



Ministry of Revenue

Compliance Risk Management Strategy

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1. INTRODUCTION

Ministry of Revenue is the division of government that collects taxes and duties¹ and provides Customs/border management/ services. Tax collection, collection of Customs duties and tariffs and border management services in respect of passengers and goods is based in law and the tax authority is required to enforce the law. A modern and effective tax authority ensures adequate and timely revenue collection and provision of border management services which allows the government to provide public goods and services and foster economic activity and growth. The establishment of a strong tax authority results in the collection of the “correct” amount of taxes and duties, and appropriate border management services at the right time and utilizes the optimal amount of government resources while minimizing the compliance burden to taxpayers, importers² and passengers and goods.

A system of voluntary compliance through self-assessment and declaration by the taxpayer without the intervention of a tax official is more efficient than a one-on-one assessment by the tax administration. When supported by risk based compliance management, voluntary compliance through self-assessment is effective and the preferred option by tax Administrations to determine and collect tax owed from each taxpayer and for the provision of border management services. Voluntary compliance through self-assessment systems requires laws that include provisions ensuring taxpayers, importers and passengers will: register (except passengers) file a return/declaration on the due date declaring the taxes payable, provide to the tax authority with the facts on which their tax/duties liability can be computed; comply with the applicable legislation, and pay the amount of tax/duties owed on the due date. This method also requires that systems are in place to ensure taxpayers, importers and passengers understand how to comply. The self-assessment system may also require the tax administration to clarify the law and provide clear advice of the tax authority’s interpretation of the law.

In order to effectively and efficiently administer a self-assessing system it is critical that the compliance risk strategy consider the structure of the tax authority, human resource capacity, resource allocation and the role of technology.

¹Hereafter for convenience tax and duties will be referred to generically as taxes or taxation unless the specific term is more appropriate.
²Hereafter for convenience taxpayers and importers will be referred to as “taxpayers”, unless taxpayer or importer is more appropriate.

2. GLOSSARY

- **Compliance** means stakeholders complying with all of their obligations in accordance with legal requirements. Stakeholders will meet their compliance obligations through education and voluntary disclosure of all tax matters to Ministry of Revenue.
- **Compliance Management** is the holistic recognition of the level of conformity with laws, regulations, and obligations used as a tool for granting privileges and as input to risk management.
- **Compliance risk management** is a systematic process which allows the tax administration to make deliberate choices on how to effectively achieve compliance and prevent non-compliance, based on knowledge of taxpayer's behavior. Compliance risk management is iterative and is aimed at improving decision making regarding identification, assessment, ranking, and mitigation of risks. It is a system that helps to deploy limited resources to high risk areas and enables the tax Administration optimal resource utilization.
- **Consequence-** Is a measure of the effect of failing to address the identified risk; consequence is not always measured in revenue terms and may be either qualitative or quantitative or both. It may also cover other areas – i.e. Ministry of Revenue's reputation for fairness, or the community's confidence in the fairness of the tax system, which may impede Ministry of Revenue's ability to effectively administer the tax system. Consequence is measured in terms of the impact that a risk would have on the achievement of Ministry of Revenue's objectives. The intention is to provide the authority with a mechanism to allow the comparative assessment of risks in a manner that is defensible and repeatable.
- **Likelihood** is the chance that something might occur and may be qualitatively or quantitatively described. It may relate to the exploitation of a weakness in the system, to ease of misuse or mistake, or to motivation for deliberate malicious action. For each threat or unwanted incident we assess the likelihood of it occurring. Likelihood is measured in terms of the probability of the compliance risk occurring. This is not always able to be measured in precise terms and must be estimated using professional judgment.
- **Risk** The possibility of events or activities occurring that will have an impact upon the Ministry of Revenue's objectives. It is measured in terms of likelihood and consequence.

- **Risk Analysis** is the systematic use of available information to determine how often a defined risk may occur (likelihood of occurrence) and the magnitude of its consequences.
- **Risk Assessment** is the systematic determination of risk management priorities by evaluating and comparing the level of risk perceived against predetermined standards, target risk levels or other criteria.
- **Risk Avoidance** is an informed decision not to be involved with a particular risk.
- **Risk evaluation** is a process for determining the level of risk, measured against established standards, targets or other criteria.
- **Risk Identification** is the process of identifying what adverse events can happen, as well as why and how they occur.
- **Risk Management (RM)** is a systematic process for identifying, analyzing, evaluating and treating risks to maximize outcomes in keeping with Ministry of Revenue’s mandate and operations.
- **Risk Management Committee** is the committee named by senior management of Ministry of Revenue, and chaired by the Risk Management Champion to provide executive direction on all risk management matters.
- **Risk Probability** is the likelihood of a specific event or outcome, measured by the ratio of the specific event or outcome to the total number of possible events or outcomes.
- **Risk Register** is a tool for recording the risks encountered at various levels in a standardized format.

3. BACKGROUND AND LEGAL MANDATE

3.1.BACKGROUND

The Ministry of Revenue came into existence on July 14th, 2008, by the merger of the former Ministry of Revenue, Ethiopian Customs Authority and The Federal Inland Revenue Authority. The main reasons for the merger of the foregoing administrations into a single legal entity are the following:

- ✓ To provide the basis for modern tax and customs administrations;

- ✓ To cut through the red tape and avoid unnecessary and redundant procedures that result in delay and are considered cost-inefficient etc.;
- ✓ To be much more effective and efficient in keeping and utilizing information, promoting law and order, resource utilization and service delivery; and
- ✓ To significantly increase the efficiency of the revenue sector.

Consistent with the reasons for the merger the Ministry of Revenue’s mission, in part, states that, the Ministry of Revenue will “...promote voluntary compliance amongst individuals and businesses, and take swift action against those who do not comply”.

3.2.LEGAL MANDATE

The former Ethiopian Revenue and Custom Authority establishment Proclamation No. 587/2008 under Article 6, sub article 3 provides the authority the power to, “implement awareness creation programs to promote a culture of voluntary compliance of taxpayers in the discharge of their tax obligations”.

Customs Proclamation No. 859/2014, article 5, sub-article 5 states that Customs Operation shall “prevent illegal practices by promoting self-compliance”. In addition one full article (Article 6) is given to discuss risk management and it states the following:

Art. 6. Risk Management

- 1/ The customs facilitation service and control shall classify the risk level of import, export and transit goods and be carried out with striking balance between facilitation and control which shall be based on a criteria substantiated by information.
- 2/ Activities performed and decisions passed by the Authority with respect to release of goods, control, compliance management and facilitation shall take the principles of risk management into account.
- 3/ The Authority may employ audit based control and other methods of control to take appropriate measures on such irregularities identified after decision on facilitation is provided in accordance with principles of risk management.

4/ The Authority shall issue directives regarding the risk level of import, export and transit goods.

