

Key steps to address corruption in tax and customs

Tax and customs authorities are frequently among the most corrupt institutions in many countries. For staff, opportunities for corruption and temptation to engage in it are numerous, including speeding up services, undervaluing cargo and helping with tax evasion. Based on experiences from a wide range of countries, this U4 Brief gives some examples of corrupt activities and outlines practical steps to minimise the problem through appropriate staff management, training, operational procedures, and internal investigations.

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THE SCOPE OF THE PROBLEM

There is considerable potential for corrupt practices in revenue administration involving tax officers, taxpayers, importers and customs clearing agents. Corruption in revenue administration can take many forms ranging from *systematic* – where individuals act together, to systematically support evasion (usually driven by senior staff) – to *individual* corruption, where staff either have ‘clients’ whom they facilitate illegally or where they simply exploit their positions for financial gain. In addition, those involved in corrupt activities continually seem to be very inventive in finding new loopholes as some doors are being closed. Examples of corrupt activities include:

- Charging for services that should be free
- Speeding up of services (especially charging for faster clearance of goods)
- Charging for help to overcome complicated procedures and to qualify for exemptions or duty free treatment
- Turning a blind eye to non-registration for taxation, smuggling, and fraud (in customs, for instance, the declaration of false values supported by fraudulent invoices)
- Overstating values, over-assessing tax to instigate corrupt deals with importers and taxpayers
- Aiding taxpayers and importers in understating income and value of goods
- Selling insider information about competitors,

profits, purchase costs, etc.

- Receiving payments to impede a competitor’s business activities
- Diverting of cash, including issuing cheques for false repayment claims, for instance, value added tax (VAT) refunds
- ‘Losing’ files
- Facilitating or organising the smuggling of goods
- Receiving payment to complete tax returns for taxpayers or customs entries for importers

In addition, like in other parts of the public sector, corrupt behaviour within the revenue administration includes abuses of positions, such as:

- ‘Stealing’ time to pursue outside interests and/or employment
- Recruitment, dismissals, promotions, transfers of staff for payment or favours (for instance, recruitment of friends and relatives)
- Private use of equipment
- Fraudulent subsistence and travel allowance claims
- Abuse of tender and procurement procedures
- Theft of goods (e.g. office equipment)
- Receiving gifts from taxpayers

ADDRESSING CORRUPTION IN REVENUE ADMINISTRATION

Integrity is a key requirement for revenue administrations and considerable effort is needed to tackle the challenges encountered. These challenges relate to (1) the external environment, (2) staff management, (3) facilities and equipment for staff, (4) business procedures, and (5) internal investigation. What follows are some examples of practical steps that can be taken to combat corruption:

1. The external environment

It is unlikely that tax and customs services will maintain high standards of integrity if other state institutions – such as the police, judiciary, other parts of revenue administration, and the overall civil service – do not. Revenue administration will inevitably be a microcosm of the society at large, and payers of bribes are likely to be doing so across the board and not just to tax or customs staff. Hence, cooperation across government institutions is vital if revenue corruption is to be tackled. This includes collaboration with, for instance, the harbour authority, immigration, border police, the economic crime agency, and the ministry of finance. Furthermore, strong ministerial and political support for change in revenue sector integrity is vital if these external pressures are to be overcome. For example, politicians often expect or require ‘special treatment’ from customs when they import goods either in their baggage or in freight. However, such actions undermine the integrity of customs and should be resisted.

The perceived fairness of the tax system influences taxpayers’ behaviour, whilst a fair customs system and duty rate structure impact on importers’ behaviour. If the revenue administration is highly selective in treatment or rates are very high, the perceived unfairness may prompt some taxpayers to reduce their burden by corrupt means. Furthermore, citizens expect to see results for the duties and taxes they pay, e.g. better schools, hospitals, and roads. If they believe that ‘their’ money is being wasted or stolen, then there is a greater motivation to evade paying their liabilities.

Laws regulating revenue collection should be transparent and contain as few exemptions as possible. Procedures should be simple to operate and contain provisions that minimise official discretion. The legal requirements should be publicised, and there must be readily accessible appeal mechanisms including an independent adjudicator such as an appeals tribunal or ombudsman.

2. Staff management

Recruitment, training and career development

Good human resource management starts with transparent recruitment procedures based on qualifications. These are vital to overcome nepotism or persons ‘buying’ positions, a common problem for revenue services in many countries due to the potential for lucrative interactions with clients. Once recruited, staff should undergo a comprehensive induction training programme followed by the specific training needed to perform the job to which they are assigned. In addition, staff should have clear and agreed-upon job descriptions, while performance targets should be realistic and achievable. Showing staff that revenue administration is a career, rather than one stop in a series of jobs, is crucial. A generous pension scheme may be a valuable means of achieving this. Employees must feel that they have promotion prospects, that their performance will be appraised regularly and fairly, and that promotions will be made on merit through transparent processes. Likewise, when things go wrong, there should be fair disciplinary procedures.

