis loom a stringent impact on VAT collection, which is the largest source of revenue for LIC countries. Base erosion is channeled from different fronts: i) consumer expenditure will cut back globally by approximately one-third, unparallel in modern history including the global financial crisis of 2008-20098; ii) changes on consumer and government expenditure patterns towards products and services from the health sector - largely exempt, zero-rated of lower-rated from VAT-; and, iii) the depth and nature of policy responses by governments to alleviate cash flow of taxpayers as reported in the previous section governments, will negatively impact VAT revenues on a larger scale in comparison to past financial crisis whereby private consumption proved more resilient.

Despite concerns the Covid-19 pandemic might have on VAT revenues, e, the accelerated pace of "socially distant" volume of online commerce worldwide presents an opportunity for governments to use digital taxation to maintain VAT revenue collections during the containment phase of COVID 19, and an opportunity to increase VAT revenue collections during economic recovery as consumption levels regain strength9. From this perspective, taxation of digital transactions, a trend triggered by increasing digitalization of the world economy in modern times, seems to step up from a novel and appealing tool on the menu of tax options for governments, to an effective policy response during and post Covid-19.

The main VAT challenges related to the digital economy are:

(1) the strong growth in the trade of services, digital products and intangibles, particularly sales to private consumers, on which often no or an inappropriately low amount of VAT is levied due to the complexity of organizing, administering and enforcing VAT payment on such supplies under traditional VAT rules; and

(2) The exponential growth of the volume of imports of low-value parcels from online sales on which VAT cannot be collected under the traditional customs procedures and which, therefore, often flow into jurisdictions untaxed. This causes rapidly growing VAT revenue losses, as well as growing unfair competitive pressure on domestic businesses that are increasingly incapable of competing against the continuously rising volumes of VAT-free online sales of goods, and the associated negative impacts on domestic employment and potentially other tax revenues including personal income taxes and local business taxes.

To overcome these challenges governments, need to focus on the design and implementation of policy measures, based on internationally agreed standards and best practices to ensure the application of the VAT neutrality and destination principles, for the efficient and effective collection of VAT on e-commerce **sales of goods, digital products, services, and intangibles. Those policy measures include the following elements:**

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[8] See "Evaluating the initial impact of COVID-19 containment measures on economic activity", OECD update on April, 14th 2020.

[9] Concerns over the pandemic created a shopping frenzy for supplies. Consumers's appetite for goods on e-commerce drove an ad spending surge for one of the leading marketplaces in Q1 2020. Before Covid-19 crisis, global cross-border B2C e-commerce sales was estimated to be worth over USD 2 trillion in 2019 and projected to reach USD 4.8 trillion by 2027, growing at 27.4% annually. Currently, approximately 1.92 billion consumers are buying online and this is estimated to grow to 2.14 billion consumers by 2021. (Source: eMarketer, Statista and others).

- **Develop an analytical guide on country-specific e-commerce business models and processes,** from a VAT policy and operational perspective. This will include analysis of sales and delivery processes, the role of the relevant actors in these processes, the infrastructure employed in digital trade, etc.;
- **Legislative design of effective measures for the collection of VAT on e-commerce sales and digital trade,** covering domestic as well as cross-border trade of goods, services, and intangibles. This will cover all the key areas of digital trade that create challenges for VAT policy and administration, including the following:

  a) VAT collection on sales of services, digital products and intangibles provided by foreign online vendors;
  b) VAT collection on imports of low-value goods from online sales: alternative mechanisms to the traditional customs processes;
  c) Regulating the role of online marketplaces and other digital platforms in the collection of VAT, including through measures to make these platforms liable for the sales that they have facilitated and through data sharing;
  d) Designing policy and administrative measures for the application of VAT to the sharing economy;

- **Implementation and operation roadmap for the effective mechanisms for the collection of VAT on online trade.** This will include a comprehensive implementation strategy and roadmaps, covering all the key implementation and operational aspects down to the level of concrete, practical implementation including aspects such as building registration and filing processes, VAT collection and remittance processes, communication and other related taxpayer services, IT development and framework etc.;
- 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 regions.

RECEIPT MANAGEMENT MODEL FOR REVENUE ADMINISTRATIONS

Effective monitoring of short-term tax revenue collections represents one of the most important contributions by the revenue administrations for annual fiscal management and budget purposes. For this purpose, proper monitoring systems fed by updated databases are needed to properly measure actual versus expected revenue collection. This function becomes of the utmost importance when non-anticipated economic shocks threaten to downsize tax receipts in the short-term, undermining initial fiscal and budget baseline assumptions.

The receipt management model is proposed as a functional tool to monitor and project short-term receipts from major taxes for close monitoring of tax collection by revenue administrations. It uses past seasonal tax collection patterns on a monthly basis to predict collections in the following fiscal year, adjusted for forecasting parameters such as expected real growth of tax bases from underlining macro-economic variables, inflation, and changes in effective tax rates. For monitoring purposes, the model provides estimated tax receipts for each month to date during the current fiscal year, projected receipts for each month over the remainder of the fiscal year once a real collection is observed.

From a cash management perspective, the receipt model represents a simple, yet a functional tool for revenue administrations and fiscal authorities to monitor short term tax receipts enabling more accurate predictions of

the end of fiscal year revenue collection, allowing fiscal authorities timely policy responses to address the impact of tax receipts shortcomings due to non-anticipated external shocks or other factors.

A. METHODOLOGY

In any given month, annual tax receipts for the fiscal year can be expressed as the sum of two parts: (1) actual revenues collected up to the month for which receipts data are available; and (2) forecasted receipts for each of the remaining months of the fiscal year.

To project the second part of monthly receipts, the model takes into consideration the actual growth of the year-to-date tax collections as compared with that of the same period in the previous fiscal year and the projected growth of tax base proxies (e.g., GDP, private consumption, imports, etc.).

The general form of the monthly tax receipt of the fiscal year, *y*, is as follows:

$$T_y = \sum_{a=1}^{m} T_{a,y} + \sum_{\substack{a=m+1 \\ i=m+1}}^{12} \tau_{i,y} \cdot B_{a,y-1} \cdot (1+\delta) \cdot \left(\frac{\tau_{i,y}}{\tau_{a,y-1}} \right)^{\eta} \quad (1)$$

where: T_y : Annual tax receipts for the fiscal year *y*.

$T_{a,y}$: Actual monthly tax receipts in fiscal year *y*, where tax collection data is available.

$T_{a,y-1}$: Actual monthly tax receipts in fiscal year *y-1*.

$B_{a,y-1}$: Actual monthly tax base in fiscal year *y-1*.

m : Number of months up to which actual tax receipts data in fiscal year *y* is available.

δ : Growth factor.

$\tau_{i,y}$: Proposed average tax rate in month *i* of fiscal year *y* defined as the ratio of tax revenues to the tax base.

$\tau_{a,y-1}$: Actual average tax rate in month *i* of fiscal year *y-1* defined as the ratio of tax revenues to the tax base.

η : User-defined elasticity of the tax base with respect to changes in the tax rate. This is the assumed elasticity defined as the percentage change in the tax base when the effective tax rate is changed by 1%. This is a strong assumption and could be calibrated; details are explained below.

- Since last year's tax base is equal to the actual tax collection divided by the effective average tax rate, equation (1) can be rewritten as follows:

$$T_y = \sum_{a=1}^{m} T_{a,y} + \sum_{\substack{a=m+1 \\ i=m+1}}^{12} \tau_{i,y} \cdot \left(\frac{T_{a,y-1}}{\tau_{a,y-1}} \right) \cdot (1+\delta) \cdot \left(\frac{\tau_{i,y}}{\tau_{a,y-1}} \right)^{\eta} \quad (2)$$

or

$$T_y = \sum_{a=1}^{m} T_{a,y} + \sum_{\substack{a=m+1 \\ i=m+1}}^{12} T_{a,y-1} \cdot (1+\delta) \cdot \left(\frac{\tau_{i,y}}{\tau_{a,y-1}} \right)^{1+\eta} \quad (3)$$

- From equation (3), we find that at any given month, *i*, in the current fiscal year, *y*, the general form of the monthly tax receipt forecasting model is as follows:

$$T_{i,y} = \begin{cases} T_{a,y} \\ T_{a,y-1} \cdot (1+\delta) \cdot \left(\frac{\tau_{i,y}}{\tau_{a,y-1}} \right)^{1+\eta} \end{cases} \quad (4)$$

- If the actual tax receipts data for month *i* is available, then $T_{i,y}$ is equal to the actual tax receipts. Otherwise, $T_{i,y}$ is projected using the actual last year's receipts for the same month multiplied by a growth factor and adjusted by a user-defined elasticity, η to capture behavioral effect if there were policy changes during the fiscal year which modified the effective average tax rate.

- The growth factor, δ, can be measured by a weighted average of two growth factors:

(i). the expected growth rate of tax base proxies (e.g., GDP) in the current fiscal year; and

(ii). the actual growth of year-to-date receipts in the current fiscal year over that of the same months in the previous fiscal year.

- The weight for the first growth factor is the fraction of the number of months in a fiscal year for which no tax collection data are available.

- The weight for the second growth factor is the remaining fraction.

- If the weight for the first growth factor is α, then the weight for the second growth factor is $(1-\alpha)$. Therefore,

$$\delta = \alpha \cdot g + (1-\alpha) \cdot \left[\frac{\sum_{a=1}^{m} T_{a,y} - \sum_{a=1}^{m} T_{a,y-1}}{\sum_{a=1}^{m} T_{a,y-1}} \right] \quad (5)$$

where: g : Expected growth of a tax base proxy (e.g., GDP, private consumption, imports, etc.) for the current fiscal year.

- Generally, the factor g is estimated on the basis of nominal values. By doing so, we capture both the price effect and the underlying real change in the value of the tax base. In excise tax, however, real values should be used because excise tax is usually a unit tax; the effect of the change in price level is not taken into account in the change in the tax base.

- The second term in the above equation (equation 5) represents the growth rate of actual monthly receipts this fiscal year over that of the same period in the previous fiscal year.

- The weight α can be calculated as (1-*m*/12), and it varies linearly from 1 (when no tax receipts data is available for any months in the current fiscal year) to 0 (when tax receipts data is available for all of the months in the current fiscal year).
- The term $(\tau_{i,y} / \tau_{a,y-1})^{1+\eta}$ in equation (4) represents the ratio between the proposed current year's average tax rate over last year's actual effective tax rate for the same month. The effective tax rate for a particular month is defined as the actual tax receipts divided by the effective tax base for that month. If there were no tax policy changes that affected both tax rate and tax base during the fiscal year, this ratio would be equal to 1.
- If there were some policy changes (e.g. rate structures modified or new exemptions introduced) take place in the current month, the effective average tax rate ratio should be estimated using other source information through microsimulation or structural adjustment techniques. Alternatively, this ratio can be calibrated by comparing the actual collection against projection results.
- Initially, the user-defined elasticity of the tax base with respect to changes in the tax rate, η, is suggested to be set to zero. Under this condition, it is assumed that a one-percent increase, or decrease, in the effective average tax rate, the tax revenue would increase, or decrease, by the same rate. However, the tax base will not change with changes in the tax rate in the short run. Over time, as more actual tax receipts data becomes available, this elasticity – as well as the tax base proxy growth rate – should be calibrated by comparing the actual and projected tax receipts figures.
- For illustrative purposes, let's assume that the effective average tax rate in July 1999 is lowered by 5% from that of 1998, because the government introduced new tax exemptions. Let's also assume that the elasticity of the tax base with respect to the tax rate, η, is –0.05. This implies that the growth factor, $(1+\delta)$, in equation (4) would be adjusted downward by approximately 5%, since:

$$\left(\tau_{i,y} \big/ \tau_{a,y-1}\right)^{1+\eta} = (0.95)^{1-0.05} \approx 0.95$$

- The effective growth factor would become $(1+\delta)$ times 0.95. This adjusted growth factor multiplied by the actual monthly receipts in the previous fiscal year generates the forecast revenues for the corresponding months of the current fiscal year.

B. DATA REQUIREMENTS AND LIKELY SOURCES

- Actual monthly receipts data for the type of tax under consideration: Respective tax department.
- Information for the projection of GDP growth – or other tax base proxies (e.g., private consumption or imports) growth: General statistics office; national accounts.
- Assumptions like user-defined elasticity (e.g., the elasticity of tax base with regard to tax rates) and adjustment coefficient capturing the impact of monthly discretionary changes: Discussion within the respective tax department.

COVID-19

POTENTIAL TAX ADMINISTRATION AND CUSTOMS MEASURES TO RESPOND TO THE CRISIS.

ANNEX 3.
CUSTOMS ADMINISTRATION & TRADE MEASURES

WORLD BANK GROUP

[10] This annex was prepared by Raul Junquera-Varela and Paola Arce under the supervision of Chiara Bronchi, MTI-EFMTX.

Customs Measures. Covid-19.

When analyzing the fiscal impact and potential customs administration measures to respond to the COVID-19 crisis, it is useful to differentiate three phases:

- Phase 1. Containment (immediate crisis response): with an emphasis on providing adequate support for health care and supporting businesses and households that are immediately affected by health measures and the economic slowdown.
- Phase 2. Recovery: as the health situation stabilizes, but the economy is yet to regain its footing. During this phase rolling back temporary measures introduced in the initial response phase, stepping up efforts to control cost and enforcement of revenue compliance, and implementing tax policy and expenditure rationalization measures to restore revenue performance will be key.
- Phase 3. Stabilization: as the economic situation stabilizes, attention can turn to apply lessons from the crisis and the need for sustainability.

Phase One. CONTAINMENT (Immediate Crisis) Response

01. Secure Crossing Borders

1.1. TEMPORARY TRAVEL AND BORDER RESTRICTIONS.

The objective of this measure, like the rest of the resolutions adopted under the current public health emergency, is to protect the health and safety of citizens. Implementation of temporary restrictions to "non-essential" travels, such as tourism or any other recreational purpose, may help curb the spread of the COVID19 virus. In order to increase efforts to contain the virus, borders can remain open only for citizens or residents, cross-border workers performing "essential activities" or other urgent essential reasons.

1.2. PRESERVE SUPPLY CHAINS.

The security and integrity of the supply chains must be preserved in the interest of the citizens and the economies. Therefore, leaving banning restrictions open for cargo flows, especially for those running across common borders, respond to the need to avoid disruptions of supply chains, in particular, of essential goods such as food supplies, imported medicines, disinfection articles, protective supplies, and medical equipment.

1.3. MONITORING STRATEGY FOR COUNTERFEIT GOODS.

Customs Administrations should actively and aggressively monitor any shipments that could represent a threat to public health. This measure is crucial as counterfeit products will continue to expand during this outbreak. Seizures of unauthorized, fraudulent test kits are arising as part of some Customs Administrations ongoing efforts. Increase engagement and collaboration with industry on intellectual property rights matters.

02. Prioritize & Expedite Essential Goods

2.1. PUBLICIZE HS CLASSIFICATION REFERENCE FOR COVID-19 MEDICAL SUPPLIES.

Customs administrations can make available the updated list published by the WCO regarding the HS Classification Reference for COVID-19 Medical Supplies[11], to assist importers with determining appropriate HS classification for imports. Entities and operations related to the referred commodities should be able to be submitted through green lanes and pre-arrival processing systems. The list outlines the following six categories, each containing product names, brief info, and HS code:

i. COVID 19 Test kits Instruments and apparatus used in Diagnostic Test
ii. Protective garments and the like (gloves, face and eye protection, textile masks, gas masks, protective garments)
iii. Thermometers
iv. Disinfectants / Sterilization products
v. Other medical devices (ventilators, oxygen, tomography scanners)
vi. Medical Consumables (needles, syringes, intubation kits, bandages, paper bed sheets)

2.2. GREEN LANE SYSTEM FOR ESSENTIAL GOODS.

To the legal extent possible, new customs prioritization procedures need to be implemented in order to address issues that could delay access to essential goods. A "green lane" system helps to streamline the release of the cargo by expediting and prioritizing the inspection and clearance formalities to ensure timely access to crucial supplies such as medicines and medical equipment, food, energy (fuel), and personal hygiene goods, if applicable, to minimize the shortage of these supplies.

2.3. EXPEDITE RECEPTION OF INTERNATIONAL EMERGENCY DONATIONS.

To expedite the reception of international donations without compromising the health of the population, Customs authorities, in coordination with the Ministry of Health, need to work jointly to immediately issue the necessary import permits for the reception of donated medicines and health supplies that meet quality and standards. Within this framework, these shipments can be exempt from the requirement for advance electronic filing (if applicable), can be approved to waive a formal entry, and may be released by just 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.

2.4. ADVANCE RULING MECHANISM TO EXPEDITE IMPORTS FOR MEDICAL SUPPLIES.

[11] WCO, HS Classification reference for COVID19 medical supplies, Ed. 2: http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/nomenclature/covid_19/hs-classification-reference_en.pdf?la=en, April 2020.

As a measure to coordinate inquiries regarding the importation of medical supplies and personal protective equipment, best practices is to establish a resolution unit or specialized team to promote clarity and consistency in regards to the application of regulations, facilitation requests from other government bodies, and the coordination with the ports to avoid unnecessary delays in the release of the cargo. This unit can also coordinate binding ruling requests through a specific email account created for this purpose.

03. Enable Alternative Document Forms.

3.1. **FLEXIBLE SUBMISSION OF SUPPORTING DOCUMENTS.** Customs administration may extend deadlines and temporarily accept the submission of scanned supporting documents for transits and other customs procedures that may be subject to this facilitation measure. In the case of suspicion of irregularities or fraud indicators, Customs Authorities may still require the original paper documents for control.

3.2. **EASE FORMALITIES RELATED TO CERTIFICATE OF ORIGIN.** An obstacle to requesting preferential tariff treatment during this outbreak is the impossibility to obtain the proof of origin according to the established formalities due to the affectations that are causing delays and contact limitations concerning the application requests. This implies the immobilization of resources for foreign trade operators, affecting particularly SME´s. Acceptance of scanned or hard-copies will help to streamline the import process and should not restrict controls over tariff preference.

3.3. **USE OF DIGITAL / ELECTRONIC SIGNATURE AS A FACILITATION MEASURE.** From the preventive isolation orders as a consequence of COVID-19, significant limitations derive from carrying out customs and trade procedures. In this context, the use of digital or electronic signature can be considered for forms that require an original handwritten signature per form instructions to meet the formalization of the document. In Customs where the use of digital signature is not in place yet, the use of electronic signatures (including a scanned image of a person's ink signature) is recommended in order to preserve the operation and continuity of customs procedures (signature for invoices, transportation of hazardous materials declaration, guarantees, and powers of attorney can be included).

04. Reinforce simplification of Customs procedures.

4.1. **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 ambulance) 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 customs formalities simplifications, alleviate document submissions, and exempt the requirement of the guarantee for temporary importations.

4.2. **EXTEND CUSTOMS FORMALITIES DEADLINES.**

Extension of terms regarding filing entries and supporting documents, amendments, notifications, appeals, control results, extending periods for re-exportation of goods under temporary admission, submitting documentation regarding audits, overstayed cargo deadlines should be considered with no penalties due. The terms should be resumed at the end of the emergency period.

4.3. PRESENTATION OF GOODS AT APPROVED PLACES.

In case of a fortuitous event or duly justified cause, some Customs Authorities have the legal power to enable a place approved for the presentation of goods, other than the authorized. This may be considered in a case by case basis, in order to facilitate the submission of cargo related to essential goods, directly at the economic operators' facilities for the duration of the aforementioned circumstances. In such a case, this should be disclosed to the competent authorities and trade entities.

