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UPDATE

on COVID-19

**The Belt and Road Initiative Tax
Administration Cooperation Mechanism**

EDITOR'S NOTE:

At this critical moment in the world's fight against the COVID-19, the Special Edition of the BRITACOM Update on COVID-19 is issued, aiming to provide a platform for BRITACOM Council Members, Observers and other stakeholders to exchange views and share experience in responding to the outbreak. Issue 10 is an article provided by the Inter-American Center of Tax Administrations (CIAT). Later we will share more experience of tax administrations from countries and regions and views of international organizations and tax experts with you. If you would like to make contributions to the Special Edition, please contact us via email britacom@163.com.

COVID-19: Tax Administrations at the Forefront

Abstract

Since the outbreak of COVID-19 Tax Administrations (TAs) have been at the forefront of this battle, fighting to continue on business, trying to help the economy to keep on working and planning the recovery scenario. In this article we summarize some of the actions adopted by TAs in this three fields.

During this period CIAT is trying to help tax administration community coordinating efforts with other international organizations, producing timely documents and promoting new and innovative working methodologies.

1. Introduction

A CIAT's recent publications - "ICT as a Strategic Tool to Leapfrog the Efficiency of Tax Administrations (2020)" - began asking what do the prevention of malaria, the efficiency of the financial markets, access to clean water, a reliable judicial system, safety in the streets or the maintenance of the transportation infrastructures in a country have in common? Apart from the fact that they may all be considered desirable objectives; all require financing and significant collective action.

And here is where the tax administrations (TAs) play their role. As highlighted by all the experts in institutionalism and the origin of modern states, the capacity for collecting taxes along with the rule of law, is one of the pillars of collective action.

This is true specially now, when the health crisis and the impact of restrictions imposed by various governments to achieve social distancing, and thus mitigate the speed of disease transmission and the pressure on the health system, have had an extremely significant impact on economic activity.

In this article we summarize the first steps undertaken by TAs in the fields of Business Continuity, support to taxpayers and planning of the recovery scenario.

2. Tax administrations Business Continuity

First things first. In order to contribute to the solution of this crisis, TAs have to begin by reassuring their own capacity to keep with their work in a safe and efficient way. Based on the questionnaires filled by TAs, OECD-FTA (Forum of Tax Administrations), IOTA (Intra-European Organization of Tax Administrations) and CIAT have published a reference document on TA Business Continuity ("Tax Administration Responses to COVID-19: Business continuity considerations", 2020), that we will summarize and can be downloaded for more details.

As the document states, its purpose is to assist tax administrations in their own consideration of possible domestic measures, given that although most administrations will already have well-developed business continuity plans these may need some adjustments given the nature of the current pandemic and wider government responses. Besides, the document does not make recommendations for particular measures as national circumstances and considerations vary greatly.

Most tax administrations probably have business continuity plans for dealing with one-off events which may be of short duration or geographically confined, such as economic shocks affecting a limited group of taxpayers, an event impacting a particular area (such as an earthquake), equipment failures and disruption to tax administration systems and terrorist incidents. Some may, though, not have plans which cover the range of issues relevant to a pandemic (or a huge localized epidemic, for that matter), in particular the risks to health, the impact on staff numbers and working locations, the potential length of a pandemic, the strains that might arise on the IT infrastructure and the economy wide shocks. In this case, the existing contingency plans need to be reviewed and adjusted to take into account the different considerations which will arise in the case of a pandemic. Even where contingency plans for a pandemic are in place, they will need to be continually reviewed given the rapidity with which circumstances can change and planning assumptions can become outdated.

The objectives of business continuity plans in a pandemic would include:

- Maintaining the safety of staff and taxpayers. This means that measures should be put in place to reduce transmission of the virus, for example, minimizing physical contacts and ensuring that appropriate hygiene and disinfectant procedures are in place, having clear policies on what staff should do in the case of illness and, where necessary, moving to remote working and closing offices to all but essential staff.

- Continuous provision of critical services to taxpayers and government over a prolonged period. The duration of a pandemic can put significant strains on the administration's systems (for example, as a result of increased remote working, a reduced ability to maintain equipment, difficulties in carrying out coordinated activities or providing access to classified data) making it important that administrations identify the set of critical functions that must be carried out, desirable functions to minimize disruptions and non-essential functions. This will allow for prioritization of resources and a focus on the core mitigating actions that can be taken to address risks. (Of course, what is considered a critical function may change the longer the pandemic lasts.)

