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## Center for Fiscal Systems Tackling the COVID-19 crisis

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# Tackling the COVID-19 crisis

## Three priorities for revenue agencies

As revenue agencies respond to the disruption caused by the COVID-19 pandemic they are guided by three priorities:



This article offers our perspectives on these priorities and a checklist of suggested actions.

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## Maintaining business continuity

The first priority for revenue agencies has been maintaining business continuity and (staff and cyber) security in the face of the disruption caused by the pandemic.

Revenue agencies have responded swiftly by activating business continuity plans and crisis management procedures, including central crisis management teams. Many have instigated 'COVID-19 command centers' which not only coordinate response to the immediate crisis but plan strategically for the future – seeing the opportunity to make rapid progress on transformational challenges that may have otherwise taken much longer.

The health, wellbeing and safety of staff has been and will continue to be a key focus. In many countries revenue agency staff are largely working from home with only the most critical functions being run out of central offices.

While most revenue agencies have implemented technologies to support remote working, the need to adjust to this abrupt change has been challenging to revenue agency staff and management alike. A consistent theme across many agencies has been the challenges in ensuring robust and secure network infrastructure to enable new ways of working. It is reasonable to expect that this may significantly impact on productivity and quality. The impact will likely differ not only across revenue agencies, but also across functional areas. The demands on those functions and the compatibility of enabling technologies are key determinants in the success or otherwise of remote working.

There are encouraging signs from many revenue agencies. The Danish Tax Appeals Agency for instance reported almost normal productivity levels after working remotely for two weeks. The flexibility displayed by staff and management in adjusting to new ways of working was critical to the swift adjustment, as was assistance by the Danish IT and Development Agency, which was able to take advantage of cloud-based infrastructure to set up a stable and secure remote working environment for the 8,000 staff of the Danish Tax & Customs Administration in a matter of days.

Given these circumstances, revenue agencies should closely monitor the performance of core business processes with a view to both managing the immediate situation and mitigating impact on compliance risks and wider institutional risks.

The risk picture itself is also changing as a result of the disruption. It is widely reported by revenue agencies that malicious actors are taking advantage of the situation to increase phishing attacks and explore vulnerabilities. The risk is accentuated by the demands being placed on dispersed IT support and security staff. There are also particular information security risks arising from the sudden shift to remote working arrangements, which may involve reliance on third-party communication platforms and more informal information management practices.

The phishing attempts sometimes involve scams with criminals posing as revenue agencies. For instance, the Italian revenue agency published a press release on 31 March to raise awareness about false e-mails attempting to lure taxpayers with the promise of tax refunds.

It is critical that revenue agencies recognize these increased cyber and information security risks and take steps to mitigate them. An important consideration is whether measures rolled out should be temporary or will be part of standard practices going forward.



## Implementing government policies

A second priority for revenue agencies is implementing government policies to contain the economic damage.

Many countries have enacted or are in the process of enacting legislation to provide relief through the tax system. The onus of the first wave of relief measures is on improving liquidity for businesses, but measures are also being adopted to incentivize the retention of staff and provide relief to individuals and families. Typical measures include deferring filing and/or payment deadlines for VAT/GST and other major taxes, deferring payment of PAYE and social security contributions, expediting refunds, suspending debt collection, and distributing benefits through the tax system.

Deloitte is closely monitoring relief measures implemented in response to the crisis. Our COVID-19 Tax & Fiscal Measures site summarizes announcements across the world, uses map-based visuals and allows country-by-country comparisons. Deloitte has also collaborated with Signal AI to develop a tax intelligent news platform that produces daily alerts on COVID-19 initiatives together with a weekly summary. You can sign up for both [here](#).

Revenue agency staff are working overtime on implementing these measures (which often require immediate and non-trivial adjustments to systems and processes) and providing information and guidance to affected businesses and individuals.

Relief measures are sometimes designed for seamless integration with existing tax processes. Ireland's employment retention scheme was launched on 26 March and is closely integrated with the Pay As Your Earn (PAYE) process, which recently underwent thorough modernization. Access to real-time data from payroll software has enabled expedient processing with low-risk refunds paid out to employers on a next day basis.