05. Enable Safety Measures for Enforcement Actions

5.1. MINIMIZE EXPOSURE OF FRONT-LINE STAFF TO COVID-19.

5.1.1.) Social distancing & Personal Protective Equipment. In order to minimize exposure to COVID-19, customs workforce and staff from other agencies allocated at the ports of entry, need to use social distancing to the maximum extent possible. For those cases on which personnel cannot telework, Customs administrations may need to provide personal protective equipment such as gloves, masks, recommended respirators, eye protection (face shields or goggles), disposable garments.

5.1.2) Guidance for Equipment Use & Sanitary Measures. Customs administrations can establish standard operating procedures to ensure most of the staff members are trained based on extensive guidance regarding the use of personal protective equipment, staff safety, and sanitation to its facilities.

5.2. REDUCE PHYSICAL INTERACTION DURING CARGO INSPECTIONS.

In order to reduce the physical interaction of persons during customs clearance processes, it is considered necessary to contemplate the exemption on sanctions imposed on entities that do not attend the physical inspection procedure. Instead, they may authorize logistics operators to show-up during the cargo examinations on their behalf or inform the authorities (via electronic means) that inspections can be carried out in their absence.

5.3. VIRTUAL AUDITS MECHANISMS.

Due to current COVID-19 restrictions and related public health measures, complications to continue with scheduled audits have emerged. For this reason, special mechanisms need to be developed in order to regulate exceptions that arise from interruptions in audit activities. Suspension and extension of administrative terms is the regular practice to put in place regarding customs audits and other compliance intervention activity on traders 'premises. While suspension on control operations to small or medium (SME) businesses may prevail for a longer time, it is recommended to the extent possible, to continue with the compliance formalities for those undergoing cases considered as high-risk. Alternative means of communication such as video

conferences, secure file transmission, or any other telework technology, can be used to continue with such processes.

06. Tax Reliefs, Duties Exemptions and Non-tariff barriers

As part of the preventive and containment measures under this framework, Authorities of Trade and Commerce, or the relevant executive agency related to Trade Policy, can have a positive impact through policy contributions:

6.1. IMPORT VAT & DUTIES EXEMPTIONS IN MEDICAL SUPPLIES AND EQUIPMENT.

Medical supplies needed for the prevention and control of the virus, such as oxygen, compresses, disinfectants, soaps, antibacterial gel, personal protective equipment (gloves, masks, respirators, disposable garments), diagnostic reagents, medical equipment can be considered for exemptions from import duties and import VAT until the health emergency prevails. According to a report[12] based on the WTO data source, 89 countries collect taxes on imported medical devices, taxes on imported medicines are charged by 63 countries (3%-15%), 100 nations still tax imports of disinfectant, and 79 countries charged import tariffs of 15% or more on imported soap, before the COVID-19 outbreak.[13]

6.2. EXCISE DUTY RELAXATION TO DENATURED ALCOHOL.

In an effort to meet local and global demand for hand sanitizers and disinfectants, administrations should ease the restrictions to companies engaged in the production of such supplies. Excise duty exemptions on imports of denatured alcohol (or non-denatured, in case of shortage) should be granted for those goods to be used as raw materials in the manufacture of these supplies during this crisis.

6.3. RELIEF ON NON-TARIFF BARRIERS - MEDICAL SUPPLIES

To the extent possible, offer temporary exemptions on non-tariff measures affecting essential medical supplies and hygiene items. A range of medium and high-income countries have in place restricting trade policies affecting relevant epidemic supplies imports. Medicines, soaps, disinfectants are subject to non-tariff barriers such as import bans, license requirements, anti-dumping measures, internal taxes on foreign supplies, or state regulations favoring local companies.

07. Cash Flow Management

7.1. DEFERRALS OF CUSTOMS DEBTS.

Due to the severity of COVID-19 crisis, Customs Authorities should approve extended payment periods and provide for payments in installments, which represent useful temporary relief measures to keep traders afloat

[12] Global Trade Alert. THE TRADE POLICY DIMENSION. Tackling Coronavirus. Simon J. Evenett | 11 Mar 2020, https://www.globaltradealert.org/reports/50. Global Trade Alert is an independent, Swiss trade policy monitoring initiative.
[13] Source: 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.

during low-profit periods and cash flow constraints. To be effective, those need to be enacted using clear eligibility criteria under risk management considerations and designed to address the specific group of traders affected by the economic downturn.

Deferrals of customs debts and related tax payments (in addition to measures on the policy side such as exemptions) can also help businesses to cope with the crisis. Delaying corporate income tax payments is the most 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 immediate breathing space to the private sector while keeping intact fiscal balances. Extending filing and payment deadlines for individuals would provide much-needed relief and reduce possible backlogs of work for the tax administration.

7.2. CUSTOMS INTERESTS & PENALTIES ADJUSTMENTS.

During a crisis, when increasing numbers of businesses face serious cash-flow problems, Customs administrations may refrain from charging credit interest, interest on arrears or adjust fines and penalties on delayed customs debts payments for the period of the crisis or shortly thereafter to improve the chances of compliance and liquidity.

7.3. ACCELERATE PROCESSING OF VAT REFUND.

Tax refunds can provide vital cash flow relief to financially distressed taxpayers. Issuance of all or part of tax refunds could be accelerated to help companies and individuals. Speeding up value-added tax (VAT) rebates for exporting businesses conversely helps delay the collection of VAT from companies that import from abroad. This measure leaves more liquidity in the hands of traders. The best practice to improve the timeframe for the release of VAT refunds is to implement a process based on an automated risk assessment. The same concern relates to the timely processing of income tax refunds. However, effective and timely implementation highly depends on the capacity of the authorities, which widely varies across counties. Therefore, a simplified refund process should be implemented, balancing agility and control.

08. Effective communication strategy to inform stakeholders

External communication is critical for the efficient management of the crisis. On the one hand, it is important to have a communication strategy for coordination of messages related to policy objectives, instruments, and institutions within the government before trade and customs measures are announced. Authorities also need to clearly communicate, in simple terms, the measures being taken and the packages available to the population in a timely manner. Customs Administrations should use their full set of service channels (website, e-mail, telephone contact centers, walk-in offices, radio, TV) and products in publicizing both available policy measures and the compliance strategy to the public.

PHASE TWO. RECOVERY

09. Improve Trade Facilitation Conditions

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

9.1. **REGISTRATION OR FILING PROCESS.** Simplification of customs processes and procedures such as registration or filing processes, payment, and refunds will not only reduce compliance costs, especially for SMEs, but also reduce administrative costs.

9.2. **RISK-BASED CUSTOMS CONTROLS.** Significant reductions in release times and costs savings can be achieved through a different approach to customs controls. By focusing more on risk management techniques and audit-based controls rather than the traditional physical inspection regime that is still in place in many countries, Customs will be able to offer immediate cargo release and allow companies to save in storage and inspection fees.

9.3. **USE OF NON-INTRUSIVE METHODS (NII).** The use of non-intrusive methods improves customs control, reduce inspection time, and increase 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 used in inspection equipment, among others, allow the customs administration to inspect high-risk containers/cargo quickly without disrupting the flow of legitimate trade.

9.4. **REMOVE UNNECESSARY COSTS.** Addressing unnecessary costs such as consular fees can impact in lower trade costs. All of which can be reflected in companies' profits, cash flow, and, moreover, in an increase in revenue collection.

9.5. **BOOST TRADE FLOW.** Initiatives such as (i.) Trusted Partner or Authorized Economic Operators, (ii.) pre-arrival processing, (iii.) non-mandatory use of agents for the submission of import declarations, (iv.) use of simplified declarations, (v.) reducing the inventories of abandoned goods can contribute to boost trade flows by easing bottlenecks and expedite customs process.

9.6. **PRIORITIZE AUTOMATION ENHANCEMENTS.** Automation is among the trade facilitation formalities, the one with the largest effects on lower trade costs, time reduction, thus, larger trade flows for low and middle-income countries. To the extent possible, the completion of e-initiatives regarding the simplification of documents and procedures should be treated with high relevance as an instrument to promote economic activity. Countries with limited funding should adopt a sequencing approach in ICT modernization.

Customs administrations should first start with a comprehensive customs management system which covers most foreign trade procedures as a foundation for subsequent functions. Then is the automation of heavy processing functions such as a single-window platform, manifests declarations, accounting procedures, transit and suspense procedures, guarantee management, e-payments, and refund processing before moving on to

the automation of compliance operations and other advance features. More mature customs administrations should aim for a full suite of automation that supports all functions and regulations with common case management and workflow applications. It both cases, it is important to underpin the ICT modernization with a comprehensive risk-management framework and the effort to simplify and reengineer the business processes.

10. Secure SME's Participation within Global Value Chains.

While reinforcing administrative measures drive to a more effective policy instead of relying on tax reliefs and exemptions, truth is foreign trade fosters great participation of the Small and Medium-sized Enterprises (SME). These companies are key players in a low-medium income country's productivity and can be an important driver for employment growth, smaller differences in average salaries between SME's and larger firms, and for a great share of the total value added in the country's exports.

10.1. REDUCTION OF TRADING COSTS AFFECTED BY TAXES AND CUSTOMS DUTIES.

To support SME´s exporters to stay resilient through tough economic times, it is important that administrations aid in the reduction of trading costs affected by taxes and customs duties. This can be tackled in a short-term period by granting (i.) a temporary zero-rate policy to specific tariff codes, (ii.) limited or provisional tax/tariff exemptions to relevant sectors; (iii.) more flexible deferral or installment agreements for customs duties, etc. These measures can help traders to increase their international competitiveness, face trade costs during the global recession, and to secure their participation within the Global Value Chains.

10.2. PRIORITIZE DOMESTIC PRODUCTION (TRADE POLICY & CUSTOMS).

A number of countries have put measures in place to support SMEs. Encouraging large enterprises to cooperate with SMEs, such as by increasing their support in supply chains in terms of raw material supply, is one of them. In this regard, focusing on the domestic production of necessary goods or relevant sectors by operating in regional (or cross-border) supply chains can be a good start. Due to the current and upcoming negative economic effects, SME´s are expecting serious supply chain disruptions and a considerable decrease in order sales. Seeking to strengthen incentives to ramp up domestic production of high-demand products due to shortages arising from the epidemic or to any other economic factor, will allow nations to enable continued participation by local manufacturers or suppliers.

10.3. ACCELERATE CUSTOMS FORMALITIES FOR RAW MATERIALS.

Given the specific circumstances, SMEs are currently facing, and customs administrations may aim to accelerate the import procedure and inspections on main productive sectors, where most SME´s are active. Prioritization may be applied to machinery equipment and raw materials, critically in need of domestic production.

10.4. AVOID EXPORT RESTRICTIONS & FOCUS ON EXPORT EXPANSION.

Trade restrictions on exports have been established in many countries (including required authorizations or licenses) to export medicine and medical equipment; however, these measures can be causing more harm than good. Administrations may want to consider the need that raw materials and some items can flow unrestricted and efficiently so that global supplies of essential goods can be continually replenished. To support export expansion in favor of SMEs, Customs administrations should optimize pre-export inspection procedures; also, they may aim to expedite certification services for the exportation of goods (certificate of origin, health certificates).

PHASE THREE. STABILIZATION

11. Reformulate Comprehensive Compliance Strategies

During this phase, it is assumed that the economy has regained a more solid footing, and there are fewer traders that are availing of any COVID-19 relief measures. This implies that economic operators will now need to comply with registration, filing, accurate reporting, and timely payment of customs debt.

Customs administrations should evaluate the impact of the COVID-19 relief measures in order to ensure there was no substantial abuse during the previous two phases. The possibility of follow-up health pandemics and/or natural disasters is real, so steps should be taken during this phase to ensure gaps/bottlenecks identified during the crises are fully addressed.

11.1. COMPREHENSIVE RISK-BASED COMPLIANCE. For the administrations that have not institutionalized a comprehensive risk-based compliance management framework, it is time to introduce new organizational arrangements and supporting processes.

11.2. LARGE ECONOMIC OPERATORS FOCUS. For the administrations that have not categorized their economic operators based on size and risk level, it is now the time to introduce this strategy. By closely monitoring the compliance of the largest traders in the country, the administrations will be able to protect a majority source of revenue as they typically represent 50 – 80% of total customs revenue collection.

11.3. DATA ANALYTICS FOR RISK IDENTIFICATION. Building an effective data analytics function at the headquarter of the customs administration that uses 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.

11.4. INCREASE VOLUNTARY COMPLIANCE THROUGH RISK ASSESSMENT. Implementing a solid compliance mechanism will reflect in voluntary compliance behavior due to the increase in the perception of risk within the trading community. However, the effectiveness of the enforcement actions is usually affected by the way administrations conduct their risk analysis and customs controls.

11.5. INCORPORATE PROACTIVE RISK ANALYSIS MECHANISMS. In many small administrations, risk analysis or audits are reactive, meaning that actions are performed on a case-by-case basis. This reflects in the detection

of isolated cases for non-compliance. Although this is a good practice, chances to identify more relevant cases and a higher number of fraud entities are diluted by not considering a proactive approach through data analysis strategies (bulk).

11.6. INCREASE THE SCOPE OF RISK ELEMENTS. Customs administrations need to develop a solid risk mechanism based on promoting risk profiling and not only considering the usual potential risks to avoidance of customs duties (customs value, origin, and misclassification of goods) but also to contemplate elements that can trigger the detection of tax evasion cases such as 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 detect transactions that fall 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.

12. Small Value Consignments from Online Businesses

Due to the pandemic, the shift to online transactions has increased, and in some countries, consumers are exploiting the loopholes of the thresholds for VAT and tariff exemption of small value consignments to make multiple small purchases overseas to avoid paying taxes.

12.1. REVAMP ARRANGEMENTS WITH COURIERS. Customs administrations need to revamp the arrangements with postal/couriers to overcome the difficulties of monitoring express consignments:

i. Small-medium economies that are not currently receiving advanced information from couriers can start requiring access to their databases for risk analysis purposes (Cooperation with FEDEX, UPS, DHL, have been established in several countries).
ii. Administrations can start exploring the possibility of removing the VAT import exemption on low-value consignments (e.g., the EU estimated date to implement this measure is Jan 2021).
iii. For non-dutiable consignments, administrations may want to transition from the obligation on carriers to send in advance the entry summary declaration to file a simplified customs declaration (reduced dataset). To avoid blocking the flow of very-small value consignments (less than 20 USD), the submission of only the entry summary declaration in advance can be acceptable. For shipments over the threshold value of duty exemption, both an entry summary declaration from carriers and the regular customs declaration must be filed.

12.2. ELECTRONIC CUSTOMS CONTROLS.

i. Administrations receiving advance electronic information for express cargo need to establish guidelines and controls to improve the quality and integrity of the data (i. Tax ID or coded entity registration, ii. create validation rules to avoid vague cargo descriptions or require at least a 4-digit hs code).
ii. Rule Triggers can be created based on quantity amount to identify consignees with prior multiple similar consignments, or lookouts on entities identified as high risk (from audits/risk analysis) for potential risk of tax evasion.

13. Fight Corruption in a Post-Crisis Context.

While a response to the pandemic requires swift actions, it also offers potential opportunities and risks 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 put many people in need, including tax officials and taxpayers. Some actions that can help to mitigate the heightened risk of corruption in customs administration as a result of the crisis are:

13.1. REINFORCE THE INTERNAL CONTROL BODY or establish a new task force to develop new risk-based compliance strategies.

13.2. STRENGTHEN MONITORING CUSTOMS STAFF FROM VULNERABLE AREAS such as (i.) economic operator services (e.g., customs clearance), (ii.) enforcement activities (customs inspections, audits) and (iii.) administration's budget/expenditure management, by incorporating the following elements into the risk analysis process:

i. Declaration and monitoring of assets.
ii. Administrations with access to bank accounts data can include financial activities as a risk element to identify anomalies and red flags. The same monitoring could be expanded to their close relatives' banking transactions.
iii. Electronic Invoicing data and Declaration of Operations with Third Parties (if applicable) are also relevant sources to highlight unusual transactions.
iv. Analysis of activity logs to identify suspicious activity or patterns. (e.g., Same customs officer conducting frequent inspections, quicker inspection checks than usual, customs clearance to a specific company).
v. To monitor enforcement actions efficiency for conducting a more in-depth investigation of staff with low rates. Constant monitoring is essential.
vi. To conduct reverse audits. Create a record-keeping based on the customs officers related to verified positive cases from enforcement actions (audits/inspections) and identify if there are recurrence cases that will need to be subject to further investigation.

13.3. PROMOTE ACCOUNTABILITY AND TRANSPARENCY. Enhance strategic mechanisms to promote accountability and transparency.

i. Allow more contact methods to report any customs officers engaging in corrupt practices.
ii. Automation is always an effective way to reduce red tape, provide an audit trail for vulnerable staff monitoring and the exercise of customs officer discretion.
iii. The Customs Selectivity Mechanism should be based on algorithms to select, randomly, and based on workloads status, the customs officer who should be conducting the inspection. This is to reduce discretionary powers and collusion.
vii. Construct IT Audit Trails to address unauthorized usage/ data manipulation, unusual levels of activity.

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POTENTIAL TAX ADMINISTRATION AND CUSTOMS MEASURES TO RESPOND TO THE CRISIS.

ANNEX 4. BUSINESS CONTINUITY PLAN

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BUSINESS CONTINUITY MANAGEMENT (BCM) IN THE CONTEXT OF CORONAVIRUS COVID-19[14]

Business Continuity Management (BCM) seeks to ensure 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. Therefore, it supports the organization to create Continuity Strategies to recover critical processes and continue them in the event of an interruption or disaster. The BCM is graphically illustrated in Figure 1.

DISASTER RECOVERY PLAN

The objective of Business Continuity Management is to create a "Disaster Recovery Plan" – also called a "Continuity Plan" – that provides strategies and procedures that allow operations to return to an acceptable level of performance as quickly as possible after a disruptive event, such as the COVID-19 Coronavirus. The speed with which the organization's assets can return to normal or near-normal performance will impact the time it takes for the organization to return to business as usual (BU).

01 BUSINESS IMPACT ANALYSIS

The BCM process begins with the identification of critical operational areas and ends in the definition of a disaster recovery plan (shown as 1 and 2 in Figure 1). Business Impact Analysis is the process used to identify the most important business areas and the resources necessary for their operation. Risk analysis examines internal and external threats, as well as vulnerabilities that may negatively impact them in the most important business areas.

02 RESTORE CRITICAL FUNCTIONS

By investing now in a viable BCM program, Tax and Customs Authorities can provide the most effective approach to restoring and resuming critical and essential functions and processes. The investment should be focused on the development, implementation and maintenance of a credible BCM program that implements the complete cycle shown in Figure 1, and most importantly, provides a layer of protection for their most important assets: people, information, cash flow and reputation.

[14] This annex was prepared by Ana Cebreiro, Ivan Krsul, Alfredo Revilak and Rick Fisher under the supervision of Chiara Bronchi, MTI-EFMTX.

03 MITIGATION STRATEGY

In the context of COVID-19, a Tax and Customs Authorities recovery plan should include specific mitigation strategies to enhance their capability to rapidly coordinate responses adapting to unpredictable change, because the types of strategies that need to be developed are strongly influenced by our definition of the organization's critical areas and the most significant risks to the organization, with emphasis on creating clear and secure operational guidelines and procedures for its employees for decentralized initiative-taking.

04 SUPPORTS SOCIAL ISOLATION

Unlike most business and IT risks typically identified in traditional risk analysis, the Coronavirus COVID-19 pandemic is unusual because it prevents employees and taxpayers from reaching the Tax and Customs Authorities facilities. Earthquakes, floods, fires, tornados, blackouts, riots, civil unrest, equipment failure, hackers, etc. all affect the infrastructure directly, but the Coronavirus COVID-19 pandemic prevents employees, taxpayers and trade partners from reaching the Tax and Customs Authorities facilities and hence prevents normal operations. The infrastructure is still available, the systems are all operating as usual, but people are prevented from using them.

