

Strategy for Large Taxpayer Unit

Anok Kumar Rai

Tax Analyst,
Department of Revenue & Customs,
Ministry of Finance

Abstract

The large taxpayer segment is debatably the most important part of the taxpayer segments, as in most countries, including Bhutan, large businesses contribute the major part to total domestic revenues. Over 90% of the 156 countries participating in the International Survey on Revenue Administration (ISORA) 2021 and over 85% of countries in the Asia and Pacific region report having a large taxpayer's office (LTO).

Better care and management of large taxpayers is expected to bring stronger revenue performance. Activities such as on-time filing and payment by large taxpayers contribute measurable benefits for government revenue. Identifying patterns of non-compliance will inform proactive interventions to encourage large taxpayers to comply voluntarily. Closer oversight of large taxpayer compliance may also deliver collateral benefits elsewhere in the community, including building commercial awareness among DRC staff, and strengthening community perceptions about their professionalism and the fairness in DRC's administration of the tax system. All are important elements in influencing voluntary compliance more widely in the community.

The establishment of a LTO will improve DRC's oversight of the businesses that contribute most to revenue and will support improved domestic revenue mobilization. A first step is to establish criteria for determining which taxpayers should be part of an LTO. This report addresses this and recommends suitable criteria for compliance risk management purposes.

The tax administration in Bhutan has not set up such LTU and has the same treatment for all types of taxpayers. This has been observed as a waste of expenditure in tax collection from small/micro units since the top ten percent of large taxpayers contribute more than eighty percent of the country's direct tax revenue.

This paper provides an overview of the process of establishing the Large Taxpayer Unit (LTU) in the country (RRCOs) based on the suggestion and feedback received from Business Review, Tax Administration Diagnostic Assessment Tool (TADAT), and the IMF Policy Mission.

Introduction

1. Background

The present system of tax assessment entails the same assessment procedures for all tax types evolving times, resources, and high cost of collection irrespective of the tax amount and tax types. Therefore, a closer look and focus are essential for large taxpayers who contribute a larger share of government revenue. This may be done through the establishment of a Large Taxpayers Unit (LTU) at all Regional Offices (RRCOs).

A LTU is a self-contained office to provide service and concentrates quality assessment based on data available of the taxpayers segregated under LTU. In Asia, 13 countries have established LTUs at different points in time, including Pakistan, Sri Lanka, Bangladesh, and Nepal.

The survey conducted by IMF has shown significant benefits from setting up special operations and control of large taxpayers. Such special operations have focused tax administration efforts on relatively few taxpayers who account for a large percentage of total tax collection. Many of the countries surveyed reported that establishing an LTU helped them address major operational weaknesses in tax administration and improve core tax administration functions. In addition, in many countries, the LTU has been a pilot for the tax administration to test reforms later extended to the rest of the taxpayers. These include the self-assessment of taxpayer liabilities, single taxpayer master files, unique taxpayer-identification numbers, an organizational structure based on the main tax administration functions, electronic filing, and new computerized information systems.

Report based on Business Review, Tax Administration Diagnostic Assessment Tool (TADAT), and the IMF Policy Mission depicted that DRC does not focus priority on the compliance of large taxpayers. They are administered in all eight Regional Offices in same process. The majority are in Thimphu and Phuntsholing with smaller numbers in the other regions. Risk treatments are undifferentiated from medium and small businesses. There is no compliance improvement plan in place to drive improvements in voluntary compliance and address weak performance by large taxpayers, particularly in on-time filing and payment where current compliance outcomes fall well below standards of good international practice.

Moreover, the report showed that there is evidence of persistent under-reporting by even some of the largest businesses, for which DRC relies on desk and field assessment and voluntary compliance is very poor, and traditional audit interventions are ineffective in securing good compliance.

Therefore, based on the IMF's recommendation, a clear taxpayer segmentation methodology is required for effective Compliance Risk Management (CRM). This can be done by establishing Large Taxpayer Office (LTO) under the Department of Revenue & Customs who shall monitor and guide the performance of LTU established under RRCOs.

2. Scope

Initially as a pilot project, the LTU shall be established under RRCO Thimphu and Phuntsholing with selected list of taxpayers (75 units). However, its coverage may be extended to other RRCOs based on the taxpayer’s segmentation in future.

3. Objectives

Establishing LTU is an important component of taxpayer segmentation. The following are the objectives of establishing a Large Taxpayer Unit.

