

COOPERATIVE COMPLIANCE





Tax Administration 3.0: The Digital Transformation of Tax Administration

Tax Administration 3.0: The Digital

Transformation of Tax Administration

Based on the results of the XIII Plenary meeting of the OECD Forum on Tax Administration (FTA), cooperative compliance was recognized as one of the best practices for digital interaction between Government and Business and was published as a country example in the discussion document «Tax Administration 3.0: Digital Transformation of Tax Administration»

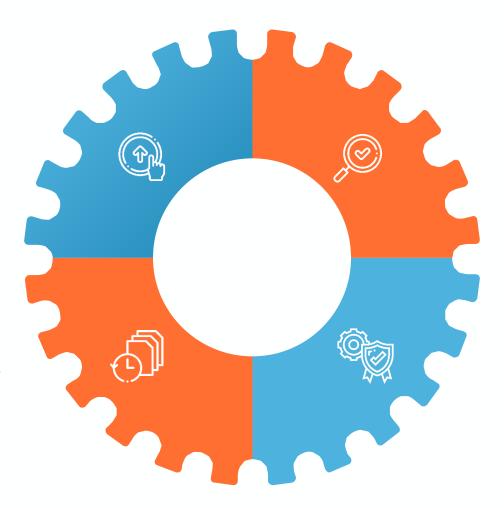
FRAMEWORK OF TAX MONITORING

VOLUNTARY PARTICIPATION

Taxpayers wishing to participate in Tax Monitoring, should submit an application no later than on July 1 of the year preceding the period for which the tax monitoring is to be conducted

EXEMPTION FROM THE CONVENTIONAL TAX CONTROL

- Reduced timeline of tax audits
- Limited scope of control measures and number of source documents to be reviewed



INTERNAL CONTROL

- Disclosure of the company's level of the Internal Control maturity
- Increased standard of corporate governance and tax risk management

REASONED OPINIONS

- Advance certainty on tax positions
- Better and quicker dispute resolution
- Mitigation of tax risks on past, current or future transactions, and on complex issues

LEGAL FRAMEWORK



Tax Code of the Russian Federation

Section V.2 «Tax audit through cooperative compliance»

Laws and regulations

Requirements for information exchange

Requirements to the internal control system

Requirements to drafting reasoned opinions

exchange

International programs and projects

Forum on Tax
Administration
Large Business and
International
Programme (LBIP)



Forum on Tax Administration Tax Administration 2030



Forum on Tax
Administration
Risk Management



Forum on Tax
Administration
Comparative Risk
Assessment
(CORA)



Forum on Tax
Administration
Exchange on Tax
Ruling



Forum on Tax
Administration
International
Compliance
Assurance



Programme (ICAP)



DOCUMENTS TO PREPARE FOR COOPERATIVE COMPLIANCE



Order of the Government of the Russian Federation from 21.02.2020 № N 381-r

«The Concept for the development of the tax monitoring system»



Directive from 13.12.2019 №11528p-P13



FTS of Russia order from 25.05.2021 Nº ED-7-23/518@

«On establishing requirements to organize the internal control system»



FTS of Russia order from 11.05.2021 Nº ED-7-23/476@

«On approval of forms and requirements to the documents used in cooperative compliance»



FTS of Russia draft order

«On the approval of the procedure for obtaining access by tax authorities to the information systems of the organization»



FTS of Russia draft order

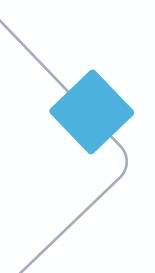
«The procedure for submitting documents at the request of the tax authority»



FTS of Russia draft order

«Drafting the reasoned opinion of the tax authority»





LARGEST and most
DIGITALLY ADVANCED
taxpayers are eligible
for TAX MONITORING,
should they meet the
entry thresholds

Centralized tax governance and online filing interaction, either through:



full connection of tax authorities to the company's IT-systems (API)



through a so-called "data window" (dashboards), if companies only partially open access to their data and documents



provision of all supporting documents in format of XML or PDF/A3 through IT-systems or telecommunication channels

