

ATAF TAX ACADEMY

Technical Note

Tax Compliance: Concepts, Risk Management and Measurement for African Tax Administrations

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1. Introduction and purpose

Tax compliance is the foundation of domestic revenue mobilisation. Every strategy an African tax administration pursues, from digitalisation to taxpayer education to audit, ultimately serves a single outcome: that taxpayers meet their obligations under the law, as far as possible voluntarily, and at the lowest feasible cost to both the taxpayer and the administration. This technical note introduces the concepts, frameworks and measures that underpin modern compliance management. It is written for tax officials across functions, including those new to the subject, and draws on the practice of African tax administrations and the guidance that ATAF provides to its 45 member countries.

The note is organised in ten sections. Sections 2 to 4 establish what compliance means, why the compliance gap matters for Africa, and how taxpayer behaviour shapes it. Sections 5 to 8 set out the compliance risk management approach: segmenting the taxpayer population, managing risk systematically, and combining service with enforcement in a graduated way. Sections 9 and 10 cover measurement and the emerging issues that are changing compliance work, including digitalisation and the informal economy.

2. What tax compliance means

A taxpayer is compliant when four distinct obligations are met. Each can fail independently, and each calls for different responses from the administration.

Obligation	What it requires	Typical failure
Registration	Entering the tax system when required: obtaining a taxpayer identification number and registering for the correct tax types.	Operating in the informal economy; trading above the VAT threshold without registering.
Filing	Submitting the required declarations on time, for every period and every tax type.	Late returns, nil filing to avoid scrutiny, or non filing after registration ("stop filers").
Payment	Paying the correct amount by the due date, including instalments and withheld amounts.	Arrears, partial payment, or withholding agents retaining amounts collected from others.
Accurate reporting	Declaring the true tax base: complete income, correct deductions, correct classification.	Under declaration of sales, inflated expenses, misclassification, aggressive schemes.

These four obligations give compliance work its structure. A registration campaign does nothing for a registered taxpayer who under declares; an audit programme does not reach those who never entered

the system. A sound compliance strategy states, for each segment of taxpayers, which of the four obligations is at greatest risk and what will be done about it.

It is also useful to distinguish voluntary compliance, where the taxpayer meets obligations without direct intervention, from enforced compliance, which is achieved through audits, penalties and recovery action. Enforced compliance is many times more expensive per shilling, naira or rand collected. The strategic aim of a modern administration is therefore to maximise voluntary compliance and to reserve enforcement capacity for those who will not comply otherwise.

3. The compliance gap and why it matters for Africa

The compliance gap (often called the tax gap) is the difference between the tax that would be collected if all taxpayers met their obligations fully, and the tax actually collected. It can be estimated for a single tax, such as the VAT gap, or for the system as a whole, and it can be decomposed by obligation: how much is lost to non registration, to non filing, to non payment and to under declaration.

The gap matters acutely for African administrations because the financing needs are large and the tax bases are narrow. Many African countries collect tax revenues below the level widely regarded as the minimum for a state to fund basic services and development. At the same time, a large share of economic activity sits in the informal sector, a small number of large taxpayers often account for the majority of collections, and administrations must fund their compliance work from constrained budgets. Closing even a modest share of the compliance gap is, for most member countries, a larger and more sustainable source of revenue than new tax policy measures, and it strengthens fairness: every shilling lost to evasion is ultimately made up by compliant taxpayers or by forgone public services.

Three practical points follow. First, the gap is never zero and resources are finite, so the administration must choose which parts of the gap to attack first: this is the core of compliance risk management. Second, the gap is a measure of outcomes, not effort: an administration can be very busy auditing and still see the gap widen if its interventions are aimed at the wrong risks. Third, gap estimates, even rough ones, discipline strategy: they force explicit statements about where revenue is being lost and provide a baseline against which treatment programmes can be evaluated.