Therefore, the Ministry of Revenue mainly works for the enhancement of voluntary compliance among the taxpayers, using risk management as a tool in discharging its major responsibility of collecting accurate tax revenue at minimum cost for the government.

4. PURPOSE

The main purpose of this policy is to create a standardized document and frame work which explains the approach that the Ministry of Revenue is following to encourage voluntary compliance of all taxpayers, importers, Exporters and passengers and to consequently sustain confidence in the tax and customs systems.

5. SCOPE

This policy is applicable to the overall Tax and Customs activities of Ministry of Revenue and Customs Commission, Addis Ababa City Administration Revenue Authority, Dire-Dawa City Administration Revenue Authority and all Regional Tax Authorities and Bureaus.

6. ENVIRONMENTAL FACTORS

Environmental factors consist of the facts and circumstances of the operating environment that affect the achievement of the Ministry of Revenue goals. These includes:-

6.1. EXTERNAL FACTORS

External factors which might pose a risk have increased substantially over time as a result of the increasing complexity of legislation, globalization, public opinion toward taxation and governments in general, growth in international trade, e-commerce, changes in employment patterns, increasing use of contractors, innovations in business structures and financial products, and the ubiquitous marketing of tax schemes. Furthermore, in recent times, significant concerns have arisen which require Customs to focus on combating terrorism, and preventing the dissemination of prohibited, restricted or concealed cargo.

6.1.1. Political and legal factors

Ethiopia has a federal system of government which provides for the division of revenue sources between the federal government and regional governments. The federal constitution provides that the federal government levies taxes and collects duties on sources reserved to it, and the regions exercise the same power with respect to sources that fall under their jurisdiction. Ethiopia has nine regional states which are divided into administrative zones, Woredas (the smallest unit of local government in Ethiopia) and two chartered cities³.

Tax reforms have been driven by the need to provide a more competitive fiscal environment: one which encourages investment, risk-taking, entrepreneurship and provides increased work incentives. At the same time, the Government is aware of the need to maintain taxpayers' faith in the integrity of their tax systems and is committed to reform and modernize the sector.

Unstable political environments impact border management services and revenue raising effort especially domestic revenue mobilization of Ethiopia. These complex political and legal factors affect how the tax, customs and border management systems should be administered by Ministry of Revenue.

6.1.2. Economic factors

The Government of Ethiopia's development strategy is based on a market economy model. Development in Ethiopia over the past ten years has been rapid. Over that time the country's gross domestic product (GDP) has grown by nearly 10 percent annually and improvements in social development indicators have also been substantial.

Rapid growth of the economy is reliant on foreign direct investment and exports. Ethiopia's Growth and Transformation Plan II (2016/17 to 2019/20), is designed to enable the economy to grow at an average of 11 percent. In order to achieve this goal:

- ✓ Tax revenue is expected to increase to 17 percent of gross domestic product,
- ✓ Manufacturing industries will be encouraged and are expected to account for 25 percent of total exports by 2020, and 40 percent by 2025,

³Addis Ababa and Dire Dawa

- ✓ Mineral resource development will be emphasized, and
- ✓ Exports are planned to increase by 29 percent in each year of the plan.
- ✓ Increase citizens Purchasing power and spending patterns

International trade continues to expand and trade policy must strike a balance between three competing goals. The first goal is *trade facilitation*, which refers to efforts to simplify and streamline international trade procedures to allow the easier flow of legitimate goods across the border and lower the costs of trade. There is an inherent tension between trade facilitation and the second and third goals. The second goal is enforcement of trade laws in order to protect consumers and businesses against illegal imports and to collect customs revenue. The third goal is import security, or preventing the entry of contraband such as drugs, weapons, and related prohibited materials

The goal of trade facilitation conflicts with the goals of trade enforcement and import security because trade facilitation involves promoting faster and more efficient trade flows, while trade enforcement and import security involve identifying and preventing illegal flows. The tasks involved in achieving the latter two goals often result in slower cargo flows and reduced efficiency for the importer. At the same time Customs must also provide effective border management services for the movement of passengers. These competing pressures make the implementation of customs policy a complex and difficult task which needs to be managed appropriately. Ministry of Revenue is challenged by this reality, therefore it will be important to balance the regulatory control and facilitation by implementing an effective risk based compliance management.

6.1.3. Social factors

Attitudes toward taxation and the government in general are influenced by various factors including the taxpayers and societies perception of compliance rates, the fairness of the tax administration, the complexity and stability of the laws, and the value attached to government activities as well as the legitimacy of government.

The most effective way to gain and maintain high levels of voluntary compliance is by creating an attitude of trust between the Ministry of Revenue and the taxpayer community. High levels

of voluntary compliance broaden the tax base and distribute the burden of taxation more equitably among taxpayers.

6.1.4. Technological factors

Changing technologies present opportunities to improve operations and mitigate risk in a number of areas. Technologies in fields such as electronic filing of information and payments, automation, workflow management, providing information, education and support to taxpayers, procedures to detect and deter noncompliance, and distribution of performance information to staff and management, offer opportunities to improve efficiency and effectiveness throughout Ministry of Revenue's operations. Technology also poses a number of risks that need to be monitored such as cyber security, protection of taxpayer information, unauthorized access by staff, electronic filing of information and payments, and the emergence of virtual currencies.

6.2. INTERNAL FACTORS

Internally, there are several factors and circumstances that could pose risks. These include the organizational culture and structure, resource levels, capacity issues, Employee skills and knowledge, information and technology systems and infrastructure and procedures.

6.2.1. Organizational structure, resource levels and capacity

It is critical that the organizational structure of the Ministry of Revenue be aligned to its mission, vision statements and its objectives in order for the organization to operate effectively and efficiently and achieve its goals.

Resource levels and capacity means having the right people in the right place at the right time. However, it is not just a matter of having enough staff. An extremely important part of the internal operating environment is ensuring that staff have suitable knowledge, skill, experience, motivation, tools, equipment, training, support and integrity in order to discharge their assigned duties and retain the public's trust. In addition, allocation of human and other resources must be made according to risks in the general environment.

6.2.2. Technological factors

Technology infrastructure and solutions, including sources of information, protection and management systems, and service delivery platforms change at an ever increasing pace. Shop floor innovations, offline software solutions represent both advantages and challenges; as does the protection of the various systems. In order to achieve its goals and objectives the Ministry of Revenue must maintains and adapt to the changes in a timely manner.