- Delivering support to a wide range of taxpayers, including as a result of new government policy responses. Pandemics will generally affect a country as a whole, although it may be uneven in its

impacts over time. This can lead to a widespread shock in the economy as demand drops, supply chains are disrupted, and cash-flow constraints develop. In order to prevent a vicious circle developing, measures can be taken to support taxpayers as a whole or significant numbers of taxpayers in the most affected sectors. This itself can put strain on existing systems at a time when the administration may be asked to take on additional tasks, such as delivery of grant aid, benefit payments etc.

- Clear and timely decision-making processes in a rapidly changing environment and uncertain future states. Pandemics can rapidly become uncontained with exponential increases in infection rates or significant changes in government policy (for example, household isolation and quarantine restrictions, transport restrictions, infrastructure issues), making the assumptions of activated business continuity plans redundant and the need for significant adjustments to be made to ways of working and prioritization of actions. This uncertainty about the impacts and evolution of the crisis need to be factored into decision-making processes, including their robustness.

- Clear and timely communication with taxpayers and staff. Pandemics can be a confusing, demoralizing and frightening, particularly in a period where there are rapid and uncertain changes in the impact of the responses and prevention measures. Clear communications are vital to help staff and taxpayers to understand their options and responsibilities and to provide a supportive and inclusive environment.

3. TAs measures to support taxpayers

The document “Tax Administration Responses to COVID-19: Measures Taken to Support Taxpayers”, published jointly by OCDE/FTA, IOTA and CIAT contains examples of measures undertaken by tax administrations globally to support taxpayers as a whole or particular classes of taxpayers affected by the COVID-19 outbreak. Measures for individual taxpayers generally focus on preventing hardship and reducing burdens given the restrictions in place in a number of countries. Measures for businesses, both legal entities and the self-employed, generally focus on helping to alleviate cash-flow problems to help avoid escalating problems such as the laying off workers, temporary inability to pay suppliers and, in the worst cases, closure or bankruptcy.

The examples contained in this document are grouped under the following headings:

- Additional time for dealing with tax affairs, including consideration of:
 - Extension of filing and tax payment deadlines
 - Remitting penalties and interest
 - Deferral of tax payments
 - Easier access to debt payment plans and extension of plan duration

- Suspension of debt recovery

- Quicker refunds to taxpayers
- Temporary changes in audit policy and ways to provide quicker tax certainty
- Enhanced taxpayers' services and communication initiatives

Additionally, the document highlights certain issues that should be taken into account when designing these measures, including:

- Whether they adopt a targeted approach and only apply measures to taxpayers that are the most affected by COVID-19.
- Whether to apply measures to all taxpayers, or all taxpayers within particular segments such as individuals, self-employed, SMEs and large businesses.
- The consequences which might arise for taxpayers from tax administration actions.
- The duration of measures.
- The possibility of fraud.
- How to make options available to the digitally challenged.
- And, finally, considerations about the scope tax administrations must reach to support the broader government response to this crisis. For example, this could be through providing other forms of assistance to businesses and individuals on behalf of other agencies or central government or by providing direct assistance to the health authorities or emergency services.

4. Tailoring measures, measuring, thinking ahead

The impact of restrictions imposed by various governments to achieve social distancing, and thus mitigate the speed of disease transmission and the pressure on the health system, has an extremely significant impact on economic activity. It's easy to see, you just need to look out the window to notice the decline in economic activity.

Around the world, news and analysis are appearing about the immediate and medium-term consequences of the economic downturn. News and analysis covering various aspects ranging from the purely economic to the environmental or to the effects observed on individuals as a result of the long confinement.

An anecdotal example: the improvement in air quality and the decrease in pollution, which has made it possible, for example, to see the Himalayas from 200 km for the first time in many years.

