

Compliance Strategy

State Revenue Office, Tasmania

2020

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Introduction

The State Revenue Office is part of the Department of Treasury and Finance and is responsible for the administration of state taxation legislation. We manage the assessment and collection of state taxes, the disbursement of grants and rebates and we provide advice to taxpayers and grant recipients on their rights, obligations and responsibilities.

It is important that everyone pays the right amount of tax, and that individuals are eligible for any grant or rebate they receive. To promote fairness of our tax system, we have adopted a strong focus on compliance. Compliance is a key activity that is undertaken in a planned and purposeful manner. Effective compliance requires our staff to have sound technical skills, and equally essential is the need for sound judgement and efficient output management.

This Compliance Strategy documents the State Revenue Office's overall approach to compliance for the next three years. It describes our compliance goal and, at a high level, what we are going to do to achieve this goal.

This strategy supports a professional, effective and ethical approach to supporting voluntary compliance and detecting and deterring non-compliance.

Strategic Goal

The State Revenue Office's strategic goal forms the basis of all strategy development and operational planning. It is:

The State Revenue Office will provide an effective and efficient revenue collection and regulatory compliance service.

The Compliance Strategy provides the basis on which to build community confidence in the Tasmanian state tax system. Building and preserving community confidence includes developing community trust that the tax system is efficient and effective and that decisions are applied consistently and fairly.

Developing this level of trust in the tax system will support voluntary compliance, thereby allowing the allocation of limited resources to detecting dishonesty and intentional disregard to further preserve the integrity of the tax system.

Compliance Goal

The compliance goal is a high level summary of what the State Revenue Office aims to achieve as a result of our compliance activities; it is a purpose statement that underpins the approaches outlined in this document.

Our compliance goal is:

All Tasmanian taxpayers are provided with the information and incentive to comply voluntarily, and are detected and investigated if they do not.

This goal focuses on encouraging voluntary compliance by providing the tools, resources and knowledge to enable our clients to fulfil their obligations in a timely and fulsome manner.

However, when taxpayers will not, or cannot comply, we are committed to enforcing their compliance by applying the appropriate intervention (compliance product) to collect revenue and, where possible, to move their behaviour to a volunteer compliance position.

Our Definition of Compliance

Taxpayers have four categories of obligations in relation to their tax affairs. Broadly, these obligations are:

- Registration - Registering on time and providing accurate and honest information.
- Lodgement of requisite tax information - Lodging information in a manner, and within a timeframe, approved by the Commissioner.
- Reporting and record keeping - Reporting information as required and providing evidence to support that information.
- Payment on time and in full - Voluntarily paying a liability without enforcement action being required.

Compliance refers to the extent to which taxpayers meet these obligations, either willingly or through the use of products and strategies, such as audit.

Taxpayers, whether due to ignorance, carelessness, recklessness, or deliberate evasion (as well as weaknesses in administration) may fail to comply with the law. In seeking to minimise these instances of failure, we have a key responsibility to ensure that taxpayers, their representatives and interested peak bodies or industry groups understand the taxpayer's obligations under the relevant laws.

Our Approach

1. We will design, plan and implement all our administrative activities to enhance voluntary compliance.

Whole-of-branch responsibility

Compliance is a whole-of-branch responsibility and compliance interventions occur in many different ways across the branch. We recognise that ensuring compliance is a key consideration in the way we design our systems and processes, communicate with taxpayers, present our educational material, and explain our decisions.

The Compliance Section

The Compliance Section of the Revenue Branch is responsible for developing, implementing and monitoring the effectiveness and efficiency of programs that ensure taxpayers pay the right amount of tax and understand their taxation obligations. A key task for the section is managing the audit product. The Assistant Director Compliance leads the Compliance Section, and through participation in the management structure, supports a branch-wide approach to effective compliance.

The Compliance Section identifies and manages risks to revenue through the annual development of the Revenue Risk Register. The risk register is a whole of branch document that underpins the annual operational planning process. Effective risk identification, along with other strategies identified in this document, will ensure that the SRO implements compliance activities that promote positive, supportive and timely interactions with taxpayers. This approach will encourage voluntary compliance, in contrast to the reactive, negative interactions that a solely audit-based compliance approach creates. This does not mean however, that where necessary, we will not apply the full force of the law.

2. We will select the appropriate tool or product for the taxpayers' circumstances to detect and collect revenue, and we will remain contemporary in our approach.