7. OBJECTIVES OF A COMPLIANCE RISK MANAGEMENT POLICY

The model will enable us to improve long-term voluntary compliance and create an environment that promotes compliance. To describe a compliance framework that will gain high levels of community confidence in our administration of the taxes and border management by creating the conditions necessary to maintain voluntary compliance. The policy will:

- ❖ Systematically identify, assess, rank, and mitigate risks.
- ❖ Promote risk management throughout the Ministry of Revenue and embeds the risk assessment process into the annual business planning, prioritization, and strategy framework development cycle of Ministry of Revenue.
- ❖ Develop a highly visible compliance program ensuring that taxpayers understand and are exposed to proportional consequences of non-compliance.
- ❖ Proactively facilitate compliance by formulating plans, structures, operating procedures, and manuals that will foster high rates of voluntary compliance.
- ❖ Develop a series of key performance indicators to assess and evaluate the Ministry of Revenue's progress and success in achieving voluntary compliance.
- ❖ Develop compliance strategies that focus on the areas of greatest risk to revenues in order to collect the correct amount of tax, increase the return on the use of limited compliance resources, reducing the intrusion of the tax administration into the affairs of compliant taxpayers thereby enhancing voluntary compliance.

- ❖ Selectively uses the full rigor of the legal system on taxpayers who do not comply, in order to create a perception of equality in the application of the law and fairness among taxpayers.
- ❖ Expedite the passage of innocent goods and passengers through border controls; while at the same time freeing up customs resources to concentrate on those goods and passengers that have been identified as posing significant risk.

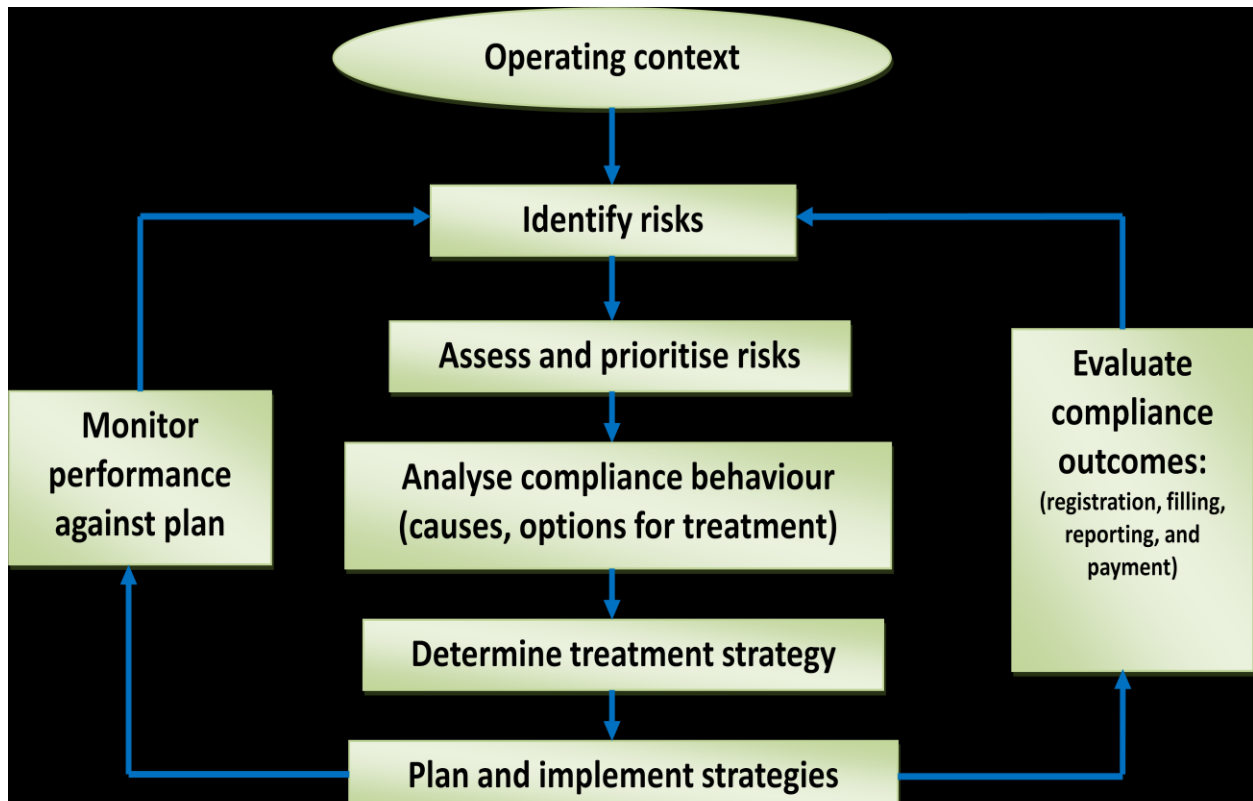
8. LINKAGE TO ENTERPRISE RISK MANAGEMENT

Ministry of Revenue has in place an Enterprise-wide Risk Management (ERM) framework, to ensure a coordinated approach towards management of all types of risks which impact on the Ministry of Revenue's ability to achieve its strategic objectives and overall vision. With this, an effective risk management system is imbedded in all Ministry of Revenue management processes.

Ministry of Revenue's Compliance Risk Management Framework forms an integral part of ERM, and its established risk management process model will be applied for analysis consistent with that used in the ERM approach. Due to the ERM's high-level focus and the many other operational types of risk to manage, it cannot be expected that the ERM strategic framework will provide more than a top-level perspective on the evaluation of taxpayer compliance risk. Rather, departmental level risk management frameworks will be the vehicle for detailed analysis of compliance risk.

9. THE COMPLIANCE RISK MANAGEMENT MODEL

Ministry of Revenue's Compliance Risk Management Policy provides a structured approach to the systematic identification, assessment prioritization (or ranking) and treatment of tax compliance risks. Ministry of Revenue has adopted the framework first developed by the Organization for Economic Cooperation and Development /OECD/ and described below.



The compliance risk management approach is a structured approach to identifying risks; analyzing and assigning priorities to the risks identified according to the likeliness of the risk occurring, the potential impact of the risk; developing tailored responses to mitigate the risk and evaluating the impact of measures taken. Once the identified risks are prioritized and decisions made about which of the prioritized risks will be selected for further investigation. Those risks must be analyzed with a view to understanding what motivates people to comply, or not to comply. Understanding the reasons for the behavior ensures that the behaviors causing the non-compliance are identified, considered and prioritized. Identification and analysis of risks and the underlying causes of the behaviors allows effective treatment options to be developed, the selection of treatment areas and the application of the treatment. The process concludes with the measurement of output and outcome and evaluation of the activity.

Using available data, Ministry of Revenue will assess taxpayers based on a fair and transparent process to identify their level of compliance and their likely risk and contribution to the revenue. Indicators of a willing and able taxpayer will be those who have a proven history of:

- Registering for all taxes for which they are eligible in a timely manner
- Implementing reliable record-keeping systems that are in line with generally accepted accounting and tax principles to prepare accurate returns/declarations as prescribed by legislation
- Submitting the accurate tax returns at the right time and in accordance with the legislation
- Promptly paying all tax due or claiming refunds at the correct time as defined by the legislation
- Informing Ministry of Revenue when registration and tax position changes
- Responding to Ministry of Revenue demands for information within the time-limits stipulated by law.

