RISK ANALYSIS OF

LARGE TAXPAYERS

IOTA Report for Tax Administrations

Intra-European Organisation of Tax Administrations
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INTRA-EUROPEAN ORGANISATION OF TAX ADMINISTRATIONS (IOTA)

BUDAPEST 2012
PREFACE

A fundamental basis for tax systems in IOTA-member countries is voluntary compliance, even though some taxpayers are non-compliant or fraudulent.

For large taxpayers these issues often arise from tax planning or from the exploitation of the legal framework, leading to effects that are incompatible with the principles and intent of legislation.

If a country wants to control all aspect of every Large Taxpayer, the scope of the control will be very wide and it will be impossible to manage it cost effectively.

Risk analysis for Large Taxpayers is a tool used to focus the scope of control in order to audit those taxpayers with the most risky transactions.

To address these issues, the IOTA Large Taxpayer Treatment & Audit Area Group agreed to create a Task Team for the purpose of studying and reporting on the Risk Analysis (RA) of Large Taxpayers (LTP). An important part of the process leading to the production of this report has been the gathering of information about the RA activities of Large Taxpayers Units (LTUs) within the IOTA Tax Administrations, with the main emphasis put on Large Taxpayers. In order to facilitate this process, the Task Team produced a Questionnaire for completion.

During the research period for this publication, input was provided by Area Group members from the majority of IOTA member tax administrations, who provided experiences in the field of risk. We would like to thank them along with the Task team members who compiled this report: Malik Akberov, Azerbaijan; Daniel Bovigny, Switzerland; Donatantonio Demaio, Italy; Nino Inasaridze, Georgia; Anna Kožoroneka, Latvia; Mario Meisel, Austria; Vladimir Milinovic, BiH; Nevenka Moric, Croatia; Svein Osvik, Norway (chair); Dirk Van de Peer, Belgium; Annikó Réfi, Hungary; Zita Vitmane-Zīle, Latvia.

This report examines how RA for LTP is dealt with in IOTA Tax Administrations. As the tax systems from one country to another vary considerably it has not been possible to define how these matters should be specifically addressed in each country, but it is hoped that the report will be useful for evaluating how to work with risk analyses within the Tax Administrations.

Budapest, 2012
Intra-European Organisation of Tax Administration
**LIST OF ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACL</td>
<td>Software for analysis of accounting data</td>
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<tr>
<td>AORI</td>
<td>Risk assessment system, Bulgaria</td>
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<td>CRM</td>
<td>Customer Relationship Manager, UK</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>eXBRL</td>
<td>eXtensible Business Reporting Language</td>
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<td>HMRS</td>
<td>UK tax administration</td>
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<tr>
<td>IDEA</td>
<td>Software for analysis of accounting data</td>
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<td>IOTA</td>
<td>Intra-European Organisation of Tax Administrations</td>
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<tr>
<td>ISK1</td>
<td>Audit system in Slovak Republic</td>
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<td>LBS</td>
<td>Large Business Service, UK</td>
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<td>LTP</td>
<td>Large Taxpayer</td>
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<tr>
<td>LTU</td>
<td>Large Taxpayer Unit</td>
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<tr>
<td>n/a</td>
<td>Answer is not possible, not available or missing</td>
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<td>NRA</td>
<td>Bulgarian tax administration</td>
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<tr>
<td>RA</td>
<td>Risk Analysis</td>
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<td>RM</td>
<td>Risk Management</td>
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<td>SAR</td>
<td>RA system for VAT in Slovak Republic</td>
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<td>Sesam</td>
<td>Software for analysis of accounting data</td>
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<td>TA</td>
<td>Tax Administration</td>
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<td>TO</td>
<td>Computer system for audit approach and archiving</td>
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<tr>
<td>TP</td>
<td>Taxpayer</td>
</tr>
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<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>VLB</td>
<td>Very Large Business</td>
</tr>
<tr>
<td>AORI</td>
<td>Risk assessment system, Bulgaria</td>
</tr>
</tbody>
</table>
TABLE OF CONTENTS

PREFACE 3

LIST OF ABBREVIATIONS 4

0 SUMMARY 7
  0.1 Some basic starting points 7
  0.2 Organisation of tax administration 8
  0.3 Organisation of the risk management process for LTP within the Tax Administration 9
  0.4 Identifying Risks 10
  0.5 Assessing, analysing and prioritising risks 10
  0.6 Communication report 13
  0.7 Impact of Risk Analysis and other related issues 13

1 INTRODUCTION 15
  1.1 Aim of the report 15
  1.2 Organisation of tax administrations 16
  1.3 Risk analysis and taxpayer treatment in general 16
  1.4 Task team working methods 17
  1.5 Reading guide (Caveat) 18

2 RISK AND RISK ANALYSIS. 19
  2.1 Risk - definition 19
  2.2 Risk Analysis - definition 20
  2.3 Compliance Risk Management - definition 21

3 ORGANISATION OF THE RISK MANAGEMENT PROCESS FOR LTP WITHIN TAX ADMINISTRATIONS 22
  3.1 Organisation 22
    3.1.1 Organisational aspects of the RA service 22
    3.1.2 Centralisation and decentralisation of the RM process 23
    3.1.3 Type of RA-activity carried out by the different levels 23
    3.1.4 Type of taxes managed by the RA service 24
    3.1.5 Methods for detecting risk areas (top-down/bottom-up) 25
    3.1.6 Officials working in the RA service for LTP (in full time equivalents) 25
    3.1.7 Different types of functions of the staff (Coordinator, Analyst, Data manager, etc) 28
  3.2 Audit planning and risk analysis: 29
    3.2.1 The aim of RA: a) selecting the taxpayers to audit 29
    3.2.2 The aim of RA: b) selecting the items and the risk areas to investigate (during an audit of LTP already selected by other means) 30

4 IDENTIFYING RISKS 33
  4.1 Risk Sources 33
  4.2 Risks by Trade Sector 34
  4.3 Classification of the Risks 35
  4.4 Risks used 35
  4.5 Risk Database 36
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.6</td>
<td>Sources for Risk Identification</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>4.7</td>
<td>Tools for risk analysis</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>4.8</td>
<td>Techniques for Risk Analysis</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>4.9</td>
<td>Evaluation of the relationship between causes and consequences</td>
<td>43</td>
<td></td>
</tr>
<tr>
<td>4.10</td>
<td>Identification and selection of risk areas during the audit process</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td>4.11</td>
<td>Computer tools</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>ASSESSING, ANALYSING AND PRIORITISING RISKS</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>5.1</td>
<td>Techniques adopted to rank, evaluate and treat the risks</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>5.2</td>
<td>Criteria to evaluate the usefulness and the quality of data in the risk analysis process</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td>5.3</td>
<td>Decision-making powers: Competence and organizational position</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>5.4</td>
<td>Enhanced Relationship program and Large Taxpayers</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>5.5</td>
<td>Use of information from Enhanced Relationships in RA</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>5.6</td>
<td>Risk classification systems</td>
<td>57</td>
<td></td>
</tr>
<tr>
<td>5.7</td>
<td>Systems for the disclosure of tax avoidance schemes</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>5.8</td>
<td>Risk analysis of LTP and knowledge-based systems</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>5.9</td>
<td>Frequency of the risk analysis process</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>5.10</td>
<td>Feedback procedures</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>COMMUNICATION</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>6.1</td>
<td>The transparency of the criteria for the selection of «risky businesses»</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>6.2</td>
<td>Kinds of communications that are being carried out as far as RA is concerned</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>6.3</td>
<td>The responsibility for the communication</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>IMPACT OF RISK ANALYSIS AND OTHER RELATED ISSUES</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>7.1</td>
<td>Policy decisions</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>7.2</td>
<td>Audit activities</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>7.3</td>
<td>New legislation</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>7.4</td>
<td>Service to the public</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>7.5</td>
<td>Other issues</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>7.6</td>
<td>The benefits to LTP</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>7.7</td>
<td>Random audits</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>7.8</td>
<td>Periodic audits</td>
<td>71</td>
<td></td>
</tr>
<tr>
<td>7.9</td>
<td>Impediment to an effective RA</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>7.9.1</td>
<td>Insufficient data</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>7.9.2</td>
<td>Insufficient statistical significance</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>7.9.3</td>
<td>Insufficient data from other countries</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>7.9.4</td>
<td>Privacy regulations</td>
<td>73</td>
<td></td>
</tr>
<tr>
<td>7.9.5</td>
<td>Inadequacy/inappropriateness of RA tools</td>
<td>73</td>
<td></td>
</tr>
<tr>
<td>7.9.6</td>
<td>Lack of resources</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td>7.9.7</td>
<td>Other restrictions to the use of data</td>
<td>74</td>
<td></td>
</tr>
</tbody>
</table>
1. SUMMARY

1.1. Some basic starting points

The work of the Task Team focused on the following topics:
- Organisation of tax administrations
- Risk and risk analysis
- Organisation of risk management processes for Large Taxpayers within Tax Administrations
- Identifying risks
- Assessing, analysing and prioritising risks
- Communication
- Impact of Risk Analysis and other related issues

The Task Team adopted the following definitions, as starting points:

**Risk:**
The threat or probability that an action or event will adversely affect an organisation’s ability to achieve its objectives. (FISCALIS GUIDE, Compliance Risk Management Guide for Tax Administrations, p.12)

**Risk Analysis:**
The activity of systematically weighing and grouping risks and risky taxpayers in relative order, to identify their frequency, likelihood and potential consequences (what is occurring, who is doing it and why). (FISCALIS GUIDE, Compliance Risk Management Guide for Tax Administrations, p. 31 and 110)
Compliance Risk Management\textsuperscript{1} process:
A structured process for the systematic identification, assessment, ranking and
treatment of tax compliance risk. (Compliance Risk Management: Managing and
Improving Tax Compliance, OECD, October 2004, p. 8)

In some of the questions, definitions taken from either OECD or Fiscalis Guides are
offered as a starting point:

- Compliance Risk Management: Managing and Improving Tax Compliance,
  October 2004 (OECD 2004)
  \url{http://www.oecd.org/dataoecd/44/19/33818656.pdf}

- FISCALIS GUIDE, Compliance Risk Management Guide for Tax Administrations,
  (Fiscalis 2010)

The following 34 IOTA members replied to the questionnaire prepared by the Task
Team prior to 30 October 2010. The report reflects the situation as of this deadline,
even if some changes may have occurred later:

Austria, Azerbaijan Republic, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia,
Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia,
Lithuania, Malta, Montenegro, Norway, Poland, Portugal, Republic of Belarus,
Republic of Macedonia, Republic of Srpska, Romania, Serbia, Slovenia, Spain, Sweden,
Switzerland, The Czech Republic, The Netherlands, The Slovak Republic and United
Kingdom

The report shows that Tax Administrations have very different approaches to Risk
Analysis.

On one side there are TA’s that, according to the law, are obliged to audit \textit{all}
the LTP yearly. Risk analysis in such a system will only be a help for the auditor in identifying
the areas to audit and not for selecting the taxpayers to control.

On the other side some TA’s have a self-assessment framework, with all tax
verification activities chosen on the basis of risk analysis. A lot of large companies are
seldom controlled. For these TA’s, RA is a crucial tool that leads to the selection of
the taxpayers to control and, quite frequently, with reference to the transactions
performed by a taxpayer, to the choice of the items to audit.

In a few cases, with the objective of avoiding duplicating work, some countries trust
the taxpayers\textsuperscript{1} internal systems controls and do not repeat those control activities
already performed by an independent auditor.

\section*{1.2. Organisation of tax administration}

\textsuperscript{1}The concept of Compliance Risk Management is used to emphasize that tax administrations have a broader target: to
ensure compliance and not only to detect tax evasion and apply sanctions (Fiscalis Guide page 10)
28 countries out of 34 have a Large Taxpayer Office, while 6 countries do not.

### 1.3. Organisation of the risk management process for LTP within the Tax Administration

Twenty three out of 34 TA’s include their service for Risk Analysis of LTP in a common service which is also responsible for other legal entities.

In a number of countries centralised units for RA are mainly responsible for strategic issues, risk management or evaluation of risks (Norway, Slovakia, Azerbaijan). In the UK the Risk and Intelligence Service has a primary role of enabling the TA to understand and manage the risks in their tax system and their frontiers, but Large Businesses are not at the heart of its compliance strategy.

In the Netherlands the central organisation for RA is responsible for all TP’s other than LTP’s. It is the LTA account manager who is responsible for developing a strategic plan for the companies under his responsibility.

Twenty eight countries have a central organisation for RA. Even when the organisation is centralised, there is interaction between the central and local authorities, which makes the differences less distinct.

It is usual for the **central level** to provide strategic and operational support and to provide: coordination, monitoring activities, allocation of available information sources in the central data bases, provides access by the local organisations to specific databases, set up specific information basis, IT education, mathematical and statistical analysis and give the main guidance for the selection of LTP to audit.

When RA activities are carried out at **local level**, they use databases provided by the central unit and make the actual selection of the TP to be audited whilst risk identification is also carried out by all employees of the TA by informing the RA team about the existence of risks.

In conclusion, in several countries the kind of RA activity carried out at the different levels are dependent upon the organisation of the central and local offices of the TA. Most countries combine the RA processes performed at both central and local office level. It is the central units who are usually responsible for strategy, risk management and coordination of risk activities.

Twenty four countries (70%) have a common RA service responsible for both VAT and direct tax purposes.

Out of 34 responding countries 25 have a strategic top-down method for detecting areas of risk (this equates to 74%), while 9 countries (26%) don’t use such a method. Some countries also have input from local offices in detecting areas of risk but in most cases these areas are defined by the top level.
There is a combination of top-down methods, input from local offices, and customised approaches. Most countries avail themselves of a combination of both top-down and bottom-up methods for detecting risk.

The number of persons dealing with RA for LTP differs significantly from one country to another. In about 50% of the countries a relatively small number of people deal with LTP RA. In 44% of the countries these specialist functions are not identified or there aren’t any specialists in this area.

In 27 out of 34 countries the aim of risk analysis is to select LTP to audit. Characteristic of the answers is that for many TA’s the scope is wider than just selecting which taxpayers to audit (e.g. RA is useful for the comprehensive treatment of the taxpayer) or audit is carried out according to pre-defined legal provisions.

The majority of TA’s use RA (also) to select items to investigate during an audit of LTP whether they have already been selected by RA or by other means. Some tax administrations responded that they have an obligation to audit LTP’s periodically.

The percentage of the audited taxpayers selected by risk analysis varies from 0 to 100%.

1.4. Identifying Risks

System risks, transactional risks, functional risks, individual risks, risks connected to the recent financial crises and tax planning risks are identified by most countries.

Thirty one out of 34 countries identify risks by trade sector. They focus primarily on construction, banks and insurance companies. Amongst other sectors, it is clear that some countries identify risks from almost every trade sector, while others only focus on oil, energy and trade sectors: Lottery, gambling, alcohol and tobacco are also identified as ‘risky’ businesses.

Few countries answered the question on risk classification. Those who did usually make use of either a numeric value or a risk degree indicator (e.g. low risk, medium risk, high risk). Some identified risks are not used due to decisions taken at management level.

1.5. Assessing, analysing and prioritising risks

In general, there are two basic methods for assessing risks: the quantitative (or objective) method and the qualitative (or subjective) method.

A brief definition is: quantitative method means something that can be put into numbers and treated by statistical methods, while qualitative method means
something that may be investigated in depth or detail, often on an individual basis and must usually be described in words.

The 45% of TA’s who replied carry out both qualitative and quantitative risk evaluations, while 25% make use of only a quantitative evaluation of risks. It’s worthwhile noting that 15% of the IOTA administrations who replied evaluated the risks using knowledge acquired from previous years. Less frequently risk evaluation is carried out on an individual basis or by using a qualitative method.

After evaluation, risks need to be ranked. This risk ranking process usually serves the purpose of listing risks in a decreasing order of risk, so as to identify management priorities. Risks or taxpayers can be ranked on the basis of several systems and drivers.

The 55% of Members who replied to this question carry out risk ranking either by considering an overall “risk score” (33%) or the weight and extent of tax risk (22%).

The 22% of TA’s stated that they differentiated their taxpayers by different risk categories, while 17% made use of qualitative methods to rank the risks on the basis of the acquired knowledge and by assessing the reliability of the tax returns.

Only 6% of the TA’s who replied carry out risk ranking on a tax gap basis.

Within the risk management process risk treatment follows the risk prioritisation phase.

Risk treatment can be defined as the process in which the negative impact of the risk on the administrations objectives is neutralised or mitigated (see EU Compliance Risk Management Guide for Tax Administrations, 2010, page. 40).

The treatment options available can be classified under three general headings:

- Risk transfer (transferring/passing the risks to someone else);
- Risk reduction (with different initiatives targeted at reducing the potential threats, such as improving the interpretation of legislation, providing support information to taxpayers, increasing the perceived probability of detection, creating a third party interest, etc.);
- Risk covering (namely tackling the expected non-compliance situations, by adopting repressive control measures - coverage measures - against the offenders).

Basic examples of coverage measures are: requests to the taxpayers, desk inspections and field audit.

The outcomes to the answers emphasize the major role played by the coverage measures within the range of possible responses to risk. 33% of replies identify the use of methods (mainly coverage measures) targeted at minimizing the risk frequency. Another 17% of answers revealed the additional adoption of reduction measures.

Another 33% of answers highlight that recourse to intervention measures is proportionate to the degree of risk implied within the different risk categories (in other terms, the higher the risk severity implied in a risk category, the deeper the intervention activity). The remaining 17% of replies gave prominence to the decisional
aspect involved in the choice of the risk treatment techniques: normally it’s a personal decision of the auditor and/or their superior.

TA’s use several criteria to assess the quality and usefulness of data, ranging from their comparability and reliability of their various origins and statistical relevance.

The specific criteria used to evaluate data quality and usefulness can be described as follows:

- appraising their consistency by combining the different criteria/methods of selection and variety of data sources;
- comparing the outcomes from the risk assessment activities (including the feedback from the auditors) with the data used in the previous stages of the risk management process;
- by evaluating the usability, the comparability and the reliability of the data;
- by rating their relevance and their estimated effects;
- by considering the results of data and acquired knowledge developed from previous experience;
- by carrying out random tests, even manually;
- by assessing their compliance using the taxpayers’ own internal tax risk control framework.

Only in three cases did members reply that they didn’t carry out any evaluation of quality and usefulness of data.

Responsibility for the final decision: The majority of the Members who replied acknowledged that the final decisions usually fall to the responsibility of the Manager of the Risk Analysis Units (or Large Taxpayer Units). The 19% of those who answered said that the Head of the Tax Office (or even the Head of Audit Department/Section) is responsible for the final decisions.

Other responses showed:
- the Minister of Finance / the Secretary of State / the Executive Director of the Revenue Agency;
- auditors and managers;
- Customer Relationship Manager / Client Coordinator.

The majority of IOTA Members which replied also have a program for enhanced relationship. The vast majority (76%) of TA exploit information acquired from enhanced relationship with LTP in further risk analyses.

Only 4 out of 10 IOTA Members that replied have a system for “risk scoring” LTP’s and in most cases the risk scores related to the taxpayer’s risky features.