LESSONS LEARNED AND RISK MITIGATION STRATEGIES

If there is one big lesson governments have learned from the COVID-19 pandemic, it is the **criticality of internet-based compliance and payment platforms** for taxes and customs. Where such platforms existed and were operational, the negative impact of COVID-19 on revenues was not a function of administrative factors but restricted to economic factors such as sharp declines in consumption (impacting VAT), increases in unemployment (impacting PIT and PAYE), and the fall in profits (ultimately reducing CIT).

In addition, the ability of revenue administrations to maintain business continuity in a pandemic emerged as a critical element of a successful institution. This went far beyond the availability of ICT platforms; it included maintaining the safety of staff and taxpayers, creation of an emergency task force, continuous provision of critical services to taxpayers and government, clear and timely decision-making processes in a rapidly changing environment, clear and timely communication with taxpayers and staff, preserve the confidentiality of tax records, expedite customs inspections, consider temporary re-assignment of personnel to different roles (e.g., focus on taxpayer services) or institutions (e.g., from tax administration to customs) to fill urgent needs.

This annex, therefore, provides guidance regarding a business continuity plan that addresses both business, people, and ICT related issues. It is recognized that revenue administrations may have different starting points and hence, varying levels of readiness to face the COVID-19 pandemic crisis. Therefore, this annex also provides guidance for high/medium capacity and low capacity revenue administrations.

The guidance provided in this annex is not meant to be exhaustive or prescriptive but rather provides a range of issues to be considered. At a minimum, Tax and Customs Authorities that have limited resources should consider implementing the strategies listed below that are marked with the "ESSENTIAL" label. Tax and Customs Authorities that have resources should consider implementing the remaining strategies as well to ensure the minimum risk in terms of business continuity.

RISK MITIGATION ACTION SUMMARY

Table 1 summarizes risk mitigation actions necessary to mitigate the impact of the COVID-19 pandemic for revenue administrations that have a high capacity (administrations with mature business and ICT frameworks), and table 2 summarizes actions for revenue administrations that have low-capacity (administrations with less than mature business and ICT frameworks). In both cases, the actions extend beyond ICT and also include measures related to (1) Governance, (2) Identification of critical and non-critical functions, (3) Manpower planning, (4) Staff and taxpayer safety, (5) HR, and (6) Communications.

Low capacity administrations will likely face more difficulties in keeping revenue administrations fully functional and are likely to suffer a more substantial decline in revenue collection. This is in large part due to the limited effectiveness of existing ICT solutions (e.g., E-Services, difficulty in supporting remote work).

The "Is Essential" column indicates which of these actions is essential and should not be omitted. The "Level of Complexity" column identifies the level of complexity of each of the actions to facilitate the process of selecting which actions should be implemented first. The "Quick Win" column indicates which of these actions can be implemented quickly to provide quick wins during a pandemic.

Appendix 2 contains a Business Continuity Stress Test, which revenue administrations can use to assess their level of readiness.

TABLE 1 REVENUE ADMINISTRATIONS WITH MATURE BUSINESS AND ICT FRAMEWORKS			
RISK MITIGATION ACTION	IS ESSENTIAL	LEVEL OF COMPLEXITY	QUICK WIN
Governance			
Establish a COVID-19 decision-making task force comprising the revenue administration's Executive team and senior officials	✓	Low	✓

responsible for core revenue administration functions and support services (e.g., ICT, HR, Risk Management) • The task force should meet on a regular basis to address emerging and ongoing risks • A backup plan to replace any task force member if they were to become affected by the health pandemic • Clarity regarding the type of decisions the task force can make • Adopt a clear set of key performance indicators the task force will use to manage COVID-19 risks			
Identification of critical and non-critical functions and services			
During the containment phase, the priority will be on: • Ensuring that essential business have regular access to the full suite of available E-Services (includes but not limited to E-registration, E-Filing, and E-payment) • Ensure mechanism is in place to enable taxpayers to easily communicate with the revenue administration o Ensure call center operations can handle an increased workload and that, at minimum, taxpayers have some electronic way to communicate with the revenue administration • Accelerate processing of refund claims based on risk-assessment rules • Decide whether to suspend any enforcement action (e.g., suspend follow-up of stop-filers, audit and collection enforcement) for taxpayers that are in a distressed position • Identify if the following are critical functions: issuance of tax clearance certificates, processing of objections/appeals, binding rulings application	✓	Medium	✓
During the recovery phase, the list of critical functions and services will need to be reviewed and updated • Develop a strategy and plan for addressing any backlogs that might have occurred (e.g., processing of the application for registration, processing of tax returns for distressed taxpayers, responding to any backlog related to taxpayer inquiries) o Priority should be given to addressing backlogs by key taxpayer segments and economic sectors • Resume, to the extent possible, call center and data processing center operations - if these exist • Accelerate processing of refund claims based on risk-assessment rules	✓	Medium	

• Develop a strategy and plan to resume enforcement actions
  ○ What priority is given to following up on stop-filers
  ○ What priority is given to resuming the audit and collection enforcement programs – and which taxpayers should the administration focus on during this phase
• Develop a strategy and plan for identification of cases of tax fraud and corruption related to COVID-19 relief measures
• Consider revising existing taxpayer service standards to meet COVID-19 challenges – the pre-pandemic service standards will likely not all be achievable			

Manpower planning to deal with COVID-19 challenges			
Revenue administrations should undertake simulations of different scenarios to understand staffing requirements • Develop estimates of staffing needed to address an ongoing change to critical functions and services mentioned above • Establish contact arrangements to know the availability of human resources (e.g., a backup plan for dealing with staff that become sick or unavailable due to issues beyond their control such as school closures and transportation issues) • Staffing estimates for different scenarios when return to office resumes (e.g., offices staffed at 25% capacity, 50% capacity) • Resources required to support additional taxpayer services that may be needed from certain taxpayers or taxpayer groups	✓	High	
Staff and taxpayer safety			
The focus should be placed on expanding contactless taxpayer services. • Develop a plan for shifting service demand from a walk-in approach to self-serve (e.g., includes enhancements to revenue administration website and development/rollout of the full suite of E-Services)	✓	Medium	
Identify additional safety measures to be taken when offices resume operations (e.g., office changes to maintain social distancing	✓	Low	

requirements, procurement of masks and other supplies, how to deal with offices that become contaminated)			
Identify how the revenue administration will handle vulnerable people – staff and taxpayers (e.g., people with pre-existing medical conditions)	✓	Low	
Develop a tracking mechanism to identify staff and taxpayers that might have come into contact with someone who has tested positive for COVID-19	✓	High	
Human Resource			
Identify staff required to support critical functions/services and develop strategy/plan for transferring staff to more critical work (within the tax administration and possibly to customs administration or vice versa)	✓	Medium	
Develop a training program for training staff assigned to new responsibilities	✓	Medium	
Develop training programs for dealing with new ways of working		Medium	
Develop new HR recruitment, retention, and remuneration/benefit policies		High	
Communication with taxpayers and staff			
Develop communication materials to inform taxpayers of COVID-19 relief measures and ongoing changes. The objective is to keep the taxpayer regularly and systematically informed of COVID-19 developments • Consideration should be given to the channel to be used to communicate with the taxpayer (e.g., posting information on website, bulk emails to inform taxpayers, use of social media)	✓	Medium	
Keep staff informed of COVID-19 responses and actions being taken during each phase	✓	Low	
ICT			
Invest in communication solutions that enable anytime, anywhere communication via the internet from any device or location.		High	
Use social media to coordinate between employees, taxpayers and trade partners		Medium	
Implement Chatbots that provide information about the crisis		High	
Create Information Technology FAQs and Web and training resources for employees and taxpayers moving online	✓	Low	✓

Adopt flexible productivity and collaboration tools and processes to allow workers to work remotely and adapt to disruptions caused by the coronavirus COVID-19 outbreak rapidly and without friction		Medium	
Acquire necessary technologies to leverage video conferencing technologies	✓	Medium	
Ensure that Email will remain operational during a disruption, given that Email is of critical importance in ensuring that employees can access any top-tier software they require to do their job at home	✓	Low	✓
Ensure that remote staff had the proper tools to access all the core business applications and shared drives remotely through Virtual Private Networks		Medium	
Implement real-time workplace conversation and collaboration technologies so that employees can send messages and share files with remote co-workers		High	
Identify mission-critical personnel and ensure that they have laptops, broadband capabilities, printers and other resources available to work remotely	✓	Medium	
Ensure that employees use corporate-issued laptops to perform their work at home, in accordance with Europe's Global Data Protection Regulation (GDPR) rules.		High	
If the tax administration allows staff to use their home devices in lieu of their work PC, it should ensure they have enough bandwidth to handle the external traffic		Medium	✓
Assess if the existing IT infrastructure is able to support an increase in remote work and manage any added load to client-facing or service delivery technology that may occur	✓	High	
Implement mechanisms for remotely managing and monitoring data centers and critical IT infrastructure		Medium	✓
Create data center tiered COVID-19 response plans.		High	
During a pandemic, plan for supply chain disruptions		High	
During a pandemic, stress-test the VPNs so managers are able to access the building management system and other operating systems remotely, safely and securely	✓	Medium	
During a pandemic, restrict travel and create reserve data-center teams, so that staff doesn't travel between data-center sites		Low	✓
Require that employees that work remotely use at least two-factor authentication to create a Zero Trust Network		High	

Develop a security strategy that allows secure encrypted communication using a virtual private network (VPN) technology		Medium	
Create a Virtual Support Desk system that can be operated remotely by support personnel		Low	✓
Establish procedures to manage and control support personnel that operates remotely	✓	Low	✓
Devise a strategy to scale support capabilities by phasing in regular employees into the support system as needed when demand is high		High	
Develop a strategy to advertise where employees, taxpayers and trade partners can go for technical support		Low	✓
Develop a comprehensive business continuity and disaster recovery plan (BCP/DRP)		High	

TABLE 2 REVENUE ADMINISTRATIONS WITH LESS THAN MATURE BUSINESS AND ICT FRAMEWORKS			
RISK MITIGATION ACTION	IS ESSENTIAL	LEVEL OF COMPLEXITY	QUICK WIN
Governance			
Establish a COVID-19 decision-making task force comprising the revenue administration's Executive team and senior officials responsible for core revenue administration functions and support services (e.g., ICT, HR, Risk Management) • The task force should meet on a regular basis to address emerging and ongoing risks • A backup plan to replace any task force member if they were to become affected by the health pandemic • Clarity regarding the type of decisions the task force can make • Adopt a clear set of key performance indicators the task force will use to manage COVID-19 risks	✓	Low	✓
Identification of critical and non-critical functions and services			
During the containment phase, the priority will be on: • Ensure mechanism is in place to enable taxpayers to easily communicate with the revenue administration ○ Ensure call center operations can handle an increased workload and that, at minimum, taxpayers have some electronic way to communicate with the revenue administration	✓	Medium	✓

TABLE 2 REVENUE ADMINISTRATIONS WITH LESS THAN MATURE BUSINESS AND ICT FRAMEWORKS			
RISK MITIGATION ACTION	IS ESSENTIAL	LEVEL OF COMPLEXITY	QUICK WIN
• Accelerate processing of refund claims • Decide whether to suspend any enforcement action (e.g., suspend follow-up of stop-filers, audit and collection enforcement) for taxpayers that are in a distressed position • Identify if the following are critical functions: issuance of tax clearance certificates, processing of objections/appeals			

During the recovery phase, the list of critical functions and services will need to be reviewed and updated
• Develop a strategy and plan for addressing any backlogs that might have occurred (e.g., processing of the application for registration, processing of tax returns for distressed taxpayers, responding to any backlog related to taxpayer inquiries)
  o Priority should be given to addressing backlogs by key taxpayer segments and economic sectors
• Accelerate processing of refund claims
• Develop a strategy and plan to resume enforcement actions
  o What priority is given to following up on stop-filers
  o What priority is given to resuming the audit and collection enforcement programs – and which taxpayers should the administration focus on during this phase
• Consider revising existing taxpayer service standards to meet COVID-19 challenges – the pre-pandemic service standards will likely not all be achievable
	✓	Medium	

Manpower planning to deal with COVID-19 challenges			
Revenue administrations should undertake simulations of different scenarios to understand staffing requirements • Develop estimates of staffing needed to address an ongoing change to critical functions and services mentioned above • Establish contact arrangements to know the availability of human resources (e.g., a backup plan for dealing with staff that become sick or unavailable due to issues	✓	High	

TABLE 2 REVENUE ADMINISTRATIONS WITH LESS THAN MATURE BUSINESS AND ICT FRAMEWORKS			
RISK MITIGATION ACTION	IS ESSENTIAL	LEVEL OF COMPLEXITY	QUICK WIN
beyond their control such as school closures and transportation issues) • Staffing estimates for different scenarios when return to office resumes (e.g., offices staffed at 25% capacity, 50% capacity) • Resources required to support additional taxpayer services that may be needed from certain taxpayers or taxpayer groups			
Staff and taxpayer safety			
Identify additional safety measures to be taken when offices resume operations (e.g., office changes to maintain social distancing requirements, procurement of masks and other supplies, how to deal with offices that become contaminated)	✓	Low	
Identify how the revenue administration will handle vulnerable people – staff and taxpayers (e.g., people with pre-existing medical conditions)	✓	Low	
Develop a tracking mechanism to identify staff and taxpayers that might have come into contact with someone who has tested positive for COVID-19	✓	High	
Human Resource			
Identify staff required to support critical functions/services and develop strategy/plan for transferring staff to more critical work (within the tax administration and possibly to customs administration or vice versa)	✓	Medium	
Develop a training program for training staff assigned to new responsibilities	✓	Medium	
Develop training programs for dealing with new ways of working		Medium	
Develop new HR recruitment, retention, and remuneration/benefit policies		High	
Communication with taxpayers and staff			
Development of communication materials to inform taxpayers of COVID-19 relief measures and ongoing changes. The objective is to keep the taxpayer regularly and systematically informed of COVID-19 developments	✓	Medium	
Keep staff informed of COVID-19 responses and actions being taken during each phase	✓	Low	

APPENDIX 1: ACTION PLAN FOR BUSINESS CONTINUITY MANAGEMENT UNDER COVID-19 IMPLEMENTATION

01 Introduction

The implementation of a Business Continuity Management (BCM) Action Plan under the context of COVID-19 will support the Tax and Customs Authority to create a common understanding among all the stakeholders and be able to prioritize the threats that endanger their operations and mitigate them.

A BCM system emphasizes the importance of:

- Understanding the organization's needs and the necessity for establishing business continuity policies and objectives.
- Operating and maintaining processes, capabilities, and response structures for ensuring the organization will survive disruptions.
- Monitoring and reviewing the performance and effectiveness of the BCM system.
- Continual improvement 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 the effectiveness of an organization's BCM system.

Under the current COVID-19 emergency, many of these steps must be achieved in an expedited approach, and a project leader must ensure that all meetings, resources, and authorizations take place without delays and be available to establish a solid and comprehensive BCM under a short period of time.

Most likely, some components would be already present in some stage at the organization, so the project leader should be able to collect and update all previous efforts such as obtaining management support, risk assessment methodology, and communication strategy, among others.

A proposed Action Plan is presented below to facilitate the task of the BCM project leader. It aims to be a template that can be used straight away. It also includes guidance and examples (highlighted in blue) to facilitate the identification of the main components and the required actions to allow for quick dissemination among the organization's key resources. Each implementation phase is important and must be documented and communicated to ensure proper completion following the PDCA methodology. Some activities are marked as non-essential (shadowed); such activities may be deployed in future time; the priority is to focus the efforts to afront the emergency now.

02 Action Plan for BCM Implementation

Implementation phases	Action/Tasks	Guidance/Comments
Obtain management support	Research which benefits of BCM would be applicable to your company	This step is a given under current circumstances
	Present the benefits to the management and get their commitment	State the expected benefits such as adequate operations under the current emergency, getting the commitment to support the implementation is the most important.
	Get formal approval for the project	
Prepare for your project	Decide whether you are going to use consultants, or you will be using documentation templates	If possible, use an experimented consultant to help you get things done faster
	Use the following templates annexed to this Action Plan: Business Continuity Plan Disaster Recovery Plan Incident Response Plan	Appendixes 1, 2, and 3 contain these templates with suggestions and recommendations as comments.
	Educate your project team	When assembling the project team, be sure to bring on board experienced people and make certain everybody understands the importance of the project and the main requirements.
	Write the project plan including the definition of a project manager, project team, project sponsor, required resources and milestones	It is important to distinguish responsibilities, and define the resources needed for the project to be successful, establish milestones to assess the performance and maintain the objective clear for the team.
	Define which stakeholders need to be informed about each step in the project	
	Organize kick-off meeting	
Identify requirements	Identify interested parties	All stakeholders must be identified, including external ones such as taxpayers, media, contractors, etc. Make sure you have their contact information and create distribution lists for communication and status dissemination.

	Identify the requirements of interested parties	Important to clarify what is needed/expected by all stakeholders, some stakeholders would require only the status while others may require specific procedures to perform their work.
Define the scope, management intention, and responsibilities	Write the Business Continuity Policy	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 times of emergency. When the policy is well-defined and clearly adhered to, the company can set realistic expectations for business continuity and disaster recovery plans. Key components of a business continuity policy include staffing, metrics and standard requirements Internal staffing in a business continuity policy should outline the roles and responsibilities of department heads, corporate management liaisons, and members of the BC/DR team. It may also include external personnel such as vendors, stakeholders, and customers. Keeping track of everyone involved in and affected by the business continuity policy is key to ensuring compliance. A business continuity policy and business continuity plan (BCP) have a lot in common, in that they address all of the unique requirements and preparations for an organization to maintain continuity. They both serve different purposes within the organization, however. While the policy outlines the standards to be followed and benchmarks to be met, a Plan maps out from beginning to end how the organization will get through an event.
	Decide on the business continuity objectives	Not all activities/objectives of the Tax and Customs Authority can be continued under emergencies, so there needs to be a definition what needs to be done and what is not

		strictly urgent for the organization (example: delay hiring if possible, let the development of new services for a future date, etc.)
Implement support procedures	Write a procedure for document control	Organize and control de documents created and produced during the project development.
	Write a procedure for internal audit	Maintain checkpoints to validate the actions and facilitate accountability and control
	Write a procedure for corrective action	In case corrective actions during the emergency, create the process and document it to follow it.
Identify the risks of disruptive incidents	Develop the risk assessment methodology	A risk assessment is a reliable method of figuring out potential threats and determining their likelihood. A risk assessment identifies potential hazards and provides ways to reduce the impact of them on the business.
	Perform risk assessment	The general steps: • Identify the hazards. • Determine what or who could be harmed. • Evaluate the risks and create control measures. • Record the findings. • Review and update the assessment.
Identify continuity priorities and objectives	Develop a business impact analysis (BIA) methodology	A BIA determines the effects of a potential disaster on an organization by finding existing vulnerabilities. Though like a risk assessment, it focuses primarily on the business impact, meeting recovery time, and recovery point objectives.
	Perform business impact analysis questionnaires	BIA questionnaires allow us to collect experience from business owners to react against possible risks and vulnerabilities. This knowledge is the foundation of the Business Continuity Strategy.
Determine priorities, required resources, and mitigation	Business continuity strategy (BCS)	It is the conceptual summary of preventive (mitigation) strategies, crisis response strategies, and recovery strategies that must be carried out between the occurrence

		of a disaster and the time when normal operations are restored.
	Risk treatment plan (RTP)	A risk treatment plan is a document where you link mitigation options and controls with each unacceptable risk, specify which security controls you need to implement, who is responsible for them, what are the deadlines, and which resources (i.e., financial and human) are required.
	Preparation plan	From the BCS and the RTP collect and make available all the resources needed to fulfill the needs stated in those documents
Define business continuity procedures	Business continuity plan (BCP)	Annex 2 (separate file) The BCP Template will have pre-filled sections marked with yellow like this and should be used as guidance and example; the Project leader must incorporate the actual information from the Tax and Customs Authority.
	Incident response plan (IRP)	Annex 3(separate file) The IRP Template will have pre-filled sections marked with yellow like this and should be used as guidance and example; the Project leader must incorporate the actual information from the Tax and Customs Authority.
	Disaster Recovery Plan (DRP)	Annex 4(separate file) The DRP Template will have pre-filled sections marked with yellow like this and should be used as guidance and example; the Project leader must incorporate the actual information from the Tax and Customs Authority.
	Transportation plan(s)	Independently develop according to local conditions
	Communication procedure(s)	Mentioned in the Annexes
Perform training and awareness programs	Training and awareness plan	This training material should be prepared in tandem with the actions in this project.
	Perform training for all employees who lack the required skills	
	Perform awareness programs for all employees and third parties that have a role in your BCMS	Be sure to update and make frequent revisions to the training.