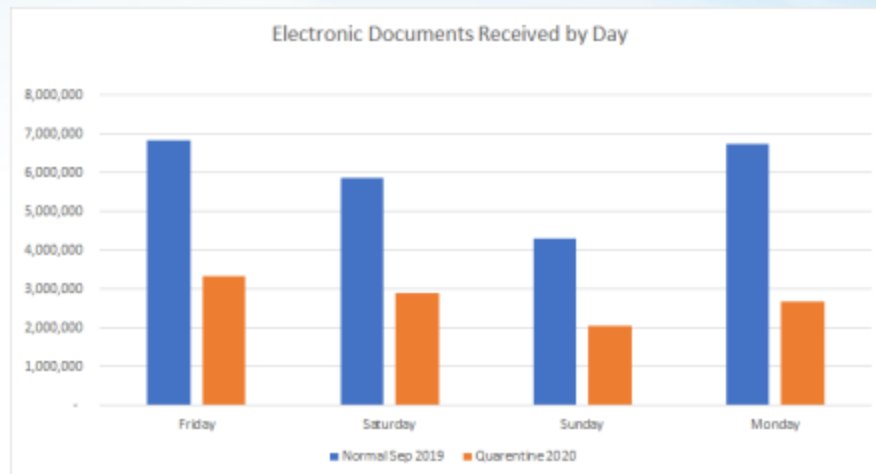
It is not so clear to determine how long it has been since it was visible. The initial headline, replied to by several media outlets, claimed that it was “the first time in 30 years” that this is possible. A later study confirmed that the mountain range was visible from Punjab, and that “it had been a long time since that it was visible”. Several local people said they had “never seen this before”. The study could not determine whether this had been possible or not for 30 years. It was, in effect, only an “anecdotal” estimate, not based on data.

We run the risk of replicating that process when estimating the impact on the reduction of economic activity. On the one hand, we see businesses closed, we can go out in a very limited way, there are no big meetings and we know that only the essential is operational. The economic impact is obvious (and as big as the Himalayas). But determining how large and how specifically it affects each economic agent is not so simple. We know that, for example, cinemas are closed, but supermarkets and pharmacies are open. The two sectors clearly do not face the same impact. We may even wonder if some companies that deliver packages and courier services, including home delivery of groceries and prepared meals, have increased their level of operation. Again, it is difficult to know precisely, it may simply be just another anecdotal observation.

The tax administrations, responsible for collecting the resources that allow the state to develop its activities, are currently facing significant challenges. On the one hand, it is clear that the decline in economic activity will lead to a drop in revenue, an immediate decline in consumption taxes and a prolonged decline in income taxes; on the other hand, it has been necessary in many jurisdictions to establish measures, both policy and administrative, that will alleviate the economic impact on taxpayers. In many cases, however, an assessment of the specific impact on each sector will require waiting for the filing of the tax returns, or at least the submission of informative declarations on operations with third parties, which naturally takes time. Time that could even be further delayed by some measures taken that allow the due dates for compliance to be postponed.

Fortunately, the availability of national electronic invoicing systems, in which electronic documents (invoices, credit or debit notes, bills of lading, withholding certificates and others) are transmitted to the tax administration in real time, makes it possible to identify some of this data.

For example, a public consultation on the number of documents received by Ecuador’s Internal Revenue Service (SRI in Spanish), comparing an arbitrary period from last year, from 13 to 16 September, with economic activity in the middle of the quarantine between 20 and 23 March, shows that the number of electronic documents received fell by less than half, with the fall further accentuated at the end of the week.



Source: Prepared by the authors based on data from the SRI website <https://www.sri.gob.ec>

However, the impact on economic activity is not only on the number of transactions. The needed aid for economic recovery should not be global and generalized. An analysis by economic sector and geographical location could facilitate more effective aid, and certainly, fairer, if it could be focused on the sectors most affected.

With the use of the information from the electronic invoice, the SRI has been able to disaggregate the impact on sales volumes by economic activity, geographical location and taxpayer size. With this information, it has been possible to design public policy so that taxpayers who increased their economic activity continue to pay their taxes normally, while granting additional time to those that have been affected the most. The images below illustrate the panel developed at SRI to help identify and analyze those impacts under the above criteria.