Decomposing the gap turns a headline number into an agenda. A gap driven mainly by non registration points to visibility work: field surveys, matching licence and utility data against the register, and simplified entry regimes. A gap driven by non filing points to the register itself (is it clean?) and to the follow up machinery for lapsed filers. A payment gap points to arrears prevention and collection. A reporting gap, usually the largest and hardest, points to third party data, e-invoicing and audit. Because the components respond to different instruments, an administration that knows the shape of its gap can direct investment where it will actually move revenue.

4. Understanding taxpayer behaviour

Compliance outcomes are produced by taxpayer decisions, so an administration that wants to change outcomes must understand what drives those decisions. Experience and research point to a consistent set of influences: the business environment a taxpayer operates in (its sector, structure, margins and cash flow); industry norms and what competitors are seen to get away with; sociological factors such as trust in government and perceptions of how tax money is spent; economic factors, including the burden of compliance costs and the perceived risk of detection; and psychological factors, including

fairness, fear and the complexity of the rules. A market trader who cannot read the forms, a contractor whose competitors all quote without VAT, and a multinational with an aggressive tax planning appetite are all non compliant in different ways and for different reasons, and no single instrument will move all three.

A widely used way of organising this insight is the compliance attitude spectrum, often drawn as a pyramid. At the base is the majority of taxpayers who are willing to do the right thing; above them, those who try but do not always succeed; then those who do not want to comply but will if the administration pays attention; and at the apex, the small minority who have decided not to comply. The administration's posture should match the attitude: make it easy for the willing, help those who try, deter by credible detection those who resist, and apply the full force of the law to the determined evaders. The pyramid carries a warning as well as a promise: treating the willing majority as suspects erodes the trust on which voluntary compliance rests, while treating determined evaders gently teaches the whole population that evasion pays.

A complementary perspective holds that compliance rests on two pillars: trust in the authorities and the perceived power of the authorities. Where both are low, evasion flourishes. Raising power alone (more audits, harsher penalties) produces enforced compliance that collapses whenever attention moves elsewhere, and can corrode trust if applied unfairly. Raising trust alone helps the willing but leaves the determined untouched. Sustainable compliance climates combine the two: an administration that is visibly competent and fair, and visibly capable of detecting and punishing evasion. Practical implications include investing in professionalism and integrity of staff, publicising both service improvements and successful prosecutions, and ensuring that dispute processes correct the administration's own errors quickly.

Two further behavioural lessons matter for course design and field practice alike. Compliance is habit forming in both directions: a taxpayer who files late once and experiences no consequence is more likely to lapse again, which is why early, light touch contact with newly registered and newly lapsed taxpayers yields more than heavy intervention years later. And perceptions travel: publicised prosecutions, visible fairness in dispute resolution, and simple, honest communication about how revenue is used all shift the behaviour of taxpayers the administration never touches directly.

5. Compliance risk management: the cycle

Compliance risk management (CRM) is the discipline of applying limited resources to the compliance risks that matter most, deliberately and measurably, instead of spreading effort evenly or reacting case by case. It is usually described as a continuous cycle with six stages.

- **Establish the context.** Understand the revenue environment: the structure of the taxpayer population, the main sectors, the administration's obligations and capacity, and the operating context set by government priorities.
- **Identify risks.** Detect where obligations are being missed, using return and payment data, third party information, audit results, economic statistics and field intelligence.
- **Assess and prioritise.** Rate each risk by likelihood and consequence, in revenue and in damage to wider compliance, and rank them. A risk register makes the ranking explicit and reviewable.
- **Analyse behaviour.** For each priority risk, establish who is involved and why, using the behavioural lens of Section 4. The "why" determines the treatment: ignorance calls for education, opportunity calls for system design, and intent calls for enforcement.

- **Determine and apply treatments.** Choose the mix of service, simplification, communication, audit and enforcement that best addresses the behaviour, and deliver it as a planned programme with owners and timelines.
- **Evaluate.** Measure whether the treatment changed the targeted behaviour, not merely whether activity took place, and feed the results back into the next cycle.