Salaries

Personnel policies have a bearing on the propensity of staff to engage in corrupt behaviour. Obviously salaries are a factor. If staff are paid a wage that they cannot live on, they will, almost certainly, ‘help themselves’ to survive. If the wages within the revenue administration are substantially lower than in comparable positions outside, yet little staff turnover occurs, that should be reason for management concern.

Welfare

Addressing staff welfare is also important in reducing staff’s inclination to corrupt practices. One practical step is to recognise that staff may experience periods of financial difficulty, for instance caused by family medical bills. An accessible staff loan facility may help overcome this. Staff welfare is a particular issue in customs, as officers are often required to work either during anti-social hours (shift work), or at remote stations away from their families where offices are often rudimentary with poor living accommodation and harsh conditions.

Codes of conduct

Revenue services should have a code of conduct. This might include rules about and declarations of outside business activities that present a possible conflict of interests, including those of close family members. Likewise, regular declarations of assets should be instituted and regularly cross-checked. Gifts and hospitality are a common issue of concern for revenue collectors, as they, by definition, have regular dealings with clients. Practices vary widely between countries and cultures, but the key is to define clearly what is permitted and what is not.

Management

Managers can obviously have a marked influence on corruption. Staff may well tend to follow the good or bad examples set by managers. Managers should be encouraged to design and institutionalise checks and balances so that individual lapses are both more difficult to perpetrate and easier to detect. They should also require record-keeping of decisions, particularly in exercising discretion.

The deployment of staff needs to be actively managed. Staff should not be permitted to switch shifts, alter days off, or change their work location (e.g. within a port or airport) without the agreement of management. Managers must be alert to staff seeking to be ‘in the right place at the right time’ in order to facilitate illegal acts (e.g. smuggling by arriving friends or relatives).

Work relations

At a practical level, there are many steps that can be taken to ‘disrupt’ corruption, such as the regular rotation of staff from risky locations and posts. In the office, access control systems (e.g. key pads or swipe cards) can be introduced to prevent staff from visiting areas where they do not work. Restricting the access of unofficial visitors is also good practice.

It is important to channel interactions between the client and the officer and to have designated contact points for enquiries. Importers and customs clearing

agents should not be allowed to wander about in import entry processing areas, for example. Mobile phones are one way of maintaining corrupt relationships, and restricting the use of private phones in the office might be considered. Where visits to taxpayers, warehouses, or to importers' premises for post-clearance audits are required, they should generally be made by appointment. The mandatory recording of all contacts with the client is good practice. Managers should make occasional spot checks.

3. Facilities and equipment for staff

Staff regard their working environment as particularly important for job satisfaction. Accommodation and working equipment are probably most important, as these can send a signal to staff on how they are valued. The revenue administration should provide the equipment that staff need to perform the job. In addition to computers, this implies – for example in the case of customs staff doing physical examinations – having available a selection of tools (such as knives, mirrors, screwdrivers, etc.). It is equally important that suitable transport arrangements be made when official duties require an officer to travel, including the use of public transport if available and safe, the use of personal vehicles, and the provision of official transport. Clients should not be permitted or required to provide for transport.

4. Operational procedures

All procedures in the revenue administration should be fully documented in procedure manuals and/or desk instructions, specifying both what is required and what is not required or permitted. A realistic segregation of duties can also help to deter corrupt practices. At all stages there should be personal accountability provisions and hand-over mechanisms with fully documented audit trails. This should include requiring signatures on all documents handled, safeguarding movement registers of goods (electronic if possible), and managerial signature requirements for amendments to accounts.

Licensing and approvals

There must be transparent licensing and approval processes of agents, warehouses, etc., requiring applicants to meet clearly defined criteria. Clearing agents should have to pass an examination. Where importers are accredited, the approval process must also be transparent. The aim must be to reward good compliance with faster clearance times and lower administrative costs.

Customs warehouses

Physical inspections and occasional stocktaking are vital at all locations where duty free or uncleared goods are stored. These can either be supervised by managers or undertaken by special mobile task forces.

Processing cases and documents

Centralised processing using keyed data and scanned documents can separate the processing officer from the client and make collusion more difficult – especially with the greater availability of electronic means of tax and customs filing. In customs, remote processing via the internet is feasible when, for example, clients sub-

mit customs entries electronically (Direct Trader Input).

Risk assessment methodologies should be used to modify procedures so that staff see only those documents that they need to review. In customs, such selection methods can be employed either to identify goods for checking or to specify the checks that are to be carried out. It is also effective to have random selections or reselections for quality control purposes.

Payment mechanisms

Payment mechanisms should be transparent and made public. If possible, officers should not be permitted to accept cash tax payment in the field. Ideally, all payments should be made by taxpayers directly to banks or by electronic means. Where cash payments are accepted, they should be made to a dedicated cash office. Where cheques are accepted as payment, they should be marked immediately upon receipt in order to avoid recycling (stating the client's name as well as the tax identification number or customs entry number).