1. To establish stronger revenue performance through effective monitoring and compliance management.
2. Deploy a dedicated team of tax officials in RRCOs to cater to the service to the taxpayers;
3. To conduct tax assessments through compliance risk management and enhance the quality of assessment by focusing on potential taxpayers.
4. To increase government revenue through quality assessment, improved tax compliance, and regular follow-up and proper monitoring.
5. To reduce the cost of collection (wasteful expenditure) and make the best use of scarce government resources.

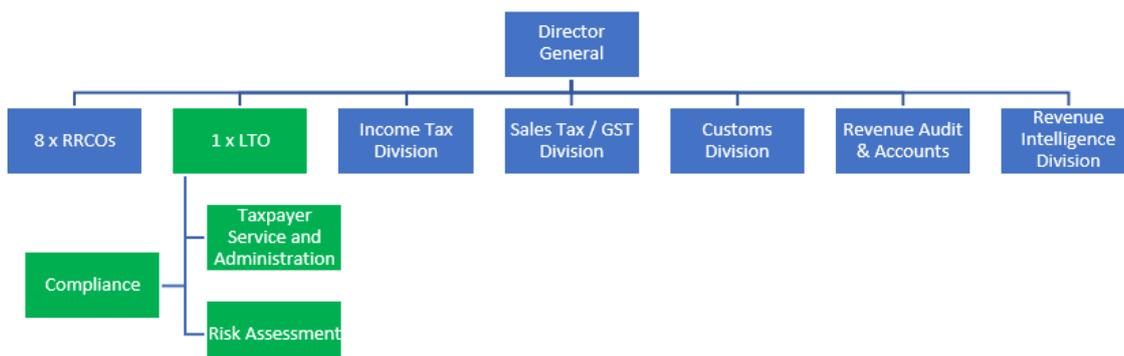
4. Methodology

The proposal to establish LTU in Bhutan is based on the following methodologies applied.

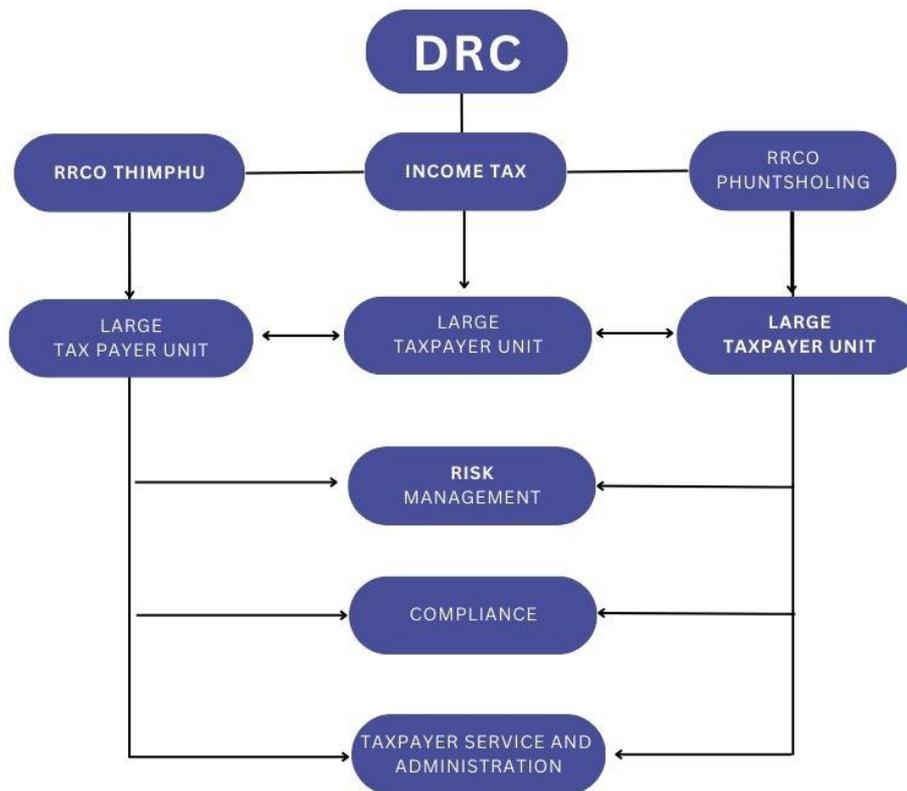
- (i) Review the practice followed in neighboring countries and weigh its relevance in the Bhutanese context.
- (ii) Start LTU with sample list of taxpayers provided by review team and after due consultation with concerned RRCOs.