Most ATAF members now anchor this cycle in an annual compliance improvement plan (CIP): a published or internal document that names the priority risks (for example, VAT under declaration in construction, non filing by professionals, excise leakage at borders), the segments concerned, the planned treatments and the indicators by which success will be judged. The CIP converts risk management from a specialist function into the organising frame for the administration's operational year, and it gives leadership a basis for holding programmes to account.

What a good compliance improvement plan contains

- A short, evidence based statement of the compliance environment and the main sources of revenue leakage.
- A ranked list of priority risks, each tied to a segment and to one or more of the four obligations, with the evidence for its ranking.
- For each priority risk: the behaviour hypothesis, the chosen treatment mix across service, design and enforcement, the responsible unit, milestones and budget.
- The indicators by which each treatment will be judged, with baselines and targets, and the review calendar at which leadership will inspect progress.
- An explicit statement of what the administration will not do this year, so that the plan disciplines resource allocation rather than describing everything.

A worked illustration: from risk to treatment

The extract below shows the form a compliance risk register typically takes. It is illustrative, not a real register, but the logic is the one administrations apply: each priority risk is tied to a segment, a hypothesis about behaviour, a treatment mix and an indicator of success.

Risk (illustrative)	Likely behaviour	Treatment mix	Success indicator
VAT under declaration by construction contractors	Cash sales unrecorded; competitors quoting without VAT	Sector campaign; e-invoicing onboarding; targeted issue audits; publicised outcomes	Declared output VAT per contractor; audit strike rate
Non filing by newly registered professionals	Registered for a licence, unaware of filing duties	Welcome pack; SMS reminders before due dates; simplified first return; follow up calls	First year on time filing rate of new registrants
PAYE withheld but not remitted by employers	Cash flow prioritisation; low perceived risk	Data match of PAYE returns against payments; early contact on first default; instalment plans; prosecution of chronic cases	PAYE remittance rate; age profile of PAYE arrears

6. Segmentation: treating different taxpayers differently

Taxpayer populations are profoundly unequal in revenue contribution and in risk. Segmentation recognises this by organising compliance work around groups of taxpayers with similar characteristics and needs, rather than around internal processes. The most common segmentation in African administrations combines size with special categories.

Segment	Typical profile	Compliance emphasis
Large taxpayers	Small in number; often more than half of total collections; complex structures; cross border dealings.	Dedicated large taxpayer office; account management; specialist audit (transfer pricing, financial sector); cooperative compliance.
Medium taxpayers	Significant contribution; growing complexity; professional advisers.	Risk based audit coverage; sector programmes; arrears management.
Small and micro	Very numerous; individually small amounts; high compliance cost relative to turnover.	Simplified regimes; presumptive tax; mobile and agent based services; education campaigns.
High net worth individuals	Wealthy individuals with diverse income sources and offshore exposure.	Dedicated unit; data matching; exchange of information; lifestyle and asset analysis.
Public bodies and NGOs	Withholding and PAYE obligations; often significant arrears.	Withholding compliance checks; institutional engagement.

Segmentation is not a filing cabinet; it changes the offer. Each segment should have a stated service offer (how the administration makes compliance easy for that group) and a stated assurance approach (how it verifies and enforces). Segmentation also protects scarce specialist skills: transfer pricing auditors should not be spending their year on market traders, and simplified regimes should keep micro businesses out of processes designed for corporations.

7. Building voluntary compliance: service, simplicity and trust

The least expensive tax to collect is the tax paid voluntarily and on time. Administrations build voluntary compliance through four mutually reinforcing lines of work.

Make it easy. Registration, filing and payment should demand as little time, travel and expertise as possible: online and mobile filing and payment, prefilled information where third party data allows, plain language forms in the languages taxpayers actually use, and service standards for responding to queries. Compliance cost is a tax on compliance itself; every hour a small trader spends queuing is an argument for staying informal.