Exercising and testing	Exercising and testing plan	Under the current context, it would be better to expedite the testing and corrective actions.
	Exercising and testing report	
	Corrective actions	
In case of disruptive incidents	Post-incident review	Very important to document the most common incidents and critical disruption to provide corrective actions.
	Corrective actions	
Regular review of plans and business continuity arrangements	Maintenance and review plan	Regularly review the BCM system to make sure it remains effective, and you are continually improving it. It is suggested to appoint an experienced manager to maintain the plan adequate according to the context of new emergencies.
	Corrective actions	
Measure the BCMS	Measure if you have achieved the objectives set for your BCMS	Prepare meetings with senior management to measure if the goals were satisfied.
Perform internal audit	Develop the audit program	Preferably appoint an external auditor, to obtain unbiased results.
	Perform internal audit(s)	
	Write an internal audit report	
	Perform corrective actions	Act according to the findings
Perform management review	Perform management review	Review the performance of the people who supported the BCM system.
	Maintain records from management review	
	Perform corrective actions	
Certification audit	Obtain proposals from several certification bodies	Validate and certificate if possible.
	Select the certification body	
	Stage 1 certification audit	
	Stage 2 certification audit	
	Surveillance visits	

COVID-19

POTENTIAL TAX ADMINISTRATION AND CUSTOMS MEASURES TO RESPOND TO THE CRISIS.

ANNEX 5. TAX COMPLIANCE STRATEGIES

WORLD BANK GROUP

INTRODUCTION

The objective of this annex is to expand on issues raised in the main World Bank's note entitled "COVID-19: Revenue Administrations Implications - Potential Tax and Customs Administrations measures to respond to the crisis". In particular, this annex[16] provides revenue administrations with specific guidance to consider when formulating or reformulating tax compliance strategies to address COVID-19 challenges. In addition, Appendix 1 contains a Tax Compliance Strategy Stress Test, which revenue administrations can use to assesses the level of readiness.

The pandemic will have a substantial impact on tax compliance and revenue collections. Businesses and individuals are facing significant challenges as many of them have been classified as non-essential businesses, and many employees have been laid off or placed on furlough status, which will have an impact on revenue collections. COVID-19 has affected people across the world - it does not distinguish between the rich or the poor, royalty or celebrities, or spare people living in different countries or from a different ethnicity. This same principle applies to taxation as the COVID-19 does not distinguish between businesses or individuals, taxpayers of different sizes (large, medium, small/micro), or spare taxpayers/traders involved in different economic sectors.

The COVID-19 crisis requires revenue administrations to understand emerging compliance risks in order to strike an effective balance between "assistance interventions" versus "enforcement interventions." The guidance provided in this annex follows the same three phases to the COVID-19 response that is provided in the main World Bank's note because tax compliance strategies should be aligned to compliance risks that are applicable to each phase of the crisis. Box 1 below summarizes the three phases:

Box 1 Tax Compliance Strategies – Three Phases to address COVID-19 crisis

- ✓ Phase 1 Containment Phase (address most urgent compliance risks)
- ✓ Phase 2 Recovery Phase (mitigate growing risks of non-compliance)
- ✓ Phase 3 Stability Phase (reformulate comprehensive compliance strategies)

Guidance for formulating/reformulating tax compliance strategies for each phase is structured with several common elements. Box 2 below summarizes the key elements:

[16] This annex was prepared by Rick Fisher, Viet Anh Nguyen, and Raul Junquera-Varela under the supervision of Chiara Bronchi, MTI-EFMTX.

Box 2 Tax Compliance Strategies – Key elements

- ✓ Taxpayers who have not been affected by the crisis and decide not to pay
- ✓ Distressed taxpayers who are unable to file and pay
- ✓ Growing number of taxpayers are unable to pay arrears
- ✓ Non-compliance by large taxpayers
- ✓ Timely processing of refunds
- ✓ Delays in release of imported essential goods and medical supplies

Guidance in the above areas is tailored to both high capacity and low capacity revenue administrations

DEVELOPING A COVID-19 TAX COMPLIANCE STRATEGY

Revenue administrations will need to develop Tax Compliance Strategies to address COVID-19 challenges. The Tax Compliance Strategies should identify measures to:

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

OVERARCHING ISSUES TO BE CONSIDERED WHEN DEVELOPING COVID-19 TAX COMPLIANCE STRATEGIES. The following highlights overarching key issues that should be considered when developing COVID-19 Tax Compliance Strategies:

- The strategy should support the three phases identified in the main World Bank's note. This means the strategy should consider the key risks to be addressed in each of the following phases

  Phase 1. CONTAINMENT PHASE (address most urgent compliance risks)
  Phase 2. RECOVERY PHASE (mitigate growing risks of non-compliance)
  Phase 3. STABILITY PHASE (reformulate comprehensive compliance strategies),

- The COVID-19 crisis is substantially different from the 2007/2008 financial crisis as it has a much broader impact on compliance. For example, it has impacted all types of taxpayers (large, medium, small), more economic sectors, and industries (beyond the banking sector), and it has

touched businesses and individuals. The main priority to be considered in this response is to design **targeted interventions to address the greatest risks**. The strategy must take into consideration both the capacity of the administration but also the degree to which the administration has been impacted by COVID-19 (e.g., large or small disruption). For example, if a substantial portion of a revenue administration's staff is no longer available, the administration will need to identify the highest risk to compliance and decide what receives the highest priority (e.g., should the focus be on large taxpayers or should it be on daily receipt monitoring).

- For those tax administrations that have existing tax compliance strategies, they are now likely to be out-of-date. A typical compliance strategy relies on the assumption that most of the taxpayers are compliant or will be compliant with some assistance. However, the COVID-19 crisis may reverse such assumptions, and tax administrations will need to deal with more non-compliance behaviors than ever. The tax compliance strategies will need to be replaced/enhanced as the priorities have substantially changed,

- Governance arrangements might need to be strengthened to ensure an effective tax compliance risk management team is in place to design, implement, and monitor the strategies, and,

- Data analysis and risk assessment should drive all major decision making. One major game-changer since the 2007/2008 crisis is that technology has changed rapidly, which now means tax administrations can make more effective use of internal/external data to identify compliance risks.
    - There is no need for sophisticated software as Excel can do the job!!!!
    - A small data analytics team should be established that will be responsible for analysis of data to identify possible compliance risks – this will ensure only a few staff will need to be proficient with advanced Excel features (e.g., PowerPivot)
    - Smaller administrations may not have resources to establish a formal data analytics team, however, assigning even one or two officers can go a long way to using data to identify compliance risks (e.g., matching the taxpayer register with the registrar of companies register and the customs registry could identify potentially unregistered taxpayers, analysis of return and payment data can easily measure on-time filing and payment compliance levels which is crucial – this could be done by type of tax and could also be measured by economic sector)
    - Mature administrations should leverage the use of Big-Data to identify compliance risks and improve service delivery

REVENUE ADMINISTRATIONS SHOULD STRIVE TO HAVE A CENTRALIZED HIGH-LEVEL TEAM TO DESIGN, IMPLEMENT, AND MONITOR THE COVID-19 TAX COMPLIANCE STRATEGY. Since the 2007/2008 financial crises, a growing number of tax administrations have put in place some form of compliance risk management organizational arrangement that has responsibility for designing, implementing, and monitoring compliance improvement strategies, and a number of tax administrations are in the process of introducing these types of arrangements. For some tax administrations, it might not be possible, in the short-term, to establish 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 (could be in the form of a project). It is recommended that tax administrations consider the following good practices related to tax compliance governance frameworks:

- A central compliance risk management team should be established that has responsibility for the identification of emerging risks and identification of possible treatment strategies.
  - This includes the establishment of a small data analytics team that will have access to all internal/external data to identify risks and, if possible, sector/industry specialists
  - The risk management team will review the risks and identify treatment strategies and present their findings to the Compliance Risk Management Council/Committee
- A Compliance Risk Management Council or Committee comprising senior tax administration executives should be established to review proposals presented by the central compliance risk management team and to make decisions regarding priority actions to be taken
  - This could include the head of the tax administration or deputy head of the tax administration
  - Senior management from headquarters departments/units that are 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
  - Operational managers from selected field offices (e.g., head of the LTO, regional/provincial heads)

THE TAX COMPLIANCE STRATEGY SHOULD INCLUDE SEVERAL KEY DESIGN AND MONITORING PRINCIPLES. The following highlights several key design and monitoring principles that should be considered when developing the COVID-19 Tax Compliance Strategies – these are expanded upon in the subsequent sections:

- Risks should be broken down by size of the taxpayer, economic sector/industry (e.g., the strategy should identify risks and treatment strategies by large, medium, and small taxpayers and data analysis should identify risks related to specific economic sectors) and core tax administration functions (e.g., on-time-filing, on-time payment, stock of arrears)

- For each identified risk, treatment strategies or measures can usually be broken down into the following categories:
  - Expanding assistance to taxpayers (e.g., expanded E-Services for registration, filing, and payment),
  - Targeted enforcement actions to address the issues of non-compliance that have the greatest risk to revenue collection (e.g., additional resources might be needed to address the growing stock of potentially recoverable arrears),
  - Legislative and business process changes that might be needed to address emerging risks (e.g., legislative change to alter advance payment rule, changes to standard operating procedures to improve efficiency and effectiveness for processing VAT refunds),

- Ensure the taxpayer register is accurate and reliable. Priority should be given to ensuring the taxpayer register is accurate and up to date
  - Emphasis should be placed on ensuring each taxpayer has an accurate economic activity code (e.g., ISIC – International Standard Industrial Classification) as this will allow risks to be broken down by economic sector/industry and that taxpayer obligation is accurate (e.g., which tax types the taxpayer has been registered for as this will affect monitoring of compliance levels)

- Performance management criteria should be adopted or adjusted, so there can be an effective measurement of the actions taken to improve compliance. First, the revenue collection target should be adjusted to reflect the impact of the COVID-19 realistically. Second, the criteria should go beyond the (adjusted) collection targets to measure the quality of the tax administration operations.

TAX COMPLIANCE STRATEGY FOR THREE PHASES

Revenue administrations should prepare a Taxpayer Compliance Strategy for each of the three phases of the COVID-19 response as the risks and treatment strategies are likely to vary between the: (1) Containment Phase, (2) Recovery Phase, and (3) Stabilization Phase. This chapter provides guidance to be considered during each phase and consideration is also given to the fact that tax administrations are not all at the same level of maturity in a number of areas including but not limited to: (a) design and implementation of taxpayer compliance strategies, (b) core tax administration business processes, and (c)

ICT development. The following is a summary of the priority risks and treatment strategies to be considered for each phase:

A. TAXPAYER COMPLIANCE STRATEGY – CONTAINMENT

Key guiding principles

- During this phase it is paramount that revenue administrations build trust and confidence with the taxpayer/trader community - revenue administrations have to take the lead in understanding challenges being faced by businesses and individuals
- Focus is on providing assistance to taxpayers who are substantially affected by the COVID-19 crisis and therefore are not in a position to do the right thing to comply (e.g., relaxing filing and payment requirements, speeding up the processing of refund claims)
- Enforcement should focus on those essential businesses that might be experiencing growth due to the economic sector they are in (e.g., large supermarkets, pharmacies, health sector businesses, businesses selling online goods)
- Emphasis should be placed on monitoring compliance from the largest taxpayers (particularly those large businesses who have not been impacted by the crisis) as many of these should not be provided relief for filing, payment, accurate reporting, and payment of arrears

REVENUE ADMINISTRATIONS WITH MATURE COMPLIANCE STRATEGIES/BUSINESS PROCESSES/ICT		
RISKS	TREATMENT STRATEGY	COMMENTS
1. Taxpayers who have not been affected by the COVID-19 crisis decide to not comply	• Review the taxpayer register to identify those taxpayers that should not be provided relief for registration, filing, and payment as they have not been affected by the crisis and some of them may be thriving	• This will likely include many of the large taxpayers but not necessarily all (e.g., in normal circumstances, a large hotel might have been classified as large, but this sector has also been substantially impacted by the crisis)
2. Distressed taxpayers who are unable to file and pay	• Develop simple communication materials to ensure taxpayers are aware of government and revenue administration decisions regarding COVID-19 responses and measures • On a temporary basis, suppress the automatic generation of stop-filer reminder and warning letters – and only contact essential	• Establish a small team to develop communication materials and keep in touch with taxpayers by sending them information electronically (including dedicated contact center staff that will contact taxpayers to inform them of COVID-19 measures) • Build partnerships with the taxpayer community to get them involved in the dissemination of

	businesses that do not file and pay on time • Temporarily suspend any ongoing audit of any distressed taxpayer	information and to obtain feedback from distressed taxpayers
3. A growing number of taxpayers are unable to pay arrears	• Encourage use of installment agreements *for those taxpayers who do not have the ability to make full and timely payment* • Priority should be on collecting new arrears from those taxpayers that have not been impacted by the crisis and whose operations might be thriving - firm and prompt recovery actions should be taken to collect arrears from businesses that are doing well as listed above	• Inform taxpayers of the policies and procedures regarding payment of arrears as they might not be aware of them • If needed, the tax administration should assign more staff to stay current with the collection of potentially collectible large arrears • The definition of essential businesses varies from country to country so staff will need to review the taxpayer register and produce a list of those taxpayers that meet the countries definition (e.g., in certain parts of Canada any business selling alcohol or marijuana have been classified as essential businesses, and these businesses have seen a spike in revenue)
4. Non-compliance by large taxpayers (those classified as essential businesses during the crisis)	• On-time filing and on-time payment for all core tax types should be closely monitored to ensure there is no deterioration of compliance levels • Audit program for large taxpayers not affected by the crisis needs to be stepped up (focus should be on accurate reporting of VAT and reporting of net operating loss)	• The LTO might need additional resources to ensure timely monitoring of on-time filing and payment, audit and collection of arrears • A small number of KPIs should be adopted and reported regularly to senior management (e.g., revenue collected, on-time filing%, on-time payment%, audit results, and changes in the stock of arrears - these should be broken down by sector and tax type)
5. Timely processing of refund claims	• Processing of all refunds should be centralized • Refunds should be processed within 30 days using risk-based assessment criteria • Priority should be given to issuing refunds to SME, exporters, and individuals	

	• Estimate amount of refunds to be claimed during the crisis and ensure government allocates appropriate budget	
6. Delays in the release of imported essential goods and medical supplies	• 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 are relying on the timely importation of goods and medical supplies during the Containment Phase
REVENUE ADMINISTRATIONS THAT HAVE EITHER LIMITED EXPERIENCE WITH TAXPAYER COMPLIANCE STRATEGIES OR LIMITED ICT SOLUTIONS		
RISKS	TREATMENT STRATEGY	COMMENTS
1. Taxpayers who have not been affected by the COVID-19 crisis decide to not comply	• Review the taxpayer register to identify those taxpayers that should not be provided relief for registration, filing, and payment as they have not been affected by the crisis and some of them may be thriving	• If the register is not automated or it is not accurate and reliable, then the best option is to establish a small group who can use their local knowledge of who are the essential businesses
2. Distressed taxpayers who are unable to file and pay	• Develop simple communication materials to ensure taxpayers are aware of government and revenue tax administration decisions regarding COVID-19 responses and measures • Generate a list of non-essential businesses and suspend monitoring of filing/ payment compliance and suspend 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	• Encourage the use of installment agreements for those taxpayers who do not have the ability to make full and timely payment. However, the focus should be on collecting any amount of arrears that are considered large	• If there is limited IT support, then the focus should be on reviewing any filed return and/or any completed audit to identify any essential business that has a "large" amount of arrears
4. Non-compliance by large taxpayers (those classified as essential businesses during the crisis)	• If the tax administration does not have a specific LTO or large taxpayer program, during this phase, staff should take time to identify those businesses that have paid the largest amount of tax in previous years and ensure that any business that has not	• A small team should be established at the central level (or regional/provincial level and/or district level) that will be responsible for monitoring the largest taxpayers in their geographical area (e.g., each office could start by closely monitoring

	been affected by the crisis is closely monitored to ensure all returns and payment are made on time	the top 50 or 100 taxpayers in terms of the amount paid) • A small number of KPIs should be adopted and reported regularly to senior management (e.g., revenue collected, on-time filing%, on-time payment%, audit results, and changes in the stock of arrears)
5. Timely processing of refund claims	• A small team should be established to focus on the processing of any refund claim - with dedicated staff to deal with any large refund claim • If the taxpayer has any outstanding arrears, the amount to be refunded should be offset first • The 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, and if the taxpayer has a good compliance history, the refund could be issued – fast track should also be used when an exporter is requesting a refund
6. Delays in the release of imported essential goods and medical supplies	• Steps should be taken to expedite the clearance process for essential goods and medical supplies	• Business or citizens are relying on the timely importation of goods and medical supplies during the Containment Phase

B. TAXPAYER COMPLIANCE STRATEGY - RECOVERY

Key guiding principles

- During this phase it will be important to continue building trust, confidence, and partnerships with the taxpayer/trader community – the health crisis is improving, however, it is still a fragile state as the economy has yet to regain its footing
- Focus is on providing assistance to taxpayers who are still distressed but beginning to work with those taxpayers who are in a position to comply with filing and payment requirements
- Enforcement program should be expanded to focus on a growing number of taxpayers that are no longer entitled to COVID-19 relief measures
- Emphasis should still be placed on monitoring compliance from the largest taxpayers that were not affected by the crisis but to also expand this to additional large and medium taxpayers from sectors that are in their own recovery phase