5. Organizational setup of LTO

The IMF team has recommended having a separate Division under the Department. Under this proposed setup, the head of the LTO office shall directly report to the Director General as shown below.



However, due to an acute shortage of manpower in the department, DRC decided to appoint a focal Officer to head the LTO at DRC and set up LTU under RRCO Thimphu and Phuntsholing since most of the large taxpayers are clustered at Thimphu and Phuntsholing on a pilot basis as per the organogram given below.



The officials deputed under LTU at RRCOs shall have a dedicated/separate office and shall perform duties as per the guidelines issued by the LTO office of DRC.

6. Legal framework

The operation of the Large Taxpayer Unit shall be guided by the Rules and Regulations under the Income Tax Act of the Kingdom of Bhutan 2001 and any amendments, notifications, and guidelines thereto.

7. Taxpayers Segmentation

Different countries used different parameters such as turnover, investments, assets, business size etc. to categorize businesses under LTO. In order to make it simple and easy for implementation, IMF team has recommended turnover as the basis for segregating taxpayers under LTO. For the purpose of categorization of taxpayers under LTU, the following criteria shall be applied.

- (i) Business Turnover shall be 100 million and above;
- (ii) All the Corporate entities must be under LTU;

(iii) All insurance/financial institutions;

(iv) Any other business units that are recommended by the head of tax administration of the RRCOs.

With above criteria, almost 225 taxpayers fall under LTO. Due to shortage of manpower and office space, the IMF team had recommended seventy-five (**Refer list in Annexure I**) large businesses were identified from data provided by DRC and high-level profiles provided to the experts' counterpart. They comprised the largest by size of turnover, all banks, and insurance companies, and four pharmaceutical firms. In total, their declared tax liabilities in 2022 represent 51.9 percent of national CIT, BIT, TDS, and SC collections. To avoid obstacles arising from the geography of Bhutan, they were drawn from Thimphu (36 cases) and two neighboring Regions – Phuntsholing (37 cases) and Paro (2 cases). This would render straightforward any necessary field visits to be carried out from a Thimphu-based LTO.

8. Functions of LTU

The LTU shall function as independently from the general tax administration headed by LTU head and guided by the head of tax administration of the RRCO and per the detailed guideline provided in the Standard Operating Procedure (SOP).

9. Skill/Qualification requirement of Officials

The concept of LTU is very new in the country. Therefore, the tax officials deputed in LTU need to possess specific skills and knowledge in order to meet the requirement and fulfill the job obligations. The officials in respective unit must possess the following skills and qualifications.

9.1. Taxpayer Service Unit (TSU)

The role of the Taxpayer Service Unit is to focus on activities that facilitate compliance, often proactively, leading to taxpayers being better informed about their tax obligations so that they can voluntarily comply with them. This means building on the current activities that involve seminars, coordinating and providing continuity of interactions between large taxpayers and the LTO; being the first point of contact for all inbound communications, and initiating outbound communications as part of proactive compliance campaigns; recording all communications with large taxpayers in a dedicated case management database which other units within the LTO (preferably audit and risk assessment).

Therefore, the officials need to possess the following skills and qualities.

- Officials from medium grade (P5-P4) with good interpersonal and communications skills.
- Should be able to communicate with taxpayers politely with clear objectives.
- Should be able to convince the taxpayer's tax obligations.
- Should be able to record all communications.
- Should be able to perform regular monitoring of each large taxpayer's performance regarding filing returns and other declarations, and paying taxes, on time as required by law;

- Identifying those large taxpayers that fall short of full compliance with these requirements, and proactively reminding them about forthcoming filing or payment deadlines (and dealing with any requests for time extensions);
- Should be able to immediately follow-up by telephone, within 48 hours, where filing or payment deadlines are missed.

9.2. Risk Assessment Unit (RAU)

The RAU's key role in profiling of large taxpayers provides a basis for risk identification and assessment and determining strategies that should be employed to enhance compliance. Thus, the officials must possess the following skills and qualifications.