If a taxpayer fails to meet any of these obligations they may be considered to be non-compliant.

9.1. ESTABLISHING THE CONTEXT

Our organizational priorities as described in our Strategic Plan reflect our commitment to support the achievement of Ethiopia’s Growth and Transformational Plan.

These elements taken together represent our overarching operating context. Our compliance risk management takes place within the broader scope of our total risk management approach. Compliance Risk Management specifically deals with risks that affect taxpayer compliance with registering, filing, reporting, or remitting of tax obligations and also traders in paying their customs duty as well as in claiming refunds for exported items.

Monitoring the external environment

Ministry of Revenue regularly monitors the environment to identify factors that affect the operating context such as changes in government policy, shifts in public opinion and economic conditions. These factors can have a potential impact on taxpayer compliance. Ministry of Revenue needs to be flexible enough to react to such changes. Government priorities must be delivered and form part of the context within which the authority operates. Public opinion is important as regard in which a tax authority is held within the community has a direct impact, not only upon the community’s attitude towards compliance, but also upon the ability of the

authority to successfully administer the tax system. The costs of compliance to the community need to be monitored and it must be commensurate with the level of compliance risk.

Shaping internal capability and skills

A number of key internal capabilities impact upon the delivery of a successful Compliance Risk Management framework. Compliance risk management needs to be viewed across the organization as a part of ‘the way we do businesses. To achieve this all risk and compliance staff need to contribute to the process of managing compliance. Ministry of Revenue needs to develop staff to ensure that they not only have a sound knowledge of tax legislation, but that they also have a commercial awareness which allows them to understand taxpayer behavior.

Structure

Compliance risk management is intended to ensure that organizational objectives, rather than the objectives of specific directorates are achieved. The impact of our organizational structures on the compliance risk management process needs to be understood to prevent organizational divisions forming which can hinder our compliance risk management process.

As a response to this potential issue Ministry of Revenue will introduce cross functional forums to help improved working relationships, communication and allow Ministry of Revenue to develop integrated strategies and processes to tackle non-compliance. More details can be found under Compliance Risk Management Governance.

9.2. IDENTIFYING RISKS

The first step in the process is to identify risks that act as a barrier to achieving the Ministry of Revenue’s goals and objectives. Ministry of Revenue will use the risk analysis process, internal and external information sources to identify specific risks as comprehensively as possible in order to minimize the possibility of omissions. Sufficient analysis will be conducted so as to obtain a thorough understanding of the nature of the risk in order to succinctly and clearly describe and convey the risk to latter stages of the process.

Risk will be categorized at both the strategic and operational level. At the strategic level specific categories of non-compliant behavior will be identified that have significant tax revenue

consequences. However, taxpayer populations are not homogenous and compliance risks do not extend across the entire population of taxpayers. In order to improve risk identification, taxpayers will be segmented into similar groups. This will produce segments where the members have similar compliance or business characteristics and will facilitate more precise identification and categorization of compliance risks. Ultimately, in order to treat the risk at the operational level strategic risk must be correlated with individual taxpayers or cases. The Tax Compliance and Risk Management Directorate will carry out further analysis of the risk using internal and external information to identify files or cases that contain indicators of the risk.

Ministry of Revenue will maintain a “Risk Register” as a documented record of all risks that have been identified whether recommended and approved for action or not. The risk register should include: a description of the risk, identify the taxpayer sector(s) at risk, a description of the characteristics of the risk and its impact, the reasons for non-compliance, the evidence supporting the existence of the risk; frequency, likelihood, consequence, estimated revenue at risk, the existing treatments underway, alternatives considered, the recommended alternative along with reason for its implementation, and reasons for the alternatives that were rejected.

A risk register

A risk register is a strategic document which will aim to list the key threats to the Ethiopian Tax Regime. It defines clearly the strategic and operational threats and to what taxes and taxpayer types they apply. It will be reviewed at least once each year.

9.3. ASSESSMENT AND PRIORITIZATION OF RISK

Risks will be analyzed in order to discover their essential components and features. The knowledge gained about the characteristics of the taxpayers involved, the reasons for behavior, and information about the likelihood and frequency of the risk will improve the risk identification process. This in turn will allow treatments to be tailored to the particular facts, circumstances and taxpayers involved.

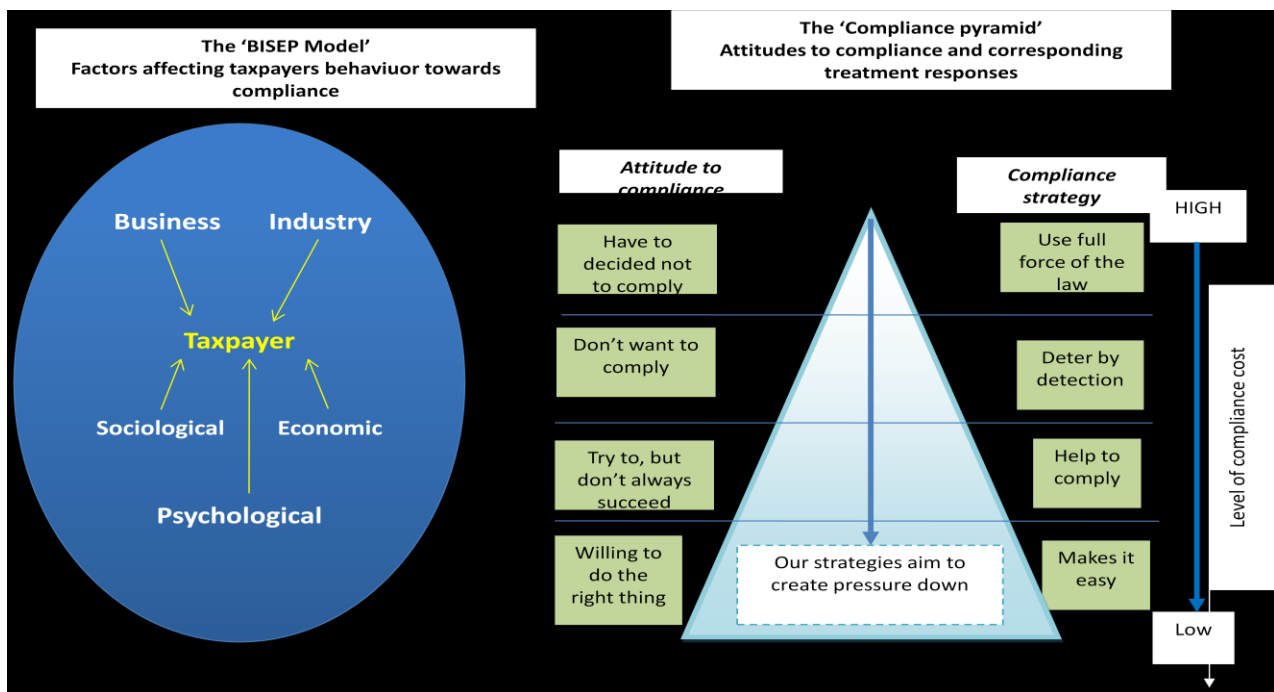
Risks that have been identified will be characterized as major or minor risks. The classification of the risks will be based on the sources of the specific risk identified as well as the likelihood, frequency of the risk occurring and the consequences that will occur if specific treatment action

is not taken by the tax authority. The Ministry of Revenue will evaluate the risks and potential consequences relative to its goals and objectives.