Similar percentages can be found in relation to the existence of systems for disclosing tax avoidance schemes. Only a small number (39%) has adopted a system for disclosing tax avoidance schemes, even so it can work quite differently from one TA to another. The different systems that have been devised can be grouped under their three main purposes:

- tax avoidance schemes can be disclosed only internally, in order to spread knowledge among the personnel;
- tax avoidance schemes can be disclosed by TAs to taxpayers
- tax avoidance schemes can be disclosed from taxpayers to TAs.
The majority of TA’s don’t have a Knowledge-based system, while only 4 out of 10 TA’s do, mainly in the form of a data base.

With reference to direct taxes the risk analysis module run frequency is usually only once per year. In respect of VAT systems, the normal frequency is once per month (12 times per year).

In relation to the feedback procedures within the RM process, the results of answers vary a great deal, so it’s not possible to recognize particular trends that can encompass the different procedures.

The observed feedback procedures are:
- specific feedback documents or software;
- audit reports;
- evaluations at the end of the process;
- other means (reports, lists of risky taxpayers, communications, presentations and meetings).

1.6. Communication report

Fourteen out of 34 countries don’t make the risk criteria transparent. In 10 countries the criteria are made transparent both internally and externally and in 10 countries the criteria are made transparent internally but not externally.

In many countries the directorates (Ministry of finance, head of department, head office, head division, legal unit at headquarter, management) are responsible for communication.

In others countries the responsibility for communication is assumed by the risk analysis unit. Other tax authorities assign the responsibility for the communication to the tax or audit services. Only in two countries is information provided by the department of communication.

1.7. Impact of Risk Analysis and other related issues

In the vast majority of TA’s, risk analysis has an influence on policy decisions. It’s reasonable to argue that some IOTA members who maintained that risk analysis didn’t have an influence on policy decisions was probably because they only took into consideration direct influences.

In some countries there is a close relationship between risk analysis and policy directives.

The majority of the TAs reported that risk analysis affects their audit activities, has a role in new legislation initiatives and is helpful in identifying solutions to provide
better services to the public. They also answered that Risk Analysis is beneficial to Large Taxpayers.

About half of the countries said that they use random audits in order to provide more unbiased data for RA. In 4 countries there is no random selection for the LTP. Nearly half of the countries don’t use random audits as a way of collecting more unbiased data for RA. 20 TAs perform periodic audits to provide more unbiased data for RA.

More than half of the countries said that their privacy regulations prevented some data from being used and was an impediment to effective RA. A third of the countries said that there are other ethical issues related to the use of data.

About half of the countries stated that the inappropriate RA tools was not an impediment, whereas most countries said that a lack of resources allocated to RA was an impediment to effective RA.

Only 8 TAs have a strategy for using XBRL-files (eXtensible Business Reporting Language) for collecting information from taxpayers or the opportunity to process data from XBRL files in order to carry out RA.

Almost all IOTA members think that it would be useful to have a forum for TAs in order to share information on Risk Analysis. A clear message from the minority was that one forum in the EU and another one within the membership of the OECD could be deemed enough.

Most countries find it useful to make existing forums/web-pages available to tax administrations.
2. INTRODUCTION

In April 2009 the IOTA Large Taxpayer Treatment & Audit Group agreed to create a Task Team for the purpose of studying and reporting on the Risk Analysis (RA) of Large Taxpayers (LTP). The collection of information about activities concerning risk analysis carried out by the LTUs within the IOTA membership has been an important part of the process leading to the production of this report. In order to facilitate this process, the Task Team produced a questionnaire for completion.

2.1. Aim of the report

This report investigates how RA for LTP is dealt with in the IOTA member states.

Risk analysis is used in most situations to avoid something undesirable happening. Risk analysis is not only taking precautions - we react and act. Sometimes bad luck occurs. The regionally devised risk analysis can be quite unsystematic.

From a tax administration’s perspective, risk analysis may be used for a variety of purposes - from the segmentation of taxpayers into groups for specific treatment - for the selection of taxpayers to audit or for other tax verification activities.

At the strategic level, risk analysis is used to segment the taxpayer population, general planning and prioritisation.

At the operational level, risk analysis is used for the selection of taxpayers to audit and for the selection of the most efficient type of treatment of the taxpayer in general.

Traditionally, risk factors are divided into Register risk, Filing risk, Declaration risk and Payment risk. This report will deal mainly with the declaration risk. Amongst LTPs the other types of risk are considered low or limited. Based on the declaration risk this report will deal primarily with risk identification in the selection of taxpayers for audit, including the selection of the most relevant transactions for audit.

Audit is the traditional control activity within the TA. The taxpayers declare; the TA checks and verifies. Today increased focus is put on the cooperation with taxpayers to encourage them to deliver high quality declarations and to share their information on a voluntary basis with the tax authorities.

This task team agreed to concentrate mainly on RA for identification and selection of taxpayers for audit.

A separate IOTA LTTA Task Team is dealing with voluntary compliance; and another team is dealing with aggressive tax planning. In this way the most important compliance issues for LTP have been covered.
The traditional audit is one of the basic compliance tools. All forms of cooperation with the taxpayer are based on the possibility of an audit and possible sanctions for non-compliant behaviour.

The Task Team thinks that strengthening the traditional controls with risk analysis is an important way to manage those taxpayers who, for some reasons, do not find it useful to participate in an enhanced relationship programme. An efficient traditional audit and control programme is an important tool for inducing the taxpayers to engage in a system of enhanced relationship. Focusing on risk analyses for the selection of taxpayers for control may also function as an incentive to enter into a program of enhanced relationship. TA’s must always have a critical approach to the way they work. Without a clear evaluation of the risk factors from an external point of view, it will be difficult to participate in a dialogue with the taxpayer about their tax obligations framework.

On this background, the report aims to give an overview of both the organisation of the risk management process, the identification of, assessing, analysing and prioritising, communication of, the impact of and other related issues to risk.

2.2. Organisation of tax administrations

The scope of the report addresses Risk Analysis within the Administration of Large Taxpayers. In the first section of the questionnaire it was asked whether the IOTA members had a large taxpayers unit.

28 TAs out of 34 replied that they do have a large taxpayer office.

In Belarus there is a department for legal entities, which handles the large taxpayers.

In Montenegro, and Estonia, that don’t have a LTP office, there are audit departments, responsible for LTP.

Due to Germany’s Federal structure, the German States (Lander) have different ways of dealing with LTP. In some of them, LTP service is integrated into the general tax administration. At the federal level, a Federal Central Tax Office has been established.

In the Netherlands there are LTUs in all regions.

In Norway LTP are handled in the regions by the Large Taxpayer Office and by the Oil Taxation Office.

2.3. Risk analysis and taxpayer treatment in general
The segmentation of taxpayer behaviour can be represented in this way:

<table>
<thead>
<tr>
<th>Attitude to compliance</th>
<th>Compliance strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have decided not to comply</td>
<td>Use the full force of the law</td>
</tr>
<tr>
<td>Don’t want to comply, but will if we pay attention</td>
<td>Deter by detection</td>
</tr>
<tr>
<td>Try to but don’t always succeed</td>
<td>Assist to comply</td>
</tr>
<tr>
<td>Willing to do the right thing</td>
<td>Make it easy to comply</td>
</tr>
</tbody>
</table>

Create pressure down

This illustration gives the illusion that there is a clear distinction between the segments.

In practice it is not clear when the TP’s behaviour changes from “willing to do the right thing” to “have decided not to comply”. The view of the TA and the TP of the content of the transaction may be very different. A taxpayer is usually considered compliant when a transaction is declared in a way that makes it possible for the tax authorities to classify the taxpayer’s fiscal conduct as adhering to the taxation law. Sometimes the taxpayer’s perception of their classification will result in them accounting and reporting transactions in a way which makes it impossible for the tax authorities to assess and categorize the TP’s attitude towards being compliant.

Even if the TP maintains they are willing to do the right thing, there might be situations where they end up in a segment that is completely different from the basic segmentation shown in the illustration. Whether this is tax fraud or just a mistake of the TP, sometimes depends on the evidence.

Risk analysis may be a help for not only segmenting TPs based on behaviour, but also in finding risky TPs and risky transactions amongst TPs supposed to be willing to do the right thing.

2.4. Task team working methods

The Task Team organised its work on two levels:
- During Task Team meetings: discussing the analysis carried out;
The main paragraphs of the report were shared and each participant was responsible for drafting a chapter pertaining to one of the questionnaire sections from the following list.

The Task team prepared a questionnaire divided into 7 main sections:
1. General information
2. Definitions of Risk Analysis (RA) of Large Taxpayers (LT) and Strategies
3. Organisation of the risk management process for LTP within the Tax Administration
4. Identifying risks
5. Assessing, analysing and prioritising risks
6. Communication
7. Final questions and evaluation

The aim of the questionnaire was to obtain an overview of IOTA tax administrations’ organisation related to LTP and their approaches towards risk analysis for selecting taxpayers for audit.

2.5. Reading guide (Caveat)

The report is based on answers to questionnaires and on discussions held during meetings.

The guide can be read at different levels:
1. Looking at the summary, which presents an overview of the results of the report;
2. Using the report without the annexes, for a complete view, but with some limitations in detail and special issues;
3. Examining the whole report and the annexes, for access to all information.

The members’ tax systems are quite different. If you are looking for an ultimate answer on how these matters should be resolved, you might not find a definitive solution. One size doesn’t fit all. However, it is hoped that this report will offer an insight to the risk analysis processes performed by the TAs and provide input for improvement of individual TA’s risk analysis system for LTP.
3. RISK AND RISK ANALYSIS

The team found it useful to ask IOTA members to compare definitions of risk already developed within international organizations (OECD, EU) with the one internally adopted, instead of asking for each TA’s own risk definition. This option was devised to make it easier to group the answers and to give a clear basis for the questionnaire.

3.1. Risk - definition

Risk can be defined as follows:

The threat or probability that an action or event will adversely affect an organisation's ability to achieve its objectives. (Fiscalis Guide, 2010, p.12)

The vast majority of the TAs indicated that their definition of risk was in line with this suggestion.

5 TAs indicated that this definition of “Risk” did not reflect the their point of view.

Hungary remarked that a distinction needed to be made between internal and external risk. The definition proposed is correct when considering the risk within the organisation. The external risk is represented by the compliance risk.

Italy remarked that in general terms, the previous definition encompasses the view of the Italian Revenue Agency. As for tax verification purposes, the definition of “risk” adopted was consistent with its main objective (i.e. to achieve the highest level of compliance with tax obligations): “risk” is the significant probability that certain tax liabilities (e.g. failure to pay -or to timely pay- taxes) can arise from the fiscal behaviour of specific taxpayer’s.

Switzerland remarked that the definition was too specific and missed the following concept:
- The risk includes none-action, for example if an amount is not declared, or if a taxpayer is not registered. The risk definition lacks the concept of behaviour.
- It not only adversely affects an organization’s ability to achieve its objectives, (for example a taxpayer who pays too much in taxes probably helps the TA to achieve their goals in term of budget), but is a risk, because it is possible that this amount will have to be paid back later;
- The concept of security

Switzerland also added that they preferred the definition used in the EU Compliance Risk Management Guide but without the term “negative”: Anything that can affect the organisation's ability to achieve its objectives.

Denmark remarked that, on the contrary, they were looking for the risk that a taxpayer is trying to achieve their goals but in an improper manner.
Belarus commented that the tax risk is the likelihood that a taxpayer violates the law and that this will result in non-payment (or partial payment) of taxes to the State budget.

### 3.2. Risk Analysis - definition

**Risk Analysis can be defined as follows:**

*The activity of systematically weighing and grouping risks and risky taxpayers in relative order, to identify their frequency, likelihood and potential consequences (what is occurring, who is doing it and why).* (Fiscalis 2010, p. 31 and 110)

The vast majority of countries indicated that their definition of Risk Analysis was in line with the proposed definition, while only 2 TAs indicated that this definition “did not reflect their point of view.

Switzerland remarked that risk analysis is any analysis that can help to identify risky areas, i.e. areas where there is risk.

The Netherlands remarked that for SME’s and Private Individuals this definition reflects their view of Risk Analysis. In the large business area risk is managed on an individual basis. For a more detailed definition of risk analysis for (very) large businesses, the following explanation was provided:

“We trust our taxpayers, unless we have information to the contrary. The level of transparency, the quality of the tax control framework, and the level of compliance determine the level of (additional) supervision by the NTCA. If we agree with the taxpayer on the level of quality of the tax control framework and the taxpayer is fully and actively transparent on the tax-risks emerging from this framework the efforts of the NTCA can be limited to discussing those risks real-time. We will not duplicate the auditing activities performed by other supervisors (internal audit department, external auditor). Our audit efforts will predominantly be directed at testing the quality of their work and whether the control framework of the company functions as it should. In the case the taxpayer has a poor quality tax control framework and/or is not fully and actively transparent we will have to audit retrospectively using different techniques.

For dealing with compliance risk for the Very Large Businesses (VLB) the NTCA has a broad range of enforcement tools. Preventive instruments such as assessing legislation, communication, services and visits to companies. Further also enforcement communication and horizontal monitoring are tools which are used. Furthermore the NTCA can choose to use more repressive tools such as extensive audits, administrative fines and fraud investigations. The choice for a specific enforcement tool depends on the type of risk involved and available information about the taxpayer or groups of taxpayers. Repressive instruments are not always the most suitable means for long-term shifts in behaviour. The NTCA aims to deploy a balanced and diversified mix of enforcement tools. If possible the NTCA co-operates with other law enforcement organisations. Horizontal monitoring is preferred.”
Please see Appendix 1 for the full answer.

3.3. Compliance Risk Management - definition

The Compliance Risk Management process can be defined as follows: A structured process for the systematic identification, assessment, ranking and treatment of tax compliance risk. (OECD Compliance Risk Management Guide, 2004, p. 8)

All countries agree to this definition.
4. ORGANISATION OF THE RISK MANAGEMENT PROCESS FOR LTP WITHIN TAX ADMINISTRATIONS

Introduction to section
As stated in chapter 2, the Compliance Risk Management process is defined as a structured process for the systematic identification, assessment, ranking and treatment of tax compliance risk and that definition reflects the view of all 34 tax administrations.

Section 3.1. clarifies the organisation of the RM process for LTP and shows the connection between the organisation of risk analysis for LTP and risk analysis for other types of taxpayers. Section 3 also shows the main methods for detecting risk areas, the types of risk analysis activities that are carried out at different levels along with the types of functions and number of staff in the RA service for LTP. Section 3.2. focuses on audit planning and risk analysis; and the aim of RA in relation to the audit function.

1.1 Organisation

4.1.1. Organisational aspects of the RA service

Taking into account that the RA service for LTP could be considered to be a specific function, special unit or team of officials who deal with LTPs, 23 (or 68%) IOTA administrations have a common RA service for both LTP and other legal entities; whilst 11 TAs (or 32%) do not have an RA service for LTP included in their common service.

In Poland the RA service for LTP is regulated by the National Tax Discipline Plan for 2010 and by the Guidelines on the implementation of tasks in the external risk management strategy. Reorganisation of RA in Norway will result in them establishing a separate service for RA, whilst in Belgium although the TA is being restructured there is no intention to create a separate service for LTP.

The Netherlands responded as follows:

In the Netherlands Tax Administration manages risk in the Large Business area on an individual basis. For very large businesses an individual and customised approach has been chosen. Each company has a client relationship manager within the TA. Based on previous experience, e.g. interviews and meetings with very large business, preliminary discussions, tax audits, monitoring of the company, knowledge on their internal control systems for tax purposes but also industry data and other intelligence (e.g. such as annual accounts, internet), the account team establishes an up-to-date client profile including an assessment of the specific compliance risks of that company (more details on the web site: http://www.belastingdienst.nl/download/1884.html).
In the United Kingdom Customer relationship Managers consult with the customer and a range of specialists to use their up-to-date knowledge in their area of expertise to scope the risk. The risk assessment process determines the overall risk rating of the customer and specific task issues to be addressed. More details about that on website: [http://www.hmrc.gov.uk/manuals/tcrmanual/index.htm](http://www.hmrc.gov.uk/manuals/tcrmanual/index.htm).

To summarise, the trend is clearly towards having RA included in a common service.

4.1.2. Centralisation and decentralisation of the RM process

The significant majority of tax administrations, (which means 28 TAs, or 82% of all responding tax administrations) replied that they had a central organisation for RA. To the contrary, only 6 tax administrations (18%) did not centralise RA for LTP.

Some influence or feedback from local offices exists but a number of countries have more regional approach (Italy, Norway), while in Slovenia the local management is responsible for the 40% of the overall selection for audits. In Germany, depending on the state (some states have more local influence in RA, some not), local level is responsible for RA.

In some countries the centralised units for RA are responsible for most of the strategic issues, risk management or evaluation of risks (Norway, Slovakia, and Azerbaijan). In the UK their Risk and Intelligence Service has a primary role to enable the TA to understand and manage the risk to their tax systems and their frontiers. However, large businesses are not at heart of their compliance activities. The UK’s Risk & Intelligence Service gathers information and seeks out high quality intelligence both within and outside the UK. Data is analysed in order to provide comprehensive, high-quality risk and intelligence products enabling the LTP Unit to deploy their resources more effectively (for more details see: [http://www.hmrc.gov.uk/manuals/tcrmanual/index.htm](http://www.hmrc.gov.uk/manuals/tcrmanual/index.htm)).

Due to the individual and customised approaches to RA concerning LTP, in the Netherlands their central organisation for RA is responsible for all TPs but not for LTP. The account manager is responsible for developing a strategic plan for the LTP under his control. The strategic plan together with compliance risks, are registered in a special database. After registration, compliance risks have to be matched to available capacity. This matching process first takes place within the teams and then, if necessary, on a nationwide basis.

The trend is towards having a central organisation for RA.

4.1.3. Type of RA-activity carried out by the different levels

Usually it is the central level that provides the strategic and operational support, ensures coordination, monitors activities, allocates available information sources in the central data bases, provides access for local organisations to specific databases, sets up specific information basis (e.g. Italy, Hungary), offers IT education, provides
mathematical and statistical analysis (Austria) and provides the main guidelines for
the selection for audit of LTP (Croatia, Montenegro, Slovenia - 60% selection for audit
is done at the central level). Risk analysis as well as risk prioritization and evaluation
of the risk management process is only carried out at a central level in Bulgaria.

In the United Kingdom in their LBS (Large Business Service) the CRM (Customer
Relationship Managers) leads a Business Risk Review to assess the risks concerning
specific customers in order to evaluate their impact as low or higher risks on the TA's
objectives. Tax and Audit specialists identify the risks or further risk
assessment/systems assurance activities can be carried out. Specialist staff including
Accountants, Trade Sector Advisers and the Strategic Risk Unit provides assistance
depending on the nature and complexity of the customer.

From another perspective, local management carries out its RA activities using
databases provided by their central unit, makes the actual selection of TPs for audit
(Czech Republic, Hungary, Bulgaria). In Bulgaria, risk identification is carried out by all
employees of the TA by reporting on the existence of risks.

In Italy it is the local management who are responsible for monitoring the risk activity
of LTP, for subsequent enforcement activities and for the timely reporting to the
central office. Regional offices identify risks by activities, give information/instructions to LTP and
help them if they have professional quandaries (Croatia), carry out tactical RA for
selecting TP for audit (Norway), while in Sweden at the local level there are
subgroups on VAT, income tax, salary fee, excise duties and with access to special
analysts for large companies at a regional level.