Information

Many internal frauds rely on taking the correct payment from the taxpayer or importer and only banking part of the remittance, typically in collusion with company employees, bank officers, and/or a revenue accountant. To make this harder to perpetrate, secure receipts are required. A further measure is to send electronic confirmations (or periodic account statements) directly to clients to verify the amount of remittance received.

IT systems are becoming more prevalent in revenue administrations and require careful design to help reduce the opportunities for corruption. Systems must have facilities for retrieving or monitoring records of queries made by individual members of staff. Information held by the administration, whether on paper or electronically, must be safeguarded. Managers should be aware of the possibility that information on business competitors might be sold to taxpayers or misused in other ways. Access to information should be controlled and records kept showing who accessed the information and when.

Service delivery

Opportunities for malpractice are likely to be reduced by publishing procedures, rules, costs, and charges for services, by establishing service charters, and by making help-line facilities and enquiry centres available, as well as by establishing appeal procedures in case of complaints. Simplification of payment procedures and greater efforts on educating those involved in the transactions (taxpayers, importers, agents) are also important. If clients know what is required, and can do it unaided, they will be less motivated to pay revenue officers for assistance. An accessible and well-publicised channel for handling complaints on revenue administration is also important – this may be an independent adjudicator or ombudsman outside the administration, or a designated office within the administration itself.

Audits

Fertile ground for the payment of bribes is provided when irregularities are discovered by auditors. It is important for managers to deploy teams to undertake

specified tasks rather than to allow staff to select their 'targets'. For customs, there should be a programme of post-importation audits by staff not involved in entry processing, with audit cases being assigned at random. Further, there must be risk-based management controls over the conduct of the work, including accompanied or follow-up visits, and thorough checking of reports. It may also be necessary to have a programme of follow-up visits by an effective, risk-based, internal audit team supported by external audit controls.

5. Internal investigation

It is crucial to have effective and skilled internal investigation teams with the sole purpose of conducting internal investigations. These investigators will need to understand tax or customs procedures thoroughly so that they are able to differentiate 'normal' and 'abnormal' behaviours. Effective links to other enforcement agencies, such as anti-corruption and economic crime agencies, can also help to detect acts of corruption.

When cases of corruption arise, it is essential that suspected staff be suspended immediately so that evidence is not compromised. Investigations should be mounted and brought to a conclusion swiftly. There should be equity with action taken against both senior and junior staff with no exceptions. Ideally, the revenue administration should press for court sentences and also seek sanctions against payers of bribes. The outcomes of cases should be published, both internally and externally.

To encourage people to come forward and give information, there should be an anonymous hotline for informers (external and internal). Rewards under a statutory basis can be a useful tool to encourage people to come forward. Most important, however, is to analyse trends, to learn from cases, and work aggressively to close loopholes or procedural failings.

CONCLUSIONS AND KEY STEPS

Is it possible to stop corruption in revenue services? In the short run the answer must, regrettably, be 'no'. Any officer considering corrupt practices will weigh up the possible gain (the motive) against the likelihood of being caught (i.e. the risks). The measures taken by the administration must therefore seek to reduce the opportunities for gain, while at the same time increasing the risks or obstacles inherent in the corrupt practices.

Even if officers decide to stop receiving bribes it must be recognised that they may come under tremendous pressure from colleagues and taxpayers. The revenue administration needs to respond by providing a counselling avenue. If an officer comes forward voluntarily, some form of amnesty for past actions might be con-

sidered. While integrity enhancement or values and ethics campaigns can be useful, they are likely to fail if this key issue is not addressed.

Just as with many other areas of government or business, there is no golden key to solving integrity related difficulties in revenue administration. Instead, a range of actions is required across all the areas indicated above. Areas worth highlighting include the following:

- Staff must be carefully and fairly recruited (references, etc., must be checked), remunerated comparably to equivalent positions in institutions such as banks and the accountancy profession, and have realistic opportunities for career and income progression.
- Steps must be taken to instil in staff the importance of good integrity. Measures such as codes of conduct, asset declarations, etc., may reinforce this.
- Managers must be proactive and conduct desk and office inspections, and design procedures and systems that deter integrity lapses and make them easier to spot.
- Strong internal controls and an effective internal investigation force are essential.
- Staff perpetrating corrupt practices must be dismissed and prosecuted whenever possible.

The role of donors

Donors have been active in supporting many revenue administrations, particularly in Africa, but also in some Latin-American countries. Technical assistance to tax administration modernisation programmes has contributed to computerisation of tax filing procedures and customs declarations, revisions and updating of legislation, and human resource management. However, an essential part of any donor support programme should be the development and implementation of an integrity plan. Without a structured approach, there are real and obvious dangers that technical support to capacity building will not be sustainable. This requires coordination between the involved donors to avoid duplication and inconsistencies. Moreover, donor approaches have often overlooked the fact that reforming revenue administration – despite its many important technical aspects – is also a social and political process driven by human behaviour and local circumstances. It is often a long and difficult transformation that requires civil servants and politicians to change the way they regard their jobs and responsibilities, including their tasks and their interaction with citizens. ■