The risk identification and assessment process will generate an ordered and documented list of the risks assessed including a description of the characteristics of the risk, and reasons for non-compliance. This risk ranking will be used to assign the risk to the appropriate level of responsibility within the Ministry of Revenue.

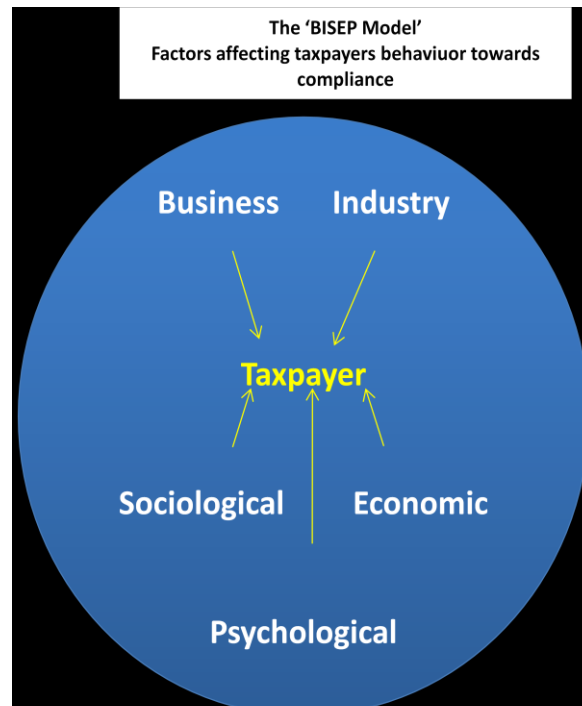
9.4. COMPLIANCE MODEL

The Compliance model is in 2 parts:



9.4.1. FACTORS AFFECTING TAXPAYERS' BEHAVIOR

The BISEP model addresses the different attitudes to compliance. It shows us that there are a range of attitudes, and they often differ depending on the situation. These are outlined below:



Research has shown that many factors influence the compliance behavior of taxpayers. Ministry of Revenue uses the 5 categories recommended by the OECD. They represent different views of the taxpaying entity. Taken in combination the 5 elements offer the means to determine behavioral drivers as a step towards the successful selection of compliance treatment strategies.

Business factors include:

- Business structure - sole trader, partnership, company
- Business activity – type, local, international
- Length of operation
- Level of sophistication and access to technology
- Financial position

Industry factors include:

- Type of industry, profit margins, cost structures
- Size and segment
- Industry regulation
- Competition

- Labour issues
- Infrastructure

Sociological factors include:

- Age
- Gender
- Social norms
- Education and literacy
- Ethnic background

Economic factors include:

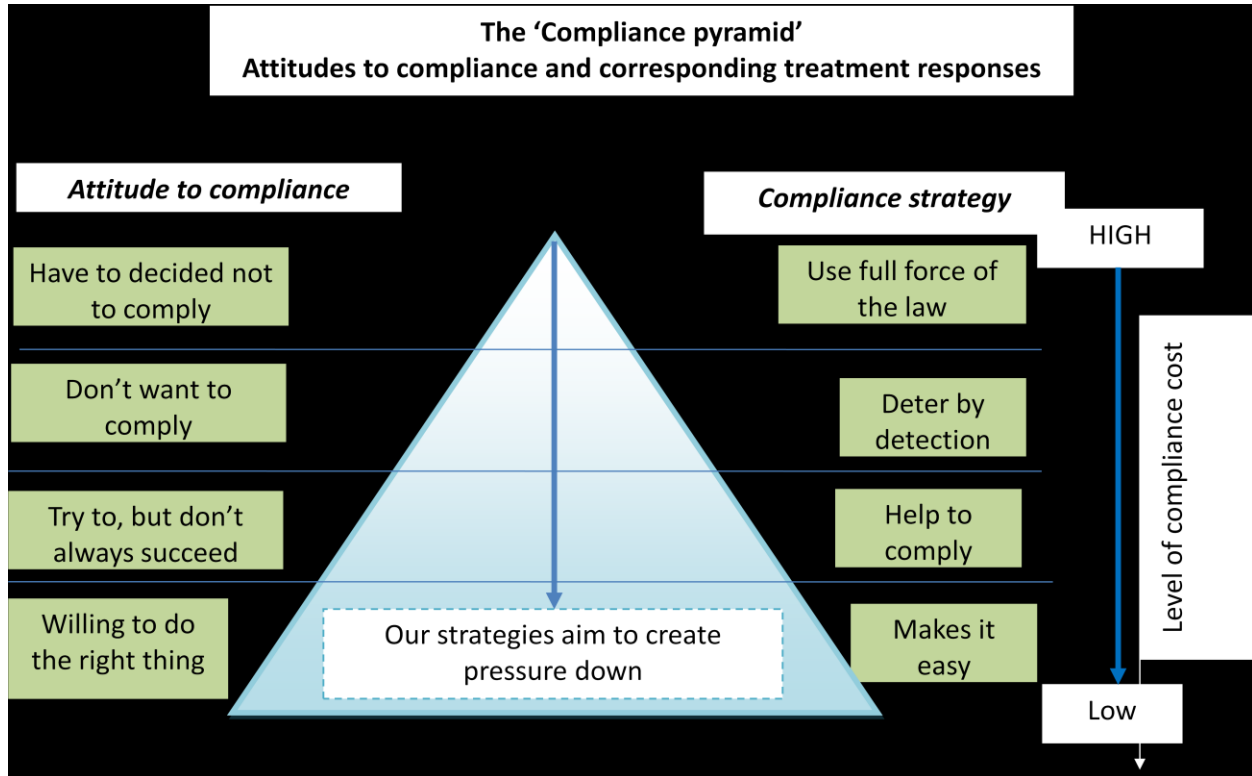
- Inflation
- Interest rates
- Tax systems
- Government policies

Psychological factors include:

- Risk
- Fear
- Trust
- Values

9.4.2. COMPLIANCE PYRAMID

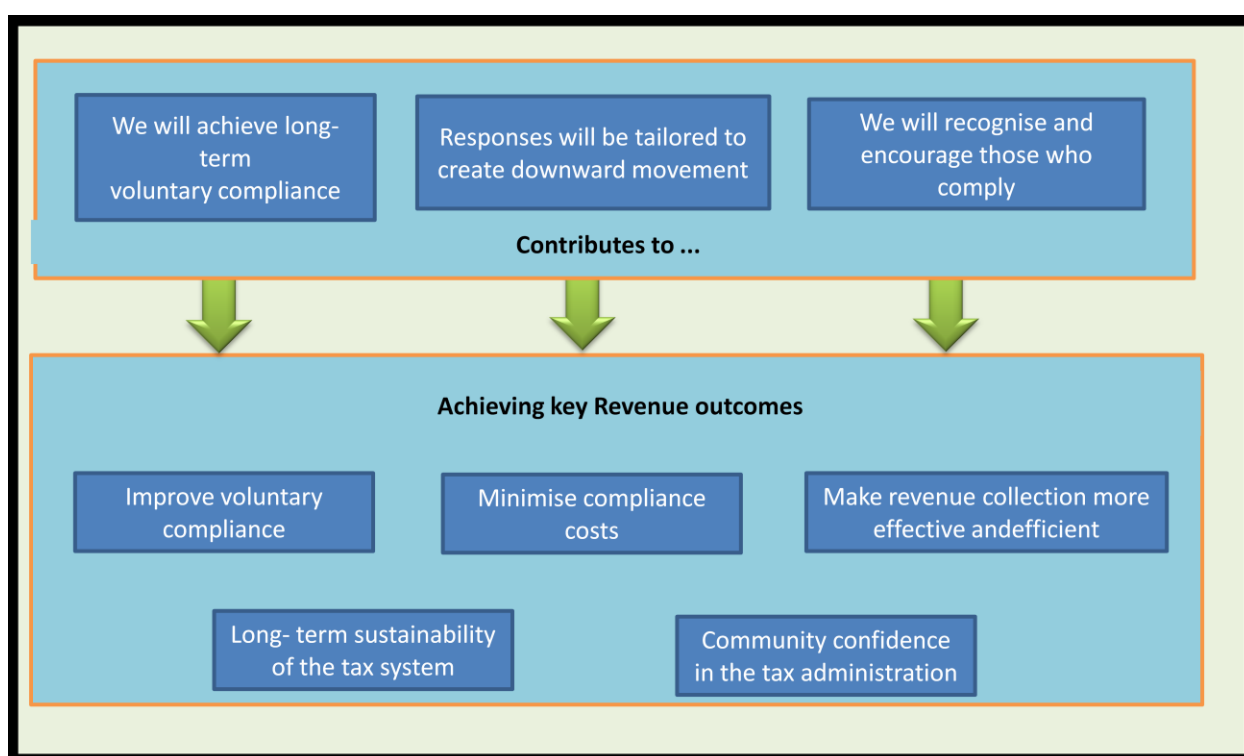
Risks that are deemed to be unacceptable will be further analyzed to identify and understand the cause of the non-compliant behavior in order to develop an appropriate array of responses.



Different taxpayer motivations will demand different treatment strategies even though the factual behaviors presented are essentially the same. Generally, five categories of factors influence a taxpayer behavior towards compliance; business profile, industry factors, sociological factors, economic factors, and psychological factors. These factors lead to an identified spectrum of tax payers' attitudes towards compliance. Four types of attitudes towards compliance have been identified as:

1. **Willing to comply (supporting):** these taxpayers have made a conscious commitment to supporting the system and accepting and managing effectively its demands. There is an acceptance of the legitimacy of the role of tax officers and a belief that they are fundamentally trustworthy.

2. **Try but don't always succeed (trying):** these taxpayers are basically willing to comply but who have difficulty in doing so and don't always succeed. They may have difficulty understanding or meeting their obligations, but their expectation is that, in any dispute, trust and cooperation will prevail.
3. **Don't want to comply (resisting):** these taxpayers have adopted an attitude of resistance characterized by active confrontation. The system is seen as oppressive, burdensome and inflexible. This attitude characterizes those who don't want to comply but who will do if they can be persuaded that their concerns are being addressed. They tend to shop for advice and use a range of tax intermediaries.
4. **Have decided not to comply (disengaged):** these taxpayers have adopted an attitude of disengagement. It characterizes those who have decided not to comply. People with this attitude either deliberately evade their responsibilities or choose to opt out.



9.5. DETERMINING THE TREATMENT STRATEGIES

The next stage in the process is to apply the right treatment, at the right time and in the right way. The formal treatment plan must address the underlying drivers of compliance behavior with a view to increase the level of voluntary compliance. An approach making use of a balanced array

of proactive and reactive strategies; which will always consider a continuum which includes engagement, enabling, education, and enforcement, will be developed. This balanced array of treatments will ensure that the response in each case is proportional, fair, effective and delivered with integrity. The most efficient and effective delivery system will be identified to carry out the treatment.

Treatment strategies will respect the following principles:

- ✓ Treatment strategies must be easy for taxpayers, importers and passengers to comply with.
- ✓ Treatment strategies will ensure that the perceived risk of detection should be high.
- ✓ The full range of enforcement options will be considered in respect of non-compliant taxpayers.
- ✓ The Ministry of Revenue will be highly visible in exercising its powers and activity.
- ✓ Consideration will be given to including incentives in the array of treatment options to increase rates of voluntary compliance.

The end result of the analysis will be a treatment plan for each risk that is selected to be addressed, the objectives of the treatment, what the methodology is, what the indicators of non-compliance were and what the desired outcomes are. In order to ensure transparency the treatment plan will be appropriately documented and retained in the risk register.

Developing a balanced compliance plan

Our compliance activities should include a balanced set of treatment approaches ranging from help and assistance and making it easy for those who want to comply, with a range of credible enforcement actions aimed at those who do not. Responding in a balanced, measured way to incidents of non-compliance and only escalating to more severe sanctions when lesser options fail, is more likely to be perceived to be fair and reasonable and at the same time encourage voluntary compliance. The most effective strategies are likely to be multi-faceted recognizing that not all taxpayers will respond to the same treatments in the same way.

Our compliance approach will include a good mix of both preventative and corrective strategies as well as strategies that cover all aspects of compliance management from education through to

prosecution. It will also involve proper matching of the compliance treatment to the behavioral stance of the taxpayer.

A good balance and effective coverage will also see the inclusion of strategies to address risks relating to different market segments and taxes or revenue products, such as domestic tax, VAT and customs duty.

Building community confidence

Evidence shows that people who feel they have been treated fairly in their dealings with an authority will be more likely to trust that organization and be inclined to follow its directions and obey the law it administers. Treatment must be even-handed and consistent, any perception that one group has been dealt with more or less favorably than another will rapidly undermine trust. Each encounter with a taxpayer provides an opportunity for Ministry of Revenue to strengthen the support of members of the public.