As previously mentioned, in the Netherlands a special approach has been adopted so
the distinction between central and local level is meaningless.

Estonia, Finland and Lithuania emphasised that RA activities for LTP are carried out
only at central level.

In conclusion, the types of RA activity that are carried out at the different levels
within a TA depend on the organisation of central and local offices in different
countries. Most countries combine RA at central level and that performed by local
offices. Central units are mostly responsible for strategy, risk management and the
coordination of compliance activities.

4.1.4. Type of taxes managed by the RA service

24 countries (70%) have a common RA service that is responsible for both VAT and
direct tax purpose, while 30% of the TA don’t have common RA services.

In Switzerland, where this service is carried out separately, there is strong
collaboration between those carrying out RA for VAT and direct taxes, but on a
cantonal level there is no systematic collaboration regarding direct taxes.
The Slovak Republic emphasised that they use special systems for selecting taxpayers to audit, with reference both to VAT and to direct taxes - ISK1 and SAR (RA system for VAT). By using this system the TA’s management has achieved a higher efficiency.

In Belgium their service is divided into two main parts/units: data mining (VAT) and direct taxes (this unit is called Mercurius).

In the Netherlands integrated client engagement teams, responsible for all taxes, supervise the individual LTP (see comments in previous answers).

The trend favours a common RA service for both VAT and direct taxes.

4.1.5. Methods for detecting risk areas (top-down/bottom-up)

Among the 34 countries, 25 (74%) have a strategic top-down method for detecting risk areas, while 9 countries (26%) don’t use such a method. Some countries also have input from local offices in detecting risky areas but in most cases the main risk areas are defined from the top level.

In Croatia and Slovakia the main criteria for selection for audit are defined from the top down while in Poland in 2010 a group analysis module was implemented into their control subsystem – a computing utility supporting the selection of the businesses to be audited and the verification activities (e.g. the external risk areas).

The Netherlands chose an individual, customised approach with each VLB having a client relationship manager within the tax administration (see 3.1.2. above).

In several countries there is significant use of the bottom-up method (e.g. in Norway, Slovenia and The Slovak Republic) In the Slovak Republic the operational method for detecting areas of risk is applied at the lowest level of management within the Tax Authority and the reason is to detect any deviations from the correct behaviour. The tactical method applied in the Slovak TA impacts on several functional areas (Tax Administrations, Tax Audit, criminal acts) In brief, there is a combination of top-down methods, inputs from local offices and customised approaches with most countries combining both top-down and bottom-up methods for detecting areas of risk.

4.1.6. Officials working in the RA service for LTP (in full time equivalents)

There is a significant diversity in the replies to this question, which, no doubt, reflects the population size and tax structures of the various countries. Answers of more than 29% countries vary from “no special personnel for RA service for LTP - people have other tasks” (the Czech Republic and Germany), “no individual segment” (The Slovak Republic), “not appropriate” (United Kingdom), “no full time engaged” (Croatia), “not time equivalents” (Republic of Srpska), “no specialisation for LTP” (Estonia), “no
RA service” (France, Serbia), “difficult to give a correct number of equivalents” (Austria), while 4 countries did not provide this information.

The rest of the replies show a heterogeneous number of people who deal with RA as can be seen from the following table.
The Table (3.1.6.) below shows in details all answers.

### Table 3.1.6

<table>
<thead>
<tr>
<th>Number</th>
<th>Country</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Czech Republic</td>
<td>There are no special personnel for RA services for LT. People concerned with RA also have other tasks</td>
</tr>
<tr>
<td>2</td>
<td>Hungary</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Italy</td>
<td>300 (central and regional)</td>
</tr>
<tr>
<td>4</td>
<td>Latvia</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Switzerland</td>
<td>3</td>
</tr>
<tr>
<td>6</td>
<td>Austria</td>
<td>Difficult to give a correct number of equivalents</td>
</tr>
<tr>
<td>7</td>
<td>Azerbaijan Republic</td>
<td>8</td>
</tr>
<tr>
<td>8</td>
<td>Bosnia and Herzegovina</td>
<td>3 people who work RA and everything else</td>
</tr>
<tr>
<td>9</td>
<td>Belgium</td>
<td>13 (12,8) for all TP not only for LTP</td>
</tr>
<tr>
<td>10</td>
<td>Croatia</td>
<td>No full time engaged – only for all kinds of TP</td>
</tr>
<tr>
<td>11</td>
<td>Estonia</td>
<td>No specialisation for LTP</td>
</tr>
<tr>
<td>12</td>
<td>Finland</td>
<td>1</td>
</tr>
<tr>
<td>13</td>
<td>France</td>
<td>No dedicated RA service : each tax official is involved in RA</td>
</tr>
<tr>
<td>14</td>
<td>The Netherlands</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Norway</td>
<td>10 a rough estimate for all LTPUs and the regions</td>
</tr>
<tr>
<td>16</td>
<td>Portugal</td>
<td>4</td>
</tr>
<tr>
<td>17</td>
<td>Republic of Srpska (B&amp;H)</td>
<td>It is a number of people, not time equivalents</td>
</tr>
<tr>
<td>18</td>
<td>Slovenia</td>
<td>1</td>
</tr>
<tr>
<td>19</td>
<td>Denmark</td>
<td>5</td>
</tr>
<tr>
<td>20</td>
<td>Lithuania</td>
<td>4</td>
</tr>
<tr>
<td>21</td>
<td>United Kingdom</td>
<td>Not appropriate. LBS does not have a RA service. Risk Assessment is part of a CRM, Tax Specialist, Audit Specialist and other Specialist roles</td>
</tr>
<tr>
<td>22</td>
<td>Sweden</td>
<td>3</td>
</tr>
<tr>
<td>23</td>
<td>Germany</td>
<td>There is no special personnel for RA service for LT. People concerned with RA also have other tasks</td>
</tr>
<tr>
<td>24</td>
<td>Spain</td>
<td>1</td>
</tr>
<tr>
<td>25</td>
<td>Republic of Belarus</td>
<td>n/a</td>
</tr>
<tr>
<td>26</td>
<td>Serbia</td>
<td>8 = number of people LTU have not special RA service</td>
</tr>
<tr>
<td>27</td>
<td>The Slovak Republic</td>
<td>There is no individual segment RA for selected taxpayers in the Slovak TA</td>
</tr>
<tr>
<td>28</td>
<td>Bulgaria</td>
<td>1 the designated employee is not part of centralised risk management unit but it is a part of local LTC unit. The same employee carries out the risk assessment of specific TP during selection</td>
</tr>
<tr>
<td>29</td>
<td>Malta</td>
<td>4</td>
</tr>
<tr>
<td>30</td>
<td>Ireland</td>
<td>215</td>
</tr>
<tr>
<td>31</td>
<td>Montenegro</td>
<td>2</td>
</tr>
<tr>
<td>32</td>
<td>Romania</td>
<td>N/a</td>
</tr>
<tr>
<td>33</td>
<td>Poland</td>
<td>5</td>
</tr>
<tr>
<td>34</td>
<td>Republic of Macedonia</td>
<td>4</td>
</tr>
</tbody>
</table>

In about 50% of all countries a relatively small number of people deal with RA for LTP.
Replies from Ireland and Italy show a significant number of people dealing with RA for LTP in full time equivalent (in Ireland is 215, in Italy 300) which considerably differs from the other TAs.

4.1.7. Different types of functions of the staff (Coordinator, Analyst, Data manager, etc)

Answers are showed in Table (3.1.7.) below:

<table>
<thead>
<tr>
<th>Number of staff by functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1   The Czech Republic</td>
</tr>
<tr>
<td>2   Hungary</td>
</tr>
<tr>
<td>3   Italy</td>
</tr>
<tr>
<td>4   Latvia</td>
</tr>
<tr>
<td>5   Switzerland</td>
</tr>
<tr>
<td>6   Austria</td>
</tr>
<tr>
<td>7   Azerbaijan Republic</td>
</tr>
<tr>
<td>8   Bosnia and Herzegovina</td>
</tr>
<tr>
<td>9   Belgium</td>
</tr>
<tr>
<td>10  Croatia</td>
</tr>
<tr>
<td>11  Estonia</td>
</tr>
<tr>
<td>12  Finland</td>
</tr>
<tr>
<td>13  France</td>
</tr>
<tr>
<td>14  The Netherlands</td>
</tr>
<tr>
<td>15  Norway</td>
</tr>
<tr>
<td>16  Portugal</td>
</tr>
<tr>
<td>17  Republic of Srpska (B&amp;H)</td>
</tr>
<tr>
<td>18  Slovenia</td>
</tr>
<tr>
<td>19  Denmark</td>
</tr>
<tr>
<td>20  Lithuania</td>
</tr>
<tr>
<td>21  United Kingdom</td>
</tr>
<tr>
<td>22  Sweden</td>
</tr>
<tr>
<td>23  Germany</td>
</tr>
<tr>
<td>24  Spain</td>
</tr>
<tr>
<td>25  Republic of Belarus</td>
</tr>
<tr>
<td>26  Serbia</td>
</tr>
<tr>
<td>27  The Slovak Republic</td>
</tr>
<tr>
<td>28  Bulgaria</td>
</tr>
<tr>
<td>29  Malta</td>
</tr>
<tr>
<td>30  Ireland</td>
</tr>
<tr>
<td>31  Montenegro</td>
</tr>
</tbody>
</table>
9 TAs did not provide any information and 4 TAs answered that they: “do not have different types”, “these different functions are not separated”, “there is no specialisation”, “do not have specialisation”, “cannot be identified” or that “functions are not separated in such a way” (The Czech Republic, Hungary, Switzerland, Norway). This meant that more than 44% of TAs couldn’t be surveyed or did not have any specialists.

About 47% of TA (16) answered that they have some types of functions concerning people who are working in the TA responsible for RA of LTP. Most TA has several people who were specialised (2-12) and by function they are:

- head of unit
- coordinator
- analyst
- data manager
- tax inspector
- audit specialist
- tax advisor

Exceptions to the answers mentioned previously come from the United Kingdom and Ireland. The United Kingdom has 1,098 specialists (108 CRM), Tax Audit Specialist - 807 and other specialist - 183 while in the Irish Tax Administration they have 215 specialists - Business Unit Manager, Case Manager/Auditor, Caseworker/Auditor and Support Staff. These two TAs are organised in a different way to other TAs concerning their RA for LTP, while as previously mentioned in the Netherlands the TA manages risks in the Large Business area on an individual basis.

### 4.2. Audit planning and risk analysis:

#### 4.2.1. The aim of RA: a) selecting the taxpayers to audit

In 27 TA (i.e. 79%) the aim of RA is to select LTP for audit, while 7 (21%) TAs responded that the aim of RA was not for selecting LTPs for audit (The Netherlands, Norway, Lithuania, Sweden, Republic of Belarus and the Slovak Republic, Germany).

What is noteworthy is that in Germany and in Republic of Belarus all LTP are subject to audits. Hungary also answered that, according to the legal provisions, all LTP must be audited every 3 years and RA provides a selection for targeted audits and audits of specific tax types.

Besides the aforementioned selection for audit purposes, in some TAs, RA serves other purposes, such as: developing new indicators, filters and parameters,
studying the characteristics of the TPs involved, evaluating the likelihood and the frequency of the risks, weighting the severity of risk (Italy); determining the share of paid taxes in relation to the calculated tax in some sectors of economy in order to detect differences in comparison to previous periods, amending the tax law (e.g. that the penalty for unpaid taxes in percentage terms is less than the inflation level and top management may see fit in suggesting changes to the tax law, as happens in Azerbaijan).

In Ireland, audit is one of the strategies that they pursue to ensure compliance, while in Lithuania RA is seen as a broader concept. In the Netherlands RA focuses on small to medium sized companies and individuals.

However, most countries use RA to select LTP for audit even though this is not always the main purpose of the system and many countries use or intend to use RA as a broader systematic method/approach.

4.2.2. The aim of RA: b) selecting the items and the risk areas to investigate (during an audit of LTP already selected by other means)

This chapter concerns the use of RA to choose items and risk areas to investigate, while carrying out audits on LTP already selected by other means/legal provisions (e.g., each LTP is mandatorily audited each year, two or three years...).

The majority of TAs (20 out of 34, (60%)) replied that the aim of RA is to select items to investigate during an audit of LTP already selected by other means while 14 TAs (40%) including Austria, Azerbaijan Republic, Estonia, The Netherlands, Norway, Portugal, Denmark, Lithuania, UK, Sweden, Republic of Belarus, Serbia, The Slovak Republic and Malta responded that the aim of RA was not to select items to investigate during an audit.

Five TAs (Switzerland, Austria, France, The Netherlands and Montenegro) responded that, in relation to LTP there is a control periodicity (that can also be defined as “audit frequency”) provided for by legislation. For example, in Switzerland 50 very LTP are audited every year on a specific VAT subject; in Austria companies whose turnover exceed 38.5 Million must be audited every 3 years, while those whose turnover is between 9.69 - 38.5 Million should be audited every 5 years; the French TA tries to audit the most important LTP once every 3 years and RA methodology helps to select the areas to investigate; in the Netherlands, the most important LTPs are audited every 5 years but RA does not assist the selection because it is done on an individual basis; in Montenegro LTP are audited every 2 years and RA is aimed at selecting items which will be given priority for investigation during the audits; in Poland this situation may occur basically, depending on the results of the analysis.

In Ireland RA is carried out prior to case selection for audit. Under the Code of Practice for Revenue Auditors the TP is formally notified of the issues that will be audited. The main duty of RA in Slovenia is to identify those risky TPs with the highest non-compliance risk and based on that principle the inspection focuses on those fields or items.
In Belgium RA is responsible for the selection of LTPs, but it also highlights the areas to be verified (audits should be limited to those points). It is also possible that a TP is selected for an audit without any specific issues identified by RA.

In the Czech Republic RA leads tax administrators to those areas which should be focused on during the audit (i.e. VAT, wage tax, financial analysis indicators etc).

In Bulgaria the auditors are always given detailed instructions about the actions which they should undertake in the course of an audit and about the specific premises which should be audited.

In Finland they have a SESAM database they use to select LTP and, during the audit, another SESAM database, built with accounting data is used to target selected items to investigate.

In Germany this kind of RA is part of the auditors responsibility during the audit.

The answers show that, in most cases, RA is used to select items to investigate during an audit of a LTP who has already been selected for audit by other means.

### 4.2.3. Selection for audit of LTP through Risk Analysis

<table>
<thead>
<tr>
<th>Table 3.2.3</th>
<th>Selection for audits of LTP through RA in percentage (sorting in increasing order)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Estonia 1%</td>
</tr>
<tr>
<td>2.</td>
<td>The Slovak Republic The Tax Audit Plan is not based on RA principles i.e. on data mining models till now, there are selected only 10% of the audits of high level risk taxpayers from number of audits included on the tax audit plan.</td>
</tr>
<tr>
<td>3.</td>
<td>Hungary 10%</td>
</tr>
<tr>
<td>4.</td>
<td>Azerbaijan Republic 20%</td>
</tr>
<tr>
<td>5.</td>
<td>Poland 20% The West pomeranien Tax Office</td>
</tr>
<tr>
<td>6.</td>
<td>Italy 30%</td>
</tr>
<tr>
<td>7.</td>
<td>The Czech Republic Approx. 30%</td>
</tr>
<tr>
<td>8.</td>
<td>Serbia 33%</td>
</tr>
<tr>
<td>9.</td>
<td>Slovenia 41.6%</td>
</tr>
<tr>
<td>10.</td>
<td>Malta 50%</td>
</tr>
<tr>
<td>11.</td>
<td>Switzerland 65% but RA is only a part of the audit concept, so regular standard audit are also a consequence of the RA</td>
</tr>
<tr>
<td>12.</td>
<td>Lithuania 70% this figure is approximate. This kind of statistic is not gathered.</td>
</tr>
<tr>
<td>13.</td>
<td>Finland 80%</td>
</tr>
<tr>
<td>14.</td>
<td>Denmark 80%</td>
</tr>
<tr>
<td>15.</td>
<td>Latvia 80% other cases - mostly audits of VAT or Excise Tax Refunds</td>
</tr>
<tr>
<td>16.</td>
<td>Montenegro 80%</td>
</tr>
<tr>
<td>17.</td>
<td>Republic of Srpska (B&amp;H) 80%</td>
</tr>
<tr>
<td>18.</td>
<td>Bosnia and Herzegovina 80%</td>
</tr>
<tr>
<td>19.</td>
<td>Belgium 85% for the moment, 15% of the audits can be</td>
</tr>
</tbody>
</table>
IOTA Report for Tax Administrations
Risk Analysis of Large Taxpayers

<table>
<thead>
<tr>
<th></th>
<th>Republic of Macedonia</th>
<th>locally selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.</td>
<td>Republic of Macedonia</td>
<td>Out of 93 audits, 84 were selected through RA</td>
</tr>
</tbody>
</table>
| 21. | Bulgaria | 95% Audits are assigned primarily following risk assessment carried out on central level. Up to 5% of the audits carried out annually are obligatory-assigned by the Prosecutor’s Office or mandatory by virtue of the law. As a result of risk management on central level the following has been assigned: 
  - for 2009 - 2% of the audits 
  - for 2010 - 4% of the audits |
| 22. | Croatia | 95% |
| 23. | Ireland | 99% |
| 24. | Norway | 100% |
| 25. | Portugal | 100% |
| 26. | Sweden | 100% They do not perform any random investigations on LTPs. In order to improve their RA they should consider doing it. |
| 27. | United Kingdom | 100% |
| 28. | The Netherlands | LTPs are selected for audit based on a customised approach. See memo. |
| 29. | Germany | All LTP are subjects of audits |
| 30. | Republic of Belarus | LTP differ depending on the area and place of activity. |
| 31. | France | n/a |
| 32. | Austria | n/a |
| 33. | Spain | N/a |
| 34. | Romania | N/a |

The Table above shows that there is a remarkable diversity in the replies, with reference to the percentage of tax audits on TPs selected through RA, ranging from 1% in Estonia to 100% in Norway, Portugal, United Kingdom and Sweden. In Germany all LTPs are subject to audit.

Some TAs responded that the figure as a percentage was approximate because they didn’t maintain such statistics.

The second group of answers given in figures a shows that between 50 and 99% of Large Taxpayers were selected for audits through Risk Analysis: Ireland - 99%; Bulgaria and Croatia 95%; Republic of Macedonia 90%, Belgium 85%; Latvia, Bosnia & Herzegovina, Finland, Republic of Srpska, Denmark and Montenegro 80%, Lithuania 70%, Switzerland 65% and Malta 50%.

The third group is for those under 50%: Slovenia 41,6%, Serbia 33%, Italy and the Czech Republic 30%, Azerbaijan Republic 20%, Poland 20%, Hungary 10% and Slovak Republic 10%, Estonia with 1%.

In Sweden they do not perform any random investigations on LTPs but they are considering doing so in the future in order to improve their RA. The diversity of responses reflects the differences in the organisation of TAs.
5. IDENTIFYING RISKS

The first stage of Risk Analysis is risk identification. Risks that are not identified cannot be treated.

