

Compliance and Tax Authority



World Health
Organization

Compliance

In general, compliance means conforming to comply with relevant laws or regulations

- Administrative compliance.
 - Complying with the administrative rules of lodging and paying on time.
- Technical compliance Taxes calculated in accordance with the technical requirements of the tax laws or taxpayers pay their share of tax in accordance with the provisions of the tax laws).
- Technical compliance requires tax authority to have
 - Full knowledge about the impact of tax changes to the market and consequently on tax revenues;
 - The technical skills to take into account all these factors when estimating the tax payment.
 - Existing information about the tax trend paid by companies and their market operations in order to measure technical compliance.

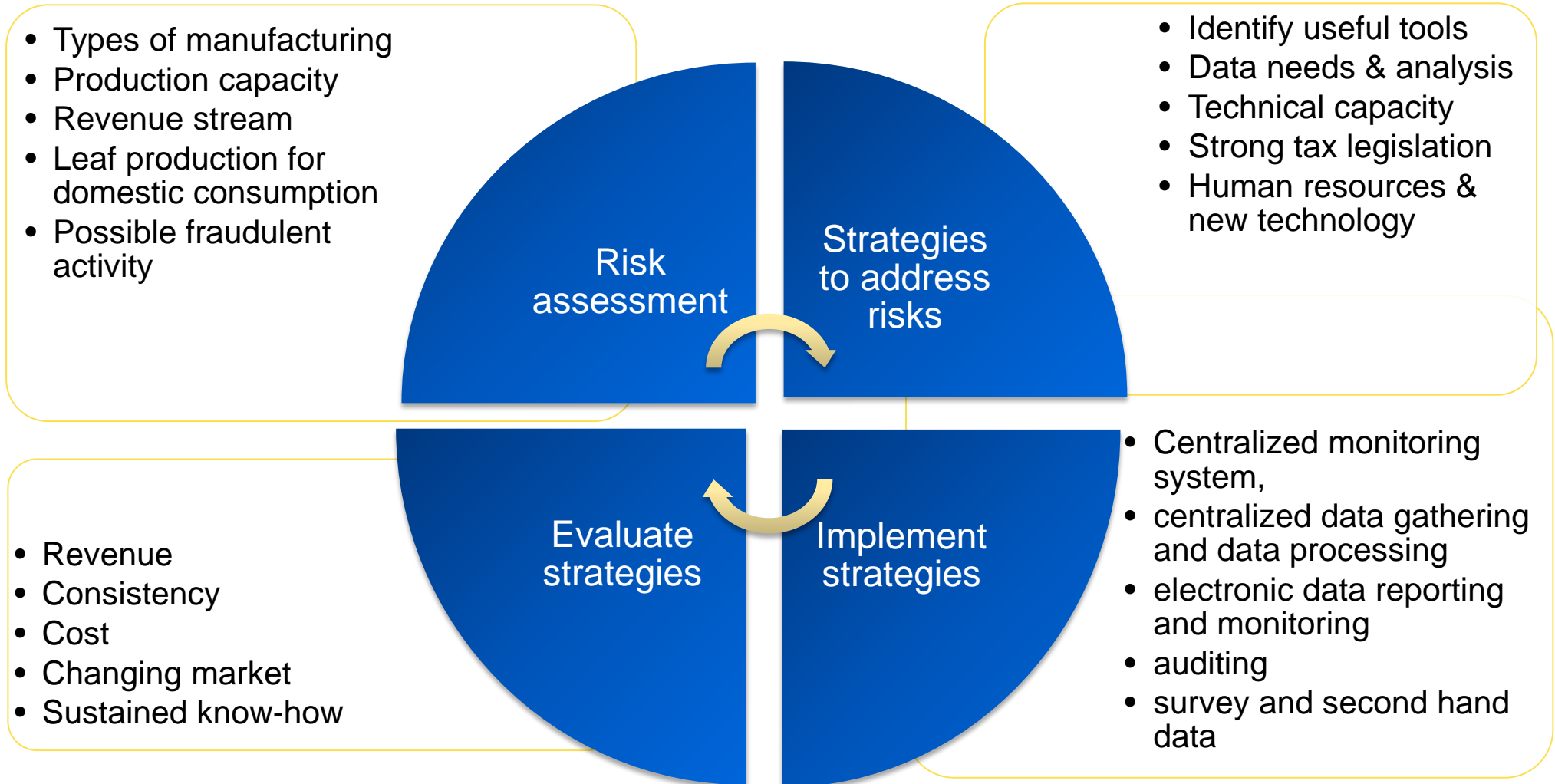
Compliance

- **Reporting requirements:** should be
 - Embedded into the regulatory system, and,
 - Compliance data should be part of the reporting requirements
 - (e.g. Quantity and value of produced, exported, imported tobacco products, and taxable amount of each types of brands and products)
- **Compliance data:** is a set of data provided to the tax authority by the manufacturers
 - For the purpose of implementing or validating compliance, consistency and completeness.

Compliance Reporting requirement

- Tax authority need to
 - Identify the level and the areas of low compliance and
 - Determine what strategies they need to adopt in order to increase compliance with respect to
 - better enforcement,
 - legislative support,
 - risks analysis and
 - information sharing at central or district level actions etc.

Strong Tax authority



Enforcing Compliance

- In high-income countries, excise taxes can be administered by:
 - relying on the taxpayer to submit tax returns and,
 - then auditing the taxpayer's account books.
- Countries with less established compliance systems, have difficulty measuring and ensuring the compliance, in consequence, they take a mix of measures to improve taxpayer compliance:
 - Negotiation with the manufacturers
 - Physical control over the products
 - Licensing and tax stamps
 - Electronic monitoring

Physical Controls

Effective tax administration systems check the production and stocks by controlling the shipments into and out of tobacco production facilities

Traditional Process

- The producer makes:
 - Records made available **for inspection by the tax authority** on a regular basis, usually monthly.
- The tax authority:
 - Periodically take stock of the products at hand and checks against the taxpayer's production and shipment records.
 - Control can also include checking inventory by counting cigarette packs.
 - An employee of the company may perform the actual measuring ***under the supervision of a tax official***.
 - To help ensure integrity, the tax authority frequently rotate the control official among different locations, and have the supervisor make surprise visits.

Physical Controls: Examples of traditional process

High-income countries have, in the past, adopted intensive physical controls on excisable goods.

- **Scotland:**

- Each whisky distilleries had a resident excise officer who lived in a provided house next door to the distillery and the official locked on their entrances, exits, and key areas of the production process and no activity could take place without the officer being present to unlock the locks.

- **United Kingdom:**

- Each bonded warehouse used to have a resident officer who had to unlock and lock the warehouse.
- Now, the UK relies on the warehouse keeper to exercise day-to-day control, with official control based on spot checks and systems of audit.

Physical Controls: Examples of traditional process

Currently, a number of developing countries also exercise intensive physical controls on cigarettes.

- India
 - A tax official stationed 24/7 to large tobacco producing facilities and are rotated periodically in order to avoid fraud.
- Pakistan
 - Manufacturers periodically provide the production and price of cigarettes in each district tax authorities where the information from each district is collected in Federal Board of Revenue

Problem:

1. The potential for fraud by the excise officer cannot be eliminated fully.
2. Costly process , since it requires more HRs to involve in countries where tobacco products vary widely and produced a large number of manufacturers including large to cottage industry.

Physical control: Monitoring Production Excise Tax Stamps

- Excise stamps are another method of ensuring:
 - payment of excise tax and
 - that goods for which the tax appropriate for one jurisdiction has been paid do not get shipped to another.
- How to sell stamps:
 - Either sell these stamps to the taxpayer to collect money in advance, or
 - provide stamps to bonded producers with payment delayed until the excise is otherwise payable.