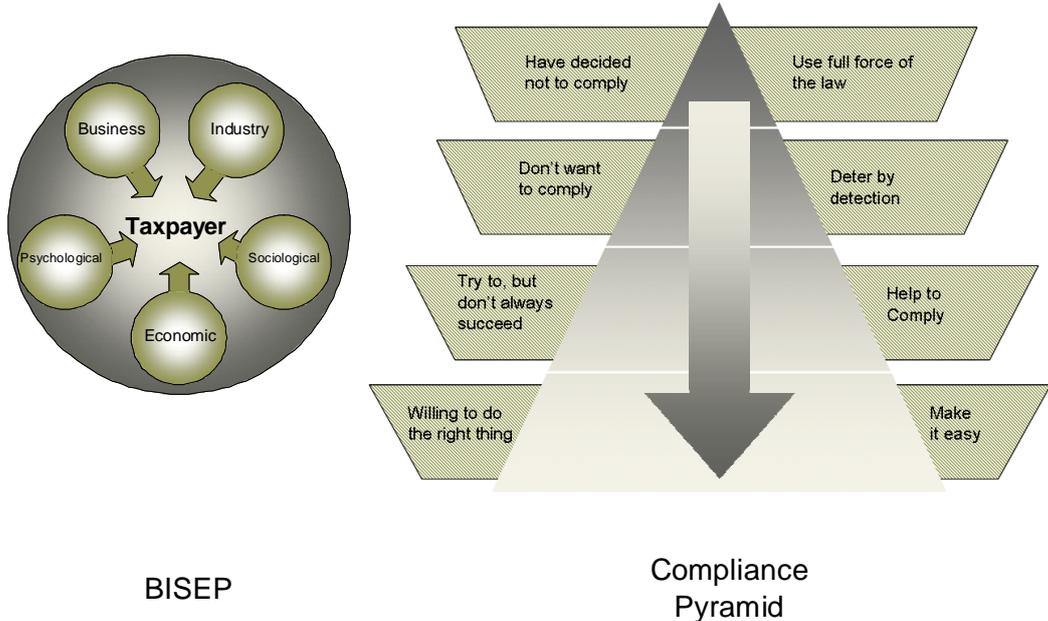
Framework

The framework we apply in this strategy utilises a compliance model developed by the Australian Tax Office (ATO). The ATO's compliance model is based on the premise that taxpayer behaviours can be influenced by the way the taxation regulator responds, or actively interacts or intervenes with a taxpayer. That is, the actions of the taxation authority can change taxpayer behaviour patterns.

The BISEP model

The BISEP (Business, Industry, Sociological, Economic and Psychological) compliance model was developed to reveal the underlying causes (rather than obviously observable symptoms) of non-compliance, and effective use of the model can support a taxation authority to design and direct their actions to specifically 'push' taxpayer behaviours towards voluntary compliance.

Taxpayer behaviour is influenced by a number of pressures, illustrated by the BISEP circle. When designing our compliance programs, each of these pressures will be considered in relation to the specific risk. Understanding the pressures faced by taxpayers, and the underlying reasons for non-compliance, means that we can make it as easy as possible for those that want to comply, and apply the appropriate range of compliance interventions to those who don't want to, or have decided not to comply.



Compliance pyramid

The Compliance pyramid illustrates the attitudes of taxpayers and the corresponding strategy to mitigate that attitude. Most taxpayers fall in the bottom two sections of the pyramid, and are willing to do the right thing. Progressively smaller numbers of taxpayers make up the top two sections.

Our core principle is a graduated response depending on the willingness of the taxpayer to comply. We will design methods to make compliance as easy and inexpensive as possible for those who want to comply. However, for a balanced and fair tax system the full force of the law is applied when people deliberately seek to evade or exploit the system.

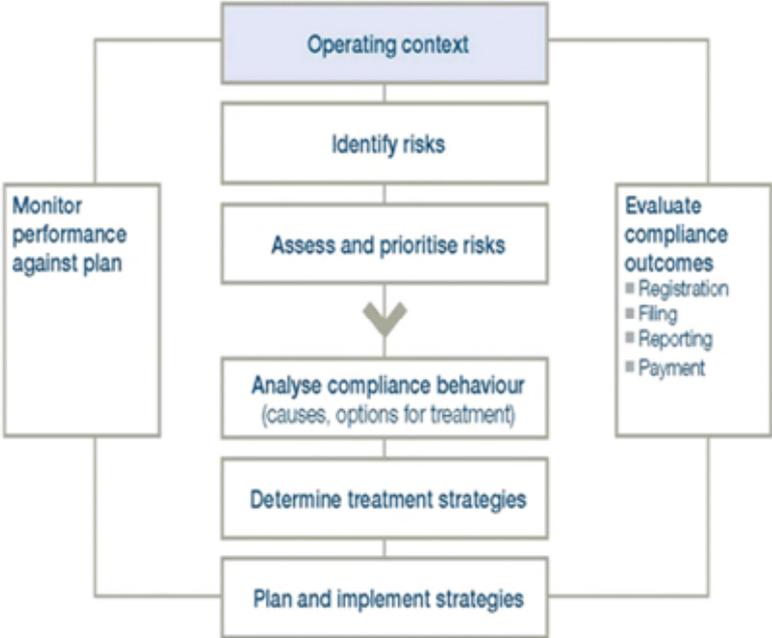
Therefore, the aim of all compliance actions is to apply pressure downward and move taxpayers towards being willing to do the right thing and comply.