REVENUE ADMINISTRATIONS WITH MATURE COMPLIANCE STRATEGIES/BUSINESS PROCESSES/ICT		
RISKS	TREATMENT STRATEGY	COMMENTS
1. Growing non-compliance (e.g., VAT)	• Use of Big-Data to identify compliance risks and improve service delivery ○ Prioritize the development of a VAT Compliance Monitoring System that uses all VAT data from buyers and sellers to identify compliance risks	• Revenue administrations are beginning to use or are expanding use of Big-Data to identify compliance risks (e.g., Russia, China, Australia) • For example, the Federal Tax Service of Russia is using Big Data technologies to monitor "real-time" VAT compliance. • Refer to the OECD document entitled "Technologies for Better Tax Administration" for further guidance on shifting to use of Big-Data
2. Taxpayers who *are no longer* subject to COVID-19 emergency relief measures decide not to comply	• 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)	• During this phase, adjustments to COVID-19 measures might result in an increase of 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)
3. Confusion/uncertainty regarding revised COVID-19 measures which does not lead to the resumption of filing and payment compliance	• Communication materials shift from informing taxpayers/traders of COVID-19 emergency measures to increase awareness of the withdrawal of certain COVID-19 relief measures • There might not have been enough time in phase 1 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) • Tax administrations that have contact centers could expand the use of these centers to focus on handling ongoing inbound calls regarding COVID-19 measures	• The communication team will need to expand educational materials to provide clarity on who is still entitled to relief measures and what are the measures • 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 sector, manufacturing sector) • Consideration will need to be given regarding communication of any "transitional rules" when restarting certain businesses (e.g., how to deal with losses of certain goods during the crisis, which deductions will be allowed)

	(e.g., establish a dedicated team to handle COVID-19 taxpayer inquiries) • Increase the use of Social media to inform taxpayers	
4. As additional taxpayers resume their operations, there could be an increase in the number of taxpayers who do not file or do not pay	• Review filing/payment data by type of tax and identify any economic sectors/industries that might be representing a substantial percentage of non-filers – the problem might be more acute in several sectors, so the treatment strategy is to communicate with these taxpayers to address this risk • For those taxpayers that should still be filing returns but have decided not to, the tax administration should make greater use of default assessments to determine the tax liability for a given tax period while reserving audits for larger non-filing cases • Restarting the automatic generation of stop-filer reminder and warning letters for businesses that are back in operations	• Data analysis and risk assessment can assist in targeting filing non-compliance. Tax administrations might not have sufficient resources to deal with a 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 those taxpayers who still do not have the ability to make full and timely payment*. However, the administration needs to resume "firm action" to collect arrears from those taxpayers that have the ability to pay • Taxpayers must be able to demonstrate, using simple reporting requirements, they are in a distressed position. A simple form or mechanism should be in place to make it easy for taxpayers to provide this information. In the case of large taxpayers, the LTO staff should be in immediate	• 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 in order (e.g., garnishment, recovery from the third party) • During phase 1, there might not have been time to validate if a taxpayer was in a legitimate cash flow problem. However, during phase 2, this should be evidence-based. • Given the potential risk to revenue, the LTO will handle the

	contact with any taxpayer that has an outstanding debt. • During this phase, special attention needs to be given to collecting arrears from bankrupt companies. This could include having dedicated staff to focus on these cases and increasing co-operation between the tax administration and the bankruptcy court	collection of arrears from their bankrupt companies
6. Non-compliance by large taxpayers	• During this phase, the LTO should continue to focus on closely monitoring compliance of large taxpayers – what changes are that additional large taxpayers will resume operations • Audit program needs to be refocused to increase audit coverage during phase 2 – audit risk selection criteria should address risks related to inaccurate reporting of VAT (e.g., inaccurate reporting of the amount of VAT zero-rated sales and VAT carried forward), CIT (e.g., increase in Net Operating Loss) and PAYE. • Audits should be targeted interventions dealing with identified issues versus being comprehensive audits • During this phase, a practical step would be to resume or expand the increased use of third-party data to detect non-compliance risks • As withholding taxes present a high risk to revenue collection during a crisis, the audit program should include increased audits of withholding taxes	• Proactive and collaborative arrangements should be established with key sectors/industries affected by the crisis to foster voluntary compliance (e.g., meetings with businesses that are involved in the online sale of goods and services as they could have experienced substantial growth) • During this phase, the resumption of the audit program can be used to educate/inform taxpayers – desk audits with phone calls could be a practical way to build a stronger relationship with taxpayers – given the need to continue some form of social-distancing • Regarding third-party data, priority could be on matching customs data with tax data to identify inaccurate VAT reporting
7. 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	

	• Consideration should be given to reviewing some of the "large' refunds issued in phase 1 to determine if further action is needed (e.g., audit) • Estimate amount of refunds to be claimed during phase 2 and ensure government allocates sufficient budget	
REVENUE ADMINISTRATIONS THAT HAVE EITHER LIMITED EXPERIENCE WITH TAXPAYER COMPLIANCE STRATEGIES OR LIMITED ICT SOLUTIONS		
RISKS	TREATMENT STRATEGY	COMMENTS
1. Taxpayers who *are no longer* subject to COVID-19 emergency relief measures decide to not comply	• In the absence of an accurate and reliable taxpayer register and limited IT solutions, the most practical option is to have a small team compile an updated list of those taxpayers that are now required to resume compliance requirements (e.g., filing, paying, and accurately reporting)	• It will be difficult to get a perfect updated list so the team can use "local knowledge of taxpayers" and closely monitor those taxpayers - the idea is to focus on bringing back the largest taxpayers (e.g., if the hotel industry resumes operations – focus on monitoring the largest)
2. Confusion/uncertainty regarding revised COVID-19 measures which does not lead to the resumption of filing and payment compliance	• Communication materials shift from informing taxpayers/traders of COVID-19 emergency measures to increase awareness of the withdrawal of certain COVID-19 relief measures • Smaller tax administrations should consider establishing a COVID-19 hotline that taxpayers can call to obtain answers to their questions. In addition, tax administrations could establish a dedicated email address so taxpayers can send queries electronically to the tax administration • As a short-term measure, tax administrations without E-Services could consider allowing larger businesses to conduct selected services, such as updating registration details or filing via emails • Another option regarding filing could be to establish drop-boxes in strategic locations to make it easier for taxpayers to submit	• The communication team will need to expand educational materials to provide clarity on who is still entitled to relief measures and what are the measures • Tax administrations should consider establishing a Small Business Assistance Program that provides targeted assistance to small businesses (e.g., Australia and New Zealand have launched such programs that assist taxpayers with the understanding of their registration requirements and how to comply with tax obligations. During this phase, this concept could be tested/piloted using one or several business sectors)

	returns and respect social distancing requirements • For those tax administrations that have not adopted a self-assessment for reporting tax liabilities this is a measure that could be introduced during this phase as it eliminates the need for taxpayers to visit their tax office when submitting returns • Continue to increase the use of social media to communicate with the taxpayers, especially the small and micro businesses	
3. As additional taxpayers resume their operations, there could be an increase in the number of taxpayers who do not file or do not pay	• In the absence of IT solutions and limited staff, smaller administrations will need to keep things simple, practical, and focus on monitoring filing and payment compliance of the largest taxpayers in their geographical area (e.g., each office could start by closely monitoring the top 100 taxpayers in terms of the amount paid) • Restarting the automatic generation of stop-filer reminder and warning letters for businesses that are back in operations	
4. A growing number of taxpayers are unable to pay arrears	• During this phase, administrations should continue to encourage the use of installment agreements *for those taxpayers who still do not have the ability to make full and timely payment*. However, the administration needs to resume "firm action" to collect arrears from those taxpayers that have the ability to pay • For administrations that have a highly decentralized network of tax offices (regional/provincial offices and district/local offices) consideration could be given to grouping collection enforcement resources in more strategic	• 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

	locations to increase the efficiency of arrears collections	
5. Non-compliance by 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 compliance of these taxpayers • Steps should be taken to re-establish 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, the resumption of the audit program can be used to educate/inform taxpayers – desk audits with phone calls could be a practical way to build a stronger relationship with taxpayers – given the need to continue some form of social-distancing • How to select taxpayers to be audited can be kept practical and simple during this phase as the idea is to pilot a new approach. For example, any taxpayer that has, for example, 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 net operating loss 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 a period of 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 amount of refunds to be claimed during phase 2 and ensure government allocates sufficient budget	

C. TAXPAYER COMPLIANCE STRATEGY - STABILITY

Key guiding principles

- During this phase, it is assumed that the economy has regained a more solid footing, and there are fewer taxpayers that are availing of any COVID-19 relief measures. This implies that registered taxpayers will now need to comply with registration, filing, payment, accurate reporting, and timely payment of outstanding arrears
- Tax administrations should evaluate the impact of the COVID-19 relief measures in order to ensure there was not substantial abuse during the previous two phases
- The possibility of follow-up health pandemics and/or natural disasters is real, so steps should be taken during this phase to ensure gaps/bottlenecks identified during the crises are fully addressed

This phase focuses on key issues to be addressed to reformulate compliance strategies.

REVENUE ADMINISTRATIONS WITH MATURE COMPLIANCE STRATEGIES/BUSINESS PROCESSES/ICT
KEY ISSUES AND PRIORITIES
1. Revenue administrations that have more mature compliance strategies will need to continue expanding and strengthening their strategies and annual compliance improvement plans. The following are key issues to consider: • Increase use of Big-Data to identify compliance risks and to improve service delivery • Increasing the capacity of Risk Management Units by assigning additional specialists (e.g., industry specialists, data analytics experts) • Improving the effectiveness of risk-based compliance strategies by strengthening monitoring and evaluation capabilities • Building stronger partnerships with taxpayer community to develop future strategies • Improving the ability to respond to future shocks that impact compliance - COVID-19 crisis will require us to think differently
2. Expand compliance focus to target certain key taxpayer groups and/or economic sectors to identify and resolve taxpayer compliance risks. In each case, revenue administrations will need to prepare a strategy that identifies risks and treatment strategies (including increased use of third-party data to identify non-compliance risks and establishing cooperative agreements with taxpayer groups). The following is a list of potential groups/sectors/issues: • Taxpayers involved in the digital economy • Taxpayers involved in the extractive industry • Financial sector • High-Net worth individuals

- Self-employed professionals

The following is an example of further guidance regarding issues to consider when identifying risks related to the digital economy – several of these issues will apply to other sectors listed above:

- The COVID-19 crisis is accelerating the shift towards online consumption, and this change is likely to persist in the post-COVID-19 world. Once the policy framework for indirect and direct taxation of the digital economy is in place, tax administrations must prepare a compliance strategy for the digital economy.
- The detection of non-compliance 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 who are located there will leave a financial and electronic trail.
    - Data from the main online platforms and potentially from carriers will be important in identifying potentially non-compliant suppliers.
    - 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 very valuable for detecting non-compliance.
    - Collaboration with digital marketplaces and platforms and other stakeholders is needed to secure the data.

3. For administrations that have a Large Taxpayer Office(s) the following issues could be considered if they have not already been addressed:
    - Improve capacity to detect and address compliance risks from key sectors including those listed above (e.g., digital economy, extractive industries if applicable)
    - Build further capacity to deal with transfer-pricing and APA's
    - Continue to build cooperative agreements with additional taxpayer groups
    - Expand the use of third-party data and mega-data to identify compliance risks
    - Ensure an effective binding ruling system is in place

4. Automation priorities to support compliance strategies
    - More mature tax administrations should aim for a full suite of automation that support all core tax administration functions and taxes with common case management and workflow applications
    - Continue to expand E-services (e.g., E-complaints that allows taxpayers to submit complaints, E-appeals that allow taxpayers to submit objection/appeals)
    - Consider developing IT support for shifting to pre-populated returns
    - Expanded data warehousing facility to support the use of mega-data to identify compliance risks
    - Expand utilization of mobile technology to facilitate compliance

REVENUE ADMINISTRATIONS THAT HAVE EITHER LIMITED EXPERIENCE WITH TAXPAYER COMPLIANCE STRATEGIES OR LIMITED ICT SOLUTIONS

KEY ISSUES AND PRIORITIES
1. For the administrations that have not institutionalized a comprehensive risk-based compliance management framework, it is time to introduce new organizational arrangements and supporting processes. Key principles of this compliance management framework were discussed in Chapter II of this annex.
2. Building an effective data analytics function at the headquarter of the tax administration that uses internal data and an increasing amount of third-party data to identify compliance risks. For small tax administration, a team of two staff with strong Excel skills would be a good start.
3. Expand compliance strategy to target key issues and taxpayer groups: • Risks related to growing cash economy • Risks related to SMEs non-compliance
4. For the administrations that have not established a Large Taxpayer Office, it is now the time to introduce this function. By closely monitoring the compliance of the largest taxpayers in the country, the administrations will be able to protect a majority source of revenue as they typically represent 50 – 80% of total domestic revenue collection. The characteristics of an effective LTO are described below. • A sound legal framework • Clear and simple criteria for selecting large taxpayers • Standardized and clearly stated operating procedures • Administration of all designated large taxpayers by the LTO • Administration of all national domestic taxes by the LTO • Responsible for all core tax administration functions (filing, payment, stop-filers, audit, and debt management – including ensuring accurate register of all large taxpayers) • Risk management principles applied across all core tax administration functions • Industry/sector specialization is in place • Job descriptions in place that provide opportunities for specialization • Sufficient staff (typically between 4 - 7% of total staff) • Staff with appropriate skill sets to handle large taxpayer compliance issues (e.g., accounting/legal background, client relationship skills) • Appropriate job grading and remuneration of the LTO • Effective LTO staff training programs
5. Accelerate the automation agenda of the tax administration. Countries with limited funding should adopt a sequencing approach in ICT modernization. Tax administrations should first start with a comprehensive registration function, which is a foundation for subsequent functions. Then is the automation of heavy processing and resource-intensive functions such as taxpayer accounting, filing and return, payment, and refund processing before moving on to the automation of compliance operations and other advanced features. It is important to underpin the ICT modernization with a comprehensive risk-management framework and the effort to simplify and reengineer the business processes.

COVID-19

POTENTIAL TAX ADMINISTRATION AND CUSTOMS MEASURES TO RESPOND TO THE CRISIS.

ANNEX 6. INNOVATIONS IN TAX COMPLIANCE

WORLD BANK GROUP

INTRODUCTION

The objective of this annex is to expand on issues raised in the main World Bank's note entitled "COVID-19: Revenue Administrations Implications - Potential Tax and Customs Administrations measures to respond to the crisis". In particular, the annex[17] discusses the political economy aspect of tax compliance and provides suggestions to the governments in building trust to enhance compliance during and after the COVID-19 crisis.

TAXPAYER COMPLIANCE IS FUNDAMENTALLY SHAPED BY THE FISCAL CONTRACT BETWEEN CITIZENS AND THE STATE.[18] This relationship is influenced by the investments governments make in the tax system, not only with respect to enforcing and facilitating tax compliance but also in increasing taxpayers' trust that their taxes will be spent fairly and effectively. As such, it is important that governments take the right combination of investments in these three mutually-reinforcing areas—enforcement, facilitation, and trust—to have the greatest impact on tax compliance and, ultimately, the amount of domestic revenue raised by the state. This is especially true during periods of crisis when the need for government funds is elevated, and mutual cooperation between citizens and the state is most important.

HOW GOVERNMENTS REACT TO THE COVID-19 CRISIS NOW WILL AFFECT THE LEVEL OF POLITICAL SUPPORT FOR TAX REFORMS IN SUBSEQUENT PHASES OF THE PANDEMIC. In the short term, government revenues will fall due to the economic crisis induced by COVID-19, but in the medium term, tax revenues will need to increase again to pay off increased debt burdens and meet increased expenditures. While governments across the world are loosening tax enforcement activities—and rightly so—many will be looking to re-tighten enforcement as soon as the crisis recedes. Yet a one-sided focus on enforcement, i.e., a strategy that pays little attention to facilitation and trust, may, in fact, be a lost opportunity for improving tax compliance over the long term. It may even backfire if it results, for example, in harsh revenue targets that incentivizes tax officers to squeeze money out of an already economically devastating tax base.

WHILE PERHAPS COUNTERINTUITIVE, LAYING THE FOUNDATIONS FOR VOLUNTARY COMPLIANCE TODAY MAY MAKE IT EASIER FOR GOVERNMENTS TO TIGHTEN ENFORCEMENT POST-CRISIS. If governments can prove to taxpayers that they will support them throughout the pandemic—for example, by funding temporary relief measures, postponing tax payments, and relaxing enforcement activities—citizens are more likely to support tax increases once the crisis recedes and normality is restored. In contrast, if taxpayers feel left behind today—that is, that their basic needs are not being sufficiently serviced by their tax contributions, or that large corporations are receiving most of the benefits—they are unlikely to support heavier tax burdens in the future. The current crisis, therefore, presents a rare opportunity for governments

[17] This annex was prepared by Anna Custers, Roel Dom and Benjamin Holzman under the supervision of Chiara Bronchi, MTI-EFMTX.

[18] See also Prichard, Wilson; Custers, Anna Louise; Dom, Roel; Davenport, Stephen R.; Roscitt, Michael Anthony. 2019. *Innovations in Tax Compliance : Conceptual Framework (English)*. Policy Research working paper; no. WPS 9032. Washington, D.C. : World Bank Group. http://documents.worldbank.org/curated/en/816431569957130111/Innovations-in-Tax-Compliance-Conceptual-Framework

to redefine the fiscal contract with citizens in a short time-span and move toward a new, more positive equilibrium.

To maximize tax compliance, it is important to recognize the different strengths of various investments in enforcement, facilitation, and trust, and consider how they can be combined throughout each phase of the COVID-19 response. Below is an example of what a multi-pronged strategy might look like, and what its impacts would likely be, during each phase of the COVID-19 crisis:

A. PHASE 1: CONTAINMENT

In addition to providing financial support, tax relief measures are likely to contribute to the trustworthiness of the government, but only if distributed fairly. During the first phase, the tax response would focus on providing tax relief to firms and households impacted by the crisis. Among other things, payment and filing deadlines would be postponed, the calculation of advance payments revised, and tax refunds accelerated. In some cases, enforcement measures would be temporarily scaled back.

These actions would likely provide some financial relief to the most impacted taxpayers and may bolster the government's legitimacy and strengthen taxpayer trust. Yet, it will be crucial to ensure that tax relief is distributed fairly and reaches all who need it. This demands a focus not only on large corporations but also—and perhaps even more so—on small and medium-sized enterprises. In many developing countries, however, the tax system's reach is limited. Tax relief measures are unlikely to reach the informal sector as well as the large number of individuals who are not registered for the personal income tax. Cash transfers are likely a better tool in this case. It is also important to ensure that tax burdens do not increase during this phase, in particular for the poorest; as resources are shifted to the COVID-19-response, there might be an increase in demands for informal payments to access services, especially at the local level.

B. PHASE 2: ECONOMIC RECOVERY

Maintaining taxpayer trust during the second phase will be crucial for eventually increasing taxation in the third phase. In this phase, tax administrations would gradually re-tighten 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 when achieved through heavy-handed enforcement. To avoid harassment of 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 the facilitation of 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, though 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 phase 2 or 3 to rebuild the economy.

C. PHASE 3: STABILIZATION

In the wake of the crisis, there will be opportunities to boost (voluntary) compliance and reshape the fiscal contract for the better. As the economy stabilizes, governments would focus on reducing budget deficits, which in many countries would likely involve tax increases. Whether taxpayers will support these tax increases will depend on how the government acted earlier. If governments used the first two phases to solidify their perceived legitimacy and secure taxpayers' trust, taxpayers would likely tolerate tax increases in this phase. This momentum could then be harnessed to pursue additional reforms that further improve the equity of tax systems by, for example, increasing the taxation of high net worth individuals and closing (international) loopholes frequently exploited by large corporations, instead of prioritizing the expansion of the tax base into the informal economy. This would not only signal a government's commitment to a new fiscal contract, but it would also further strengthen the equity of the system and improve tax morale. In contrast, if government actions in earlier phases had undermined its legitimacy by, for example, only bailing out large corporations, it is unlikely that citizens would support these later tax increases—much like in the aftermath of the Global Financial Crisis. In fact, as the Arab Spring illustrated, increasing tax burdens under such circumstances has the potential to result in even greater instability.