Educate and assist. Taxpayer education programmes, from school curricula to market day clinics to webinars for accountants, address the sizeable share of non compliance that is ignorance rather than intent. New registrants deserve particular attention: their first year fixes habits, so early guidance, reminders before due dates and a friendly first contact after a missed obligation pay for themselves.

Set and publish service standards. A service charter that commits the administration to defined turnaround times (for registration, refunds, rulings and query resolution) converts good intentions into accountability, provided performance against it is measured and published. Internally, the same

standards give contact centre and taxpayer service staff a clear definition of success, and give compliance managers early warning when service failures start to show up as compliance failures, as delayed refunds reliably do.

Communicate fairness. Willingness to pay tracks perceived fairness of both the system and its administration: visible even handedness between the powerful and the ordinary, published service commitments, accessible dispute resolution, and honest communication about how revenue is used. Trust is an asset built slowly and spent quickly.

Design out the opportunity. Withholding at source, electronic invoicing, cash register integration and third party reporting reduce the opportunity to under declare, and shift compliance from voluntary honesty to system design. These measures are most effective when introduced with adequate taxpayer support, since they change how businesses keep records day to day.

Work with intermediaries. Most business taxpayers experience the tax system through an accountant, tax agent, clearing agent or software product. Intermediaries multiply whatever the administration gives them: clear guidance reaches thousands of clients through one adviser, and a well designed agent portal removes errors at the source. For the largest taxpayers, structured cooperative compliance arrangements, in which the taxpayer discloses risks and the administration provides certainty and faster rulings, can replace adversarial audit cycles with earlier, cheaper resolution, provided the administration retains the capability to verify what it is told.

8. Enforcement: the graduated response

Enforcement protects the willing majority by making non compliance a losing strategy for the rest. Its instruments form an escalating ladder: reminders and nudge letters; desk checks and verification of specific claims; issue oriented and comprehensive audits; assessments and penalties; collection enforcement, including garnishment, liens and seizure; and, for the most serious cases, criminal investigation and prosecution. Two principles keep the ladder legitimate and effective.

Proportionality. The response should match both the behaviour and its cause. An error invited by a confusing form deserves correction and better guidance; a deliberate scheme deserves penalties that outweigh the gain. Penalty regimes should distinguish honest mistakes, carelessness and fraud, and should be applied consistently enough that taxpayers can predict the consequences of their choices.

Credibility. Deterrence rests on perceived detection, not maximum sentences. A modest but visible probability of being caught, driven by data matching and well targeted audits, changes behaviour more than severe penalties applied rarely and unpredictably. Audit selection should therefore be risk based rather than random or discretionary, both to raise the strike rate and to shield officers from allegations of favouritism. Every enforcement contact is also a communication: its professionalism, or lack of it, is retold in the taxpayer's market, sector and family.

Audit is the most resource intensive instrument on the ladder and repays deliberate design. Administrations typically operate a portfolio of audit products of increasing depth: desk verification of a single claim or credit; issue audits examining one risk (for example, VAT refunds or payroll taxes); comprehensive audits of high risk cases; and joint or specialist audits for transfer pricing and the financial sector. The portfolio view matters because coverage and depth trade off against each other: many shallow contacts spread deterrence widely, while few deep audits recover more per case. Case selection should come from the risk process of Section 5, selection reasons should be recorded, and

audit results should flow back into risk models so that selection improves each year. Audit quality assurance (working paper review, supervisory sign off, and monitoring of outcomes at objection and appeal) protects both revenue and taxpayer rights.

Arrears management deserves specific attention because unpaid assessed tax is the most visible compliance failure. Good practice combines fast follow up on new debts (recovery rates fall steeply with age), instalment arrangements for viable businesses in temporary difficulty, firm action on strategic defaulters, and regular cleansing of uncollectable debt so that the arrears book reflects reality.