Compliance activities that Ministry of Revenue will employ to achieve this outcome include:

- encouraging media reports of successful prosecutions;
- publishing information that provides taxpayers with early warning of behavior that may be regarded by the authority as non-compliant;
- conducting ‘leverage’ outreach activities and as appropriate sending letters advising taxpayers that the authority is aware of a specific risk and inviting a specific response; and
- Exercising caution in follow-through of known defaults in relation to basic obligations of registration, filing, reporting and payment.

Building community partnerships

Ministry of Revenue seeks to build relationships with industry associations and other community groups and make positive use of the relationships that the taxpayers have with the trusted intermediaries. This helps Ministry of Revenue to better understand the issues faced by taxpayers and to achieve the compliance outcome and increase community support.

Escalating the severity of enforcement

While our overall strategy is to encourage voluntary compliance, there will be times when Ministry of Revenue adopts an enforcement approach to deal with non-compliance.

The table below describes how Ministry of Revenue will progressively escalate the sanctions of non-compliance.

Attitude	Objective	Ministry of Revenue Management Approach
Willing and able to do the right thing.	<ul style="list-style-type: none"> Maintain confidence; Maintain perceptions of fairness by pursuing those who don't do the right thing. 	<ul style="list-style-type: none"> Support with help and assistance; Make procedures as simple as possible; Support self-regulation with advice products;
Try to do the right thing but don't always succeed.	<ul style="list-style-type: none"> Improve confidence; Improve perceptions of fairness by pursuing those who don't do the right thing; Encourage compliance by publicizing likely consequences; Deter through detection. 	<ul style="list-style-type: none"> Early intervention with support, education and advice; Firmer intervention messages where assistance does not result in improvement; Assume taxpayers want to comply and only impose firmer sanctions as a last resort.
Potential rule breakers who don't want to comply and push the boundaries.	<ul style="list-style-type: none"> Early detection; Encourage compliance by raising perceptions of likelihood of detection and consequences of sanctions; Deter rule breaking by publicizing likely consequences. 	<ul style="list-style-type: none"> Assistance together with firmer intervention messages; Impose firmer sanctions where assistance and warnings do not result in improvement; Marketing campaigns publicizing successes to deter other rule breakers.
Have decided not to comply and break rules often.	<ul style="list-style-type: none"> Early detection; Reduced revenue losses; Reduce incidence on repeat offences; Deter rule breaking by raising perceptions of likelihood of detection and consequences of sanctions. 	<ul style="list-style-type: none"> Use intelligence to detect threats; Reduce system weaknesses and vulnerabilities; Ensure all revenue avoided is identified, assessments raised and debts collected; Impose sanctions commensurate with the severity of the offence; Monitor until behavior improves.

Organized criminals.	<ul style="list-style-type: none"> • Early detection; • Reduced revenue losses; • Confiscation of proceeds of crime; • Reduce incidence of repeat offences. 	<ul style="list-style-type: none"> • Use intelligence to detect threats; • Reduce system weaknesses and vulnerabilities; • Impose appropriate sanctions and use the full force of the law; • Continuous scrutiny of affairs; • Cooperate with other law enforcement agencies to develop comprehensive approaches.
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9.6. PLAN AND IMPLEMENT STRATEGIES

The Treatment strategies that are selected have to increase voluntary compliance, and/or reduce compliance costs and/or improve service. Prior to implementing the treatment strategies the Ministry of Revenue will validate its conclusion through analysis and consultation to ensure that all of the objectives and principles are respected. This will involve:

1. Improving voluntary compliance strategies require effective use of internal and external capabilities which requires:
 - ✓ Staff with the right skills, knowledge and attributes.
 - ✓ The right policies, procedures, tools and systems are in place to apply the strategies and monitor their effectiveness.
 - ✓ Use of collaborative working arrangements within the Ministry of Revenue and with other agencies, and in certain circumstances other Governments, to facilitate and encourage voluntary compliance.
2. When appropriate, in order to ensure that treatment strategies are appropriately targeted and proportional the Ministry of Revenue will engage with relevant stakeholders to validate its understanding of the compliance environment, and the drivers of compliance behavior.
3. When appropriate and to ensure that the treatment strategies are effective and proportional the Ministry of Revenue will engage in open and transparent communication, collaboration and consultation with relevant stakeholders; to facilitate implementation of treatment strategies that are fair, impartial, proportional and consistent in the particular set of circumstances.

9.7. COMPLIANCE STRATEGY MONITORING AND EVALUATION

To ensure the success and effectiveness of the Compliance Risk Management Strategy, there is a need for strong governance to monitor and evaluate the treatment strategies selected. The evaluation framework allows the Ministry of Revenue to continuously improve the compliance strategies implemented.

Regular progress reports on the implementation of the treatment strategies will be monitored at a senior level, and reported to the Compliance Risk Management Committee. Success criteria and measurement indicators should be considered when choosing treatment strategies and it is often useful to include both qualitative measures and quantitative ones. Treatment objectives must look beyond immediate outputs (e.g. audit results) to changing behavior overtime. Ministry of Revenue's performance reports will detail efforts and progress made against the compliance strategy and report of residual risk following compliance strategy intervention.

Planning for meaningful evaluation

For an evaluation to be worthwhile, compliance strategies (whether enforcement or service in nature) must have clearly defined objectives that are measurable. Without these, determining whether strategies impact on taxpayer behavior will largely be guesswork. It is important that evaluation criteria are determined at the time the treatment strategy is being chosen or developed not after it has been implemented.

Developing an evaluation framework

To evaluate the effectiveness of compliance improvement activities it is necessary to state the compliance benefits that have been achieved. An evaluation framework provides the proper foundation for the continuous improvement of compliance strategies.

It is helpful when planning compliance activities to address the following questions:

- What risk is being addressed? These can be broadly classified into the following areas:-
For domestic tax:
 - registration;

- filing (lodging tax forms on time);
- reporting (complete and accurate information);
- Payment of liability.

For customs:

- Documentary issues (tariff classification, valuation)
 - Procedural issues (import & export, transit, warehousing)
 - Revenue issues (Timely and accurate revenue payments)
 - Transport issues(Transporter compliance)
- What is the treatment strategy intended to achieve?
 - What are the measurement methodologies that will be used?
 - What compliance indicators were used in identifying the problem?
 - What changes are expected to be seen in these indicators as a result of the strategy?
 - **Direct impacts.** These are the immediate impacts on the target population in relation to the specific risk identified.
 - **Indirect impacts.** These are the impacts beyond the immediate risk or taxpayer group being addressed by the compliance strategy.
 - **Impacts over time.** The evaluation should not be limited to the direct impact or outputs of the compliance strategy, such as the amount of tax raised from audits unselected taxpayers, but extended to measuring its ongoing impacts on taxpayer behavior.
 - What data will be collected and how will it be collected to support the evaluation?
 - Whatever indicators are chosen they must be able to be supported by Ministry of Revenue’s business systems or be obtainable at reasonable cost.
 - Some data may need to be gathered through surveys and direct observations.