Traditionally, risk factors are divided into register, filing, declaration and payment risks. As explained in the introduction, this report will only deal with declaration risks. Among LTP the other risk types were considered to be low or limited.

Declaration risk can be described as the risk that the amount in the tax return is incorrect, either intentionally or unintentionally.

Taking the declaration risk as the starting point this report will deal with risk identification in selecting taxpayers for audit, including selecting the most relevant transactions for the audit.

5.1. Risk Sources

In the first section, countries were asked what kinds of risks were identified. They had the choice of the following risks:

- system risks: risks connected with the tax legislating and legal transactions
- transactional risks: risks involved in certain transactions, e.g. transfer pricing, leasing, double dip situations
- functional risks: risks concerning functions carried out by taxpayers, e.g. dividing of production process and risk stripping
- individual risks: risk profile, taxpayer behaviour
- risks connected to the financial crisis
- tax planning risks
- others risks, if any

The following table is an overview of the results:

<table>
<thead>
<tr>
<th>Types of identified risks</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>System risks</td>
<td>26</td>
<td>8</td>
</tr>
</tbody>
</table>
Most of the proposed risks were identified by the countries. Transactional risks are not identified by the Republic of Belarus and Romania. Individual risks are not identified by Latvia, Austria, Azerbaijan Republic, Belgium, Slovenia, Germany and Bulgaria.

Among the other risks that were identified were:

- **Transactional risks** (risks involved in certain transactions - e.g. transfer pricing) and individual risks (risk profile, taxpayer behaviour) are identified by the Czech Republic.

For the **Netherlands**, it is important to understand how tax risks that occur in the business processes are determined and controlled by establishing, applying and testing procedures. With all this information they develop a view on the compliance and tax risks they have to address and discuss with the respective company.

The **Republic of Belarus** identifies as risks the failure to guarantee financial stability and the failure to publish accounting reports in terms established in accordance with domestic legislation.

### 5.2. Risks by Trade Sector

All administrations were asked whether they identified risks by trade sector. Many risks can be linked to the type of economic sector in which the company operates. If they identified risks by trade sectors, they were also asked to mention the most important ones.

31 out of 34 countries identify risks by trade sector. Belgium, Germany and Estonia do not, the Slovak Republic does partially.

With reference to the 31 countries that identify risks by trade sector, it is clear from the results below that they focus on construction, banks and insurance companies. Among the other sectors, it can be seen that some countries identify risks for almost all trade sectors, while some of them only focus on those of oil, energy and trade. Lottery, gambling, alcohol and tobacco also seem to be ‘risky’ businesses.

<table>
<thead>
<tr>
<th>Trade Sector</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction sector</td>
<td>29</td>
<td>2</td>
</tr>
<tr>
<td>Banks</td>
<td>23</td>
<td>8</td>
</tr>
</tbody>
</table>
5.3. Classification of the Risks

After the identification of the risks, it was asked whether and how those risks were classified. Only a small number of countries answered this question.

Of the countries that answered most gave a numeric value, according to the weight of the risk or they gave an indication of the degree of risk (low, medium, high).

**Italy** classifies risks in several standardized clusters and describes those risks with a short outline and a detailed description. Then, they are grouped by tax and by topic.

**Slovenia** usually pays attention to those risks that pose the highest risk in terms of general government revenue.

**France** and **Finland** do not have any classification.

**The Netherlands** have an individual approach for each large taxpayer.

5.4. Risks used

22 out of 34 countries use all the risks that they identify. 12 countries, for various reasons do not. If not all risks are used it is normally at management level that the decision “which risks to be used” is taken.

**In Denmark**, during the months of August and September they select risks to be pursued in the following calendar year. The risks identified by employees and managers are reported to a common risk committee in SKAT. The most significant risks are selected and based upon them a number of themes (i.e. drivers for risk). For example, in the area of transfer pricing there could be losses or unpaid taxes.

**In Belgium**, each target group is looked after by an expert group which exams the target group and the potential risk indicators in order to define a risk profile. As soon as a risk (or a combination of risks) is identified, a study is carried out: how many taxpayers could be involved, what are the potential benefits, etc. Afterwards, the risks are prioritised by the management/political level and an expert group is created. Local experts, with the help of the central RA service, will study the topic, analyse the available data and at the end, they will have the taxpayers sorted in accordance with the highest potential risks. These lists are handed to the audit authorities who decide, given the human resources, the number of audits that can be
In Slovenia, they do not cover all the risks at the same time. In the annual plan they define the number of audits, the type of audit in relation to the scope of the audit, and they also define branches with the highest non-compliance risks. So far they have started with 6 projects in the field of construction, transport vehicles, transfer pricing, property report, dentist and black economy. They try to increase voluntary compliance, to make more effective audits in relation to the number of audited taxpayers and unit the legality of management of audit procedures.

5.5. Risk Database

Asked whether they had a risk database, 27 out of 34 countries responded that they did have a risk database. Croatia, Austria, Latvia, France, Germany, Denmark and Norway do not. In other countries (Belgium, Republic of Belarus, Bosnia and Herzegovina) the risk database is under development.

5.6. Sources for Risk Identification

IOTA members were asked about their sources for risk identification, which are very diverse: tax returns, tax payments, also information from third parties and external databases are frequently used.

In all 34 countries the data from tax returns is available for Risk Analysis. This seems a logical conclusion. As a starting point, risks analysis is based on the information declared in the tax returns.

In 31 out of 34 countries, data related to tax payments is also available for Risk Analysis; this data is not available for risk analysis in Germany, Slovenia and Malta.

It is also very useful to have information supplied by a third party. 31 out of 34 have such information at their disposal. Only the Czech Republic, Hungary, and Germany do not.

In most cases, countries use the information from third parties. It consists of:
- Denunciations
- Complaints by the citizens, anonymous reports or letters
- Balance sheets and annual accounts
- Information from banks

In Ireland, in certain circumstances taxpayers are required by law to submit third party information returns. They analyse such returns as part of their risk analysis process.

But countries do not only use information from third parties. In most cases, they also use databases from external authorities.
Table 4.6.1. External authorities supplying information

<table>
<thead>
<tr>
<th>Authority</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs (if external)</td>
<td>28</td>
<td>6</td>
</tr>
<tr>
<td>Financial supervision</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>Police</td>
<td>16</td>
<td>18</td>
</tr>
<tr>
<td>Courts</td>
<td>19</td>
<td>15</td>
</tr>
<tr>
<td>Business register</td>
<td>27</td>
<td>7</td>
</tr>
<tr>
<td>Money laundering information</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>Social security information</td>
<td>25</td>
<td>9</td>
</tr>
<tr>
<td>Others</td>
<td>16</td>
<td>18</td>
</tr>
</tbody>
</table>

In most cases, they use information from the Customs. It involves information on goods imported or exported. It is a very important source. The other countries probably use the information from customs as well, as an internal part of the organisation.

In second place, information from the business register is used. Social security information is in third place. Amongst other external authorities the vehicle, land or real estate registers are used.

Ireland has Memoranda of Understanding (MOU) with a number of external organisations. Exchange of information is covered in many of those MOUs.

More than half of the countries (20 out of 34) use transfer pricing information in their risk analysis process.

The internet is becoming a more important source of information as E-commerce is a booming business. Most of the countries (29 out of 34) use this source of information as part of their Risk Analysis.

There are several commercial organisations that provide data concerning businesses. Of course, the supply of this information can be quite expensive, although there can be a good return on investment.

Table 4.6.2. Use of data provided by commercial organisations

<table>
<thead>
<tr>
<th>Organisation</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amadeus</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>Bizweb</td>
<td>4</td>
<td>30</td>
</tr>
<tr>
<td>Dun &amp; Bradstreet</td>
<td>8</td>
<td>26</td>
</tr>
<tr>
<td>Global solution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orbis</td>
<td>10</td>
<td>24</td>
</tr>
<tr>
<td>Bureau Van Dijk</td>
<td>10</td>
<td>24</td>
</tr>
</tbody>
</table>
Amadeus is the most widely used. Orbis and Bureau Van Dijk are in second place.

It is evident that, even in a predominantly electronic environment, paper sources are still used. 19 out of 34 TAs also use paper tax returns for their risk analysis. Indeed, there should be no reason to exclude taxpayers that still use paper tax returns as they could escape selection by risk analysis. In most countries, paper tax returns are now the exception.

In Malta, 98% of the companies submit all their returns online. Any paper based documents are scanned in a virtual (electronic file) and available to officers as images.

8 countries out of 34 still use other sources: Hungary, Croatia, Estonia, the Netherlands, Norway, The Republic of Belarus, Serbia and Bulgaria do so. These concern mainly audit files of internal and external auditors, stock exchange information, etc.

5.7. Tools for risk analysis

A data warehouse is a repository of an organization's electronically stored data. Data warehouses are designed to facilitate reporting and analysis. 25 out of 34 countries have a data warehouse. Belgium, Sweden and Austria are developing data warehouses and will have one in the near future. The Netherlands have one, but not a specifically for LTP.

In Slovenia data regarding an individual taxpayer is not located in a single database; however, through data coupling they can obtain all data on the tax liabilities and situation of the taxpayer.

<table>
<thead>
<tr>
<th>Table 4.7 Tools for Risk Analysis</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does your country have a data warehouse</td>
<td>25</td>
<td>9</td>
</tr>
<tr>
<td>Are the data sources from section 4.6 used in a data warehouse</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>Are there tools for monitoring trends</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td>Other tools to perform Risk Analysis</td>
<td>22</td>
<td>12</td>
</tr>
</tbody>
</table>
Of the 25 countries who do have a data warehouse; only 20 countries use all the data sources from section 4.6. Five countries do not use all of them in their data warehouse, but sometimes use them for other purposes:

In **Portugal**, the supervisory bodies of the financial and insurance sectors have their own sites from which data is collected by the LTU. This data is not available in the data warehouse.

In **The United Kingdom** Risk Assessment and Data Analysis Reports for Large Business are available as part of their Data Mining and profiling work. The Data warehouse was mainly developed for individuals and non LBS businesses.

In **Slovenia**, not all the data from their data warehouse is used, but irrespective of this they use different standard computer tools such as ACL, MS EXCEL, MS ACCESS, ORACLE DISCOVERER, SQL ANALYSER in order to make connections between the data.

14 out of 34 countries have a tool to monitor trends, but in most cases the analysis of trends, if it is done, is done manually.

22 countries reported that they have other tools to perform Risk Analysis:

In the **Czech Republic**, for the validation and risk performance of all VAT tax returns, a computer program "Trustworthiness" is used.

In **Italy**, the main document of the risk management process is the Risk Analysis Form. This document is made up of several sections in which the information is organized by content:
- general information;
- economic profile of the large taxpayer and of its field of activity;
- fiscal profile of the large taxpayer (tax rulings, intelligence, previous audits, legal proceedings, tax credits, etc.);
- analysis of the fiscal results and of the accounting data;
- main risks detected and individual risk level assigned;
- assessment/audit activities to put into execution.

**Slovenia** uses mainly EXCEL, ACCESS and ACL. They also developed some other programmes that help them to identify risky traders:
- “RED DOT” program: a database listing potential missing traders and associated persons for the identification and selection of audits.
- For newly registered traders they also have a special application which gives them information about the level or risk.

- DATA WAREHOUSE - pre-prepared specific statistical queries from an ORACLE database (i.e. large VAT reimbursements, taxpayers that have not been inspected) that are significant from a statistical point of view.
- **SYS INFO** – a locally produced program intended for various queries by criteria that can be arbitrarily changed. Queries are possible for VAT, corporate income tax and income tax from activities.

- **MISSING TRADERS** – An application that has been in use since June 2008 and which is used to supervise missing traders and receivers of invoices that were discovered during the supervision procedure. Each auditor from a regional tax office has the opportunity to verify if the taxpayer is on the list of missing traders. Information about missing traders is automatically transferred to the “Red Dot” application.

The **Slovak Republic** uses a number of different tools:

- **SAR VAT (Risk Analyze System for VAT)** – The tool for tax subject segmentation for VAT was implemented as web interface to serve as a function of the auditors and as an Information system for tax offices.

- **Analytical information system and auditor’s information system** – this is a tool, used in the Tax Administration by the RA and is used for the selection of tax subject’s for specific applications such as inserting risk indicators on the tax subject’s database.

- **Data mining modelling using the tool Clementine** – the next area for selection of risky tax subjects by them is the assumption of risky behaviour. It allows the selecting of tax subjects, that by normal evaluation criteria do not appear as risky, and provides the opportunity to find common attributes, which when defined with the dependences of a risky tax subject gives a high likelihood of risk. Evaluation of relationship’s through the analytical information’s system allows them to uncover connections between two or more tax subjects. It provides the ability to focus on non risky tax subjects who are potentially a risk.

### 5.8. Techniques for Risk Analysis

TAs were asked which techniques they used to perform risk analysis. 23 out of the 34 countries use statistical methods when analysing risks for LTP.

Data mining, which is the process of extracting patterns from data, is used by 24 out of the 34 countries, but only in 6 countries is there a specific system of data mining within the Large Taxpayer Unit. These countries are: Bosnia Herzegovina, Republic of Srpska, Portugal, Spain, United Kingdom and Norway. Only Portugal has a specific system only for LTP. All others use general data mining for all taxpayers.
<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>11</td>
</tr>
<tr>
<td>24</td>
<td>10</td>
</tr>
<tr>
<td>6</td>
<td>28</td>
</tr>
</tbody>
</table>

Table 4.8 Techniques for Risk Analysis

Apart from statistical methods and data mining, other techniques are used in some countries include:

In **Hungary**, electronic taxpayer files are available which contain indicators, plus individual and summarised data with time sequences and charts. They can when considering some/all indicators run combined filtering queries.

In **Italy**, the foremost activity in the Large Taxpayer Risk Management Process is the “Risk Management Monitoring Activity”. This can be defined as permanent monitoring and analysis of the behaviours and attitudes of Large Taxpayers, including their tax results, through the adoption of different approaches depending on the outcome of the risk analysis and on the specific peculiarities of these taxpayers.

The tutoring activity can be divided into three logical steps:

1) collection and summary of all relevant information available for providing indications of risk in the behaviour of LTPs that might jeopardize the TPs tax compliance in one specific document called the “risk analysis form”. Following the evaluation of this set of information, each LTP is attributed with a risk profile that will drive the subsequent choice of the most appropriate tax verification activity to be used;

2) treatment: carrying out of the fiscal audit. The higher the risk profile given to a LTP the more intrusive the method of control chosen will be: high risk customers can expect thorough investigations of their tax issues, whilst for medium/low risk customers a disclosure-based approach can be adopted;

3) evaluation: updating of the risk analysis form with the outcome of the audit in order to confirm the LTP risk profile or, if necessary, to review their risk classification.
In **Belgium**, when the Risk Analysis service receives input from local offices, they study the input and decide whether action needs to be taken. They do not use specific modelling techniques through data mining. They use the tool SPSS-Base.

In **Norway**, manual observation of the taxpayer’s history and use of stock exchange information is carried out.

**Slovenia** takes into consideration data from financial statements (balance sheet, profit and loss account) and a comparison between similar taxpayers, or between different financial periods of the same taxpayer, with a selection covering taxpayers that represent a certain percentage of government revenues, fall outside the average of the industry or who show substantial changes in the relationship between revenues and expenditure between any given years, etc.

Slovenia also checks how taxpayers comply with their tax liability requirements. The selection is based on tax returns, data from the integrated tax information system, extracts from entered notifications, data from the register of taxpayers and from data archive, etc. A taxpayer is included in the selection based on established risk indicators such as: incidences of non-payment of liabilities, substantial changes in the trend of VAT input claims compared to preceding tax periods, discrepancies observed when comparing output VAT amounts with sales revenues, use of non-existent or incorrect VAT identification numbers, newly registered companies, taxpayers not yet audited, those not in the VAT system and employing three or more workers, persons liable for tax that have shown overpayments of tax contributions or other levies over several accounting periods and have not claimed any VAT refund, etc.

In **The United Kingdom**, the risk assessment process is led by the CRM using the LBS guidance, who consults with the customer and a range of specialists to use their up to date knowledge in their area of expertise to quantify any risk. Specialists include tax specialists, Audit Service and anti-avoidance specialists. The CRM may also ask them to analyse information or work with the customer to assess the risk and report back to them with their recommendations.

The risk assessment process determines the overall risk rating of the customer and specific tax issues to be addressed. HMRC’s relationship with the customer is rated as either low or high risk.

Emphasis is put on working with the customer at each of the following steps:
- Gathering information for a Business Overview
- Complete and share a Risk Review with the customer
- For higher risk customers, agree an Action Plan to address tax issues
- Review the customer’s risk rating

Risk Reviews - For the highest risk customers it is likely that several meetings will be necessary each year, with full annual risk reviews. For a low risk customer this would be every two to three years.
Germany relies on the experience of the auditors.

In The Slovak Republic, for selection purposes a co-relational analysis is used as a tool for economical, personal, financial and other taxpayer relations disclosure.

In Malta, sectorial analysis is carried out.

In Ireland, profiling is performed by the Case Manager and compliance visits are done by the LTU staff.

5.9. Evaluation of the relationship between causes and consequences

Eleven countries have a specific system for evaluating the relationship between the causes and consequences of different types of risk identified.

Some examples of the different systems used are given below.

In Hungary, the system containing the results of audit can be marked with a centrally issued code as to what extent the audit findings can be counted towards the reason for original selection.

For large taxpayers they use risk recording and assessment sheets which - amongst others - are used to check the above connections.

In Italy, the system is not automatic and works as follows:
1. Initial understanding: examining the circumstances in order to detect the causes behind the symptoms (risk detection);
2. Evaluation: the tax verification activity (questionnaire, inspection or comprehensive audit) carried out to treat the risk, which also serves the purpose of confirming or correcting the reasons first put forward.

Switzerland has a homemade tool used to evaluate the efficiency and the effects of their risk system.

In Serbia, based on data from the previous year risk values are determined for each VAT taxpayer using the following groups of criteria:
1. Taxpayer’s earned turnover
2. Turnover earned before entering the VAT system
3. Taxpayer’s activity
4. Taxpayer’s relationship toward tax liabilities
5. Results in controls performed at taxpayer’s place.

Risk values for each taxpayer are presented in figures, cumulatively and per quoted groups of criteria, that has a value from 10 to 59, so that it is possible to form taxpayers’ groups per risk value both cumulatively and per groups of criteria (risk pyramid). After calculating the risk value per groups of criteria, a total risk value of a taxpayer can be calculated. Weights of value (importance) for each group of criteria for 2010 were determined in the following way:

1. Taxpayer’s earned turnover 48%
2. Turnover earned before entering VAT system 10%
3. Taxpayer’s activity 19%
4. Taxpayer’s relationship towards tax liabilities 10%
5. Results in controls at taxpayer’s place 14%

In Ireland, the central office undertakes an analysis of risks audited to identify trends. If such trends are identified, the risk may be treated at a macro level by a legislative amendment, educational seminar, or compliance project.

In Montenegro, there are around 70 indicators that are used for risk analysis. They are grouped as risk criteria for: registration, filing of tax returns for different tax types, clearance of tax liabilities, VAT, profit tax and personal income tax.