Risk

Identification of risks to revenue is a primary function in managing and improving overall compliance with the tax laws. Equally important is the need to identify those taxpayers or client segments that through their behaviours provide minimal risk to revenue. Risk profiling in this way allows us to focus our limited resources on deterring evasion, through increasingly intense, targeted and visible interventions.

Our risk management framework illustrated below, guides the effective management of risks. It is based on the standards contained in AS/NZS 4360:2004 Risk Management and OECD 2004 Guidance Note Compliance Risk Management: Managing and Improving Tax Compliance.

This framework enables prioritisation of compliance work by informing decisions about the appropriate risks to address and the resource commitment required.



Our compliance work

Our compliance work encompasses a range of broad approaches and more specific methodologies that we employ to reach our compliance goal. However, this range of compliance-related activity is all structured around four key strategies, and each strategy aligns to one of the four levels of the compliance pyramid:

- Strategy 1: Applying the full force of the law
Application: Taxpayers who have decided not to comply
- Strategy 2: Deterring by detection
Application: Taxpayers who do not want to comply
- Strategy 3: Assisting to comply
Application: Taxpayers who try to comply but do not always succeed
- Strategy 4: Making it easy
Application: Taxpayers who are willing to comply

Compliance products

When risks are identified, they must be assessed prior to assigning a compliance product designed to address their underlying cause.

Using the compliance model promoted by the ATO, we will influence taxpayer behaviour through a range of compliance products. Compliance products are the actions, activities and programs we employ to ensure taxpayers are paying the right amount of tax.

In varying our compliance products according to the level of the pyramid within which the taxpayer behaviour falls, we will consistently apply a regulatory pressure that ‘pushes’ taxpayer behaviour towards voluntary compliance i.e. towards the base of the compliance pyramid.



Our range of compliance products can be categorised as shown in Table I. Over time, a more detailed list of products will be developed in consultation with staff. These new products will be applied as part of the coordinated compliance programs, and in each instance, a specific outcome will be sought. Each product will be evaluated for effectiveness based on the success of the product in achieving the desired response.

Table I: Categorisation of Compliance Products

Taxpayer Behaviour	<i>Have decided not to comply</i>	<i>Don't want to comply</i>	<i>Try to comply, but don't always succeed</i>	<i>Willing to comply</i>
Compliance Strategy	<i>Applying the full force of the law</i>	<i>Deterring by detection</i>	<i>Assisting to Comply</i>	<i>Making it easy</i>
Compliance Products	Referral for Prosecution	Automated data matching	Offer of Voluntary Disclosures / Amnesty	Communication of commonalities
		Issue and follow up of 'Watching You' alerts'	Reviews	Channel options
		Investigations and Audits	Issue and follow up of reminders	Accessible Forms
		Application of penalty and interest	Planned Audit follow-up	On-line Systems
			Delivery of targeted Workshops	Easy to understand advice
				Fact Sheets and Guidelines
				Rulings

Selecting the appropriate compliance strategy and product

Effective compliance intervention requires us to first determine the appropriate strategy within which we will focus our activities (for example, assisting to comply, or applying the full force of the law), and once that is agreed to, we need to select the most appropriate compliance product/s. It is likely that the most effective compliance intervention will involve a suite of compliance products.

The selected compliance product/s will be determined by the risk that has been identified, the nature and complexity of the risk, and the scope of the risk – i.e. does the risk apply to individuals, or a whole segment of the taxpaying community.

Therefore it is important to understand:

- the nature and complexity of the risk;
- who is involved in the risk (i.e. the target group whose behaviour we seek to change);
- the underlying causes of the behaviour that constitutes the risk; and
- the specific behaviours we seek to influence.

Front-end compliance and back-end compliance

Front-end compliance occurs where the taxpayers' details, requirements and obligations are confirmed at the point of lodgement. Front-end compliance products are effective when risks are high, there is difficulty expected in recovering revenue, or implementation is easy.