- Require to identify mid/senior level (P3-P4) officials with research analytical skills.
- Need to have good risk analysis skills and able to perform ratio analysis for risk assessments.
- Able to prepare annual work plan,
- risk profiling and record keeping.
- Should be able to analyze financial and economic factors to monitoring taxpayers tax performance against economic performance of the business based on past performance, performance of similar sized taxpayers in the same sector and taxpayer's other financial data.

9.3. Compliance Unit

The large taxpayer Compliance Unit will undertake a full range of compliance activities appropriate for large taxpayers. Staff in this unit need to be of the highest caliber (P3-P2) who can able to:

- Detect and address the more complex tax avoidance methods and to be able to represent the Department in dealings with the country's highest profile business executives and their professional representatives, often in sensitive circumstances.
- Have in-depth knowledge and expertise who must be capable of dealing with senior executives and the taxpayer's expert advisors on the intricacies of their taxation affairs. Situations and problems that arise with tax matters of large taxpayers are often atypical and sometime unique.
- A capability to focus on defined markets and an understanding of taxpayers' business and behaviors.
- Sound knowledge of tax law (including international tax), accounting practices, commercial law and practices, and auditing procedures and methods.
- Excellent interpersonal skills, demonstrating an ability to develop and maintain a relationship with taxpayers based on mutual respect.
- The ability to be flexible and customize approaches to the needs of individual taxpayers.
- Officials who can display the utmost professionalism and integrity so that large taxpayers must have confidence that their issues will be dealt with in an effective and fair manner that fully complies with the law.

10. Infrastructure/Facilities requirements

In order to set up LTU, the following requirements need to be considered.

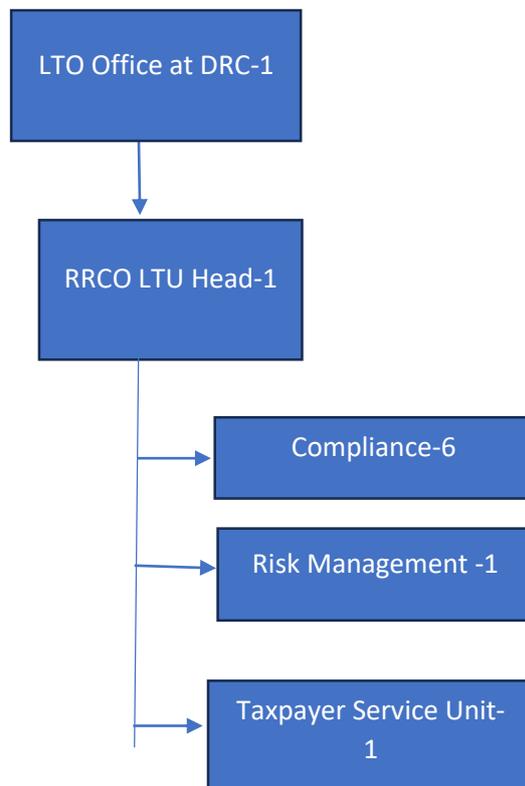
(i) Office Space

As mentioned under point No 4, the LTU shall be set up at RRCO Thimphu and Phuntsholing, with independent/separate office. The Regional Director and Tax heads shall assist in providing basic facilities such as Sofa Set, Visiting Chairs and coffee vending machine if possible

(ii) Manpower

The LTO office at DRC shall monitor the function of LTU units of RRCOs. The LTU unit of RRCOs shall be headed by LTU head nominated by head of tax administration and the Regional Director. The LTU head shall be equivalent to the post of Joint/Deputy Collector who shall possess good knowledge and experience of dealing with large taxpayers in assessments.

The total manpower requirement of LTO at DRC and LTU at RRCO has been shown in the chart given below.



The Regional Director and Head of Tax Administration shall identify the officials to head the LTU along with other officials required under LTU.

(iii) Office Equipment

As per the standards of LTU in other neighboring countries, the LTU office must have dedicated office space with set of computers, internet/Wifi and Sofa Set/Chairs and tables for the taxpayers to work when they visit LTU. This shall boost morale of the taxpayers and encourage themselves for voluntary compliance on filling and tax payments.

In some countries, LTU do have coffee vending machines.

(iv) Budget

Since setting up of LTU came up suddenly based on IMF/TADAT recommendation, RRCOs/DRC has not proposed budget. A budget estimation of Nu. 0.200 million is estimated for two RRCOs in order to provide equipment mentioned above.

a. Effective staff training

In order to mobilizing much needed higher revenues to fund these reforms and restore fiscal stability, a focused human resource capacity building through focused training, awareness and study field trip in the countries where LTU has been successful is crucial at the initial set up of LTU. This can only be possible through the help of funding agencies like the IMF.