5.10. Identification and selection of risk areas during the audit process

Risk analysis can select the tax returns that might bear risks, but it can also go one step further. It cannot only identify the risky taxpayers, but can also identify the items that have to be audited. This process is done in most of the TAs, but the figures show that the identification and selection of risk areas is mainly a manual activity, aided by the use of computer tools.

Table 4.10. Selection methods

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manual selection</td>
<td>26</td>
</tr>
<tr>
<td>Computer based selection</td>
<td>25</td>
</tr>
</tbody>
</table>

Some of the highlighted practices used are:

The Czech Republic: has a "methodology of audit process". According to this document the auditor evaluates risks during the audit.
Hungary: schedules the compulsory audits defined by the law by taking the capacity to audit and the audited periods into account. They use computerised queries to facilitate the work.

Switzerland: after the pre-selection process a number of the selected audits are chosen by manual selection (15% of the audits). However, most of their risk oriented cases are selected through a fully centralised process (65% of the audit 50% risk, 15% random)

Estonia: in part (for example one month in a year) watches every document of a company to find risks that they did not identify from the computer based selection.

Finland: manual selection is done by the audit leader together with the auditors based on their prior knowledge of the taxpayer.

The Netherlands: operates on an individual basis. It is the NTCA’s opinion that what attracts attention should be case specific. The NTCA therefore does not define a material risk, but leaves that up to the VLB and the tax officers in charge. The NTCA does ascertain that all material tax risks are disclosed in real time by applying a mandatory commitment of the VLB to develop and maintain a solid TCF. The NTCA’s real time management approach resolves all kinds of tax risks that bear potential and significant tax risks.

Germany: the selection depends on the experience of the auditor and on general information about the industry

Most of the selection processes in Malta involve manual intervention. The data warehouse reports provide them with a ranked list of taxpayers. These are then sifted manually in order to eliminate any false indicators.

The risks to be audited in Ireland are chosen prior to the commencement of the audit. They review the audit experience by sectors, trends in tax payments by taxpayers and in key ratios within each sector, compliance records of taxpayers, of their management culture and relative risks in public / private companies etc., taxpayer’s profile including risks arising from accounting systems, personnel etc., avoidance scheme experiences relevant to the sector, significant recent risk issues of general relevance to all sectors, review of Regional experiences of risks in individual sectors, appeals and current case law experience impacting on the sector, sector or taxpayer-specific business intelligence. This is distilled down to tax risk indicators, taxpayer profiles to identify any trends pointing towards potential risk, screening, with specific risks in mind, of returns/accounts to identify taxpayer-specific or sector-wide risks.

5.11. Computer tools

To verify accounting systems, specific computer assisted audit tools are used. IDEA, ACL and Sesam are the most common and widespread tools. Most countries only use one of these three tools. Only the United Kingdom uses them all. Estonia, Finland,
Norway and Sweden all use Sesam as well as ACL. Portugal, Spain and Poland use IDEA and ACL.

Table 4.11. Computer tools used

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDEA</td>
<td>9</td>
<td>25</td>
</tr>
<tr>
<td>ACL</td>
<td>15</td>
<td>19</td>
</tr>
<tr>
<td>Sesam</td>
<td>9</td>
<td>25</td>
</tr>
<tr>
<td>Other</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

Half of the countries use other computer tools:

**Italy:** FALCO (Taxpayer's on-line personal folder): the Italian Revenue Agency uses this to select the Large Taxpayers to be audited. It collects all internal and external data that can be automatically found in relation to a Large Taxpayer.

**The Netherlands** have several tools:
- Clair Financial, for analysing financial audit files
- Clair Salary, for analysing salary audit files
- Scout, for analysing other files
- TOP, for audit approach and archiving

**The United Kingdom** uses SpACE, an effective tool and structured methodology for testing spreadsheets.

**In Bulgaria,** the Selection Program Product allows access to available electronic data about particular persons and registers the selection process;
**AORI - Automated Risk Assessment Product** was designed for the selection of persons who claimed amounts to be refunded under the Value Added Tax Act from exports.

In addition to these specific tools, many Administrations have developed others that are based on Microsoft’s Excel spreadsheet and Access database applications.
6. ASSESSING, ANALYSING AND PRIORITISING RISKS

The steps of the risk management process that follow the identification phase are:
- Risk analysis;
- Risk assessment and
- Risk prioritisation.

The outcome of each step affects the decisions concerning the treatment of individual traders.

6.1. Techniques adopted to rank, evaluate and treat the risks

IOTA TAs were asked what kinds of techniques they had adopted to:
- evaluate the risks;
- rank the risks;
- treat the risks.

Risk evaluation and risk ranking are sub-sections of the prioritisation phase, which is targeted at quantifying the risks identified and analysed in the previous risk management phases.

The risk evaluation is the measurement of the extent of the risks identified and analysed through the establishment of qualitative and/or quantitative relationships between risks and associated consequences. It is also referred to as “risk assessment” in the EU Compliance Risk Management Guide for Tax Administrations, 2010 (see EU Compliance Risk Management Guide for Tax Administrations, 2010, page. 36).

The main purpose of risk evaluation is the measurement of their consequences and impact on the achievement of organisational objectives: large risks require urgent treatment, while minor risks may require no intervention at all.

In general, there are two basic methods of assessing risks: the quantitative (or objective) method and the qualitative (or subjective) method.

The quantitative method usually takes into consideration the two main variables of any risk: likelihood (or risk frequency), i.e. the probability of the risk occurring and its severity, i.e. the expected consequences of the risk occurring. By considering the combined measurement of these variables it is possible to calculate the element of riskiness implied by a particular occurrence/situation, which can then be compared with other similar estimates.

The qualitative method is usually aimed at summing up several quantitative risk factors (such as the existence of practices that are specific to certain industry sectors, changes that may affect a taxpayers’ business, frequent change of banks, attorneys or auditors with no apparent business reason, poor internal control systems, etc.) in a single level of risk that could depict the overall situation consequent to a particular
The outcome of the answers that refer to the techniques used to evaluate risks are represented in the following chart:

45% of TAs who replied carry out both qualitative and quantitative risk evaluations, while 25% make use of only quantitative evaluation. It is worthwhile noting that 15% of the IOTA administrations which replied evaluate risk by availing themselves of knowledge acquired from former years.

Less frequently, the risk evaluation is carried out on an individual basis or by using a qualitative method.

The remaining (generic) answers do not exceed 5% of the replies.

After their evaluation, risks need to be ranked. The risk ranking serves the purpose of listing risks (usually) in a decreasing order of risk, so as to identify management priorities. Risks or taxpayers can be ranked on the basis of several systems and drivers.
The outcome from the answers related to risk ranking techniques are represented in the following chart:

*Figure 5.2*

- Kinds of techniques adopted to rank the risks -

The 55% (which comes from 33% + 22%) of Members who replied carry out risk ranking by considering an overall “risk score” (33%) or, in a similar way, the weight and extent of the tax risk (22%).

A further 22% of TAs answered that they separate taxpayers into different risk categories, while 17% (11% + 6%) make use of qualitative methods to rank the risks on the basis of acquired knowledge and by appraising the reliability of the tax returns (6%).

Only 6% of the TAs which replied carried out risk ranking on a tax-gap basis.
Within the risk management process, the **risk treatment** phase follows risk prioritisation.

Risk treatment can be defined as the process in which the negative impact of the risk on the administrations objectives is neutralised or mitigated (see EU Compliance Risk Management Guide for Tax Administrations, 2010, page 40).

The treatment options available can be classified under three general headings:
- **Risk transfer** (transferring/passing the risks to someone else);
- **Risk reduction** (with different initiatives targeted at reducing the potential threats, such as improving the clarity of legislation, providing support information to taxpayers, increasing the taxpayers perceived probability of detection, creating a third party interest, etc.);
- **Risk covering** (namely tackling the expected non-compliance situations by adopting repressive control measures - *coverage measures* - against the offenders). Basic examples of coverage measures are requests to the taxpayers, inspections at the desk and field audits.

The results from the answers addressing risk treatment techniques are represented in the following chart:

![Figure 5.3 - Kinds of techniques adopted to treat the risks](image)

The outcomes from the answers emphasize the major role played by the coverage measures within the range of possible responses to risks. 33% of replies point towards the use of methods targeted at minimizing the risk frequency, these are mainly coverage measures. Another 17% of answers reveal the adoption of reduction measures in addition to coverage measures. Another 33% of the answers highlight that recourse to intervention measures is proportionate to the degree of implied risk in the different risk categories (in other terms, the higher the implied risk severity in a risk category, the deeper the intervention activity). The remaining 17% of replies gave prominence to the decisional aspect involved in the choice of the risk treatment technique: ordinarily, it’s a personal decision of the auditor and / or their superior.
IOTA administrations were asked how they valued the usefulness and the quality of data in the risk analysis process.

The usefulness and quality of the data have always been an issue. The availability of useful (i.e. significant) data is important in order to avoid redundancy of data (so called information overload) that can result in burdensome costs of data management and in the inability to carrying out effective analysis due to information duplication.

The quality (correctness and accuracy) of data is essential to prevent inappropriate treatments based on incorrect information being carried out.

The results are represented in the following table:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>N. of Occurrences</th>
</tr>
</thead>
<tbody>
<tr>
<td>By comparison with other criteria of selection /</td>
<td>6</td>
</tr>
<tr>
<td>Through different methods /</td>
<td></td>
</tr>
<tr>
<td>Depending on the manifold origin of the data</td>
<td></td>
</tr>
<tr>
<td>Through the risk assessment activity /</td>
<td>4</td>
</tr>
<tr>
<td>By feedback from tax auditors /</td>
<td></td>
</tr>
<tr>
<td>On a statistical base</td>
<td></td>
</tr>
<tr>
<td>On the strength of their usability, comparability and reliability</td>
<td>3</td>
</tr>
<tr>
<td>On the basis of their relevance and estimated effects</td>
<td>3</td>
</tr>
<tr>
<td>On the basis of the results of data and of the previous experience</td>
<td>3</td>
</tr>
<tr>
<td>Through random evaluation /</td>
<td>2</td>
</tr>
<tr>
<td>By doing manual tests</td>
<td></td>
</tr>
<tr>
<td>On the strength of their compliance with the internal tax risk control framework</td>
<td>1</td>
</tr>
<tr>
<td>Don't evaluate</td>
<td>3</td>
</tr>
</tbody>
</table>

The occurrences of the different criteria have been counted and grouped by category. As shown in the previous table, no distinct trend can be detected in the answers to this question.

TAs use several criteria to assess the quality and usefulness of data, ranging from their comparability and reliability to their origin and statistical relevance.

In particular, the specific criteria to evaluate data quality and usefulness can be described as follows:

- appraising their consistency by combining different criteria/methods of selection and a variety of data sources (6 occurrences);
- comparing the outcomes from the risk assessment activity (including feedback from auditors) with the data used in the former stages of the risk management process (4 occurrences).
occurrences);
- by evaluating the usability, comparability and reliability of the data (3 occurrences);
- by rating their relevance and their estimated effects (3 occurrences);
- by considering the results from the data and acquired knowledge developed from previous experience (3 occurrences);
- by carrying out random tests, even manually (2 occurrences);
- by assessing their compliance using the taxpayers’ own internal tax risk control framework.

Only in three cases did Members reply that they don’t carry out any evaluation of the quality or usefulness of data.
6.3. Decision-making powers: Competence and organizational position

Ordinarily, an organisation’s risk management policy sets out responsibilities for risk management throughout the organisation. To work effectively, the risk management process requires:
- commitment by the senior management of the organisation;
- assignment of responsibilities within the organisation;
- allocation of appropriate resources to implement the organisation’s risk strategy.

The power to take decisions is reflected in the responsibilities assigned to the different organizational levels.

In order to learn who, within the TA, takes the final decisions and at what level, IOTA Members were asked the following questions:
- “Who is responsible for the final decisions?” which was aimed at finding out who takes the decisions concerning the most important activities falling under the risk analysis process;
- “At what level are these decisions being taken?” which was targeted at understanding the organizational level which was responsible for these decisions.

The results of the answers are represented in the figures 5.4 and 5.5:

Figure 5.4
- Responsible for the final decisions -
Those responsible for the final decisions: the majority (60%) of Members who replied acknowledged that the final decision usually fell to the Manager of the Risk Analysis Units (or Large Taxpayers Units).

19% of those who answered said that the Head of the Tax Office (or even the Head of the Audit Department/Section) were responsible for the final decision.

Other results were:
- the Minister of Finance / the Secretary of State / the Executive Director of the Revenue Agency (7% of replies);
- auditors and managers (7% of answers);
- the Customer Relationship Manager / the Client Coordinator (7% of replies).

With reference to the level at which these decisions are being taken, the answers show that they are taken at all levels (37%) (central, regional -and if present - local level) or at local level (27% of replies).

The remaining answers show different organizational levels responsible for the final decisions:
- central level (18%);
- political level (9%);
- senior management level (9%).
6.4. Enhanced Relationship program and Large Taxpayers

A specific question ("Does your country have a program for Enhanced Relationship?") was included in the questionnaire in order to determine if TAs had laid the foundations to (and implemented) a program for Enhanced Relationships with LTP.

In the preliminary remark to the question, Enhanced Relationship has been described as a relationship in which companies are volunteering information on their operations, where they believe there may be a different interpretation of tax law between them and the revenue body that may lead to a significantly different tax liability. Companies should also provide broad ranging responses so that the revenue body can understand the significance of particular issues, deploy appropriate resources and reach the right tax conclusions. In return, revenue bodies should offer "understanding based on commercial awareness, impartiality, proportionality and openness through disclosure, transparency and responsiveness". In particular, tax authorities should apply a professional, fair and efficient approach to resolving issues. This should be used at all levels of the administration to provide a greater certainty for taxpayers.

The Enhanced Relationship provides a different means of fulfilling the fundamental duty of any TA (ordinarily, to ensure that the highest percentage of taxpayers meet all their tax obligations voluntarily and accurately) “by positing a form of tax administration that is built and maintained in common with taxpayers” (OECD Tax Intermediaries Study Working Paper 6 - The Enhanced Relationship).

To achieve this, TAs expect taxpayers to be fully transparent in their communications and dealings and to disclose all significant risks in a timely manner in order to obtain the benefits otherwise not available.

The results of the answers are depicted in the following chart:

![Figure 5.6](image)

- Does your country have a program for Enhanced Relationship? -

The 55% of IOTA Members who replied have a program for enhanced relationship, while 45% of TAs don’t.
6.5. Use of information from Enhanced Relationships in RA

Any Enhanced Relationship program is grounded on openness and understanding. The related incentives provided to motivate taxpayers are justified by real information disclosure. As a consequence, TAs have access to (and have to deal with) important and even confidential information from taxpayers.

The way this information is handled can affect the perceived trustworthiness of the revenue bodies in the eyes of the customers and consequently their willingness to effectively carry on their engagement in an enhanced relationship program. Information disclosed is important not only to assess and understand if taxpayers are correctly fulfilling their current tax obligations, but can also be precious for many other risk analysis purposes, different from the main reason for which the information was originally provided.

For this reason, TAs who started an Enhanced Relationship program have had to decide whether or not to use certain information disclosed by taxpayers. The question “Does your country use information from Enhanced Relationship?” is targeted at learning if they make full use of this information.

The results are shown in the following chart:

Figure 5.7
- Does your country use information from Enhanced Relationship in RA? -

Yes - 76%
No - 24%

The vast majority (76%) of TAs use information from Enhanced Relationships with LTP in further risk analyses.
6.6. Risk classification systems

One of the foremost objectives/benefits of the risk analysis process is that it enables TAs to determine the most effective compliance activity plan for LTP. This selection process can be based on a “risk point” / “risk scoring” system for all large taxpayers.

Consequently, TAs were asked to explain whether they have a system for “risk points/scoring” or some other risk classification process for their large taxpayers and if so to provide a short description of how it worked. The question was aimed at understanding how many IOTA Members have similar systems and collecting details on how the systems were designed.

The replies are represented in the following charts:

**Figure 5.8**
- Does your country have a system for “risk points/scoring” or other risk classification of all the LTP?

**Figure 5.9**
- Short description of the features of the risk classification systems used
Among the IOTA Members which replied, 61% don’t have a system for “risk scoring” LTP, while the remaining 39% do. With reference to those who provided a “YES” response, 80% (4 out of 5) of those TAs attribute each LTP with a risk score related to its risky features, while the remaining 20% use different systems.
6.7. Systems for the disclosure of tax avoidance schemes

TAs were asked to say if, in their own jurisdictions, there were systems for disclosing tax avoidance schemes. This question is connected to the question pertaining to the possible existence of a program for Enhanced Relationships (Section 5.4), but is more focused on the implementation of systems for disclosing tax avoidance schemes.

The results of replies are represented in the following chart and table:

- Does your country have a system for disclosure of tax avoidance schemes?

<table>
<thead>
<tr>
<th>Disclosure purpose</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Tax avoidance schemes are disclosed only internally (in this case the disclosure of tax avoidance schemes is a mean of spreading knowledge among the personnel)</td>
<td>Hungary, Germany</td>
</tr>
<tr>
<td>- Tax Administration informing taxpayers on transaction schemes regarded as law infringements</td>
<td>Italy, where tax avoidance schemes are disclosed through the publication of tax rulings responses</td>
</tr>
<tr>
<td>- Taxpayers disclosing information to Tax Administration (see 1 2 3 )</td>
<td>The Netherlands1, United Kingdom2 and Ireland3</td>
</tr>
</tbody>
</table>

1 In individual compliance agreements (horizontal monitoring), an advance voluntary disclosure of risks (tax avoidance risks included) is continuously encouraged.
2 By law, under certain circumstances tax arrangements must be disclosed to the Tax Administration. Upon disclosure, the Tax Administration issues the promoter of the scheme with a reference number which must be provided to each scheme user. The Tax Administration will treat those who avoid their tax obligations as higher risk than organisations and individuals who do not.
3 Two different forms (“schemes”) of disclosure are provided: - a Protective Notification Scheme, which entitles the taxpayer to certain benefits (such as safe haven when undertaking a transaction which may be found to be a tax avoidance transaction); - a Mandatory Disclosure Scheme.
The 61% of IOTA TAs who answered question 5.6 said that within their administrations there are no systems for disclosing tax avoidance schemes, while the other 39% replied positively. With reference to this group, it was identified that there were three possible directions for the disclosed information that can be seen in most of the enhanced relationships:

- tax avoidance schemes can be disclosed ONLY INTERNALLY, in order to spread knowledge amongst TA personnel (Hungary, Germany);
- tax avoidance schemes can be disclosed by TA to taxpayers (Italy);
- tax avoidance schemes can be disclosed by taxpayers to TAs (The Netherlands, United Kingdom and Ireland).

6.8. Risk analysis of LTP and knowledge-based systems

IOTA TAs were asked if they had knowledge-based systems (and, if so, to give a short description).

A knowledge-based system can be defined as an artificial intelligence tool working in a defined environment designed to provide intelligent decisions (such as compliance activities to be carried out, or identifying potential non-compliance situations) based on a given set of rules, scores and criteria.