Alternatively, back-end compliance is undertaken after tax or grants have been paid. Back-end products include data matching, investigations and audits and random sample checks. Back-end compliance is most effectively used in self-assessment environments, in detecting intentional disregard or evasion and/or when front-end compliance is difficult or expensive.

Both approaches are valid, and we will ensure that the relevant factors are considered when deciding which approach to use. Some circumstances will require both a front-end and back-end approach.

Audit

Our audit product is used to investigate the compliance of taxpayers when there is a suspected discrepancy. An audit, undertaken at a desk or in the field, can result in the detection of unpaid revenue, and can also result in the application of penalty and interest.

Undertaking audits is an important function that protects the integrity of the tax system. We undertake our audits professionally and minimise the impact on the taxpayer. Our [Taxpayer Charter](#) further explains the responsibilities of the SRO and the taxpayer in relation to audit.

Referral for prosecution

It will sometimes be necessary to take legal action against those taxpayers who refuse to comply or who deliberately provide false or misleading information for the purposes of monetary gain. The SRO will undertake this action to ensure the integrity of the tax system.

Compliance programs

The compliance programs are integrated operational plans that lay out the range of compliance activities that will be undertaken to address identified risks. The compliance programs incorporate intelligence, communication, education, and more traditional compliance products such as desk and field audits. Each risk is subject to a workshop where staff will have input to develop the appropriate program of action. The program is developed in accordance with the compliance model described in this strategy. New compliance products, not listed in this strategy may be included and added to the products register. Each program will have an objective that can be measured and will include an evaluation phase. Each program will also have a number of indicators and output measures that will contribute to reporting on the integrity of the tax system.

3. We will measure our efficiency and effectiveness in achieving our compliance goal.

Evaluation and reporting

We will monitor and evaluate our compliance activities to ensure that they are efficient and effective in meeting our compliance goals and objectives.

To ensure this, in developing our compliance programs and activities we will:

- define the outcomes we aim to achieve;
- define success, that is how we will know when we have achieved our desired outcome;
- design indicators for measuring success; and
- evaluate the effectiveness of our compliance programs and activities in achieving our desired outcomes.

In monitoring our compliance performance, we will consider both effectiveness and efficiency measures.

The progress of compliance programs will be regularly reported to the SRO Management Group.

Effectiveness and efficiency

Effectiveness and efficiency in compliance activities are related measurements that are used to describe either outcomes or outputs.

Effectiveness focuses on “doing the right thing”. Being effective means the outcomes of the compliance activity align closely with the stated objectives.

Efficiency focuses on “doing the thing right”. An efficient compliance activity maximises results through minimum inputs. Outputs are usually associated with efficiency. An output is something produced in order to fulfil expected outcomes. Examples of outputs are revenue detected and number of investigations completed.

Outcomes focus on whether the SRO’s goals are being met through the activity. Our desired outcomes include:

- high levels of voluntary compliance / appropriate enforced compliance;
- stakeholders understand their obligations and how to comply with them;
- compliance costs to stakeholders are minimised; and
- the community has confidence in the tax system.

Compliance monitoring framework

Our compliance monitoring framework will be used to measure the overall effect of compliance activities in relation to the compliance strategy objectives. It will combine and/or compare results from different tax (or grant) lines and client segments.

4. We will engage our stakeholders in the development of programs to achieve our compliance goal.

We will articulate our compliance strategy to stakeholders so they understand why we do what we do. It is important that taxpayers, and their representatives, understand their obligations and the consequences of their actions in respect of those obligations.

Building trust

Stakeholders have the right to feel that they have been treated fairly. By engaging with them in the development of compliance programs and products we will increase levels of trust.

Stakeholders who feel they are trusted by the SRO are more likely to be voluntarily compliant.

We will work to build trust through:

- adhering to our Taxpayer Charter;
- applying appropriate compliance products, rather than a one size fits all approach;
- providing consistent and authoritative advice; and
- meeting our commitments.

Applying the right product

Our compliance products have to be effective in addressing the compliance risk. We need to work with stakeholders to make sure we have:

- properly identified the risk;
- properly understood the underlying causes; and
- confirmed that the proposed approach will address the risk.

By using improved data matching, client segmentation, and examining the behaviour being displayed, we will be able to more accurately identify the most effective product to apply.

Stakeholder feedback will be used in developing client segmentation intelligence.

Review

The field of compliance is consistently evolving. New data sources continue to become available, investigation processes continue to improve, and external pressures continue to change. Therefore we will continue to review this strategy regularly, with a focus on implementing the most contemporary and best practices available.