11. Conclusion

With the establishment of LTU, better oversight of large taxpayers is expected to deliver stronger revenue performance. Activities as relatively straightforward as improving rates of on-time filing and payment by large taxpayers contribute measurable benefits for government cashflow. Identifying patterns of non-compliance shall encourage large taxpayers to comply voluntarily. Closer oversight of large taxpayer compliance may also deliver collateral benefits elsewhere in the community, including building capacity development and awareness amongst the DRC staff, and strengthening community perceptions about their professionalism and the fairness in DRC's administration of the tax system. All are important elements in influencing voluntary compliance more widely in the community. It is also expected that the overall tax-to-turnover percentage is expected to increase and tax officials shall dedicate more time and resources to data collection, analysis, and conducting quality assessments for tax potential units, and ultimately overall tax revenue is expected to increase.

List of taxpayers identified under LTU

Annexure I

Sl No	NAME	RRCO	TIN	Turnover
1	Bhutan Power Corporation Limited	THIMPHU	BAC00341	14,851,126,117.00
2	Druk Green Power Corporation Limited	THIMPHU	DAC00267	12,026,289,306.71
3	Druk Holding and Investments Limited	THIMPHU	DAC00258	10,563,016,027.64
4	B O D (TCC)	PHUNTSHOLING	BAB05454	9,257,509,262.00
5	Bhutan Telecom Limited	THIMPHU	BAC00313	5,886,196,976.72
6	Lhaki Steels & Rolling Private Limited	PHUNTSHOLING	LAC00018	4,374,085,155.10
7	Bhutan National Bank Limited	THIMPHU	BAC00298	4,263,386,655.81
8	Royal Insurance Corporation Limited	THIMPHU	RAC00051	3,941,531,259.00
9	Bhutan Ferro Alloys Limited	PHUNTSHOLING	BAC00065	3,922,763,907.97
10	State Trading Corporation of Bhutan Limited	THIMPHU	SAC00022	3,231,263,233.91
11	Tashi Infocomm Limited	THIMPHU	TAC00084	2,914,874,110.00
12	Pelden Enterprise Limited	PHUNTSHOLING	PAC00011	2,793,903,347.00
13	Damchen Petroleum Distributor	PHUNTSHOLING	DAC00631	2,548,630,983.58
14	Food Corporation of Bhutan Limited	PHUNTSHOLING	FAC00021	2,361,297,945.75
15	Bhutan Carbide & Chemicals Limited	PHUNTSHOLING	BAC00047	2,248,881,811.00
16	Druk Wang Alloys Limited	PHUNTSHOLING	DAC00089	2,209,044,496.96
17	Druk Air Corporation Limited	PARO	DAC00249	2,045,485,874.00
18	Druk Petroleum Corporation Limited	PHUNTSHOLING	DAC00061	2,033,172,043.00

19	Bank of Bhutan	THIMPHU	BAC00083	1,876,335,408.68
20	Army Welfare Project Limited	PHUNTSHOLING	AAC00013	1,719,629,636.06
21	Perfect Enterprise	PHUNTSHOLING	PAB27048	1,693,758,541.43
22	G I C Bhutan Re Limited	THIMPHU	GAC00082	1,681,870,274.00
23	Druk Pnb Bank Limited	THIMPHU	DAC00294	1,632,131,255.56
24	Tashi Commercial Corporation (TCC Central Store)	PHUNTSHOLING	TAB16711	1,589,921,983.58
25	Dagachhu Hydro Power Corporation Limited	THIMPHU	DAC00276	1,502,279,021.98
26	Druk Ferro Alloys Limited	PHUNTSHOLING	DAC00071	1,425,958,873.52
27	Ugen Ferro Alloys Private Limited	PHUNTSHOLING	UAC00028	1,393,758,299.63
28	T Bank Limited	THIMPHU	TAC00119	1,349,858,717.00
29	Bhutan Silicon Metal Private Limited	PHUNTSHOLING	BAC00181	1,349,634,213.00
30	Tashi Metals Private.Ltd	PHUNTSHOLING	SAC00068	1,323,191,396.00
31	8 Eleven	THIMPHU	EAB00249	1,270,728,253.00
32	Bhutan Brewery Private Limited	PHUNTSHOLING	BAC00118	1,256,021,119.00
33	Karma Feeds	PHUNTSHOLING	KAB44368	1,222,899,751.50
34	Construction Development Corporation Limited	THIMPHU	CAC00045	1,064,854,918.03
35	Bhutan Lottery Limited	PHUNTSHOLING	RAC00257	954,371,714.73
36	Chimmi R. D Construction Private Limited	PARO	CAC00027	925,654,859.00
37	Shingkar Private Limited	THIMPHU	SAC00148	848,429,885.50
38	Yangphel Private Limited	THIMPHU	YAC00074	759,566,087.00
39	Natural Resources Development Corporation Limited (N R D C L)	THIMPHU	NAC00051	755,200,832.73