Administering Stamps

- Cigarette manufacturers apply the excise stamp directly to the pack as part of the manufacturing process.
- For instance, stamps are often affixed to cigarette packs before the final cellophane packaging is applied.
- In some countries, costs of stamps under the manufacturers, and in some under the government's responsibility

Physical Controls: loopholes with stamps

Governments must maintain total control over both the excisable good and the stamps

- In many countries, the excise stamps are re-used and/or are easy to counterfeit.
- To limit such activity, require stamps that are of:
 - high quality,
 - difficult to duplicate,
 - serially numbered, and
 - adhere to the package so that they break when the package is opened.
- Stamps serve little purpose in control unless:
 - their use is monitored at the retail level and
 - retailers believe that the stamp program is being strictly enforced.



Efficient & Effective Physical Control

Effective tax administration systems check the production and stocks by controlling the shipments into and out of tobacco production facilities

Process of electronic monitoring system

- The producer makes:

- Records made available for **inspection by the tax authority** on a regular basis, usually by monthly.

- The tax authority

- Monitors production with a technology (tracking and tracing system) and checks against production and shipment records made available by producers.
- Creates a data base and periodically checks the production, shipment and stock of the products at hand and compares against the taxpayer's records.

Efficient & Effective Physical Controls

Effective tax administration systems check the production and stocks by controlling the shipments into and out of tobacco production facilities

Electronic monitoring system (please see details in presentation 5.3)

- Enables tax authority to control illicit and counterfeit cigarettes and tobacco products
- Informs tax authority about the production and importation of types of brands and their shipment
- Enables tax authority to estimate and realize expected revenues
- Improve manufacturers' compliance in reporting production and paying its tax liability in full.
- Applies tax stamps that are relatively difficult to counterfeit.

BEST PRACTICES



Best Practice for Strengthening Tax Administration

Enhance Compliance

- Improve technical capacity of tax authority and sustain in house technical knowledge
- Improve monitoring of production and trade activities
 - Implement high technology that enables tax authority to assess and validate tax payable portion of production
- Support comprehensive tax law to close loopholes that enables tax avoidance

Best Practice for Strengthening Tax Administration

Improving technical capacity of tax authority

- Availability of skilled human capacity
- Establishing data centers and data processing
- Coordinating tax analysis and information gathering at center level
- Conducting risks analysis
- Availability of technical tools and skills required by tax authority to understand the background of
 - Impact on taxes on consumer prices
 - Impact of consumer prices on consumer demand
 - Impact on changing demand on price bands and on expected revenues
 - Market characteristics and the industry production & pricing strategies
- Developing comprehensive auditing technics &
- Ensuring sustainability of know-how knowledge within tax authority



Best Practice for Strengthening Tax Administration

Improve monitoring of production and trade activities

- Centralizing monitoring system - Required
- Good- Increasing frequency of rotation by tax officials and keeping 24/7 rotation cycle – if human monitoring is applied
- Best- Applying new technologies and innovative ways of monitoring
 - Electronic report filing by tax payers
 - Electronic monitoring on production and trade
 - Assessment of production capacities of manufacturing facilities to increase compliance.

Best Practice for Strengthening Tax Administration

Legislative support for tax authority

- **Improve legislative process by tax laws that require**
 - manufacturers to reveal confidential information to tax authority that includes price, production level, producer prices, costs of production etc.
 - Require manufacturers to comply with the reporting requirement within a specific time intervals – monthly, quarterly, annual to tax authority.
- **Imposing regulation on the operations of the tobacco businesses,**
 - obtain trade licenses ,
 - register for a trademark as per the provision of trademark act

Best Practice for Strengthening Tax Administration

Legislative support for tax authority

● Limitative measures

- *to entry into and operations of tobacco business-* Brazil, Indonesia
- *on the way products produced-* Bangladesh.
- *On restrictions affecting the content of the tobacco products* – Turkey, Pacific Islands

● Improve tax and price policies to close loopholes and eliminate ambiguity on industry price strategies

- Impose minimum price policies - Brazil
- Impose minimum tax level – European Union, Russian Federation, Ukraine, Turkey, Kenya,
- Simplify tax systems – Egypt, Kenya, Philippines