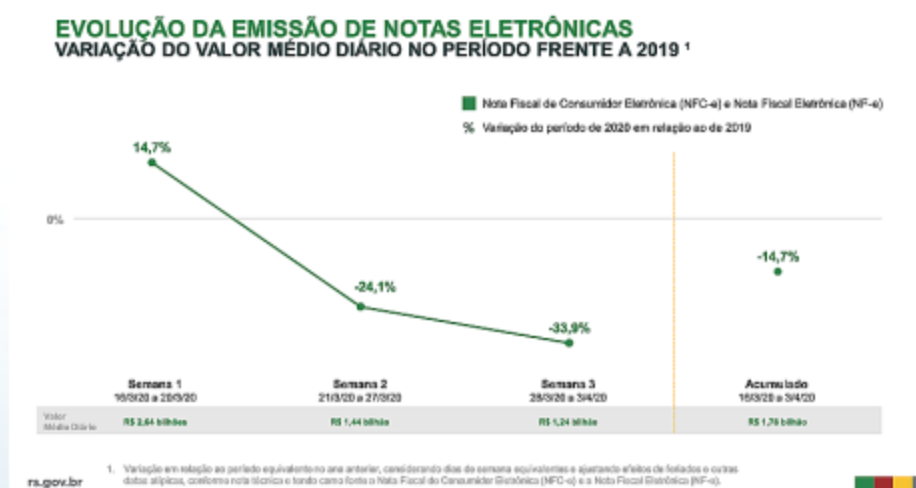
Notes: The graph shows the evolution of sales as registered by e-invoicing. Graphically: Total (up right); classified by business dimension (down right); classified by activity sector (left down).



Notes: The graph shows the evolution of sales for accommodation and food; classified by territory, business dimension and period of time.

Source: Internal Revenue Service–Ecuador.

Another example of the use of the immediate and detailed information provided by the electronic invoice can be found at the Secretariat of Finance of Rio Grande do Sul, in Brazil. The data shows a slight growth in some sectors in the first week of the measures in sectors such as food, hygiene and medicines, although subsequently all sectors were affected. The data prove, however, that not all sectors were affected in the same way. Below is the evolution in value compared to the same period of the previous year. Prior to the measures, there was a growth of 14 percent to reach a reduction of more than 30 percent.

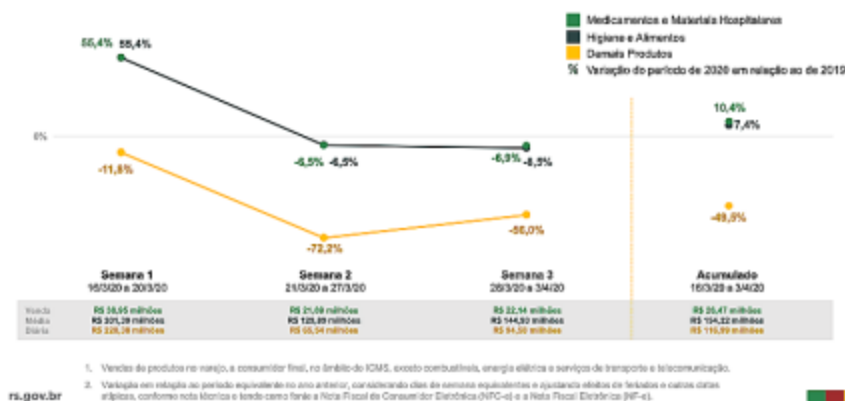


Note: The graph shows the evolution of e-invoices (value) for different weeks compared with the same period one year ago (2019)

Source: Secretary of Fazenda. Rio Grande do Sul. Brazil.

It is also clear that the impact on sales for products such as food differs significantly from that of other products.