The replies are represented in the following chart and table:

Figure 5.11
- Does your country have a knowledge-base system? -

- Yes - 41%  
- No - 59%
## Table 5.3

### Description of the Knowledge-based systems used by TAs

<table>
<thead>
<tr>
<th>Description of the Knowledge-based system</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>A data base</td>
<td>Switzerland¹, The Slovak Republic, Romania²</td>
</tr>
<tr>
<td>An intelligent system applying rules of analysis against customer data held in the Tax Administration data warehouse and scoring taxpayers according to the rules they break.</td>
<td>Ireland³</td>
</tr>
<tr>
<td>A system based on the accumulation of data and the refining of acquired knowledge</td>
<td>Italy⁴</td>
</tr>
<tr>
<td>Collection of information from the auditors on a periodical basis</td>
<td>Lithuania⁵</td>
</tr>
<tr>
<td>Knowledge dissemination amongst teams</td>
<td>Spain⁶</td>
</tr>
</tbody>
</table>

¹ A database containing economic values (margin, number of productive employees,...), collected for more than 15 years and manually checked by tax experts against a database with details of audit information collected since 2008.

² Data Warehouse, Phoenix - database with tax decisions.

³ The REAP system provides a list of the ‘riskiest’ cases. Rules are applied against customer data held in the Revenue’s data warehouse. The system “scores” taxpayers according to the rules that they break. The result is a risk ranking of all registered customers.

⁴ It is based on the accumulation of data collected, year by year, through the risk analysis forms and on their subsequent analyses. The gradual accumulation and the refining of data ensures a constant improvement in the identification of the causes behind the symptoms and better targeted interventions.

⁵ Information about new identified risks (such as a short description of risk/violation, company name, date of risk identification, applicable law article, etc.) is gathered from the auditors on a quarterly basis.

⁶ Making available to the audit teams the knowledge acquired by others.

The 59% of TA which answered the question said that they didn’t have a Knowledge-based system.

As for the way these systems are devised, the majority of Members who responded said that they used a “a data base”, whilst the remaining TAs responses showed a variety of approaches:

- in Spain, such a system is meant to spread knowledge among teams;
- in Lithuania, it is a (more generic) collection of information from the auditors on a periodical basis;
- in Ireland, it is an intelligent system applying rules of analysis against customer data held in the tax administration data warehouse and scoring taxpayers according to the rules they break.
6.9. Frequency of the risk analysis process

Timing is important in every step of the RA process. The earlier a risk is processed, the earlier it can be treated, the lower the risk that revenue is lost and the greater the preventive effect for the future (see EU Compliance Risk Management Guide for Tax Administrations, 2010, p. 33).

IOTA members were asked how often, in a year, the risk analysis module was run, in order to learn the frequency of the risk analysis process (number of complete cycles per year) in the different TAs.

The answers are represented in the following table:

<table>
<thead>
<tr>
<th>RESULTS OF THE ANSWERS</th>
<th>Number of Countries</th>
<th>Details by Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>11</td>
<td>The Czech Republic¹, Italy, Belgium, Finland, Norway, Denmark, Portugal², United Kingdom³, Sweden⁴, The Slovak Republic⁵, Croatia⁶</td>
</tr>
<tr>
<td>2</td>
<td>3</td>
<td>Republic of Belarus, Serbia, Poland</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>Ireland</td>
</tr>
<tr>
<td>12</td>
<td>6</td>
<td>Bosnia and Herzegovina, Republic of Srpska, Bulgaria⁷, Romania, Republic of Macedonia, Lithuania</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>Hungary⁸, Estonia⁹, Spain¹⁰, Malta¹¹</td>
</tr>
</tbody>
</table>

¹ Max frequency.
² Once or even twice a year.
³ Risk reviews are held at least annually and more frequently for non Low risk Businesses.
⁴ Frequency specified with reference to income tax; as for the VAT the answer is "every month".
⁵ Once or (exceptionally) even twice a year (frequency specified with reference to income tax). As for the VAT the answer is "monthly".
⁶ For taking decision about the audit procedures for the following year.
⁷ The answer refers only to the exporters registered under the Value Added Tax Act.
⁸ Several times per year (risk-estimation system run frequency).
⁹ Depending on the need: every day, every week, every fortnight (the answer refers to the queries run frequency).
¹⁰ Continuously.
¹¹ 1 or 2 different reports per month (the answer refers to the updating frequency of reports).

In several cases the answers to question 5.8 drew a distinction between the main risk analysis module run frequency (for example, the one referring to income tax (usually 1 or 2 risk analysis processes per year) and the one referring to the VAT (usually 1 risk analysis process each month, i.e. 12 per year).

This circumstance leads to the reasonable assumption that, with regard to the answer “12”, though not explicitly mentioned in the replies, the reported frequency could refer to VAT.

Since the question didn’t refer to any specific, the answers provided took into consideration both RA processes concerning direct and indirect taxes.
For direct taxes, the usual run frequency of the risk analysis module is once per year. In relation to VAT, the normal frequency would be once per month (12 times per year).

6.10. Feedback procedures

In the risk management process, feedback about any decisions put into effect and the way TAs and the whole tax system operate in practice is a source of information for both the outcome of activities undertaken and for possible future improvements to be taken in the risk management area. This can be achieved by implementing appropriate procedures for providing feedback.

To this end, a specific question (“How are the feedback procedures organised?”) was asked of the IOTA administrations, aimed at showing how feedback procedures were organised within the different IOTA TAs.

The outcomes to the answers are shown in the following chart:

The results vary a great deal, so it’s not possible to identify particular trends that encompass the different procedures.

43% of the TAs who replied made use of a specific feedback document or software, while for 17%, feedback procedures were arranged using (audit) reports. 11% of TAs drew up evaluations at the end of any activities carried out, and 11% of IOTA Members avail themselves of other means: reports, lists of risky taxpayers, communications, presentations and meetings.

6% of TAs carry out the feedback process through internal meetings, while 6% Members
adopt different procedures, in relation to the importance of the risk involved.

Only 6% of TAs don’t have any feedback procedures.
7. COMMUNICATION

In our modern world communication takes on more and more importance. In this part the task team wished to analyse the way in which tax authorities communicate about risk analysis. They went on to examine both internal and external transparency, the communications systems used and the transmitter of the message.

7.1. The transparency of the criteria for the selection of «risky businesses»

The results of the questionnaire can be summarized as follows:

14 TAs replied that the criteria are not made transparent (Austria, Azerbaijan Republic, Belgium, Croatia, Denmark, Finland, Germany, Hungary, Latvia, Republic of Macedonia, Romania, Slovenia, Sweden and The Netherlands).

9 countries replied that the criteria are made transparent both internally and externally (Bosnia and Herzegovina, Bulgaria, Ireland, Italy, Poland, Portugal, Republic of Srpska, Serbia, and United Kingdom).

11 countries replied that the criteria are made transparent internally but not externally (Czech Republic, Estonia, France, Lithuania, Malta, Montenegro, Norway, Republic of Belarus, Slovak Republic, Spain and Switzerland).

The French TA prefers the definition of “risky companies” rather than the one of “risky businesses”. In the Netherlands and Sweden, because of the customized individual approach, there are in general no criteria for selecting «risky businesses». In Slovenia the basic criteria are made transparent, but not any special risk criteria.

In discussions with LTPs as a part of the Cooperative Compliance program, the Irish TA discusses their risk profiles with them on a confidential basis. At conferences with, for example, tax advisors, the Irish TA also broadly indicates the type of risks that they would be focusing their attention on.

The Slovak Republic and Switzerland stated that the criteria were made transparent only inside their tax administrations.

In Italy, the criteria are transparent only in terms of operations and activities addressed by the annual statement on strategy. In Norway only selected issues are made transparent to the public.

The Swedish tax authorities publish on the website articles about Advanced Transfer Pricing-Transactions that they don’t accept (yet they have no individual transparency about «risky businesses»).
The National Tax Discipline Plan of Poland makes the criteria for selection transparent. The legislation of Bulgaria also provides for transparency.

7.2. Kinds of communications that are being carried out as far as RA is concerned

In the analysis it is important to make a distinction between internal and external communications.

Internal information is conveyed by several communication systems:

- by web application, internet (Czech Republic, Hungary and Republic of Belarus);
- by letters, mail and phone (Azerbaijan Republic, Belgium, Bosnia and Herzegovina, Finland, Portugal, Republic of Srpska, Romania, Serbia, and Slovak Republic);
- by discussions, presentations and working groups (Azerbaijan Republic, Estonia, France, Ireland, Lithuania, Malta, Norway and Switzerland).

The Italian tax administration has different types of communication in relation to the various objectives they refer to (activity-planning, instructions on how to perform risk analysis and others communications concerning special areas of risk to investigate). The French tax administration uses the same means of internal communication as described above by Italy. In addition, the tax officials dealing with Large Taxpayers benefit from the setting up of RA and technical forms as well as training courses which include RA.

External communication is done using the following systems:

- by website (Bulgaria, Slovenia and Sweden);
- by media (Bulgaria);
- by ongoing discussions with large taxpayers and sector interest groups (Bulgaria and Ireland).

7.3. The responsibility for the communication

In the following countries (Bosnia and Herzegovina, Croatia, Czech Republic, Denmark, Norway, Republic of Srpska, Serbia, Slovenia and Sweden), responsibility for communication is that of the central directorate (Ministry of finance, head of department, head office, head division, legal unit at headquarter, management)
In Belgium, Finland, Italy, Lithuania, Switzerland and Romania the responsibility for the communication is assumed by the risk analysis unit.

Other tax authorities assign responsibility for communication to the tax or audit services (Azerbaijan Republic, Estonia, Hungary, Portugal and Montenegro).

In the United Kingdom and Bulgaria information is given by the department of communication.

For the Irish tax administration effective communication is an essential part of their approach. The responsibility depends on the issue.

The results are summarized in this table:

<table>
<thead>
<tr>
<th>The responsibility for the communication</th>
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<tbody>
<tr>
<td>Directorate</td>
</tr>
<tr>
<td>RA unit</td>
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<tr>
<td>Audit &amp; Tax unit</td>
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<tr>
<td>Communication unit</td>
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8. IMPACT OF RISK ANALYSIS AND OTHER RELATED ISSUES

8.1. Policy decisions

According to the answers from 23 countries (72%) risk analysis has an influence on policy decisions. 9 countries (Italy, Latvia, Switzerland, Azerbaijan Republic, Norway, Portugal, Lithuania, Germany, Poland) answered that there is no such influence. In analyzing the answers, it was seen that a number of countries that answered to this question said “no” probably because they considered only direct influences. There is a close relationship between risk analysis and policy directorates in some countries. For example in the United Kingdom LBS is part of the HMRC Business Tax group which includes the Business Customer Unit, Business International, Large Business Service, Corporation Tax, VAT, Anti-Avoidance Group, Excise, Customs and Stamps and Money With any significant trends or recurring issues coming from risk assessment feedback going to the relevant group members. There is a close relationship with policy directorates particularly where litigation is concerned.

In Belgium, when RA detects a risk, very often these risks are incorporated in the anti-fraud plans of the Minister or their Secretary of State. It is also possible that the Minister or the Secretary require specific issues to be audited. RA will select the taxpayers with the highest risks.

8.2. Audit activities

32 countries (i.e. 94%) from 34 answered that RA affected their audit activities. Only Germany said that Risk analysis is a part of the audit plan, the auditor deciding on the priorities of the audit.

According to the Italy's response, risk analysis enables them to select the risk areas to be controlled and the depth of the verification activities required, in order to examine specific areas of a taxpayer’s business but not to spend resources on other aspects presenting low or negligible risk.

8.3. New legislation

23 countries (68%) answered that RA has a role in new legislation initiatives. In Ireland they provide feedback to the central policy and legislation Divisions on an ongoing basis.
In Montenegro, according to risk analysis results the Tax Administration offers suggestions to the Ministry of Finance for adopting new legislative solutions.

In Finland Tax avoidance schemes discovered in audits lead sometimes to legislation initiatives.

10 countries (32%)-The Czech Republic, Latvia, Switzerland, France, Portugal, United Kingdom, German Republic, Belarus, The Slovak Republic, Macedonia answered that RA didn’t have a role in new legislation initiatives

### 8.4. Service to the public

24 countries (77.4%) responded that RA it helpful in identifying solutions to provide a better service to the public. For example, according to Italy’s answer, in general, the compliance costs for Large Taxpayers must be appropriate to the Agency’s strategic goal of stimulating compliance and preventing non-compliance. Perceived high costs in relation to a given risk can inadvertently lead to increased taxpayer dissatisfaction and as a consequence to a decrease in compliance. By optimizing the allocation of resources the Agency addresses its primary goal in the most cost-effective way.

The Azerbaijan Republic answered that RA gives them the opportunity to audit only those taxpayers whose compliance is poor and not to waste time on others, so it is helping them to provide a better service.

7 countries (22.6%) gave a negative answer (Latvia, Austria, Belgium, Finland, France, Germany, the Slovak Republic)

Belgium explained its “no” answer saying that, “at the moment, RA is not yet used to give a better service to the public”. If RA detects that in some areas, compliance is very low it informs the target group (e.g. the introduction of specific regulations for football teams).

### 8.5. Other issues

21 countries from 28 (75%) answered that RA **exerts a positive effect on other activities**. One of the countries which gave a positive answer - the Netherlands - said that due to simplification of legislation and to the decrease in their administrative burden taxpayers were more frequently proving to be voluntary compliant. Furthermore RA reduced the maintenance costs. Ireland’s view was that effective risk analysis and compliance programs, including audit, were essential for successful tax administration and to preserve the RA’s reputation as an effective means for the TA.

7 countries out of 28 (i.e. 25%, Italy, Latvia, Austria, Estonia, France, Germany, Poland) answered negatively.
8.6. The benefits to LTP

25 countries out of 29 (86.2%) answered that Risk Analysis is beneficial to LTP.

According to Italy’s answer, RA enables the Agency to focus only on non-compliant situations, while compliant taxpayers don’t have to bear any additional costs inevitably arising from being subject to tax verification activities.

Switzerland introduced specific methods for LTP. If a large business is less risky, it will have to face fewer audit activities, whilst if the business is very complicated and more risky from the perspective of taxes, it will have more frequent audits, and this results in an incentive to the LTP to increase their fiscal security.

RA in the Belgian TA is only at an early stage. It still has to improve. In the area of transfer pricing, it is clear that RA has already proved beneficial to LTP.

In the United Kingdom, for those large businesses that meet the criteria for a low risk relationship, they engage in a way that imposes as little burden as possible in order to maintain an understanding of the customer’s business and operations and to keep abreast of their commercial developments and emerging tax uncertainties. They provide help and advice where needed and where possible.

It is clear from the answer from The Netherlands that RA is helpful in understanding the problems of a LTP. With a professional approach the staff of the TA is on better speaking terms with the LTP which is not only important for audit but also for services.

Sweden explained that high quality RA should lead to higher efficiency in the selection for audit. This will ultimately result in a lower audit frequency for compliant companies and thereby lower compliance costs.

4 countries (13.8)% (Latvia, Austria, Germany, The Slovak Republic) answered that Risk Analysis isn’t beneficial for Large Taxpayers.

8.7. Random audits

18 countries from 34 (52.9%) said that they use random audits to provide more unbiased data for RA.

In Hungary, Croatia, Germany and Sweden there is no random selection for LTPs. In Belgium only 15% of audits are selected locally, based partly on local knowledge of the businesses.

In Bulgaria the NRA started collecting information using this method only since the beginning of 2010. Currently, those subject to such control activities are two randomly selected branches: - a branch which is not familiar to the NRA due to the
low number of audits it has received; and a branch which has been identified as risky in the high level risk analysis

16 countries, i.e. 47,1% (Latvia, Austria, Belgium, Croatia, Finland, France, The Netherlands, Norway, Republic of Srpska, Denmark, Lithuania, United Kingdom, Spain, Malta, Poland, Republic of Macedonia) replied that they don’t use random audits to provide more unbiased data for RA.

8.8. Periodic audits

20 countries (58.8%) answered that they use periodic audits to provide more unbiased data for RA.

In Hungary according to the legal provisions the large taxpayers must be audited (comprehensive audit) at least once every 3 years.

In Germany each LTP has to be audited. The audited period is 3 - 5 years. In the Netherlands an audit is an expensive option to gather unbiased data. Data is seldom obtained in this way and is only used in specific cases.

In Switzerland large taxpayers are audited after a maximum of 10 years .

14 countries, i.e. (41.2%) (Italy, Latvia, Belgium, Estonia, France, Norway, Denmark, Lithuania, United Kingdom, Sweden, The Slovak Republic, Bulgaria, Malta, Poland) answered that they didn’t use periodic audits to provide more unbiased data for RA.

Some countries use other ways to provide more unbiased data for RA. For example, in Estonia they control the taxpayer’s economic activity both before and after their registration for VAT. Other examples are as follows:

**The Netherlands:**
- meetings with the VLB or its tax advisor
- analysis of the tax position of the VLB
- what the amount of tax that the VLB pays
- what is the effective tax rate
- public information
- the internet
- annual accounts of the VLB
- sector information
- information from foreign tax authorities
- information gathered from companies operating in the same industry as the VLB

**Lithuania:** Tax investigations. The tax administrator may perform a tax investigation in the course of carrying out their normal duties without any prior instruction.

Purpose of tax investigation - is to identify and eliminate any shortcomings and/or contradictions in respect of tax calculations, declaration and/or payments, to inform the taxpayer about them and propose solutions to eliminate them in the future.
United Kingdom it is only when they need to carry out a mandatory check because of departmental or EU requirements or on behalf of other agencies or there is a national or LBS initiated campaign or project.

8.9. **Impediment to an effective RA**

8.9.1. **Insufficient data**

28 countries, from 33, i.e. 84.8% said that insufficient data is an impediment to an effective RA.

Bulgaria answered:
1. Most of the data is collected from the taxable persons by using their tax returns. There are a few cases where the data can be verified by comparing it with data from other sources.
2. The data is not homogeneous enough with different types of organisation declaring different types of data.
3. The different databases are not integrated.

Five countries, i.e. 14.7% (Hungary, Finland, The Netherlands, Portugal, Slovenia), answered that that insufficient data isn’t an impediment to an effective RA.

8.9.2. **Insufficient statistical significance**

26 countries, i.e. 78.7% said that insufficient statistical significance being placed on the data is an impediment to an effective RA.

According to Bulgaria, the basic concerns about the statistical significance of data arises not from the volume of data but from its quality, bearing in mind the fact that in most cases the data is declared by the persons themselves.

7 countries, i.e. 21.3% (The Czech Republic, Hungary, The Netherlands, Portugal, Lithuania, Poland, Republic of Macedonia) said that it was not an impediment to effective RA.

8.9.3. **Insufficient data from other countries**

25 countries, i.e. 75.7% reported that insufficient data from other countries was an impediment to effective RA. To the contrary, 8 countries i.e. 24.3% (The Czech
8.9.4. Privacy regulations

19 countries out of 33, i.e. 57.5%, said that privacy regulations, that prevented the use of some data, was an impediment to effective RA.

In Belgium there are strict privacy regulations which forbid the use of all available databases. The privacy commission takes into account legal regulations, proportionality and final objectives in order to decide whether data can be used.

Other answers were as follows:

Croatia: In the General Tax Law there is a secrecy provision.