40	Bhutan Hyundai Motors	THIMPHU	BAB00486	721,891,966.98
41	Bhutan Insurance Limited	THIMPHU	BAC00439	719,269,258.00
42	GT Trading Unit	PHUNTSHOLING	GAB23149	700,121,679.31
43	Kenpa Private Limited	PHUNTSHOLING	KAC00066	577,736,773.81
44	Tamshing Enterprise (R2002910)	PHUNTSHOLING	TAB41246	567,149,314.50
45	Zimdra Foods Private Limited	PHUNTSHOLING	ZAC00027	559,703,232.16
46	Bhai Bhai Enterprise	PHUNTSHOLING	BAB05891	552,522,534.50
47	Yuendrung Marketing Service	PHUNTSHOLING	YAB06025	523,590,747.00
48	Saint Gobain-Ceramic Materials Bhutan Private Limited	PHUNTSHOLING	SAC00059	509,088,473.00
49	Niyathi Enterprise	PHUNTSHOLING	NAB22761	506,784,662.00
50	Samphel Marketing Agent	PHUNTSHOLING	SAB05992	481,712,221.00
51	Penjor Construction Private Limited	THIMPHU	PAC00056	474,020,168.00
52	Tashi Air Private Limited	THIMPHU	TAC00137	437,736,097.22
53	Sersang Private Limited	PHUNTSHOLING	SAC00469	417,973,389.72
54	T & K Construction Pvt. Ltd.	PHUNTSHOLING	TAC00057	400,170,165.63
55	Bhutan Development Bank Limited	THIMPHU	BAC00322	393,859,390.00
56	Tashi Electronics	THIMPHU	TAB69966	377,017,833.85
57	Palden Exports	PHUNTSHOLING	PAB26031	364,012,903.78
58	Sherzom Beer Agency	PHUNTSHOLING	SAB05901	354,581,835.00
59	Druk Trading Equipment	THIMPHU	DAB00401	350,181,044.41
60	Bhutan Agro Industries	THIMPHU	BAC00271	346,328,559.18

61	Bhutan Isuzu Motors	THIMPHU	BAB23844	346,179,435.18
62	Tashi Corporate Management & Consultancy	PHUNTSHOLING	TAB09087	337,019,291.00
63	Bhutan Engineering Power Company Private Limited	THIMPHU	BAC00411	331,929,185.90
64	8 eleven Express	THIMPHU	EAB00231	331,667,638.00
65	R S A Private Limited	PHUNTSHOLING	RAC00042	330,891,211.92
66	My Mart	THIMPHU	MAB01953	327,248,379.00
67	Karma Pharmaceutical & Medical Supplies	THIMPHU	KAB06454	299,222,095.25
68	Dzambala Pharmaceutical and medical supplies	THIMPHU	DAB52372	219,629,452.67
69	KMT Pharmaceutical & Medical Supplies	THIMPHU	KAB00512	182,287,155.82
70	Ngangpa Pharmaceutical & Medical Supplies	THIMPHU	NAB00043	148,377,756.20
71	Perfect Builders Store Limited	PHUNTSHOLING	BAC00831	326,904,384.81
72	BHUTAN PLASTIC INDUSTRY	PHUNTSHOLING	BAB14579	323,286,754.64
73	TCC Shopping Complex	PHUNTSHOLING	TAB08221	316,844,614.39
74	Bhutan Resort Private Limited	THIMPHU	BAC00359	291,297,000.00
75	Dawa Store	THIMPHU	DAB03997	290,619,299.23