9. Measuring compliance

What is measured improves; what is merely asserted does not. Compliance measurement operates at three levels. At the obligation level, administrations track operational indicators: the on time registration, filing and payment rates by tax type and segment, the stock and age profile of arrears, and the accuracy findings of audit programmes. These indicators are available from the administration's own systems, can be produced monthly, and are the day to day dials of compliance management. International assessment frameworks, notably TADAT, use exactly these dials, so an administration that tracks them well is also preparing itself for external assessment.

Indicator	What it tells you	Watch out for
On time filing rate (by tax and segment)	Whether the filing obligation is being met without enforcement	Averages hiding weak segments; nil returns filed to avoid attention
On time payment rate	Whether assessed and declared tax is paid when due	Improvements driven by write offs rather than payments
New registrant activation	Share of new registrants filing and paying in their first year	Registration drives that inflate the register without activation
Arrears stock, flow and age profile	Whether debt is being prevented and collected early	Old uncollectable debt masking performance on new debt
Audit strike rate and yield per auditor day	Quality of case selection and audit execution	Chasing yield into easy repeat targets; assessments later reversed on appeal
Objection and appeal reversal rate	Quality and fairness of assessments	Low rates caused by barriers to objecting rather than by accuracy
VAT refund timeliness	Trust in the system for exporters and investors	Delaying refunds to flatter net collections

At the programme level, evaluation asks whether specific treatments changed behaviour: did filing rates among lapsed filers improve after the reminder campaign, did declared margins in a targeted sector move after the audit programme, did the simplified regime bring in new registrants who continue to file? Programme evaluation requires stating the expected effect in advance and, where possible, comparing treated groups with similar untreated groups, so that the administration learns what actually works in its own environment.

At the system level, tax gap estimation, even in simplified form, sizes the overall problem and its components. A VAT gap estimate built from national accounts data is within reach of most

administrations and provides a defensible headline for strategy documents and ministerial reporting. The purpose of measurement at every level is not decoration of reports but decision: indicators should be reviewed at a set rhythm, by named owners, with consequences for the next cycle of the compliance improvement plan.

All three levels of measurement depend on the same foundation: reliable, well governed data. A compliance indicator is only as good as the taxpayer register behind it, so register hygiene (deduplication, deactivation of ceased businesses, accurate segment and sector coding) is measurement work, not clerical housekeeping. Equally, indicator definitions should be written down and kept stable, so that a change in the number reflects a change in the world rather than a change in the query. Administrations that publish a small, stable set of compliance indicators internally every month find that operational managers begin to manage towards them, which is precisely the point.

10. Emerging issues and conclusion

Three developments are reshaping compliance work in Africa. The first is digitalisation of the administration itself: integrated tax administration systems, electronic invoicing, mobile payment integration and data warehouses are turning compliance management into a data discipline, in which risks are detected by matching and analytics rather than by intuition. The dividend is real but conditional on data quality, on interoperability with customs, company registries and banks, and on staff capable of using the tools. The second is the digitalised economy of the taxpayers: cross border digital services, e-commerce and platform work challenge registration based systems and require new instruments, from simplified registration regimes for non resident suppliers to information sharing between administrations, an area in which ATAF actively supports its members. The third is the persistent informal economy, which is best approached not as a single enforcement target but as a graduation pathway: simplified regimes, visible fairness and linkages between formalisation and access to finance, markets and public procurement.

The informal economy deserves a further word because it is so often misread. Informality is a spectrum, not a category: many informal operators interact with the formal system daily through suppliers, landlords, banks and mobile money, and these touch points generate exactly the third party data a compliance function can use. Administrations that succeed treat formalisation as an offer as much as an obligation: registration bundled with benefits that operators value, presumptive regimes with genuinely trivial compliance costs, and enforcement reserved for the visibly large operators whose informality is a choice. The compliance objective is not to tax subsistence activity, which costs more than it yields, but to ensure that growing businesses graduate into the system and that formality is never a competitive disadvantage.

