

Tax Compliance

Concepts, risk management and measurement
for African tax administrations

Compliance means four obligations, met

1

Register

Enter the system: a TIN and the correct tax types

2

File

Submit every declaration, on time, every period

3

Pay

Pay the right amount by the due date, including amounts withheld from others

4

Report accurately

Declare the true tax base: complete, correct, honestly classified

Each obligation can fail on its own

A registration campaign does nothing for a registered taxpayer who under declares; an audit programme never reaches those outside the system. Strategy names the obligation at risk, segment by segment.

Voluntary compliance costs a fraction of enforced compliance per unit collected.

The compliance gap: size it, then split it

The gap is the difference between tax legally due and tax collected. Decomposing it turns a headline number into an agenda: each component responds to different instruments.



Not registered

Field surveys, data matching against licences and utilities, simple entry regimes



Not filing

Register hygiene, reminders, fast follow up of stop filers



Not paying

Early contact on new debt, instalments, firm action on strategic defaulters



Under declaring

Third party data, e-invoicing, risk based audit: usually the largest component

Why it matters in Africa: narrow bases, a large informal sector and constrained budgets make gap closure the biggest sustainable revenue source most administrations have, and a matter of fairness to those who do comply.

Why taxpayers comply, or do not

B

Business: Sector, structure, margins, cash flow

I

Industry: Norms; what competitors get away with

S

Sociological: Trust in government; how tax money is seen to be spent

E

Economic: Compliance costs; perceived risk of detection

P

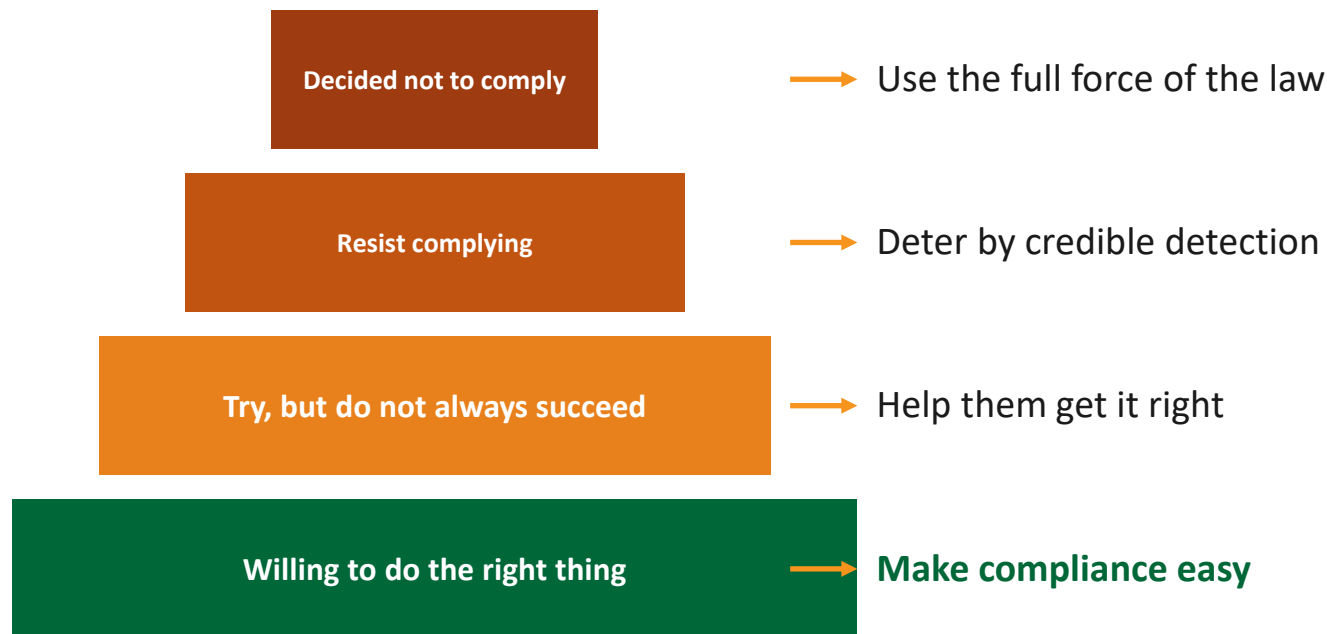
Psychological: Fairness, fear, complexity of the rules

Trust and power, together

Power without trust yields enforced compliance that collapses when attention moves on. Trust without power leaves the determined untouched. Sustainable compliance needs an administration that is visibly fair and visibly capable of detecting and acting.

A market trader, a contractor and a multinational are non compliant differently, and for different reasons: no single instrument moves all three.

Match the response to the behaviour



Most taxpayers sit at the base. Treating the willing as suspects erodes trust; treating determined evaders gently teaches everyone that evasion pays.

Manage compliance as a cycle, not a scramble

1 Context

Know the taxpayer population and environment

2 Identify

Find where obligations are being missed

3 Prioritise

Rank risks by likelihood and consequence

4 Understand

Establish who is involved and why

5 Treat

Mix service, design and enforcement

6 Evaluate

Measure changed behaviour, not activity

The "why" chooses the treatment: ignorance calls for education, opportunity calls for system design, intent calls for enforcement.

The cycle lands in one plan: the CIP

The annual Compliance Improvement Plan contains

- Named priority risks, tied to segments and obligations
- A behaviour hypothesis and treatment mix per risk
- Owners, milestones and budget
- Indicators, baselines and a review calendar
- What the administration will NOT do this year

One risk, worked

Risk: VAT under declaration by construction contractors

Behaviour: Cash sales unrecorded; competitors quote without VAT

Treatment: Sector campaign, e-invoicing onboarding, targeted issue audits, publicised outcomes

Indicator: Declared output VAT per contractor; audit strike rate

The CIP turns risk management into the organising frame of the operational year, and gives leadership a basis for accountability.

Different taxpayers, different treatment

Large taxpayers

Few in number, most of the revenue

Dedicated office, account management, specialist audit, cooperative compliance

Medium taxpayers

Growing complexity, advisers involved

Risk based audit coverage, sector programmes, arrears management

Small and micro

Very numerous, high cost to comply

Simplified and presumptive regimes, mobile services, education

High net worth individuals

Diverse income, offshore exposure

Dedicated unit, data matching, exchange of information

Segmentation changes the offer: each segment gets a stated service offer and a stated assurance approach, and specialist skills stay where they pay.

Make honesty easy; make evasion a losing bet

Build voluntary compliance

- Easy: online and mobile filing, plain forms, low compliance cost
- Informed: education, early contact with new registrants
- Fair: service standards, honest communication, working disputes
- Designed: withholding, e-invoicing, third party data
- Multiplied: work through accountants, agents and software

The graduated response

Reminders and nudge letters

Desk checks and verification

Issue and comprehensive audits

Penalties and collection enforcement

Investigation and prosecution

Proportionality and credibility keep the ladder legitimate: match the response to the cause, and let a visible chance of detection, not rare severity, do the deterring.

Measure what changed, then go again

Watch the dials

- On time filing and payment rates, by segment
- New registrant activation in year one
- Arrears stock, flow and age
- Audit strike rate; objection reversal rate
- Refund timeliness; the tax gap over time

Evaluate treatments against the behaviour they were meant to change, not the activity they generated. Clean registers and stable definitions make the numbers mean something.

Compliance is managed, not merely enforced: know your taxpayers, choose your battles, make honesty the easy option, and measure what changed.