The Netherlands: “This is a part of understanding the businesses”

Portugal: Bank privacy rules as well as privacy rules applicable to other regulators, e.g. the Securities Exchange Commission impact on RA

Bulgaria: Bank and insurance secrecy provided for in the legislation, leads to their inability to access data about movements and balances of bank accounts (bank secrecy can be surmounted during the course of an audit by following special procedures)

Malta: Tax authorities are partially exempt from the Data Protection Act

14 countries, i.e. 42.5% (Hungary, Italy, Finland, The Netherlands, Republic of Srpska, Lithuania, United Kingdom, Germany, Spain, Serbia, The Slovak Republic, Malta, ROMANIA, Poland) answered that privacy regulations weren’t an impediment to effective RA

8.9.5. Inadequacy/inappropriateness of RA tools

16 countries, i.e. 48.4%, answered that inadequacy/inappropriateness of RA tools is an impediment to an effective RA.

According to Bulgaria’s answer, the lack of user-friendly products which allow the extraction and the analysis of data from different bases according to certain criteria and parameters set by the users can be an impediment to an effective RA. Currently this extraction is made only by a few employees at central level who are supposed to have also IT knowledge, but there’s a lack of a complete product for risk assessment of all taxable persons and for automatic selection.

17 countries, i.e. 51.6% (The Czech Republic, Hungary, Italy, Switzerland, Belgium, Estonia, Finland, France, The Netherlands, Lithuania, United Kingdom, Sweden,
Germany, The Slovak Republic, Malta, Montenegro, Republic of Macedonia) gave a “no” answer and said that /inappropriateness of RA tools is not an impediment to an effective RA.

8.9.6. Lack of resources

25 countries, i.e. 73.5%, said that the lack of resources allocated to RA was an impediment to an effective RA.

According to Belgium, in the context of a decreasing number of people throughout the tax administration, even the RA service does not have the necessary number of people. In Switzerland they only have 2 full time jobs in this field.

9 countries, i.e. 26.5% (Estonia, France, The Netherlands, Denmark, United Kingdom, Sweden, Germany, The Slovak Republic, and Montenegro) said that lack of resources was not an impediment to providing an effective RA service.

8.9.7. Other restrictions to the use of data

11 countries, i.e. 34.4% said that there were other ethical issues related to the use of data.

The Czech Republic: The law on personal data protection.
Belgium: Not all data could be used for RA due to privacy reasons. A privacy commission needed to approve the use of data for RA.
Croatia: Related to possibility that all tax officials could use the data could come the abuse of power.
The Netherlands: Secrecy of company information. They can only share data with other parties under certain circumstances.
Bulgaria: Creating un-regulated contacts and relationships with taxpayers.

21 countries, i.e. 65.6%, said that they saw no other ethical issues related to the use of the data.

8.9.8. Relevant projects for other countries

The following 13 countries, (43.3%) said that there were projects in their countries involving risk analysis which may be useful to others (Italy, SWITZERLAND, Azerbaijan Republic, Estonia, The Netherlands, Norway, Denmark, Spain, Republic of Belarus, Bulgaria, Ireland, Montenegro, Republic of Macedonia)

Details of the projects include:
Italy: Risk Management Monitoring activity.

Switzerland: Semi automated selection of cases, knowledge database.

Azerbaijan Republic: Guidelines prepared with the help of the US Treasure Department to select taxpayers for audit and to carry out audit activities.

The Netherlands: Horizontal Monitoring and individual compliance agreements.

Norway: The compliance project.

Denmark: Transfer pricing issues, interest etc. to and from Denmark.

Republic of Belarus: A single database of all controlling authorities was being created to integrate all information about entities attributed to different risk groups.

Bulgaria: In 2007 with the help of the Dutch administration the NRA developed a project for the implementation of risk management within the administration.

The NRA was applying for two projects under the Operational Programme Administrative Capacity:
- the transfer of knowledge in the field of Stratification of taxable persons;
- development of a product for risk assessment and selection of taxable persons

There was no certainty that either of the projects would be approved. 

Montenegro: Fiscalisation of cash registers has been assigned to the Tax Administration to prevent different malpractices by producers and distributors of cash registers, that helps better monitoring of cash flows. This issue may be considered a useful model for other countries which have not introduced such a solution for cash registers.

Republic of Macedonia: Comparable data for the previous three years is created from the annual financial and tax reports the taxpayer submits.

17 countries, i.e. 56.7% (The Czech Republic, Latvia, Austria, Bosnia and Herzegovina, Belgium, Croatia, Finland, France, Republic of Srpska, Lithuania, United Kingdom, Sweden, Germany, Serbia, The Slovak Republic, Malta, Poland), said that they didn’t have any projects in their country that would be useful to others.

8.9.9. eXtensible Business Reporting Language

8 countries (Italy, Belgium, The Netherlands, United Kingdom, Germany, The Slovak Republic, Malta, Ireland) (23.5%) said that their country had a strategy for using XBRL-files (eXtensible Business Reporting Language) with the aim of collecting information from taxpayers.
Belgium: In 2011, the FPS Finances started to collect corporate tax returns using XBRL files. In 2012, two other kinds of taxes will be added. After evaluation, other taxes may follow.

Germany: XBRL will be used in 2013.

The Slovak Republic: The Commercial register, Business licence register and Real estate register in XBRL format.

Malta: The Inland Revenue Department adopted a similar concept in 2002 based on a local standard named TIFD. Over 90% of companies submit their accounts using this format.

25 countries, (73.5%) said that they didn’t have a strategy for using XBRL-files to collect information from taxpayers.

2 countries (The Slovak Republic and Malta) said that they had a strategy to process data from XBRL files in order to carry out RA.

Malta: Such data already represents part of the RA process. For instance, they work out a particular set of ratios for each company based on this data.

13 countries, (86.7%) (Italy, Switzerland, Austria, Azerbaijan Republic, Belgium, Croatia, Estonia, France, Lithuania, Germany, Serbia, Bulgaria, Ireland) said that they didn’t have a strategy to process data from XBRL files in order to carry out RA. Belgium replied that they were only at the development stage and that more analysis was still necessary in order to answer the question. Nevertheless it was clear that the data they collect using XBRL will be used for RA, one way or another.

8.9.10. Forum and other ways to share information

31 countries, i.e. 91.2%, said that it would be useful to have a forum for tax administrations in order to share information on Risk Analysis

Italy replied that a forum for tax administrations could be useful to:
1) share experiences and findings on similar issues, from a practical standpoint;
2) share knowledge pertaining to international tax law risks;
3) promote contact/discussion between different member states

Switzerland responded that a forum could be useful in collaboration with other organisations projects, such as the OECD (Sectis).

Azerbaijan considered that they had to face similar tax evasion schemes detected in other countries. It was important to know how other countries dealt with these schemes and to learn best practices.

The Netherlands explained that in answering these questions it has been important to make a distinction between the general theory of RA and the
information used for RA. The general theory was not difficult, although it was important to define exactly what the purpose of RA was. Only when the purpose was clear, was it possible to look for information and figures needed to draw correct conclusions. Information and figures used for tax purposes were often biased. These difficulties meant that it was very difficult to draw reliable conclusions from RA. RA was therefore only a starting point in the client approach.

The Slovenian TA said that moderating a forum and the reliability of information could be a problem.

2 countries (Latvia, Finland,) (8.8%) said that there was no need to have a forum for tax administrations in order to share information on Risk Analysis.

The Finnish TA replied that a forum in the EU area and another one in the OECD was deemed enough.

23 countries, (71.8%) thought that it would be useful to make existing forums/web-pages available to all tax administrations.

The Italian TA welcomed any initiative to promote knowledge exchange on risk analysis, while the Swiss TA believed it should be integrated into a more general service provided by IOTA, not specifically as a RA page for LTP, and should include other groups as there were many workshops and Area Groups discussing Risk analysis.

The Croatian TA thought that tax authorities already participated, through the FISCALIS program, on RA matters and that it was already possible to use many web pages. It was expected that IOTA web pages concerning RA could also be used. Their preference for topics was:

- become acquainted with tools and techniques for RA,
- ways of making decisions and
- all other information concerning RA from other countries.

9 countries, (28.2%) (The Czech Republic, Latvia, Austria, Belgium, Estonia, Finland, United Kingdom, Germany, Republic of Macedonia) said that there was no need to make existing forums/web-pages available to other TAs.

8.9.11. Other remarks on RA

**Hungary:** Risk analysis is based on data - typically electronically - available to tax administrations. From the base data, the data collected from taxpayers, partner authorities and that acquired during audits, administrations usually create new information/indicators which they also organise into databases. It would be helpful if other countries could learn about the structure of these databases, the art and methods of how information is compiled and indicators are calculated. The knowledge of how information is defined would be useful to at least in outlining the applications potential.
United Kingdom: “This questionnaire has been responded to in relation to risk analysis of large business. Risk analysis in HMRC for non large business is much more automated and information may be provided if requested. In LBS we believe that the majority of our customers want to pay the right amount of tax at the right time. For large businesses, managing tax risk to ensure compliance with the law can be complex and we recognise the considerable investment in systems and governance our customers make to secure this. We want to work with our customers to understand how they manage their tax planning and compliance within the wider commercial context in which they operate. All businesses have a Customer Relationship Manager ("CRM") who is responsible for managing all of the interfaces the business has with HMRC. They are responsible for assessing risk and working with the customer to improve compliance.

The CRM assesses the risk of the customer to rate their relationship with HMRC as low or higher risk. This risk rating forms the basis for the ongoing relationship between HMRC and the customer.

There is a wide spectrum of higher risk customers including some with inadequate tax compliance for one tax, others with poor tax compliance risk management for various taxes, or others with high risk tax strategies. Even higher risk customers with the most complex businesses and structures can enjoy the benefits of a low risk relationship by modifying their behaviours and addressing the causes of their higher risk profile. Our aim will be to work with the customer to improve the weaknesses we see in their tax compliance and encourage a low risk relationship. Our response will always be proportionate and targeted; it is not our intention to take up relatively insignificant issues. Wherever possible we will discuss and be transparent about any areas of tax uncertainty with our customers and provide them with the opportunity to explain or clarify points in order to avoid an intervention.

The CRM decides whether a tax issue is significant, taking into account:
- our confidence that the customer is treating it as we would expect
- the estimated monetary value
- the context in which the issue arises and whether there are wider impacts.

The CRM will use these factors in the Risk Review to prioritise risks. This may result in significant risk being identified, in terms of either the value or the impact of the issue. A risk with a relatively small economic value for the customer may have a wider impact on a tax or a business sector across HMRC that makes it significant. This prioritisation is done to ensure that our resources are placed against the highest risks.

New Approaches - We have developed new ways of approaching significant tax issues, such as assembling task-forces of expertise across HMRC, carrying out detailed and in depth investigations with greater intensity and to faster timescales, obtaining legal advice earlier, and maintaining momentum by using our information powers as appropriate. Where we believe that a customer’s behaviour poses a serious tax risk we will engage directly at Board level to try to persuade that customer to change the behaviours that are generating those risks. A Board needs to be aware that contentious tax investigations and disputes are expensive and resource intensive. We will generally seek dialogue and offer a Board an alternative approach and will always
9. CONCLUSION

9.1. General remarks

Tax Administrations have developed structures and processes aimed at managing the complexity of Large Taxpayers.

Nearly all IOTA Members based their approach on Risk Analysis, and incorporated these structures and processes in a general framework, called “Risk Management process”.

Risk Analysis is one of the foremost strategic pillars currently used to achieve a Tax Administration’s goals, not only those involving Large Taxpayers. Risk Analysis is the main driver that enables administrations to decide what is important in a tax compliance context, how major compliance risks can be addressed and how to determine the most effective allocation of resources in order to meet the increased expectations and demands being placed on them in terms of improved compliance and reduced administrative costs.

9.2. The organisation of the Risk Management Process for LTP

The majority of responding members have a Large Taxpayer Office. The provision of a Risk Analysis service is generally included in a common service that is coordinated under a central structure where both VAT and direct taxes are dealt with.

The central unit(s), usually consisting of a relatively small number of people, provides strategic and operational support: coordinating and monitoring activities and identifying available information sources from the central databases etc. Accordingly, most responding countries have a strategic top-down method for detecting areas of risk, although some input may still come from regional/local level.

9.3. The aim of Risk Analysis

The purpose of Risk Analysis in relation to LTP varies from Country to Country, from the selection of the LTP to be audited to the selection of the items and the risk areas to be investigated. In some Countries all LTP are annually subject to
audit, whilst in others LTP will be audited every two or more years (depending on internal provisions). Other countries do not have specifically defined legal intervals for audit. In those countries where a legal obligation for audit within a time limit exists, RA ensures positive selection for targeted audits and audits of specific types of taxes.
9.4. The impact of Risk Analysis

RA has many important effects. First of all, it affects audit activities, which is one of the main areas of interest for this report. Through Risk Analysis, audit and other tax verification activities are more cost-effective and present a higher degree of accuracy. As a consequence the burden of audits weighing on the LTP is reduced. For this reason, RA is seen as being beneficial to LTP.

It also has a role in new legislation measures and is seen as a helpful instrument in identifying solutions to provide better services to the public as well as influencing policy decisions.

Additionally, RA can assist in segmenting the taxpayer population based on behaviour and for identifying risky taxpayers and suspicious transactions, even among taxpayers who appear compliant.

9.5. Information gathering and sources

Nearly all Countries identify risks by trade sector. The focus is primarily on construction, banking and insurance companies, but also on oil, energy and trade.

Most members use a combination of a quantitative (numbers, statistics) and qualitative approaches towards RA, where the analyst’s knowledge and experience always plays an important part. Within the risk management process, risks have to be prioritized and treated accordingly. Tax Administrations use several criteria to assess the quality and usefulness of data, e.g.:
- A combination of different criteria/methods of selection/data sources
- A comparison of the outcomes from RA activities with the data used in previous stages
- An evaluation of the usability, comparability and reliability of the data
- Random tests etc.

Statistical methods are widely used when analyzing risks for LTP. Data mining is used by many countries but most countries do not have a specific system of data mining within the LTU.

Information supplied from third parties such as banks is seen as essential. Nearly all respondents have information from such sources at their disposal.

In many cases databases from external authorities and administrations, e.g. Customs (if external), business registers, financial supervision, courts, police or social security institutions are used.

The majority of countries use transfer-pricing information in their RA process.
The internet now forms an important source of information with nearly all Countries using it as a source of information for their RA.

In some cases information can be supplied by commercial companies (Bureau Van Dijk amongst others) but at a cost. Audit files of internal and external auditors and Stock exchange information are other resources used.

9.6. Reflections....

The following factors are seen as impediments to effective Risk Analysis:
- lack of resources allocated to RA
- insufficient data
- insufficient statistical significance
- insufficient data from other Countries
- privacy regulations that prevent the use of some data
- other ethical issues related to the use of the data (personal data protection, secrecy on company information)

The identification and selection of risk is still mainly a manual activity, aided by the use of computer tools when it should strictly be the opposite. Half the countries responded that the inadequacy/inappropriateness of RA tools can be an impediment to an effective RA.

A vast majority of countries already have a data warehouse, from which they make use of the above-mentioned data sources (tax returns, 3rd-party information, Customs data etc.). The current challenge is to further improve the integration of available data.

Tax administrations do not generally have a strategy for using XBRL-files for collecting information from taxpayers and only a few Countries are considering this option for the future. This issue can perhaps be addressed in discussions during forthcoming IOTA events. The development of risk databases could be another interesting topic for discussion.

Communication issues should also be brought into future discussions. Most countries replied that the criteria for the selection of “risky businesses” are not made transparent to taxpayers. When provided, the Central Directorate or the RA Unit are generally responsible for such communications.

Nearly all countries responded that a forum would be useful to progress the issues identified.

Even if this report has predominantly focused on Risk Analysis as a means of selection of LTP to be audited, there are also other clear objectives. In many Tax Administrations RA is seen as a useful tool as part of a more comprehensive treatment of the LTP (e.g. to improve services delivered to LTPs).
Recent years have shown how much Risk Analysis can strengthen the traditional approach to risk (optimizing the use of resources and the selection of the most suitable options) and how it can improve existing practices involving the treatment and auditing of LTPs. The outcomes of activities carried out by Tax Administrations reflect the great progress promoted by Risk Analysis. However, Risk Analysis is an approach that continuously pushes for further improvements. In the future, Risk Analysis, originally intended as a structured and systematic Risk Management process, will lead tax administrations to devise appropriate strategies and allocate operational resources to meet the future challenges that they will face.

The primary goal of any Tax Administration is not detecting and repressing tax evasion, but ensuring tax compliance, typically through risk-based strategies. To this end taxpayers must be involved in the process to ensure the best results are achieved. The latest developments show that there has been a general move by several Tax Administrations towards more collaborative approaches built on mutual respect, trust and transparency, generally known as “enhanced relationship” approaches. Even in such a changed environment, Risk Analysis will continue to play a critical role in all Tax Administrations’ strategies.

The task team hopes this report will be useful for further research into these issues and that it will assist in the future development of best practice concerning management of LTP compliance.
10. APPENDIX 1.

The Netherlands reply to IOTA Questionnaire ‘Risk Analysis of Large Taxpayers
September 15, 2010
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QUESTION 2: DEFINITION OF RA OF LT AND STRATEGIES

Definition of risk management
Risk management is an integral part of the supervision and enforcement strategy of the Netherlands’ tax and customs administration (NTCA). The NTCA focuses on supervising those private individuals and businesses who are at risk of not observing legal rules or who fail to pay their taxes. In our risk selection both financial importance and impact on society play an important role.

The characteristics of the NTCA’s supervision and enforcement strategy are:
- A risk oriented and ‘visible’ approach of taxpayers with material and physical examinations (often in close co-operation with other enforcement services);
- A sharp distinction between compliant and non-compliant taxpayers with a strong attention to those non-compliant taxpayers.

According to the NTCA compliance is achieved when taxpayers report tax relevant facts correctly, on time and in full and pay the correct amount on time. The objective of the NTCA is to ensure the willingness (presumed to be present in principle) of taxpayers to observe, maintain and reinforce legal obligations. If necessary and in addition to service-oriented and respectful conduct, the NTCA promotes compliance through corrective action and, as a last resort, compliance enforced through the criminal court. All supervision and enforcement activities of the NTCA should lead to the effect that taxpayer’s behaviour is influenced and compliance is maintained or improved.

Key topics of risk management for the NTCA are:
- Continuously monitoring of the environment in which the NTCA and taxpayers operate;
- Identification, detection and prioritization of risks related to the Netherlands tax system as such and the position of NTCA in the Netherlands society;
- Insight in the behaviour of taxpayers (insight in drivers to less or more compliant behaviour);
- Development of internal ‘(business) intelligence’;
- Measurement, analysis and evaluation of each intervention by the NTCA (building of a learning circle within the risk management process) in order to gain insight in the different enforcement tools.

Netherlands Risk Management Strategy for Very Large Business (hereafter VLB):
The Netherlands tax administration manages risk in the large business area on an individual basis.