CHANGES TO ENTRY CRITERIA



DECREASING AMOUNT-BASED CRITERIA

taxes ≥ from 300 mil. rubles to 100 mil. rubles revenues ≥ from 3 bn rubles to 1 bn rubles assets ≥ from 3 bn rubles to 1 bn rubles



FOR MEMBERS OF CONSOLIDATED TAXPAYER GROUPS

Cancellation of compulsory compliance with amount-based criteria



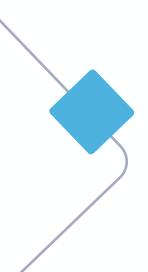
EXPANSION OF TAX TYPE LIST

Inclusion of personal income tax and insurance contributions in the calculation



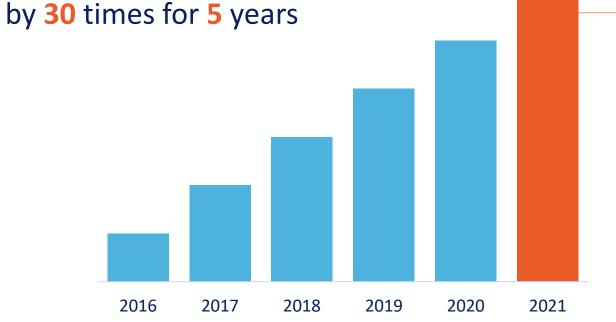
COMPLIANCE WITH AMOUNT-BASED CRITERIA

Cancellation of follow-up audits of amount-based criteria in case of cooperative compliance prolongation



TAX MONITORING PARTICIPANTS

The number of participants joining Tax Monitoring has increased



209 companies
from 15 sectors
of the Russian economy
will participate in Tax
monitoring program

COMPANIES PARTICIPATING IN TAX MONITORING



























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DRAFTING AN ACTION PLAN



FTS of Russia letter from 07.05.2019 № ED-4-15/8599@



1. Procedure of information exchange between the company and the tax authority



2. Procedure of bookkeeping and tax accounting and drafting company's reports



3. Company's internal control system



4. Demonstration and testing of information exchange between the company and the tax authority



5. Preparation and submission of documents to join the cooperative compliance



200 companies have prepared the action plan





Application to conduct cooperative compliance



Liaison Protocol of information exchange



Documents on internal control system



Information about affiliated persons



Accounting policy for taxation purposes

RECOMMENDATIONS ON PREPARATION FOR COOPERATIVE COMPLIANCE



Prepare in advance and approve with the tax authority an action plan on joining cooperative compliance



Strictly follow requirements provided by the FTS of Russia orders from 11.05.2021 Nº ED-7-23/476@ and from 25.05.2021 Nº ED-7-23/518@



Indicate the structure of disclosure of tax reporting indicators by tax type



Do not assign the same code to different risks in the risk matrix of



Consider the company's industry specific while drafting regulatory documents for internal control systems



Comply with the time limits of documents submission



Match the number of risks



Do not use acronyms and abbreviations without their definitions in documents



Indicate references and record details of the company's internal



LIAISON PROTOCOL OF INFORMATION EXCHANGE

Procedure of providing the tax authority with access to the company's information systems

Data on forms of incorporation and methods of bookkeeping

Functionality of company's information systems

(C)

FTS of Russia order from 11.05.2021 № ED-7-23/476@

«On establishing forms and requirements of documents used in cooperative compliance»

Structure of disclosing tax reporting indicators

Working with documents in company's information systems



Procedure and time limits for amending the liaison protocol in case of tax legislation change

INFORMATION EXCHANGE METHODS

91%



Access to accounting system

142 (68%)



Analytics data display

48 (23%)



Information exchange via telecommunication channels

19 (9%)



77



65



27



13



8

DIGITAL TAX GOVERNANCE





ONLINE REAL-TIME DATA EXCHANGE

- Efficient and effective data exchange between the tax authority and the taxpayer
- Online real-time data access
- Data quality and standardization



PROCEDURE OF DOCUMENT SUBMISSION



documents submitted

to the tax authority

through companies'

IT-systems

Abolishing traditional system of discovery of documents



Obligatory use of encrypted qualified digital signature

Formation of inquiries for documents in companies' IT-systems



Access to companies'
IT-systems for the duration
of cooperative compliance
and for the next 3 years