COVID-19

POTENTIAL TAX ADMINISTRATION AND CUSTOMS MEASURES TO RESPOND TO THE CRISIS.

ANNEX 7. DRM POLICY RESPONSES

WORLD BANK GROUP

TAX POLICY AND REVENUE ADMINISTRATION INSTRUMENTS TO RESPOND TO COVID-19

This note briefly presents the revenue (tax policy and revenue administration) [19] *instruments that countries could consider in their efforts to contain the health pandemic and its economic fallout. It is an extract of a comprehensive policy note that was prepared by the Macroeconomics, Trade, and Investment (MTI) Global Practice.*[20]

I. INTRODUCTION

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.[21] The unprecedented hit on cashflow and incomes of businesses and individuals puts a spotlight on the dual challenge of revenue systems to provide relief for affected taxpayers and 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 disproportionally 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 of tax rates or scaling up incentives, in response to the crisis. Revenue performance may be further harmed by operational restrictions in revenue administrations due to health measures and related risk of worsened taxpayer compliance.

It is still too early to assess the impact on revenues in the current situation, although insight can be gained from looking at specific aspects of the revenue system that are likely to 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). In African countries and other client countries, the slowdown in economic activity in China starting in January has already translated into a drop in manufacturing imports. These problems are deepening as advanced economies have entered crisis mode, and COVID-19 has spread across the globe.
- Consumption taxes (inland). A large share of goods consumed in developing countries is 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. As COVID-19 continues to spread more widely, the situation is likely to deteriorate further and would be compounded as demand responds to supply shocks.

[19] Revenue administration aspects are only touched on in this note. A detailed assessment can be found in the GGP/MTI companion note on *Revenue Administration Complications from COVID-19*.
[20] The full note, *The fiscal impact and policy response to COVID-19* can be obtained by contacting Chiara Bronchi: cbronchi@worldbank.org.
[21] During the global financial crisis of 2008-09, the average tax-to-GDP ratio dropped by 1.3 percentage point. Sub-Saharan Africa was the region that returned most quickly to tax-to-GDP levels from before the global financial crisis of 2008-09: 3 years. This took South Asia 7 years, while tax revenues in Eastern Europe and Central Asia and the Middle East and North Africa did not recover fully. See Appendix 1 for more detail.

- Direct taxes. Over the next year, revenues from Corporate Income Tax (CIP) and Personal Income Tax (PIT) are likely to decrease as income-generating activities slow down. The most immediate effects may be felt in the collection of payroll and wage taxes, which have a shorter lag.
- Revenue from natural resources. The COVID-19 coincides with a major drop in the prices of oil and other commodities as the world economy is slowing down. In the case of oil, this was reinforced by the disagreement between Russia and Saudi Arabia about cutting back oil production in response to declining world demand. Commodity importing nations generally benefit from the drop in oil prices, but revenue could be adversely affected to the extent that taxes are based on the value of oil products (i.e., ad valorem instead of specific rates for fuel and other products).
- Tax administration and compliance.[22] As noted above, health measures disrupt operations of revenue administrations, including enforcement and taxpayer service activities (some tax administrations have already suspended audit and collection activities, see Appendix Table 3.b). 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 cashflows by suspending or delaying payment of salaries, supplies, loans, and other obligations, which could further reduce taxes collected.

The remaining sections of this note are organized as follows. Section II presents a framework to assess revenue policy measures to help countries make informed policy decisions based on their particular circumstances. Using this framework, Section III discusses the various revenue instruments that are available for addressing the COVID-19 crisis. The final part of Section III includes a preliminary assessment of these measures against the proposed framework (Table 4). An overview of revenue measures planned and implemented across countries can be found in the attached Annex.

II. FRAMEWORK TO ASSESS FISCAL POLICY MEASURES

The overall response to the COVID-19 crisis will go through phases as attention shifts from dealing with the immediate crisis to getting back to a sustainable situation, which would need to be more resilient than in the past:

- Phase 1: Containment phase. Immediate crisis response with an emphasis on providing adequate support for health care and supporting businesses and households that are immediately affected by health measures and the economic slowdown (see also below).
- Phase 2: Recovery Phase as the health situation stabilizes, but the economy is yet to regain its footing. During this phase rolling back temporary measures in the initial response phase, stepping up efforts to control cost and enforcement revenue compliance, and implementing tax policy and expenditure rationalization measures to restore revenue performance will be key.
- Phase 3: Stabilization Phase as the economic situation stabilizes, attention can turn to applying lessons from the crisis and the need for sustainability.

The design of the fiscal (revenue and expenditure) responses to the COVID-19 pandemic can be assessed by considering specific aspects of individual revenue instruments, which help to understand the efficacy and

[22] Revenue administration aspects are only touched on in this note. A detailed assessment can be found in the GGP/MTI companion note on *Revenue Administration Implications from COVID-19*.

efficiency of the responses in achieving their goals, both short term, and long term. These aspects include the ***efficiency*** of a specific instrument to achieve targeted objectives, ***cost and fiscal sustainability***; the ***flexibility*** to adjust to changing circumstances; and ***administrative feasibility*** (Box 1).

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

Box 1. Framework for Assessing Fiscal (revenue and expenditure) Policy Measures in Response to COVID-19

Fiscal policy measures in this note are assessed in a framework that drives 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 in a cost-effective way will be influenced by:

- *Targetability* – the extent to which the instrument allows to directly target specific business or population groups or activities
- *Speed* – the time elapsed between the adoption of the instrument and 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 will also involve consideration of costs and benefits of specific instruments and their interactions. For example, measures that aim at reducing lay-offs may generate benefits in terms of reduced unemployment and social security payments.

- *Affordability* – the extent to which the use of the instrument impacts on fiscal stability. For example, instruments that provide support in the form of credits or through the deferral of 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 for the cost of a program can be established and can the actual cost be 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 the instrument or to stop its use 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 because of administrative constraints or 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 the deployment of fiscal instruments. For example, scaling up of health expenditure may be constrained by a lack of qualified personal; measures that involve human contact (especially) in groups will be less desirable than instruments that limit such exposure; and scaling up of consumption and investment may face supply side constraints as suppliers and contractors may be in lockdown mode

Table 3 presents the general classification of revenue policy measures against these assessment criteria, and Table 4 a preliminary assessment of options for revenue policy measures.

III. REVENUE INSTRUMENTS TO ADDRESS THE COVID-19 CRISIS

This section discusses the revenue instruments that are available for addressing the COVID-19 crisis, including an initial attempt to assess these instruments using the framework proposed in Section II. It also discusses country-specific factors (available fiscal space, capacity to design and implement specific fiscal interventions, economic and fiscal structure) that governments need to take into account when choosing among available revenue instruments. An overview of revenue measures planned and implemented across countries can be found in the separate Annex.

3.1. REVENUE INSTRUMENTS

Governments are implementing a range of tax measures to address the short-term impact of the COVID-19 pandemic. Measures under consideration aim to (i) ***protect businesses*** that see their cash flow and income jeopardized; (ii) ***provide support to households and communities*** that are affected by measures to stem the spread of the COVID-19 virus and the associated slowdown in economic activities, and to shore up aggregate demand and consumption to moderate the feedback loop between supply shocks and demand shocks. Short-term relief measures packages are designed in terms of tax rebates, exemptions, holidays, or similar features with a direct impact on businesses and households and boost consumption. Measures also aim to manage longer-term effects, including on taxpayer compliance, business continuity, and fiscal sustainability.

The focus of revenue policy will shift over the phases of the crisis. During phase 1, the 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, rolling back the initial crisis measures, stepping up compliance enforcement, and implementing tax policy measures to restore revenue performance will be key. There may be windows of opportunity for strengthening taxes that benefit the environment (e.g., fuel taxes) and health (e.g., taxes on tobacco, alcohol, and sugary drinks and food) or that reduce tax avoidance by multinational corporations (such as through a diverted profit rule). During stage 3, countries need to turn to lessons from the crisis—how to be better prepared for the next adverse event and how to deepen the commitment to sustainability. A holistic and cross-country approach to green taxes, successful reform of the international tax system, and further reform of weaknesses in countries' revenue systems would be the focus during this stage.

A comprehensive assessment of specific fiscal policy measures discussed below against the criteria presented in Box 1 can be found in Table 3.

3.1.1. Protecting businesses

- **Deferral of tax obligations.**

Examples: A growing number of countries are deferring tax payments, including social contributions and even penalties, for businesses (e.g., Austria, Australia, Canada, Colombia, Ireland, Korea, Peru, Poland, and Vietnam). In some cases (Colombia, Korea, and Vietnam), the focus is on deferments for affected sectors (e.g., hospitality and aviation in Colombia). Korea has extended the due date for income tax and VAT (both tax filing and payment) for up to 9 months for affected businesses (tourism, restaurants, medical clinics, art performance, wholesale, and retailers in the area where confirmed COVID-19 cases are present). Korea also suspended tax

audits and any activities by the tax authority to reduce outstanding tax arrears, by up to 1 year for affected business. Some countries (e.g., Austria and Costa Rica) have introduced temporary adjustments of advance payment rules that allow businesses to make advance payments for the CIT based on (downward adjusted) income expectations. And Canada has suspended client contacts for conducting audits. Finally, speeding up payments by revenue administrations to taxpayers, such as VAT refunds, has the same effect as a tax deferral by enhancing taxpayers' cash flow (e.g., in Australia, Bosnia, and Hercegovina, China, Indonesia, Malta, and Thailand).

Assessment: Extended payment periods, payments in installments provisions, and accelerated VAT refunds represent useful temporary relief measures to keep taxpayers afloat during low profitable periods and cashflow constraints. To be effective, those need to be enacted using clear eligibility criteria under risk management. The fiscal cost of these measures can be contained by targeting affected businesses—which 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 advanced CIT payments. Typically, such advance payments are based on income for the previous year. During a downturn, advance payments would be too high and cause a cash flow crunch because of the mismatch between (high) advance tax payments and (lower) final liability. The fiscal impact of this measure is short-lived; firms will be paying the full amount due for their CIT at the end of the fiscal year.

Caution should be exercised with measures that may allow taxpayers to escape the tax net, such as suspension of audits and tax amnesties. Such measures risk hampering the recovery of revenues in the aftermath of the crisis and would drive up the fiscal cost in the short term.

- Lower taxes for vulnerable businesses

Examples: Vietnam has reduced the CIT rate for SMEs from 20 to 14 percent for 2020. This tax rate reduction would help this group of taxpayers to have more financial resources to recover from the crisis. Korea has already implemented tax relief measures for small businesses. For instance, if landlords reduce rent for small businesses, 50% of reduced rents during the first semester of this year will be credited against the income tax of landlords (tax credit measure). A two-year VAT cut is granted for individual entrepreneurs with low annual turnover (VAT will be reduced to the level of the simplified VAT regime for micro-enterprises). Countries are also allowing firms to accelerate the depreciation of new investment (e.g., Australia, China, New Zealand, and Singapore).

Assessment: The impact on revenue of lowering the CIT rate for SMEs in Vietnam would be small. About 80 percent of incorporated businesses fall below the threshold in Vietnam, and they contributed only about 4 percent of the CIT revenue. The reduction of the CIT rate would reduce the CIT revenue by about 1 percentage point. This reduction could be offset by phasing out the tax incentives for some sectors (in the aftermath of the crisis). But the measure risks creating some strategic sorting around the threshold, and in general, a reduction of rates is difficult to target and reverse after the crisis.

The reduction of compliance costs through simplification of tax obligations, especially for SMEs, has widely proven to be an effective way to increase compliance levels. During periods of economic distress and

increased non-compliance risks, tax simplification becomes particularly relevant, opening opportunities for tax authorities to embark on serious efforts to identify a complete set of regulations imposing higher compliance costs to taxpayers and preparing ad-hoc reforms aimed to tackle simplification objectives to be implemented during distressing times.

The 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 (China allows accelerated depreciation for medical firms). To be used as temporary mitigation measures, those need to be designed within well-defined tax periods, using simple eligibility criteria and closely monitored 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 may provide businesses with certainty that their losses during the crisis can be expensed against future tax payments.

In order to support exporters, particularly SME exporters, to stay resilient through tough economic times, it is important that administrations aid in the reduction of trading costs affected by taxes and customs duties. This can be tackled in a short-term period by granting: (i) a temporary zero-rate policy to specific tariff codes, (ii) limited or provisional tax/tariff exemptions to relevant sectors; or (iii) by offering a more flexible deferral or installment agreements for customs duties, etc. These mechanisms can help them to increase their international competitiveness, face trade costs during the global recession, and to secure their participation within global value chains.

Tax incentives and holidays should be avoided to the extent those tend to decrease tax compliance levels in the mid/long terms.

3.1.2. Protecting vulnerable households

Examples: Payments for Personal Income Tax (PIT) are deferred in Indonesia (for low-income earners) and Iran. Also, in most OECD countries, the governments are introducing cuts in social security contributions (e.g., Germany, Italy, Malaysia, Portugal, and the Slovak Republic). 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.

Assessment: 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 in client countries.

3.1.3. Boosting consumption

Examples: Temporary reductions in VAT rates and other indirect taxes have been implemented in a number of countries, often focused on affected sectors such as aviation and tourism (e.g., China, Cyprus, Korea, and Norway). Korea introduced a suspension of the 70% excise tax for car purchases during Mar-Jun 2020 to promote the consumption of (in the case of Korea) largely domestically produced cars. In addition, Korea reduced the VAT payable by small businesses with turnover below KRW 60 million until the end of 2021.

Assessment: Reversing the lowering of tax rates may be difficult, especially if recovery after the crisis is slow, which would drive up the fiscal cost. The effect on the consumption of such measures is also in doubt. Even with more money available, people may not be spending it during the COVID-19 for precautionary reasons or because businesses are shut down and the movement of people restricted.

3.2. ASSESSING COUNTRY CIRCUMSTANCES: FISCAL SPACE AND CAPABILITY

WHEN ANALYZING THE ALTERNATIVE POLICY OPTIONS FROM THE REVENUE SIDE, IT IS IMPORTANT TO TAKE INTO CONSIDERATION THE COUNTRY CHARACTERISTICS. The most fundamental determinants for the choice of instruments will be the available fiscal space and the capacity of a country to design and implement specific fiscal interventions. In addition, the economic and fiscal structure of a country will require different combinations and intensity of responses. This sub-section discusses how these factors impact on the efficacy of fiscal instruments to respond to the pandemic and its economic impacts. It also shows the variation across countries with respect to these factors, which can serve to group countries into categories to facilitate the choice of fiscal instruments that is well-aligned with specific country circumstances.

THE SUCCESS OF FISCAL (REVENUE AND EXPENDITURE) MEASURES DEPENDS ON A COUNTRY CAPACITY TO DESIGN AND IMPLEMENT THEM AND ON THE FISCAL SPACE AVAILABLE TO ADOPT MEASURES ON THE NEEDED SCALE. While countries with high capability and fiscal space will be able to choose from the whole menu of reforms, for countries that have lower capabilities or lower fiscal space the set of available options will be much more limited, and specific measures to deal with capability or fiscal space constraints may be needed.

FOR MANY COUNTRIES, FISCAL SPACE WAS NARROWING WELL BEFORE THE OUTBURST OF THE COVID-19. Kose et al (2019)[23] define fiscal space as "the availability of budgetary resources for a government to service its financial obligations." They discuss various concepts of fiscal sustainability and related indicators, which they group into four clusters, namely debt sustainability, balance sheet vulnerability, external and private sector debt-related risks as potential causes of contingent liabilities, and market access. They also show that most countries had expanded their fiscal space prior to the global financial crisis in 2007/08, which facilitated the adoption of strong countercyclical measures. By 2019, the fiscal space of many countries had eroded, leaving countries in a much weaker position to deal with an external shock before the outbreak of the Covid-19 pandemic. The massive build-up of private and public debt that took place during the last decade played an important role in narrowing fiscal space.[24] In the context of dealing with an external shock, fiscal space relates the ability to deal with increased expenditure requirements or reduced revenue. Available fiscal reserves, capacity to adjust expenditures and access to loanable funds would be key elements of fiscal space.

THE POLITICAL AND INSTITUTIONAL CAPACITY TO DESIGN AND IMPLEMENT FISCAL RESPONSES TO AN EXTERNAL SHOCK WILL ALSO AFFECT THE CHOICE OF INSTRUMENTS. In a broad sense, capability includes both the technical capacity to implement particular, fiscal measures and the institutional and political arrangements that may either facilitate or hinder an adequate fiscal response. Institutional capacity will be of particular importance when specific measures are being considered, including the capacity of the Ministry of Finance, the Revenue administration, and Social Protection systems. Broader capabilities relating to the quality of policy coordination and government decision processes will also be important. Table 1 summarizes the features of fiscal measures according to the capacity and size of fiscal space.

[23] Kose et al, 2019, A Cross-Country Database of Fiscal Space, World Bank Policy Research Working Paper 8157.
[24] Kose et al., 2020, Global Recessions, World Bank Policy Working Paper 9172.

TABLE 1. FISCAL (REVENUE AND EXPENDITURE) STRATEGIES TO ADDRESS COVID-19 IMPACTS ALIGNED WITH COUNTRY CAPABILITY AND FISCAL SPACE

	lower capability	higher capability
More fiscal space	- Focus on less complex fiscal measures	- Seek fiscal instruments that are most suitable to the specific country circumstances, including the economic and fiscal structure
Less fiscal space	- Focus on interventions where cost control is manageable and that are easily reversible with limited capability - Focus on less complex fiscal interventions - Clear prioritization of objectives - Seek to expand fiscal space	- Focus on cost control and reversible measures - Clear prioritization of objectives - Seek to expand fiscal space

For countries with limited space, focusing on interventions with limited cost implications that are easily reversible will be particularly important. Credit instruments, such as tax deferrals and short-term loans may be particularly appropriate. Less fiscal space will also force countries to set clear priorities. In most cases, health interventions will clearly have the highest priority, followed by interventions to protect people and businesses.

Expanding fiscal space will also be important for countries with limited fiscal space. Limited access to funding from reserves or from borrowing will force countries to seek to reallocate funds towards COVID-19 priorities. However, the disruption of programs from which resources are allocated away can have significant economic costs in terms of delayed development. For developing countries, development partners will also have an important role in expanding fiscal space, be it 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. The scope for increasing such capacity in the short term will be very limited. However, using non-state actors in the response, especially CSOs, faith-based organizations, or the private sector, may help to broaden capabilities and the set of interventions that can be used. Otherwise, the focus will need to be on the selection of instruments that are administratively less complex and that are within the capability of countries.

To illustrate which IDA countries might fall into which category, we use two specific measures of fiscal space and state capability. Given the massive impact of the Covid-19 pandemic, for most countries, higher health expenditure and disrupted economic activity will result in higher fiscal deficits. We thus use a country's risk of debt distress as the primary indicator of fiscal space, where a higher risk of debt distress will typically imply more limited access to and higher cost of loanable funds. We group countries into three categories – those with high risk of or in debt distress, those at medium risk, and those at low risk. To categorize countries, according to state capability, we use a country's overall policy and institutional assessment (CPIA) rating.[25]

[25] Using the rating of CPIA Cluster D - Public sector management and institutions – yields broadly similar groups, but we thought that the broader assessment, which also includes the assessment of social protection systems, provides a better assessment of broad state capability.

We divide countries into two groups – those with better capabilities that have a CPIA above the median and those with weaker capabilities – with a CPIA below the median.

Using these two categories simultaneously allows us to classify countries into six categories ranging from countries with very little fiscal space and lower capacity to those with wider fiscal space and higher capabilities.