A fourth, cross cutting development is cooperation between administrations. Compliance risks increasingly cross borders: transfer mispricing, VAT fraud on imported services, smuggling and the concealment of assets offshore. Instruments that once belonged to a specialist few, including exchange of information on request and automatic exchange of financial account information, are becoming routine compliance tools, and regional bodies such as ATAF provide the standards support, peer learning and joint capacity that make them usable by administrations of every size. For the compliance manager the lesson is practical: when designing a treatment for any cross border risk, ask early what information another administration already holds, and what agreements exist to obtain it.

The unifying thread of this note is that compliance is managed, not merely enforced. An administration that knows its taxpayer population, understands why each segment behaves as it does, chooses its battles through an explicit risk process, makes compliance easy for the willing and costly for the unwilling, and measures results honestly, will collect more revenue at lower cost and with greater public trust than one that simply works harder at yesterday's methods. Those principles, and the frameworks in this note, are the starting point for the more specialised compliance topics in the Tax Academy curriculum.

11. Key terms

Term	Meaning
Voluntary compliance	Meeting tax obligations without direct enforcement intervention by the administration.
Compliance (tax) gap	The difference between tax legally due and tax actually collected, decomposable by obligation and by tax type.
Compliance risk management (CRM)	A structured cycle for identifying, prioritising, treating and evaluating compliance risks with limited resources.
Compliance improvement plan (CIP)	An annual plan naming priority risks, segments, treatments and success indicators.
Segmentation	Organising compliance work around groups of taxpayers with similar characteristics, such as size or sector.
Compliance pyramid	A model ranking taxpayer attitudes from willing to determined non compliance, matched by escalating administration responses.
Graduated response	Escalating enforcement proportionate to the behaviour and its cause, from reminders to prosecution.
Withholding at source	Collection of tax by a payer (employer, bank, customer) before income reaches the taxpayer.
Third party data	Information from banks, customs, registries, platforms and other agencies used to verify declarations.
Presumptive regime	A simplified tax for small businesses based on turnover or indicators instead of full accounts.
Nudge letter	A low cost written prompt that reminds or warns a taxpayer, often citing data the administration holds.
Strike rate	The share of audits that find a material adjustment; a measure of how well cases are selected.
Arrears (tax debt)	Assessed or declared tax that remains unpaid after the due date.
TADAT	The Tax Administration Diagnostic Assessment Tool, an international framework for assessing administration performance, including compliance outcomes.
Tax morale	The intrinsic willingness to pay tax, shaped by trust, fairness and social norms.

12. Questions for reflection

These questions are intended for discussion and self assessment when this note is used as training material.

- Which of the four compliance obligations is weakest in your administration's largest taxpayer segment, and how do you know?
- Give one example of non compliance in your country that is driven mainly by ignorance, one driven mainly by opportunity, and one driven mainly by intent. Would the same treatment work for all three?
- Where would you place the majority of your taxpayers on the compliance pyramid, and what evidence supports your answer?
- If your administration could fund only three treatment programmes next year, which risks should they address, and what would you stop doing to fund them?
- Which compliance cost, from the taxpayer's point of view, would you remove first, and what effect would you expect on each obligation?
- Your audit programme reports rising assessments but the filing rate is falling. Is compliance improving? What would you examine next?
- What single measure would most improve the credibility of detection in your environment: more audits, better data matching, or more visible consequences? Why?
- How would you evaluate, one year on, whether a simplified regime for micro businesses had improved compliance rather than merely reduced revenue?

This note is source material prepared for ATAF Tax Academy training development. It reflects widely applied good practice frameworks (including compliance risk management guidance used by international organisations and the TADAT assessment framework) adapted to the African context, and is not a statement of the law of any member country.