STANDARDIZATION OF DOCUMENT FORMS

TOTAL ABOLISHMENT OF PAPER DOCUMENT FLOW

AUTOMATED DOCUMENT PROCESSING

TRANSITION TO MACHINE-READABLE FORMS

FORMING THE AUDIT DATA SHEET

ENHANCEMENT OF INFORMATION EXCHANGE

Standardized document forms



of formats of documents, which are provided to the tax authority within cooperative compliance

Changes in the procedure of documents submission



Submission of documents through company's information systems, to which tax authorities have access

Establishment of requirements to IT systems



Creating requirements for company's IT systems, to which tax authorities have access

AUTOMATION OF COOPERATIVE COMPLIANCE

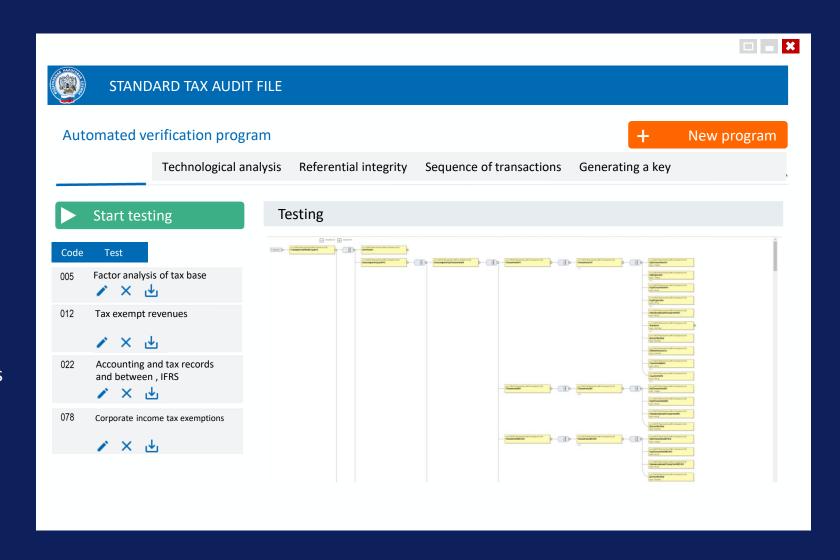


Automated system «Nalog-3»
Application subsystem «Cooperative compliance»



STANDARD TAX AUDIT FILE

- Automatic testing of accounting records
- Audit of completeness and integrity of accounting records
- Chronological order of each transaction
- Existence of primary documents for transactions
- Generating an encryption key for data rigidity



BUILDING ENHANCED TRANSPARENCY FRAMEWORK

1

Enhanced trust to taxpayers' IT-systems

2

A risk-oriented approach means that audits are fewer in number and better targeted



3

Increased standard of corporate governance and tax risk management

4

Tax control embedded in taxpayers' IT-systems through application programming interfaces (API)

INTERNAL CONTROL ENHANCEMENT

- Sustainable development, going concern and maximum development
- Effective protection and efficient usage of taxpayer's resources and capabilities

Timely identification, management and mitigation of taxpayer's commercial, financial, intra-group and other risks



COOPERATIVE TAX RISK MANAGEMENT



RISK PROFILE

Collaborative Risk Identification and Management Creating a risk profile based on business specifics



RISK REGISTER

Mapping industry risks



RISK MATRIX

Creating a risk assessment matrix for high risk transactions

Developing an individual audit plan for every taxpayer

cooperative compliance is an approach to effective tax compliance management based on better understanding of the taxpayers business (industry-specific) and risk profile.

DIGITALISATION of tax control means further development of risk-oriented approach with regard to high-risk operations of taxpayers and industry specifics.

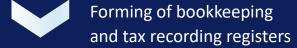
A RISK-ORIENTED APPROACH means that audits are fewer in number and better targeted, which ultimately leads to a reduction of the administrative burden on those businesses that comply with the tax law.

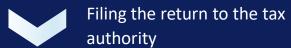
ADVANCED ANALYTICS can help across the entire tax life cycle of planning, accounting, compliance and controversy.