TABLE categorizes all IDA countries according to their fiscal space and their capability for policy design and implementation. The two categories are not independent. Unsurprisingly, countries with higher capabilities tend to have more fiscal space, while countries with lower capabilities have less fiscal space, putting them into a particularly precarious situation in confronting the COVID-19 pandemic.

The categorization in Table 2 is illustrative. Country teams will be best placed to assess into which quadrant their country falls, using additional information on fiscal space and state capability (Please see MTI Fiscal Policy Note for further guidance on the types of contextual factors, such as public financial management, revenue structure and performance, and economic structure could be taken into account when assessing the fit of revenue policy instruments for country circumstances.

TABLE 2. STATE CAPABILITY AND FISCAL SPACE

		Risk of Debt Distress		
		High or in debt distress	Moderate	Low
CPIA	*Above median*	Mauritania, Samoa, Tonga, Grenada, St. Vincent & the Grenadines	Benin, Ethiopia, Kenya, Madagascar, Mali, Niger, Togo, Burkina Faso, Vanuatu, Kyrgyz Republic, Fiji, St. Lucia	Honduras, Nicaragua, Dominica, Guyana, Bhutan, Cambodia, Nepal, Cameroon, Cabo Verde, Ghana, Cote d'Ivoire, Lesotho, Rwanda, Senegal, Tanzania, Uganda, Zambia, Moldova, Uzbekistan, Kosovo
	Below median	Haiti, Yemen, Afghanistan, Burundi, Central African Republic, Chad, The Gambia, Mozambique, Sierra Leone, South Sudan, Zimbabwe, Kiribati, Marshall Islands, Micronesia, Tuvalu, Tajikistan	Maldives, Comoros, DRC, Guinea-Bissau, Guinea, Liberia, Malawi, Solomon Islands, Papua New Guinea	Bangladesh, Myanmar, Lao PDR, Djibouti, Congo

TABLE 3. CLASSIFICATION OF REVENUE POLICY INSTRUMENTS

Efficiency	
Targetability	Automatic targeting of corporate and income taxes. Tax incentives can be targeted to specific sectors and industries. For indirect taxes targeting is more difficult. Loss making entities with no income tax liabilities will also not benefit from revenue measures
Speed	Temporary reductions in tax rates for indirect taxes can have immediate effect, though potential problems with pass through, especially for more complex taxes. Direct taxes will have impacts based on tax calendars.
Abuse resistance	Will depend on governance environment and strength of tax administration. Risk that tax incentives and exemptions are used fraudulently. Indirect tax measures less prone to abuse, but risk of erosion of tax morale.
Cost and Fiscal Sustainability	
Affordability	Full cost.
Predictability and control of total cost	Less predictably, given that a range of factors will affect revenue impact.
Flexibility	
Scalability	Limited by level of tax liability.
Reversibility	Tax measures can have explicit time limits, but risk of undermining tax moral and political pressure to keep measures in place.
Feasibility	
Administrative complexity	Broad based adjustments to rates and tax schedules that are within the regular work of a tax administration may be feasible in many countries. New tax measures or specifically targeted tax measures will be more complex and require higher capacity.
Resilience to health measures	Efforts to control the health effect of COVID-19 would mute the impact of revenue measures to the extent that they depend on face-to-face interaction between taxpayers and revenue officials and revenue administrations struggle with business continuity. Revenue measures aimed at protecting livelihoods and supporting demand in affected sectors would be ineffective to the extent health measures constrain behavior.

TABLE 4. ASSESSMENT OF OPTIONS FOR REVENUE POLICY MEASURES

		Efficiency			Cost and Fiscal Sustainability		Flexibility		Feasibility	
		Targetability	Speed	Abuse resistance	Affordability	Predictability and cost control	Reversibility	Scalability	Administrative complexity	Resilience to health measures
Revenue measures to protect businesses (first phase)	Accelerated asset depreciation (CIT)	Partial-can be targeted at SMEs (by turnover) / affected sectors or specific investment but will only benefit businesses with current profits	Yes--provided advance income adjustment can be adjusted for the lower tax obligation	Yes-depending on effective CIT enforcement overall	Full cost spread out over time	Yes	Likely-especially when introduced with a specific sunset date	No	No	Yes-does not require direct contact
	Extend loss carry-forward for losses incurred during the crisis (CIT)	Yes-can be targeted at SMEs or affected sectors and explicitly targets businesses that post losses during the crisis (depending on their survival)	No-will reduce tax liabilities in the medium term (during the extension period)	Yes-depending on effective enforcement overall	Full cost-but only during the period during which the loss carry-forward is extended	Maybe - estimation of additional loss carry-forward in future years for losses during the crisis would be difficult	Difficult-there may not be much support for reversing this measure with uncertain future cost	Somewhat-by extending further the number of extension years	No	Yes-the measure does not require direct contact
	Broaden tax deductibility (e.g., to all business expenses related to COVID-19)	Partial-can be targeted at SMEs or affected sectors but will only benefit businesses with current profits	No-only affects taxpayer cashflow at the time of CIT/PIT filing, unless combined with advance income adjustment. But may immediately impact on incentives	? -depending on enforcement mechanisms to prevent claims of ineligible expenses	Full cost	Probably-depending on the size of additional deductions	Difficult-there may not be much support for reversing this measure with uncertain future cost	No	Moderate-tax administration needs to put in place specific requirements and perhaps enforcement measures	Yes-the measure does not require direct contact
	Introduce tax credits	Yes-can be targeted at affected and loss-making businesses, as well as SMEs	Yes-depending on the time needed for filing and processing	? -depending on the complexity of the credit and ta administration's enforcement capacity	Full cost	? -depending on the nature of the tax credit and availability of data for analysis	? -a specific sunset date would help	Yes-additional credits can be added	Likely high-the tax administration would add a new business line	? -depends on whether the measure is simple and communication clear enough so that the tax credit can be implemented without direct contact between taxpayers and tax officials

		Efficiency			Cost and Fiscal Sustainability		Flexibility		Feasibility	
		Targetability	Speed	Abuse resistance	Affordability	Predictability and cost control	Reversibility	Scalability	Administrative complexity	Resilience to health measures
Revenue measures to protect businesses (first phase), cont'd	Deferral of tax filing (CIT, PIT for self employed, VAT, other business taxes)	Yes-can be targeted at affected businesses and SMEs	Yes	Limited-businesses may disappear before the tax assessment	Has no direct cost but also no direct cashflow benefit for taxpayers-unless payment is also deferred (these measures strengthen each other)	Yes	Yes-automatic when the deferment period ends (although can be extended)	Yes-the deferment period can be extended in time or additional taxes	No	Yes-as a stand-alone measure (without deferral of payment) its main benefit is postponing interaction between tax officials and taxpayers and reducing taxpayer compliance cost during a crisis period
	Deferral of tax and/or interest and penalty payments	Yes-can be targeted at affected and loss-making businesses (in case of indirect taxes; deferring direct taxes does not benefit loss-making businesses) as well as SMEs	Yes	Yes	Collection is delayed	Yes	Yes-automatic when the deferment period ends (although can be extended)	Yes-the deferment period can be extended in time or to cover additional taxes	No	Yes-in fact, it helps by postponing the need for direct contact between taxpayers without access to online payment methods and cashiers/bank tellers
	Tax rate reduction (CIT, PIT for self-employed)	Partial-can be targeted to linking the rate reduction to SMEs / sectors, but loss-making businesses will not benefit	Yes-if cuts are reflected in advanced payments	Somewhat-targeting of the rate cut may complicate enforcement	Full cost	Maybe-depending on the specifics of the tax relief and available data for estimation	Maybe-tax cut that are meant to be temporary can be extended or made permanent	Rate cuts can be deepened (i.e., larger cuts) and extended to other tax types / groups of taxpayers	Yes-but limited to the extent that enforcement becomes more difficult	Yes

		Efficiency			Cost and Fiscal Sustainability		Flexibility		Feasibility	
		Targetability	Speed	Abuse resistance	Affordability	Predictability and cost control	Reversibility	Scalability	Administrative complexity	Resilience to health measures
Revenue measures to protect businesses (first phase), cont'd	Tax amnesty / incentives	Partial-amnesty and incentives are targeted by design, including through rewarding behavior (e.g., by forgiving additional taxes associated with wage increases). But reductions in direct taxes will not benefit loss-making businesses (except if tax liabilities on previous years are reduced or forgiven)	? -depending on specifics of the tax-measure, including how to apply	Limited- in the case of amnesty, the risk is that taxpayers will stop filing for taxes as no tax is owed and enforcement activities lag because the opportunity to collect is low. For tax incentives, enforcement of conditions for the incentives can be a challenge. This may compromise overall enforcement and boost overall tax abuse	Full cost	Maybe-depending on the specifics of the tax relief and available data for estimation	Maybe-amnesties and incentives that are meant to be temporary can be extended or made permanent	Amnesties and incentives can be extended and applied to other tax types / groups of taxpayers	No-enforcement of the measures is difficult	? -depends on the need for direct contact to claim the amnesty or incentive
	Accelerating refunds (VAT)	Yes-a straightforward manner to target is to allow businesses (SMEs) on a quarterly VAT reporting cycle to opt into monthly reporting	Yes	Yes	VAT refunds will merely be accelerated	Maybe-depending on the ability to accurately forecast VAT refunds	Limited-taxpayers may prefer to keep reporting on a monthly cycle and get faster refunds once they are used to it	No	No	Yes-unless VAT filing and refund claims require direct contact
	Lower advance payment (CIT, PIT for self-employed)	Yes-can be targeted at SMEs or affected sectors	Yes	Limited-businesses may suppress advance payments and disappear before the annual tax assessment	Yes-to the extent that abuse is controlled lower advance collections will be offset by higher collections from final assessments	Maybe-depending on the ability to accurately forecast the change in advance payments	Likely-especially when introduced with a specific sunset date	No	Somewhat because of the need to control potential abuse	Largely-some direct contact may be needed to deal with potential abuse
	Suspend debt collection activities	No	Yes	Yes-this compromises enforcement	? -depending on the impact on tax compliance	? -depending on the impact on tax compliance	Yes	No	No	Yes-prevents direct contact

		Efficiency			Cost and Fiscal Sustainability		Flexibility		Feasibility	
		Targetability	Speed	Abuse resistance	Affordability	Predictability and cost control	Reversibility	Scalability	Administrative complexity	Resilience to health measures
Revenue measures to protect businesses (first phase), cont'd	Suspend audit activities	No	Yes	Yes-this compromises enforcement	? -depending on the impact on tax compliance-but less costly for the budget than suspending debt collection	? -depending on the impact on tax compliance	Yes	No	No	Yes-its main benefit is avoiding interaction between tax officials and taxpayers and reducing taxpayer compliance cost during a crisis period
Revenue measures to protect individuals (first phase)	Deferral of tax filing (PIT, payroll taxes, property tax, etc.)	Yes-can be targeted to specific groups (e.g. by affected sectors or income)	Yes	Yes	Has no direct cost but also no direct cashflow benefit for taxpayers-unless payment is also deferred (these measures strengthen each other)	Yes	Yes-automatic when the deferment period ends (although can be extended)	Yes-the deferment period can be extended in time or to cover additional taxes	No	Yes-in fact, it benefit health outcomes by postponing the need for direct contact between taxpayers without access to online payment methods and cashiers/bank tellers
	Deferral of tax payments (PIT, payroll taxes, property tax, etc.) and/or interest and penalty payments	Yes-can be targeted to specific groups (e.g. by affected sectors or income)	Depends on whether advance payments are reduced	Yes	Collection is delayed	Yes	Yes-automatic when the deferment period ends (although can be extended)	Yes-the deferment period can be extended in time or additional taxes	No	Yes-as a stand-alone measure (without deferral of payment) its main benefit is postponing interaction between tax officials and taxpayers and reducing taxpayer compliance cost during a crisis

										period

									Feasibility	
					Affordability	Predictability and cost control	Reversibility	Scalability	Administrative complexity	Resilience to health measures
Revenue measures to protect individuals (first phase), cont'd				Somewhat- especially in the case of amnesty, the risk is that taxpayers will stop filing for taxes as no tax is owed and enforcement activities lag because the opportunity to collect is low. This may compromise overall enforcement and boost overall tax abuse	Full cost	Maybe-depending on the specifics of the tax relief and available data for estimation	Maybe-tax cut that are meant to be temporary can be extended or made permanent	Rate cuts can be deepened (i.e., larger cuts) or extended to other groups of taxpayers and tax types	Yes-but limited to the extent that enforcement becomes more difficult	Yes
				Limited- in the case of amnesty, the risk is that taxpayers will stop filing for taxes as no tax is owed and enforcement activities lag because the opportunity to collect is low. For tax incentives, enforcement of conditions for the incentives can be a challenge. This may compromise overall enforcement and boost overall tax abuse	Full cost	Maybe-depending on the specifics of the tax relief and available data for estimation	Maybe-amnesties and incentives that are meant to be temporary can be extended or made permanent	Amnesties and incentives can be extended and applied to other groups of taxpayers	No-enforcement of the measures is difficult	Yes-unless direct contact is needed
				? -depending on enforcement mechanisms to prevent claims of ineligible expenses	Full cost	Probably-depending on the size of additional deductions	Difficult-there may not be much support for reversing this measure with uncertain future cost	No	Moderate-tax administration needs to put in place specific requirements and perhaps enforcement measures	Yes-the measure does not require direct contact

		Efficiency			Cost and Fiscal Sustainability		Flexibility		Feasibility	
		Targetability	Speed	Abuse resistance	Afforda-bility	Predictability and cost control	Reversibility	Scalability	Administrative complexity	Resilience to health measures
Revenue measures to protect individuals (first phase), cont'd	Introduce tax credits	Yes-can be targeted at specific taxpayers (e.g., low income earners, employees in affected sectors)	Yes-depending on the time needed for filing and processing	? -depending on the complexity of the credit and ta administration's enforcement capacity	Full cost	? -depending on the nature of the tax credit and availability of data for analysis	? -a specific sunset date would help	Yes-additional credits can be added	Likely high-the tax administration would add a new business line	? -depends on whether the measure is simple and communication clear enough so that the tax credit can be implemented without direct contact between taxpayers and tax officials
Revenue measures to promote availability of medical items	Lower tax rates for medical items (import duties, VAT and other indirect taxes)	Yes	Yes	Yes	Full cost	Yes	? -a specific sunset date would help	No	No	Yes-aimed to directly benefit health care and outcomes
Revenue measures to boost consumption / demand (first and second phase)	Lower tax rates (import duties, VAT and other indirect taxes and levies)	Yes-can be targeted at specific items (e.g., medical supplies) or transactions (e.g., online payments)	Yes	Yes	Full cost	Yes	? -a specific sunset date would help	No	No	Yes-can directly benefit health outcomes if contactless / online payment methods are favored

APPENDIX:
STRESS TESTS

TAX & CUSTOMS ADMINISTRATION MITIGATION ACTIONS CHECKLIST AND BUSINESS CONTUINITY PLAN.

WORLD BANK GROUP

RESPONSES TO COVID-19 / FORTUITOUS EVENTS

| Tax Administration: Compliance Strategy

SOME CONSIDERATIONS TO EXAMINE WHEN FORMULATING A TAX COMPLIANCE STRATEGY TO ADDRESS EMERGING COVID-19 COMPLIANCE RISKS:[26]

☑ Data needed to identify tax compliance risks

DATA REQUIREMENTS	YES	NO	PARTIAL
Revenue collections data broken down by type of tax but also the size of the taxpayer (large, medium, and small) and key economic sectors Remarks: The COVID-19 crisis requires revenue administrations to drill-down and understand compliance levels at the economic sector level (e.g., even in the LTO there could be some large businesses that were distressed but not others)	☐	☐	☐
Registration data broken down by type of tax but also the size of the taxpayer and key economic sectors Remarks: During the crisis, several taxpayers may have become either temporarily inactive or possibly permanently inactive so the tax administration should consider having more refined and up-to-date registration data	☐	☐	☐
Filing data broken down by type of tax but also the size of the taxpayer and key economic sectors	☐	☐	☐
Arrears data broken down by type of tax but also size of taxpayer and key economic sectors Remarks: The stock of arrears is likely to increase during the various phases of the COVID-19 crisis, therefore, the tax administration needs to ensure it can breakdown and report to senior management trends in arrears compliance risk by size of taxpayer and by economic sector	☐	☐	☐
Tracking how the tax administration is responding to inquiries during the crisis Remarks: The tax administration could maintain data to assess its ability to effectively deal with a growing service demand from taxpayers	☐	☐	☐
Tracking how the tax administration has adapted to the changing demand for scarce human resources Remarks: The tax administration could consider tracking the tax administration's effectiveness in reallocating staff to higher priority tasks during the COVID-19 crisis	☐	☐	☐
Revenue administrations should increase it use of Big-Data to identify compliance risk	☐	☐	☐

[26] A "YES" means the administration has this in place now, "NO means this is not in place now, "Partial" means some of the measures are in place

☑ Large Taxpayer – Compliance Strategy:

RISK AND TREATMENT STRATEGIES	YES	NO	PARTIAL
Tax administration uses Big-Data to identify VAT compliance risks (VAT Compliance Monitoring System cross-checks all VAT transactions from buyers and sellers to identify compliance risks	☐	☐	☐
Given the risk presented by businesses involved in sales of online goods and services, the tax administration could consider adjusting the large taxpayer criteria to include any business involved in this sector. This would ensure one office has overall control of this sector.	☐	☐	☐
Regarding the taxpayer register, there may be some large businesses that have been and will continue to be affected by the COVID-19 crisis. Steps could be taken to update the register to make these businesses temporarily inactive, otherwise, the tax administration IT system will still consider them as late VAT filers each month	☐	☐	☐
A quick review of the ISIC code assigned to each large taxpayer would ensure taxpayers have been classified in the right sector – otherwise this will result in inaccurate reporting of Key Performance Indicators	☐	☐	☐
LTO staff should promptly follow-up on any taxpayer that is not filing or paying on-time. Remarks: The tax administration will need to differentiate between large taxpayers that are in a distressed position and those who filing and payment on-time is still a mandatory requirement. For any large taxpayer that does not want to do the right thing, then the LTO staff should be ready to prepare estimated assessments	☐	☐	☐
The LTO should do everything possible to increase the number of large taxpayers that file and pay electronically Remarks: If E-filing and E-payment are not at 100%, then LTO staff should meet with any taxpayer that is not filing and paying electronically and assist the taxpayer in doing so. If not already done, the tax administration could consider issuing an order to make it mandatory for large taxpayers to file and pay electronically	☐	☐	☐
The tax administration might have suspended audits during the crisis, however, consideration should be given to undertaking targeted issue-based audits of select large taxpayers based on analysis of available data (e.g., suspicious claims for VAT carried forward, suspicious increases in Net Operating Loss on annual corporate income tax returns)	☐	☐	☐
The LTO should take steps to match VAT returns with information declared on import declarations to detect inaccurate reporting	☐	☐	☐
Priority should be given to collecting large taxpayer arrears Remarks: Any large taxpayer that has an ability to pay should not be granted an installment agreement. The tax administration IT system should be able to keep track of all installment agreements	☐	☐	☐

If the tax administration, does not have a binding ruling mechanism in place then consideration should be given to piloting this in the LTO	☐	☐	☐
From a service standpoint, the tax administration should ensure the website has all information taxpayers need to comply with all tax requirements (e.g., tax legislation, forms, educational information, frequently asked questions)	☐	☐	☐
A risk-based refund audit mechanism should be in place. Remarks: Taxpayers with good compliance history should be considered low risk and refunds should be expedited Fast track mechanism should be provided to exporters with a good compliance history Service standard should be established for refund processing if none exists (e.g. 30 days target for completing the processing of a refund claim	☐	☐	☐