10. COMPLIANCE RISK MANAGEMENT GOVERNANCE/RESPONSIBILITIES

The responsibility for managing risk operationally cascades downwards, from the Minister to every officer. Operational management and documentation of risk by every officer forms the foundation for the Risk Management planning.

The Ministry of Revenues and Customs Commission Tax and Compliance State Ministers will be responsible to establish the overall Risk and Compliance Management plans for their division. Branch Managers and Directors will set risk management plans for their functional areas, which reflect the overall division plan. The responsibilities at each level are briefly described below.

Compliance management Sponsor/Minister: has the ultimate responsibility for the management of the Compliance Risk Management framework across all of Ministry of Revenue. The Minister's is also responsible to direct compliance management initiatives, ensure availability of resources and assure that the compliance management framework is working effectively.

The State Ministers: are responsible for implementing the Risk Management strategy in accordance with the standards laid down in this framework, and ensuring the active and effective functioning of the Risk Management Committee.

The joint Compliance Risk Management Steering Committee: - will lead and sponsor all Ministry of Revenue -wide efforts in Compliance Risk Management. The risk management champion for the steering committee will be the Minister. The Minister will sponsor the compliance risk management initiatives.

The two Compliance Risk Management Technical Committees: - in addition to the steering committee, two technical committees will be formed at Ministry of Revenues and Customs Commission. The committees will have a champion.

The Risk Management Champion will lead and sponsor all Ministry of Revenue -wide efforts in Risk Management. The risk management champion will be the State Minister, Compliance Division, or the State Minister, Tax Operation Division as appointed by the Minister. The champion for customs will also be Deputy Commissioner, Compliance Division or Deputy

Commissioner, Operation Division. The risk management champion will sponsor the compliance risk management initiatives. The risk management champion's role is to:

- ✓ Ensure the policy is implemented throughout Ministry of Revenue;
- ✓ Lead all departmental efforts in risk management;
- ✓ Ensure that all risk management steps are taken;
- ✓ Ensure risk management and risk based controls are fully integrated in to the activities of Ministry of Revenue; and
- ✓ Continuously update the policy, in order to make it correct and practical.

Compliance management steering committee (CMSC)/ Ministry of Revenue-wide Risk Management Committee:- is responsible for establishing the Ministry of Revenue-wide risk management plan and determining priorities for treating identified risks, assessing the effect of the treatment of the identified risks, and communicating those priorities to all areas. This committee will establish a systematic audit program to ensure uniform implementation of the compliance Risk Management framework throughout the Authority. The Compliance Risk Management Committee also has overall responsibility for overseeing risk management within the Authority as a whole and for providing advice and guidance on risk management, monitoring the implementation and operationalization of risk management, and agreeing on new risk criteria.

The Compliance Risk Management Committee will be chaired by the Risk Management Champion and will consist of representatives from various operational units.

Compliance Management Strategy, Planning and Support Group /CMSPSG – will comprise members from different directorates. It is anticipated that this group would:

- ✓ Draft annual compliance Strategies/plan for Ministry of Revenue,
- ✓ Identify and analyze emerging compliance patterns amount taxpayers-particularly in filing, reporting and payment compliance,
- ✓ Develop strategies and campaigns to address identified risks,
- ✓ Provide proposals for compliance management strategy to CMSPSG,
- ✓ Actively solicit feedback from tax and customs compliance teams (intelligence, risk management, audits) in order to update the national compliance strategy.

- ✓ Evaluate the impact of compliance management activity on particular sectors of the economy

Branch Managers and Directors

The Branch Managers and Directors are responsible for implementing the risk management strategies in accordance with the standards laid down in this framework.

The Risk Management Implementation Team is responsible for assisting branch managers in the annual building of risk management plans and processes; gathering and collating information; identifying, analyzing and reporting areas of risk; developing targets and profiles; establishing and maintaining a risk management data base; providing advice and guidance on risk management issues; and, monitoring the application of risk management remedies.

The Training Center: - is responsible for ensuring that compliance risk management principles and practices are appropriately addressed in training programs.

All staffs are responsible for the application of sound risk management practices within their areas of operational responsibility.

Members of Joint Compliance Risk Management Steering Committee*

1. Minister, Ministry of Revenues..... Champion (Chair)
2. All State Ministers, Ministry of Revenues..... Member
3. Commissioner, Customs Commission..... Member
4. All Deputy Commissioners, Customs Commission..... Member
5. Head of the Minister office..... Member
6. Director, Risk and Compliance Strategy Directorate (MoR).....Member and Secretary
7. Director, Risk and Compliance Strategy Directorate (Customs Commission).... Member
8. Tax Affairs Advisor to the Minister..... Member
9. Customs Affairs Advisor to the Minister..... Member

**Committee members are subject to change whenever it is required*

Appendix 1:- Members of Compliance Risk Management Committee **

I. Ministry of Revenues

1. State Minister, Compliance Division..... Champion (Chair)
2. Director, Risk and Compliance Strategy Directorate Member and Secretary
3. Director, Tax Audit Directorate..... Member
4. Director, Tax Fraud and Investigation Directorate..... Member
5. Director, Tax Payers Education Directorate..... Member
6. Director, Legal Directorate Member
7. Director, Tax Data Administration Directorate..... Member
8. Director, Tax Return Filing and Processing Directorate..... Member
9. Center Head, Information Technology Member
10. Director, Taxpayers Registration Directorate Member
11. Tax Affairs Advisor to the Minister..... Member

II. Customs Commission

1. Deputy Commissioner, Compliance Division.....Champion (Chair)
2. Deputy Commissioner, Customs Operation Division..... Member
3. Director, Risk Management Directorate Member and Secretary
4. Director, Transit and Warehouse Administration Directorate..... Member
5. Director, Valuation Procedure Directorate..... Member
6. Director, Tariff and Country of Origin Directorate..... Member
7. Director, Post Clearance Audit Directorate Member
8. Director, Customer Education and Support Directorate..... Member
9. Director, Customs Clearance Procedure and Support Directorate..... Member
10. Director, Intelligence and Contraband Prevention Directorate..... Member
11. Head, Customs Management System Project..... Member
12. Branch Manager, Addis Ababa Kality Customs Branch..... Member
13. Branch Manager, Addis Ababa Airport Customs Branch..... Member
14. Branch Manager, Mojo Customs Branch..... Member

***Committee members are subject to change whenever it is required*