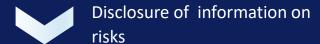
TAX RISK MANAGEMENT

TAXPAYER

Transaction and preparation of primary accounting documents











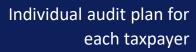




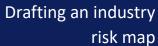




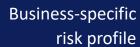




















RISK REGISTER



Risk event impact/consequences, Key Risk Indicators (KRIs), risk level, technical processes, risk assessment, taxpayers' risks and obligations, risk verification and mitigation, inherent and

residual risks

USERS OF RISK PASSPORT

Structural divisions of the FTS of Russia, Regional Tax Authorities

DOCUMENTS ON THE INTERNAL CONTROL SYSTEM

FTS of Russia order from 25.05.2021 № ED-7-23/518@

«On establishing requirements to organize the internal control system»

- Audit procedures
- Analysis of audit procedures
- Risks identified for cooperative compliance
- Risks and audit procedures matrix
- Evaluation of internal control system organization level
- Measures to improve internal control system
- Information on organization of internal control system

EVALUATION OF REGULATORY DOCUMENTS FOR THE INTERNAL CONTROL SYSTEM



FTS of Russia letter from 07.05.2019 № ED-4-15/8603@



Audit environment

- ✓ Owner's involvement
- ✓ Distribution of authority
- ✓ Personnel skills



Risk identification and assessment

- ✓ Standards for risk identification and elimination
- ✓ Risk recording
- Risks and audit procedures matrix



Audit procedures

- Description of audit procedures
- Documentation of audit procedures
- ✓ Evaluation
- ✓ Balance of manual and automated audit procedures



Information systems

- ✓ IT audit
- ✓ System protection
- ✓ ERP-systems



Monitoring of audit tools

- Evaluating the level of the internal control system
- ✓ Evaluation results recording
- Improvement

COMPANY RISK PROFILE

AUDIT PRIORITIES

RISK INDICATORS

Business scheme	Securities transactions with affiliated persons Data on indebtedness of subsidiaries			
Recording of revenues and expenditures	Mismatches between assets disposal and proceeds			
Tax return (assessment)	Adjustment of mineral extraction tax without adjustment of corporate income tax			
Tax compliance	Failure to file tax return by the due date Failure to comply with tax return filing method			
Benefits applied	Termination of regional investment project participation			
Data on counterparties	Data on counterparties of a taxpayer in the Federal Informatior Resource "Tax avoidance schemes"			

RISK AND AUDIT PROCEDURES MATRIX

Type of tax ¹	Risks	Audit procedures	Risks covered by audit procedures	Preventive audit procedures	Automated audit procedures	Key audit procedures
Corporate income tax	2	3	100%	100%	33%	33%
VAT	1	2	100%	100%	0%	0%
Personal income tax	1	2	100%	100%	50%	50%
Insurance contributions	1	2	100%	100%	50%	50%
Property tax	1	3	100%	100%	67%	67%
Transport tax	1	2	100%	100%	50%	50%
Land tax	2	2	100%	100%	50%	0%
General for all taxes	6	10	100%	50%	0%	90%
Other	4	4	100%	100%	25%	50%
Total	19	30	100%	83%	27%	57%

INTERNAL CONTROL MATURITY ANALYSIS

Frequency of internal and/or external audits of taxpayers' IT-systems

Implementation of automated control procedures in taxpayers'
IT-systems



Availability of protection against unauthorized access to the original data contained in taxpayer's information systems

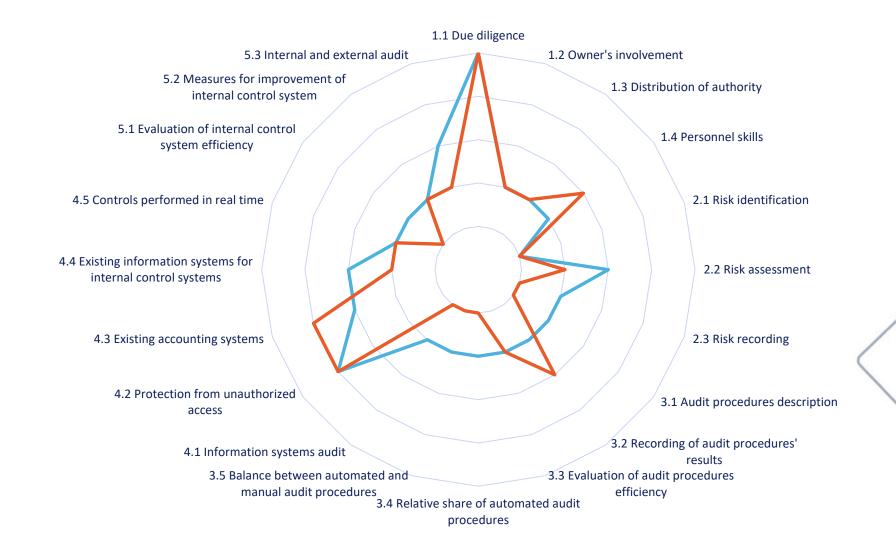
Real-time control in taxpayer's IT-systems