☑ Medium Taxpayer – Compliance Strategy:

RISK AND TREATMENT STRATEGIES	YES	NO	PARTIAL
As a priority, the tax administration should closely monitor the most important medium taxpayers (e.g., analysis of existing data could assist in the identification of the top medium taxpayers (e.g., largest annual turnover, amount of tax paid)	☐	☐	☐
Ensure the taxpayer register is updated to reflect those taxpayers that are in a distressed position and are not in a position to file returns - use of internal and external data could assist in determining if a taxpayer is indeed in a distressed position	☐	☐	☐
Investigate the possibility of sending reminder/warning letters electronically to any taxpayer that has not filed a return on time (e.g., use of bulk emails)	☐	☐	☐
If there is a backlog in capturing information from manually submitted tax returns, then the priority should be given to capturing the most recent returns first	☐	☐	☐
If the tax administration has not shifted to allowing all taxpayers to self-assess then steps should be taken to revise the procedure – appropriate training should be provided to taxpayers	☐	☐	☐
The tax administration should increase its engagement and consultation with various taxpayer groups/associations in order to better understand the challenges taxpayers are facing during the COVID-19 crisis Remarks: Building a stronger partnership with the private sector is crucial	☐	☐	☐
Establish a tax administration COVID-19 email address and desk if none exists	☐	☐	☐

Investigate the possibility of introducing or expanding the use of contact/call centers to meet a growing service demand by taxpayers Remarks: A short-term solution could be to establish a COVID-19 hotline that taxpayers can use to communicate with the tax administration	☐	☐	☐
Develop or enhance taxpayer service standards, so there is a clear understanding of current and future tax administration service commitments	☐	☐	☐
Develop additional education materials for all core tax administration functions (e.g., registration, filing, payment, audit, arrears) to inform taxpayers of current/future COVID-19 relief measures	☐	☐	☐
A risk-based refund audit mechanism is in place for medium taxpayers Remarks: Taxpayers with good compliance history should be considered low risk and refunds should be expedited Service standard should be established for refund processing if none exists (e.g., 30 days target for completing the processing of a refund claim)	☐	☐	☐
Ensure taxpayers are aware of their rights and obligations when they are unable to pay their taxes Remarks: Expand awareness of installment agreement process and procedures	☐	☐	☐

☑ Small Taxpayers – Compliance Strategy:

RISK AND TREATMENT STRATEGIES	YES	NO	PARTIAL
Many of the medium taxpayer measures could be considered, however, the small taxpayer program should initially focus on assisting SME's to do the right thing. This includes but is not limited to: Ensure taxpayer register for SMEs is updated to reflect new filing and payment requirements Ensure education materials are targeted to the needs of SMEs Accelerate processing of refund claims (risk based but small refund claims should be paid quickly)	☐	☐	☐

RESPONSES TO COVID-19 / FORTUITOUS EVENTS
| Customs Administrations Key Actions

SOME CONSIDERATIONS TO MITIGATE THE EFFECTS OF A CRISIS (E.G. OUTBREAK):

☑ Secure Crossing Borders:

MITIGATION ACTION	YES	NO	PARTIAL
Coordinated mechanism in place to apply temporary restrictions to "non-essential" travels, such as tourism or any other recreational purpose.	☐	☐	☐
There are separate gates designated for all passengers arriving from high risk (outbreak) countries.	☐	☐	☐
Capacity to implement a screening strategy (temperature / thermal) with Health Authorities to monitor passengers at the main Ports of Entry and report any signs of respiratory disease to Customs Authorities.	☐	☐	☐
A questionnaire needs to be filled out by passengers in order to enable officials to identify any suspected (infected) cases.	☐	☐	☐
Can implement sanitary measures in all ports of entry. (Frequent disinfection of arrival gates, buses and other areas handling passengers)	☐	☐	☐
There is a strategy/operation design to monitor potential counterfeit medical goods or any shipment that could represent a threat to the public health. (e.g. unauthorized fraudulent test kits)	☐	☐	☐

☑ Workforce and resource allocation:

MITIGATION ACTION	YES	NO	PARTIAL
Customs administration has conducted a business impact analysis to forecast the number of staff available in different areas due to confinement measures (Scenario: 20%, 40%, 60%, 80% of staff attendance).	☐	☐	☐
Customs administration has defined a Scenario-Based Workforce Planning to determine its workforce capacity based on: (i.) increase/decrease of workload per area (20%, 40%, 60%), (ii.) addition of new task force activities to support the crisis, (iii.) availability of staff with mixed competencies or skills to perform in different areas.	☐	☐	☐
Customs administration has classified areas as either high, medium or low impact and which ones can be performed remotely without relevant complexity.	☐	☐	☐
Customs administration has defined a departmental restructuring by reallocating staff from low impacted areas to support front-line operations or new task force response activities.	☐	☐	☐

There are documented resources needed to keep critical departments afloat during the crisis.	☐	☐	☐
Customs administration has considered budget for emergencies within budgeting/forecasting.	☐	☐	☐
Additional task force units consider: (i.) Screening passenger operations, (ii). Monitoring shipments to target counterfeit / health threats, (iii.) Enquiry points (application of regulations, facilitation requests from other government bodies, and the coordination with the ports to avoid unnecessary delays in the release of essential cargo), (iv.) Virtual support desk system (operated remotely for general concerns).	☐	☐	☐

☑ Operations (expedite and simplify procedures):

MITIGATION ACTION	YES	NO	PARTIAL
Capacity to expedite the flow of the cargo regarding medical and essential goods / emergency donations. (Fast tracks, green lanes)	☐	☐	☐
There is a clear coordination mechanism with other government agencies to speed up the clearance of relief goods. (Health / Sanitary Authorities or other regulatory bodies)	☐	☐	☐
Provide pre-arrival processing of critical/essential goods declaration and release of the goods upon arrival.	☐	☐	☐
Customs administration apply risk management and perform inspections on relief goods only if deemed high risk to avoid bottlenecks under emergency context.	☐	☐	☐
Optimum use of Non-Intrusive Equipment (enough budget to provide additional supplies for equipment operation).	☐	☐	☐
Enquiry points (regulations, facilitation requests, binding ruling requests) to avoid unnecessary delays in the release of essential cargo.	☐	☐	☐
Can enable a place approved for the presentation of goods, other than the authorized to facilitate the submission of essential cargo directly at the economic operators' facilities	☐	☐	☐
Flexibility to introduce measures to ease requirements and formalities in customs procedures? (acceptance of scanned documents for certificates of origin, transits, etc)	☐	☐	☐
Can extend terms/deadlines regarding filing entries and supporting documents, amendments, notifications, appeals, control results, re-exportation of goods under temporary admission, audits documentation, overstayed cargo with no penalties due.	☐	☐	☐
Acceptance of digital /electronic signature as a facilitation measure (e.g. signature for invoices, transportation of hazardous materials declaration, guarantees, powers of attorney)	☐	☐	☐

Guidelines in place on how to process lodging electronic transactions (scanned papers) via email and hardcopy transactions under contingency (outbreak).	☐	☐	☐
Contingency transaction categorization to prioritize processing in accordance with the manner in which the information is lodged, the type or mode of clearance required, and the nature of the goods involved. (E.g. critical goods imports over any operation; electronic contingency transactions (import / exports) over hardcopy transactions; exports contingency data (hardcopy transactions) receive priority over imports (hardcopy transactions) due to the time critical relationship of meeting vessel/flight departure times, etc.)	☐	☐	☐

☑ Safety measures for enforcement actions:

MITIGATION ACTION	YES	NO	PARTIAL
Adequate resources to provide personal protection equipment to staff, such as masks, gloves, sanitizers, etc.	☐	☐	☐
Guidance for Personal Protection Equipment Use & Sanitary Measures in place.	☐	☐	☐
Staff members have participated in a training related to the use of personal protective equipment, staff safety and sanitation to its facilities.	☐	☐	☐
Capacity to implement temperature / thermal screenings to stakeholders (customs agents, transport / warehouse staff) with access to Customs facilities).	☐	☐	☐
Can authorize logistics operators to attend the physical inspection procedure on behalf of the consignee/importer or allow to inform the authorities that inspections can be carried out in their absence. (May contemplate exemption on sanctions imposed on entities that do not attend cargo examinations)	☐	☐	☐
Can continue with scheduled audits/cases considered as high-risk by using alternative means of communication such as video conferences, secure file transmission or any other telework technology.	☐	☐	☐

☑ IT aspects:

MITIGATION ACTION	YES	NO	PARTIAL
IT capacity to share advance passenger information (API) with sanitary control authorities (if applicable)	☐	☐	☐
IT storage capacity to accept alternative document forms (scanned files).	☐	☐	☐

Upgraded, regularly tested and fully functioning Notification system to reduce social interaction and effectively communicate with economic operators and stakeholders.	☐	☐	☐
Remote work solutions for staff in place (laptops, broadband capabilities, printers and other resources available to work remotely to access core business applications and shared drives remotely through VPN)	☐	☐	☐
Stress-test VPNs during the pandemic, to assure access to the building management system and other operating systems remotely, safely and securely.	☐	☐	☐
Staff can use their home computers for work if Customs Administration computers are unavailable using at least two-factor authentication to create a Zero Trust Network.	☐	☐	☐
The existing IT infrastructure is able to support an increase in remote work and manage any added load to client-facing or service delivery technology that may occur.	☐	☐	☐
There is a strategy to scale support capabilities by phasing in regular employees into the support system as needed when demand is high	☐	☐	☐
During a pandemic, data centers are cleaned more often and more deeply.	☐	☐	☐
There are defined phases associated with Customs automated system outage, during the outbreak / contingency phase. (Create data center tiered COVID-19 / emergency response plans).	☐	☐	☐
Conducts regular back up data on a hard drive, server or in the cloud.	☐	☐	☐
Web-based data management platform (e.g. SharePoint, OneDrive) and cloud-based software can be used to document processes in case of server failures (Dropbox, Acronis, and Amazon S3)	☐	☐	☐
There is a comprehensive business continuity and disaster recovery plan (BCP/DRP).	☐	☐	☐
Disaster Recovery Tools are considered in the Disaster Recovery Plan (online vaulting, off-site tape storage or vaulting, disaster recovery software: planning , monitoring or both, cloud-based backup, cloud storage capacity).	☐	☐	☐
If outsourced, there is a Service Agreement in place to address the service provider's contractual responsibility for backup, record retention, data protection, and the maintenance of disaster recovery and contingency plans.	☐	☐	☐

☑ **Means of communication:**

MITIGATION ACTION	YES	NO	PARTIAL

Communication solutions in place (email system, phone system, messaging and website).	☐	☐	☐
There is a detailed Communication Plan that defines how the organization needs to communicate with each other during a crisis.	☐	☐	☐
There are phone numbers and point of contacts defined for relevant activities including collaboration with other government agencies.	☐	☐	☐
There is a team responsible for the gathering of information about the crisis and reporting it to interested authorities, stakeholders and the media.	☐	☐	☐
Adequate resources to make COVID-19 related information available on official web-site and social media accounts.	☐	☐	☐
IT FAQs and training resources for employees and taxpayers moving online	☐	☐	☐
Necessary technologies to leverage video conferencing technologies	☐	☐	☐

☑ Legal Framework:

MITIGATION ACTION	YES	NO	PARTIAL
Customs current legal provisions consider fortuitous events / force majeure cases.	☐	☐	☐
Legal flexibility to extend customs formalities and deadlines? (extension of terms for filing entries, amendments, notifications, appeals, control results, overstayed cargo with no penalties due).	☐	☐	☐
Legal flexibility to enable a place approved for the presentation of goods, other than the authorized to facilitate the submission of essential cargo directly at the economic operators' facilities	☐	☐	☐
Legal provisions consider exemptions to customs debts extension / suspend period of notification.	☐	☐	☐
There is a legal basis to provide for a general deferral of the time limits for payment of customs duties or a suspension of recoveries of those duties, due to this (or another) crisis.	☐	☐	☐
Legal allowance to Cloud-based storage. (Are there any restrictions that can be an obstacle due to sensitive classification /confidentiality treatment?)	☐	☐	☐
Legislation governing contingency arrangements (lodgment of documents electronically in the Customs automated system in accordance with the established guidelines for recovery.	☐	☐	☐

RESPONSES TO COVID-19 / FORTUITOUS EVENTS
| Business Continuity Action Checklist

CONSIDERATIONS TO VERIFY WHEN FORMULATING A BUSINESS CONTINUITY MANAGEMENT SYSTEM TO ADDRESS EMERGING COVID-19 CRISIS:

☑ Elements to identify Business Continuity readiness

PRE-REQUIREMENTS	YES	NO	PARTIAL
Are there any BCP (Business Continuity Plan) or BCS (Business Continuity Strategy) developed by the Revenue Administration (RA) Remarks: The COVID-19 crisis requires revenue administrations to assess all previous BCP efforts to understand the level of maturity regarding BCP, it will be useful to identify the people involved, the depth and quality of current BCP efforts (which crisis were proposed: natural disasters, accidents, technological failures, workplace violence, pandemic, and terrorism) to determine the Baseline.	☐	☐	☐
Has the RA established a Crisis Task Force (CTF) and appointed decision-makers at each level of management, who will exercise their authority as decided by the CTF? Remarks: During the crisis, activities such as leadership, communications, prioritization, and adaptability must be orchestrated by a person or group with enough authority to coordinate the response.	☐	☐	☐
Assign a number of officials who should be identified to act as the liaison between the RA and the Ministry of Finance to provide CTF-approved input into policy decisions and to lead the implementation of COVID-19 measures. Remarks: The RA's activities and processes will need to be coordinated with the government's efforts to face the crisis.	☐	☐	☐
Has the RA Governance defined which are their Critical Operational areas? Remarks: The RA must focus their resources and efforts during the crisis to those activities which have been defined as critical to the RA, many of them must be related to continue collecting payments from taxpayers and provide resources and tools in order to fulfill their mission.	☐	☐	☐
Begin planning for full business resumption by considering the sequencing and approach to bring services back into operation. Remark: Potential actions include staging the resumption of programs that were not delivered during the crisis, moving staff back to their regular work locations and undertaking their original job functions, etc.	☐	☐	☐
Establish a protocol to evaluate the crisis status continually and adjust existing operations based on an assessment of the risks. Remark: Be alert for a possible recurring pandemic wave	☐	☐	☐

☑ Communication strategies:

PROPOSED STRATEGIES	YES	NO	PARTIAL
Has the RA communication department established a COVID-19 Crisis Response Call Center (or hotline) to disseminate, educate, and guide the general public to new schedules, office closings, updated procedures, and guidance? Ensure "single voice" coming from the administration. Remark: A short-term solution could be to establish a COVID-19 hotline that taxpayers can use to communicate with the RA	☐	☐	☐
Has the RA communicated with staff as early as possible and frequently thereafter to share information on the administration's approach to modifying business operations to protect staff safety?	☐	☐	☐
Communicate frequently with government-level crisis management teams to share RTA issues, trends in revenue collection, and to receive information on government measures being considered tax policy changes particularly.	☐	☐	☐
From a service standpoint, the RA should ensure the website and all TA portals have all updated information taxpayers need to comply with all tax requirements (e.g., tax legislation, forms, educational information, frequently asked questions)	☐	☐	☐
Identify communications systems needed to support day to day activities such as virtual meetings and sharing messages Remark: Obtain new or additional videoconference licenses and/or secure messaging systems preventing saturation on existing platforms.	☐	☐	☐
Have the RA asked staff to update their personal contact details (including mobile numbers and personal email addresses) as well as details for their next of kin or other emergency contact persons (ideally through self-service portals to avoid bottle-necks); also establishing a "call-tree," which is a document that graphically depicts the calling responsibilities and the calling order used to contact management, employees, customers, suppliers and other key contacts in the event of an emergency, disaster, or severe outage situation.	☐	☐	☐
Continue supporting staff through regular proactive communication to ensure they have the tools necessary to undertake their work and to maintain virtual contact, particularly with employees who do not have a family support system. (interaction)	☐	☐	☐
As with existing communication strategies, thought will need to be given to how best to access different groups, including those who may be digitally challenged or with special needs	☐	☐	☐

☑ Human Resources, training, and deployment activities:

HUMAN RESOURCES	YES	NO	PARTIAL
Have the HR area developed a plan for replacing critical staff who are absent? Have they monitored, in real-time, daily on work presence of staff? Remark: Evaluate and update leave policies to provide additional flexibility during the crisis	☐	☐	☐
Interview processes will need to be thought through, including using remote testing and video interviews over the internet and whether individuals who are successful are asked to wait before taking up employment or there are things that they could begin working on in remote working situations or workplaces subject to social distancing. It may also be possible for new staff to carry out remote training.	☐	☐	☐
It may be possible for administrations to adopt policies to immediately appoint individuals with specialized knowledge, skills, abilities, or competencies or to hire experts and consultants to fill positions without going through competitive processes.	☐	☐	☐
Tracking how the RA has adapted to the changing demand for scarce RA human resources Remarks: The RA could consider tracking the RA's effectiveness in reallocating staff to higher priority tasks during the COVID-19 crisis	☐	☐	☐
Identify vulnerable staff, such as those in an older age bracket, single parents, those with caring responsibilities (for example, for elderly relatives), disabled staff, those living alone, etc. and consider special provisions for keeping in contact.	☐	☐	☐
The workforce from non-essential functions can be reallocated to essential functions. Remark: Be sure that skilled staff for reallocation is properly trained and prepared to be deployed to identified functions.	☐	☐	☐
Perform Awareness campaigns for specific cases of social engineering attacks in communication-related to the crisis.	☐	☐	☐

☑ Health services, staff & workplace safety:

HEALTH SERVICES	YES	NO	PARTIAL
The RA has been sourcing sufficient sanitation products and are ready available to all facilities (washing facilities, sanitizers, hand gels, gloves, masks, etc	☐	☐	☐
When an employee gets sick, a protocol has been defined to: Notify Health Authority, disinfect workspace, determine who was in contact with employees and ensure they self-isolate, monitor the general welfare of staff working from home.	☐	☐	☐

Remarks: Have a protocol in place early for handling sick employees would facilitate the process.			
Promote physical distancing and limit infection risk. Remark: Where possible, allow staff to work in shifts to reduce the numbers of staff in one location.	☐	☐	☐
Determine when to cease face-to-face meetings, both with taxpayers, traders, and staff, to reduce exposure to contagion. Remark: Ensure adequate supplies of protective equipment for essential staff to continue having interaction with taxpayers.	☐	☐	☐
Vehicles used for your business (e.g., delivery, staff movement) have been fitted with sanitizers and processes for regular cleaning	☐	☐	☐

☑ IT support strategies:

IT	YES	NO	PARTIAL
Test all applications for remote access (VPN etc.) + patches, hardening	☐	☐	☐
Decide any additional measures that should be taken to ensure maintenance and security of data, while extended remote work is occurring. Remark: Additional staff resources or contractors are most likely to be hired.	☐	☐	☐
During the initial stages of the crisis, assess and test the capacity to maintain large-scale remote working or other flexible working arrangements for critical staff. Remark: Is the IT infrastructure sufficient? Are more software licenses required?	☐	☐	☐
Determine any limitations on access to and transmittal of confidential data where the staff is using personal computers and email addresses. Remark: revisit security policies to determine what information can be trusted to each staff segment.	☐	☐	☐
Establish good practice protocols for remote working, for example, expected hours (depending on other responsibilities such as caring), notification of availability, frequency of team meetings, maintenance of data protection and security standards (e.g., wifi security) in a home environment, etc.);	☐	☐	☐
Set up sufficient IT support for remotely working employees	☐	☐	☐