EVOLUÇÃO DAS VENDAS DE PRODUTOS NO VAREJO POR CATEGORIA ¹ VARIÇÃO DA VENDA MÉDIA DIÁRIA NO PERÍODO FRENTE A 2019 ²

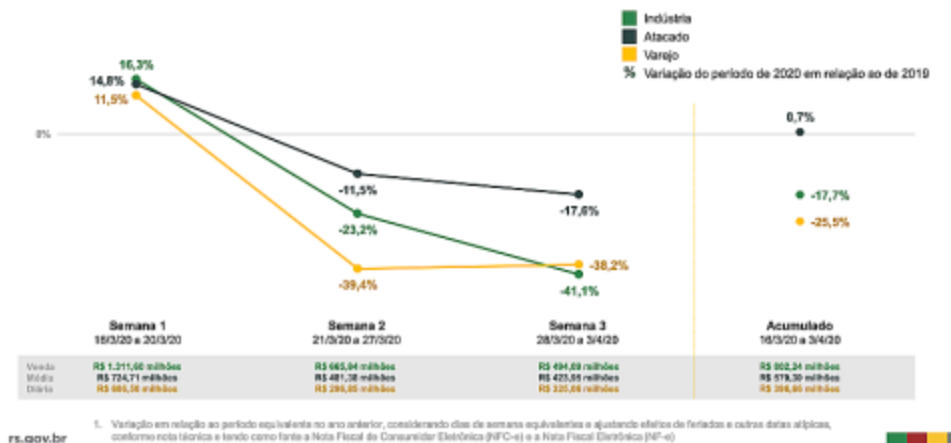


Note: The graph shows the evolution of e-invoices (value) for different weeks and products -drugs (up in green); food and hygiene (up in black); rest of products (down in orange)- compared with the same period one year ago (2019)

Source: Secretary of Fazenda. Rio Grande do Sul. Brazil

Finally, in the following graph we see how the impact between industrial activities, wholesale trade and retail trade were very different: the effect on wholesale trade (purple) is less strong than that faced by industrial and retail sectors (yellow)

EVOLUÇÃO DAS VENDAS POR ATIVIDADE ¹ VARIÇÃO DA VENDA MÉDIA DIÁRIA NO PERÍODO FRENTE A 2019 ²



Note: The graph shows the evolution of e-invoices (value) for different weeks and between industrial activities -wholesale trade (purple); industrial (green) and retail sectors (yellow)-

compared with the same period one year ago (2019)

Source: Secretary of Fazenda. Rio Grande do Sul. Brazil

Similar efforts have been carried out at the Spanish Tax Agency with data from the SII (Immediate Information System) and in Brazil, at Receita Federal itself. In addition to the analyses to anticipate the impact today and to focus the aid, the data from the electronic invoicing will undoubtedly allow to monitor the next phase and, certainly, to better guide the efforts of the tax administrations to seek resources that will be indispensable in the recovery process.

In addition, another piece of good news, also supported by electronic invoicing, is worth commenting on. In Brazil, as of March 28th, the mobile app “Menor preço” incorporated a new section called “Prevenção Covid-19”. This is where the lowest prices of important products in the fight against the pandemic can be found, such as alcohol gels, hydrogen peroxide, masks, gloves and other similar products. The application works for more than fifteen of the Brazilian states.

In the face of the desolation that this pandemic is fundamentally causing, the loss of life, the economic consequences come, of course, later. But they’re coming. And although the magnitude of the crisis means that the first recommendation is to “do whatever it takes”, we cannot ignore the fact that the economy deals with alternative uses of scarce resources, that limitations are not going to disappear and that the search for efficiency in public policies in this case will be more closely linked than ever to that of equity. And we certainly hope that in these times of crisis these systems, the detailed information they provide and their immediacy, are a tool that contributes to improving the decision-making process.

5. Final remarks

This pandemic has transformed our world. All of us will have to adapt to it and TAs, of course, are not an exception. As we have seen they are reacting timely even if the challenges are huge. During these times CIAT will keep on trying to help TAs, collaborating with individual countries and international and regional organizations to maximize results.

In our web page (www.ciat.org) all the actions we are taking can be followed, including on-line free training courses for our member countries, reference documents on COVID-19 crisis as the two ones summarized in this article on business continuity and taxpayers support measures, and other publications and databases with free access.

In particular we would like to highlight “ICT as a Strategic Tool to Leapfrog the Efficiency of Tax Administrations (2020)”, produced thanks to the cooperation framework established between the Inter-American Center of Tax Administrations (CIAT) and the Bill & Melinda Gates Foundation.

The purpose of this book, is to be a guide for the tax administrations on how to implement information technology to support its processes, thereby seeking not only the reduction of the cost of the tax transaction, which is defined as the compliance cost of the taxpayers, but also the administration's cost. Likewise, it endeavors to increase the rates of voluntary compliance with tax obligations, as well as the capacity of the treasuries to combat tax evasion and harmful tax planning. The solutions, models and proposals presented are always of a general nature, resulting from successful experiences, which may allow for their easy adoption by countries with varying levels of knowledge in the use of information and communication technology.

In the current context, the challenges faced by the tax administrations, especially in developing countries, are enormous and they cannot wait for "classic" procedures and solutions that have been followed in regular times. In order to make a qualitative leap TAs need to adopt the most advanced procedures and technologies more directly. We hope that these books and the experiences described in them could help. It is our task; it is our challenge.

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