Points - average maturity level of internal control systems in 2020

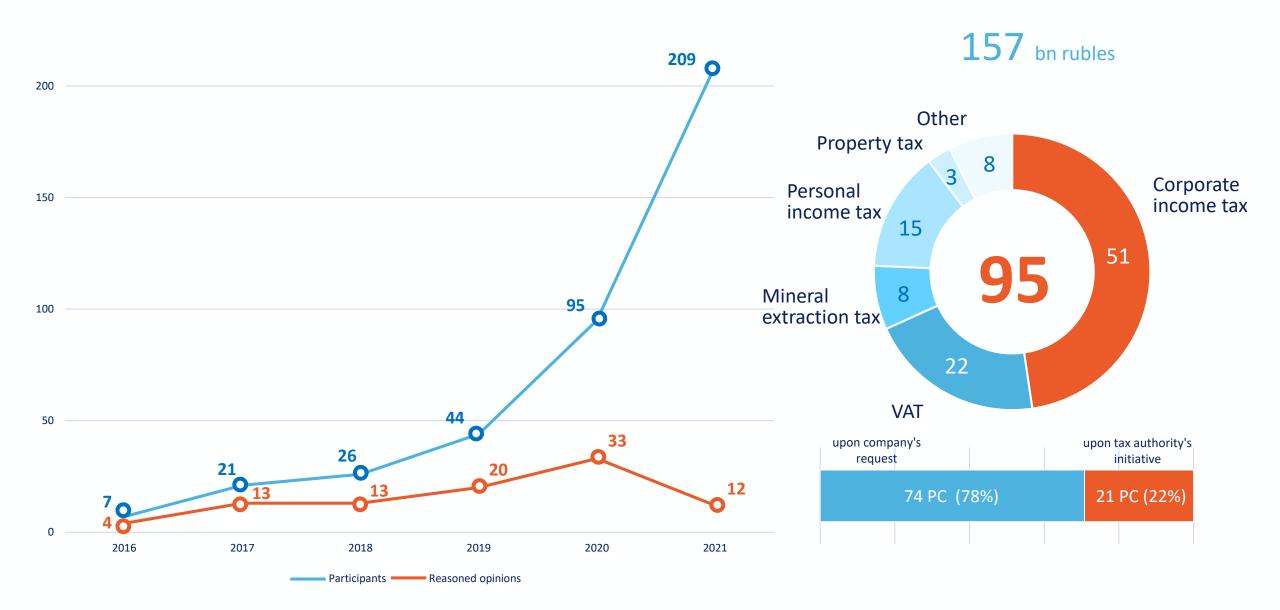


Points - average maturity level of internal control systems in 2019

INTERNAL CONTROL SYSTEM



REASONED OPINIONS (RULINGS)





THE ROAD MAP OF THE TAX MONITORING

- Simplification and facilitation of taxation procedures
- Decrease of the thresholds for voluntary participation of companies in the Monitoring System