We trust our taxpayers, unless we have information to the contrary. The level of transparency, the quality of the tax control framework, and the level of compliance determine the level of (additional) supervision by the NTCA. If we agree with the taxpayer on the level of quality of the tax control framework and the taxpayer is fully and actively transparent on the tax-risks emerging from this framework the efforts of the NTCA can be limited to discussing those risks real-time. We will not duplicate the auditing activities performed by other supervisors (internal audit department, external auditor). Our audit efforts will predominantly be directed at testing the quality of their work and whether the control framework of the company functions as it should. In the case the taxpayer has a poor quality tax control framework and/or is not fully and actively transparent we will have to audit retrospectively using different techniques.

**Risk management is coordinated partly at a central and partly at a regional level**

Risk management and enforcement is designed partly on a central and partly on a regional level. Efficacy and strategic interests determine whether something is steered centrally or regionally. This differs per segment. Tax risks are best determined centrally. Working with other enforcement agencies is mainly organised at regional level.

The central level is organised by the NTCA’s Nationwide Supervision Organisation (NSO). The NSO in co-operation with the regional tax offices is responsible for risk identification and selection in the process of supervision. The risk management process encompasses risk identification, risk selection and risk development. High quality risks are developed in co-operation with the regional level and become part of a nationwide plan for enforcement and supervision. Coherence between all components of the plan and close co-operation with all other parts of the NTCA that play a role in supervision and enforcement is an essential part of risk management.

**Risk Analysis and role intelligence gathering in risk management with VLB**

The role of intelligence gathering in risk management and analysis becomes more important. The NSO and regional offices employ dedicated intelligence officers. Their task is to research whether possible tax gaps exist within groups of tax payers. In this research they analyze and enrich several kinds of data. This focuses mainly at Small & Medium Sized Businesses and Private Individuals.

**Our risk management approach for LB’s (VLB and MSB) is not similar compared to Small Sized Businesses**

To be able to make balanced choices in risk management the NTCA has chosen for segmentation. Segmentation involves breaking down the total pool of taxpayers into groups with shared features such as financial interest, complexity of the tax issues faced, scale etc. The NTCA has created four
segments: Private Taxpayers, Small Businesses (SB), Medium-Sized Businesses (MSB) and Very Large Businesses (VLB). The segment’s characteristics and risk profiles determine the enforcement tools that are used.

The NTCA has special attention for VLB’s because of their contribution to the national budget, the public and political risks and the complexity of the tax issues. Many businesses within the VLB segment are multinational enterprises.

Definition of VLB:
A company qualifies as a very large business if one of the following criteria is met:
- Listed on the Amsterdam or foreign stock-exchange;
- A WOLB\(^2\) amount of more than €25 million;
- A foreign parent and a WOLB-amount of more than €12.5 million;
- At least five foreign subsidiaries and/or permanent establishment and a WOLB-amount of more than €12.5 million;
- All companies in the financial industry (banks, insurance), the oil and gas industry (upstream and downstream) and in the energy-supply industry are determined to be very large businesses;
- All non-profit organisations with a WOLB-amount of more than €37.5 million are qualified as very large organisations; or
- Other taxpayers not meeting the above factors may be covered under “the supervision-concept” for very large businesses if complex issues exist, or a taxpayer is viewed as potentially a high-profile case or with certain degree of financial risk.

Compliance risk: Range of enforcement tools available (i.e. preventive, repressive, and new / innovative)
For dealing with compliance risk the NTCA has a broad range of enforcement tools. Preventive instruments such as assessing legislation, communication, services and visits to companies. Further also enforcement communication\(^3\) and horizontal monitoring are tools which are used. Furthermore the NTCA can choose to use more repressive tools such as extensive audits, administrative fines and fraud investigations. The choice for a specific enforcement tool depends on the type of risk involved and available information about the taxpayer or groups of taxpayers. Repressive instruments are not always the most suitable means for long-term shifts in behaviour. The NTCA aims to deploy a balanced and diversified mix of enforcement tools. If possible the NTCA co-operates with other law enforcement organisations. Horizontal monitoring is preferred.

QUESTION 3: ORGANISATION OF RISK MANAGEMENT PROCESS FOR LT WITHIN TAX ADMINISTRATION

\(^2\) The WOLB-amount is a weighted average of profit tax (income tax or corporate tax), VAT and employment taxes.

\(^3\) Enforcement communication is also used as an instrument for enhancing visibility of activities. To step up the impact of its action the FIOD-ECD will focus on cases with significant social visibility such as combating money-laundering. The number of campaigns carried out to track unknown taxpayers and flows of income and to recovers outstanding tax debts has been stepped up.
Netherlands Process for Risk Management of VLB:
For the treatment of VLBs, the NTCA has chosen an individual and customised approach. Each company has a client relationship manager within the tax administration. Based on previous experiences, e.g. interviews and meetings with the VLB, preliminary discussions, tax audits, monitoring of the company, knowledge on their internal control systems for tax purposes but also industry data and other intelligence (e.g. such as annual accounts, internet), the account team establishes an up-to-date client profile including an assessment of the specific compliance risks of that company. The account manager is responsible for developing a strategic plan for the companies he or she is responsible for. The strategic plan together with the compliance risks are registered in a special (ATK) database. After registration compliance risks have to be matched with available capacity. This matching process first takes place within the teams and if necessary on a nationwide basis.

The approach is to use corporate governance and financial reporting rules requiring that companies continuously monitor their own risk, including their tax risks. The degree to which a business is in control determines to a large extent the form and intensity of additional monitoring. This means that the NTCA must have a clear understanding of the existence, set-up and operation of internal controls concerning tax. If a Tax Control Framework is solid, monitoring focuses on the effect of internal control measures and preliminary discussions on current tax issues. The tax returns should then not contain any new information requiring immediate attention. The Netherlands Tax Administration has laid down their vision on this subject in the memorandum —Tax Control Framework— which can be found at the internet site of the Netherlands tax administration [http://www.belastingdienst.nl/download/1884.html](http://www.belastingdienst.nl/download/1884.html).

Structure for managing risk in VLB area
Priorities for the treatment of VLB’s are set in the NTCA’s VLB policy plan. In order to achieve a nation-wide level playing field in the application of our tax law and regulations a Co-ordination group on the treatment of VLB’s is established. This co-ordination group prepares and executes the VLB policy-plan and monitors the choices made by account teams in the regional offices. Several specialised nation-wide technical co-ordinators (Corporate income tax, VAT, Wage taxes, Audit and Tax Collection) work for this co-ordination group. For specific areas like transfer pricing, financing transactions and real estate the NTCA has established co-ordination groups with a nation-wide responsibility.

Single point of contact for LB’s, i.e. a client coordinator
The single point of contact for particular VLB is the client coordinator who effectively operates as an account manager. He or she chairs a team of specialists (corporate income tax, wage taxes, VAT, audit) and manages all communication between the NTCA and the individual company. The client coordinator and his team build and maintain a professional relationship with the company.

QUESTION 4 IDENTIFYING RISKS
Definition of material risk (what attracts attention)
It is the NTCA’s opinion that what attracts attention should be case specific. The NTCA therefore does not define a material risk, but leaves that up to the VLB and the tax officers in charge. NTCA does ascertain that all material tax risks are disclosed in real time by applying a mandatory commitment of the VLB to develop and maintain a solid TCF. The NTCA’s real time management approach resolves all kinds of tax risks that bear potential and significant tax risks.

The NTCA does not provide VLB’s with (lists of) risks that it considers relevant and/or material. The NTCA rather works on the basis of an up-to-date client profile of the VLB and forms an impression of its business. Significant tax risks are not defined as this would limit each party in taking positions.

Risks are managed at different levels in our LB area
Risks are mainly managed at case level. However, specific risks in the VLB area are identified. VLB’s in specific sectors or industries are treated by specialized account teams.

Specifically in the VLB area the following compliance issues have been identified:
- Transfer pricing
- Complex Financing arrangements (debt vs. capital)
- Entity classification (hybrid or not)
- International tax arbitrage
- Valuation of derivatives
- Permanent establishment issues
- Stock option schemes
- Process risks for VAT and wage tax

Special teams and / or databases / IT tools for analysis and selection
The NTCA does not have special teams nor databases or IT tools for analysis and selection for VLB. We do have databases and IT tools for small and medium sized businesses and individuals.

Documenting the identification, selection and our response to risk
The NTCA documents the identification, selection and response to risk in a special database (ATK).

Identification and understanding of ongoing tax risks of LB’s
The client coordinator and his team identify the specific compliance and tax risks of a company. The client coordinator discusses this perception and its strategic supervision plan with the company.

Understanding the business and its operational and legal structure enables the tax officers to establish a view on the company. Relevant issues to discuss with the company include the overall strategy of the company, the tax strategy, the compliance organisation, the role of the CEO or CFO and the
supervisory board with respect to tax risk management (the so called ‘tone at the top’), the staffing of the tax department, the role of tax advisors and accountants. IFRS demands an accurate and well documented tax provision in the annual accounts. SoX and other corporate governance codes (like the Code Tabaksblat in the Netherlands) require companies to be in control of their risks, including its tax risks, by establishing internal control systems. When looking at the business it is important to understand how tax risks that occur in the business processes are determined and controlled by establishing, applying and testing procedures. With all this information we will be able to develop a view on the compliance and tax risks we have to address and discuss with the respective company.

**Measures to assess risk of LB’s**

Our risk assessment is based on several sources. Examples are (not limitative):

- experiences in previous contacts with the VLB such as:
  - concluding a compliance agreement under the horizontal monitoring program (if applicable)
  - tax audits
  - meetings with the VLB or its tax advisor
  - requests in advance (pre-filing agreement, advance ruling): what kind of topics are brought up, in what frequency?
  - actual paying behaviour (is tax paid in time?)
  - role of the tax advisor
  - role of the tax department
  - role of the management: what is the ‘tone at the top’?
  - analysis of the tax position of the VLB
  - what is the amount of tax that the VLB pays
  - what is the effective tax rate
  - public information
  - the internet
  - annual accounts of the VLB
  - sector information
  - information from foreign tax authorities
  - information gathered from companies operating in the same industry as the VLB

**Review of the risk assessment prepared by the taxpayer**

The risk assessment that a taxpayer has prepared and disclosed to the NTCA is used as input in our enforcement strategy. Starting point is that we rely on the taxpayer to disclose all relevant tax risks. Depending on the type of risk we determine the appropriate enforcement tool, which could range from discussing the risk in a meeting to an extensive tax audit, all depending on the possible impact.

**Use / review the quality of taxpayers’ tax processes and tax accounting systems**

The NTCA’s general policy is to avoid double work. Therefore our policy is to make use of the VLB’s tax processes and tax accounting systems. We will not duplicate the auditing activities performed by other supervisors (internal audit...
department, external auditor). Our audit efforts will predominantly be directed at testing the quality of their work and whether the control framework of the company functions as it should.

Knowledge on the adequacy of corporate governance and risk management systems for managing tax risk by the LB
The NTCA monitors the adequacy of corporate governance and management systems. The monitoring is usually performed by auditors of the NTCA but can also be executed by external (tax) auditors. In the latter case the VLB and the NTCA establish together the issues and risks that should be monitored.

Strategy of working together with other enforcement agencies and / or regulatory bodies
The NTCA has the strategy to cooperate as much as possible with other enforcement agencies and/ or regulatory bodies as far as possible under confidentiality legislation. In the SME area we have for instance reached agreements with local authorities and police authorities about cooperation in enforcement actions.

In the VLB segment the NTCA seeks cooperation with regulatory bodies such as the AFM (Netherlands Authority for the Financial Markets), the NMA (the Netherlands Competition Authority) and DNB (The Bank of the Netherlands). In the financial sector the NTCA participates, together with Fiscal and Economic Investigation Services (FIOD/ECD) and eight other organizations, in the Financial Expertise Centre, which objective is enforcing the integrity of this sector.

QUESTION 5: ASSESSING, ANALYSING AND PRIORITISING RISKS

Intent, scope and features of our enhanced relationship (horizontal monitoring) and real-time management approach for LB’s
The trend is to move from post-filing of tax return examination to “real-time” evaluation of risk and compliance issue resolution.

The intent of the NTCA’s real-time management approach for VLB’s is to work in a more efficient and effective way by dealing with tax issues at the moments they occur. The scope is to cover all central (governmental) taxes. Features are individual compliance agreements, Advance Pricing Agreements (APA’s), Advance Tax Rulings (ATR’s). The enhanced relationship approach (horizontal monitoring and compliance agreement) is generally initiated by the NTCA and is discretionary. ATR’s and APA’s are initiated by the taxpayer.

The horizontal monitoring approach is available to all VLB’s. With some 60 VLB’s the NTCA has currently concluded individual compliance agreements. An example of such an individual compliance agreement can be found on our website. The approach is applicable to all taxes.

The main basic premise is that the VLB is willing to co-operate with the NTCA on a basis of mutual trust, transparency and understanding. It is essential that the company has developed and implemented internal control procedures.
regarding tax risks and tests these procedures on a regular basis (internal monitoring). This tax relevant part of the internal control framework is called the Tax Control Framework (TCF). In an individual compliance agreement it is agreed that the VLB shall notify the NTCA of any issues with a potential and significant tax risk.

**Concept of real time risk reviews or audits, whereby these are carried out before a tax return is filed**

The NTCA carries out reviews of internal control procedures regarding tax risks to determine the extent to which a VLB is in control. The ultimate goal is to create a situation in which the NTCA can assume that the company’s tax return is acceptable before it is filed. These reviews are not solely related to particular tax risks nor conducted only on particular types of taxpayers.

**Identification of LB’s in a certain risk category (high risk, low risk)**

The NTCA does not identify VLB’s in high and/or low risk categories.

**An overview of our view on benefits of our enhanced relationship and real-time approach for LB's (horizontal monitoring)**

The benefits of the real-time approach (horizontal monitoring) for VLB’s are faster and more explicit certainty concerning possible tax risks (taking existing commercial deadlines into account), increased control of its tax position, an enhanced relationship with the tax administration and a reduced administrative burden. In general VLB’s are very positive in their reaction on the co-operative way of working with the NTCA on a real time basis.

The benefits for the NTCA is in resolving potential conflicts up front through dialogue and not in a confrontational way after a tax return has been filed. Working that way encourages the VLB to be compliant.

So far there are no negative experiences or disadvantages of the real-time management approach. The main challenges for the NTCA are to secure its trustworthiness by being transparent and to live up to the commitment to take positions swiftly, bearing in mind existing commercial deadlines. This requires a problem-solving mindset rather than a forensic audit one of the tax officers. The process of cultural change needs conscientious and continuous guidance. In some cases, it is a challenge to solve issues from the past. The NTCA has developed training programmes to support its staff to overcome these challenges.

The extent to which the implementation of enhanced relationships has reduced ‘aggressive tax planning’ has not been measured yet. However, it is our impression that at least with some VLB’s ‘aggressive tax planning’ seems to have been limited or reduced in exchange for earlier and more certainty on the tax provision.

**Our perspective on what good governance in relation to tax risk management by LB’s looks like. E.g. (written) tax strategy, responsibility for tax at Board level, communication and information sharing, robust day-to-day accounting & control mechanisms, strong internal control mechanisms, independent review**

The NTCA recognises that corporate governance is a key factor for
compliance by very large businesses. All companies listed on the Amsterdam (Euronext) stock exchange should comply with the principles of the Netherlands Corporate Governance Code (the Tabaksblat-code) or explain in their annual reports why they do not comply with specific principles in this code (comply or explain-principle). Also some non-listed very large businesses and non-profit organisations in the Netherlands voluntarily comply with this code. Many very large businesses with a listing on foreign stock exchanges are subject to corporate governance codes in their respective countries (e.g. the US Sarbanes-Oxley Act).

To enhance the relationship between the NTCA and the companies it has proven to be instrumental that managing officers of both parties commit themselves to being open, transparent and understanding. Also it has proven to be instrumental to address issues like the overall corporate strategy, the corporate tax strategy and views on compliance. Both the executive boards of the very large businesses and the management of the regional tax offices should explicitly express that they recognize and value the relationship and will actively keep it up. A problem solving attitude and cooperative mindset need authoritative back-up on both sides.

Internal control mechanisms are (part of) the tax control framework. In the horizontal monitoring program we expect the VLB to be 'in control' with regard to its tax position.
An independent review is not required but can fortify our trust in the VLB and its tax control framework.

Policies and practices adopted in our country take into account the behaviour drivers of tax advisers and taxpayers
For each VLB the account team describes its view on the tax behaviour in the strategic plan regarding this VLB. Under the horizontal monitoring program the behaviour drivers are discussed with the management of the companies. We share our view on the tax behaviour with the management of the VLB and invite them to disclose their tax strategy, code of conduct, measures taken to make sure that the code of conduct is internalized etc.

Horizontal Monitoring: Voluntary (full) disclosure of risks in advance
In individual compliance agreements (horizontal monitoring) a voluntary (full) disclosure of risks in advance is stated. In case no formal compliance agreement has been signed, in our enhanced relationship approach we continuously encourage transparency and disclosure of material events.

QUESTION 6: COMMUNICATION

Communication and disclosure of our risk management approach
Part of the customized individual approach is that the account team communicates our risk management approach and discloses its risk management strategy to the VLB.
Essential in the risk management strategy is the client profile (risk profile) of the VLB. The level of transparency, the quality of the tax control framework, and the level of compliance determine the level of (additional) supervision by the NTCA. The NTCA has laid down their generic vision on the Tax Control Framework in a memorandum which can be found at the internet site of the NTCA.  http://www.belastingdienst.nl/download/1884.html
Disclosure of the criteria for selecting taxpayers for audit
As a result of the customized individual approach in the VLB area the NTCA does not develop general criteria for selecting taxpayers for audit.

Disclosure of risk assessments for particular taxpayers
In the horizontal monitoring program the NTCA can share risk assessments or specific risks with VLB’s. However, the general idea behind the horizontal monitoring program is that the VLB discloses risk assessments voluntarily to the NTCA.

We provide a clear statement of benefits to LB’s and tax advisers for changing behaviour under horizontal monitoring
A flyer (in English) is available for all VLB’s and tax advisors and can be found on our website: http://download.belastingdienst.nl/belastingdienst/docs/thinking_differently_behaving_differently_working_differently_dv4001z1pleng.pdf

QUESTION 7: FINAL QUESTIONS AND EVALUATIONS

Measurement of the performance and success of our risk management approach
Every year the NTCA holds an internal review of the quality and performance of risk management in the VLB area. The review is monitored by the Co-ordination Group Very Large Businesses and is carried out by specialised nation-wide technical co-ordinators (Corporate income tax, VAT, Wage taxes, Audit and Tax Collection).
The NTCA carries out formal external surveys with all taxpayers. We are currently in the process of carrying out an external survey with VLB’s only.

Factors used to measure quantity and quality
The internal survey is meant to establish whether the NTCA meets its objectives in the VLB area:
- Encourage maximum voluntary compliance by the VLB area
- Ensure the quality of the audits of VLB
- Ensure the quality of the choices made by the account teams
- Ensure that nationwide policies have been carried out adequately
- Ensure the quality of the strategic plans made by the account teams

Sharing experience and creating a leaning cycle
The NTCA encourages the regional offices to organize regional and nationwide meetings. On a nationwide level co-ordination groups collect cases and best practices and share their know-how and experiences with the account teams in the regions.
The results of the internal survey (see answer to question 6a) are shared with regional management and the account teams.