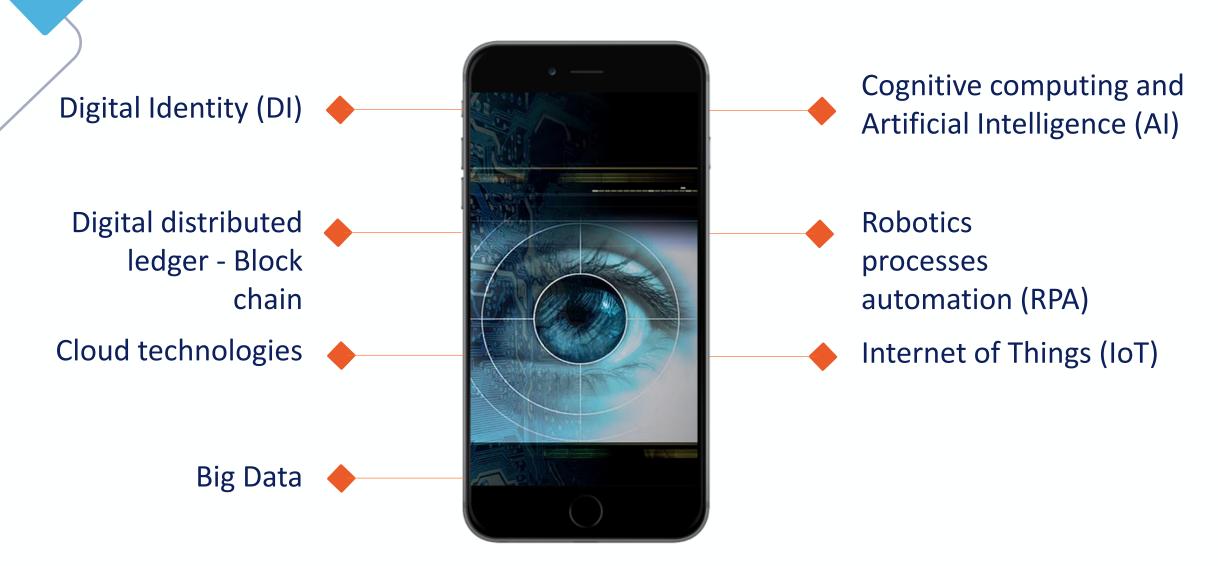
- Development of tax control procedures in tax monitoring
- Planning and conducting tax monitoring based on the assessment of taxpayer's risks

STAGE 1 STAGE 2 STAGE 3 STAGE 4

- Enhanced and extended trust and communication between taxpayers and the tax authority
- Developing certification requirements for the taxpayers' IPs
- Automatic verifying data check program

 Building the relationship of trust and constructive relationship between taxpayers and the tax authority

NEW CHALLENGES NEW TOOLS



DIGITAL IDENTITY

Cryptographic authentication and identification

Certification of IT-systems

Legal framework

Reinforced qualified electronic signature

DIGITALIZATION OF TAX CONTROL

SIMPLICITY DRIVES SUCCESS

Transformation of tax authorities into digital platforms connected to social networks, popular digital services and other online platforms are the next step in the development of tax administration

TRANSPARENCY

Digital transformation will make transactions transparent and enable the transition to automatic taxation

TRUST

Technologies will create a network of trustvoluntary compliance with tax laws



COOPERATIVE COMPLIANCE PROVIDES ADVANTAGES FOR TAXPAYERS



Less cost of tax compliance



Trust and confidence



Move from paper to digital





Expanded list of potential cooperative compliance participants up to 10000 companies in 5 years



Increased share of automated audit procedures by at least 20% per year



Increased number of cooperative compliance participants by at least 20% per year



Decreased share of uncertain tax positions by at least 5% per year



Increased share of taxpayers which provide access to their systems by at least 20% per year



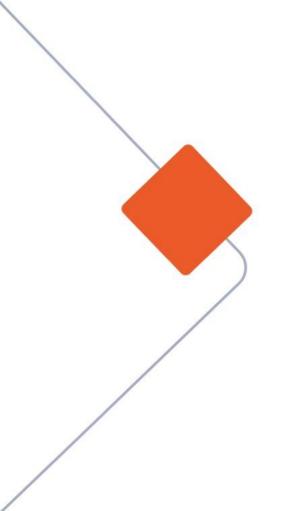
Increased share of reasoned opinions on planned transactions without deadline extension, by at least 5% per year



Decreased risk share in cooperative compliance by at least 5% per year



Increased share of electronic documents by at least 10% per year



THANK YOU FOR YOUR ATTENTION!