The successful implementation at pace of these measures is likely to drive wider benefits to revenue agencies in program implementation and delivery methods. Many revenue agencies have drawn heavily on existing assets and capability in doing this but with a strong focus on harnessing innovation already emerging within the organization, such as new payment technologies, innovative policy implementation methods and use of suppliers under new procurement frameworks.

COVID-19 fiscal measures in the UK have included two significant new policies – the Coronavirus Job Retention Scheme and the Self-Employed Income Support Scheme. These are complex schemes to implement and administer. HM Revenue & Customs has moved at pace to design and deliver them while moving fast through a process of reprioritization, pausing certain existing programs to focus its resources to meet the challenge. The pace has required innovative delivery methods and has led HMRC's Chief Executive to note publicly that changes that would previously have taken months or even years have been turned around in days.

The nature of some of the most widely adopted measures also means, however, that revenue agencies need to respond to significant shifts in the risk picture, which if not properly managed could result in revenue leaks and reputational damage. The deferral of payment obligations for instance will combine with other factors to increase compliance risks and reduce the ability of revenue agencies to get ahead of them. Other measures come with fraud risks that will sometimes need to be managed in the interface between the tax and welfare systems.

Deloitte is assisting revenue agencies with the implementation of relief measures. For instance, we are supporting the Internal Revenue Service in the United States in the analysis and implementation of policy provisions. Our support includes rapidly analyzing the business and technical impacts of legislation, standing up program management and strategic communications functions, and facilitating requirements elicitation through a collaborative, expedited process.

These risks are further accentuated by the need for rapid design and implementation, which may not in all cases have left time for adequate risk management considerations.

In this, revenue agencies need to find the right balance between their role in the implementation of relief measures with their traditional responsibility for protecting the integrity of the tax system. Their actions should be guided by thorough analysis of emerging risks and the way in which they can be managed without compromising the policy intent. In addition, the implementation of deferred tax payment policies naturally leads to an increased risk of non-compliance or default. Revenue agencies therefore need to ensure the right resourcing and focus on compliance activities, particularly before the relief measures expire and then in tracing and tracking payment once the measures expire.



## Managing service demand and compliance risks

A third priority for revenue agencies is managing service demand and compliance risks, as the pandemic is impacting both on volumes and risk patterns and the ability to adjust.

The uncertainty caused by the pandemic has caused a peak in **service demand** that many revenue agencies need to manage with client-facing staff dispersed, face-to-face contact largely out of the question, and contact centers only partially operational.

Those revenue agencies that have come furthest on their digital transformation journeys are clearly at an advantage. Not only are they best positioned to quickly set up secure and stable working environments (including virtual contact centers) for their staff. They also tend to have different service demand profiles (with less demand for face-to-face contact and customers more used to self-serving) and be better positioned to leverage the strengths of digital channels.

The COVID-19 crisis is accelerating the shift from paper to digital in some countries. For instance, the Tax Authority of the Sultanate of Oman published an official notice on 10 March informing taxpayers that all tax returns need to be submitted electronically in line with requirements in effect (but not strictly enforced) since 2017. Similarly, several functional areas within the Italian Revenue agency are replacing the ordinary material submission of documentation pertinent to case management (for instance relating to tax rulings or VAT refund procedures) with e-submissions via certified e-mail.

Digital capability is proving decisive in managing the unexpected peak in service demand. Many revenue agencies have set up COVID-19 related landing pages, which serve to absorb some of the demand that would otherwise manifest itself on other channels. Some revenue agencies have also prepared FAQs, retrained virtual assistants to answer simple COVID-19 related questions and set up services allowing taxpayers to register for updates.

Most revenue agencies have a presence on social media, which is often managed as another channel supported by content management systems and sentiment analysis. This has allowed some revenue agencies to conduct carefully orchestrated social media campaigns to distribute information and redirect demand to COVID-19 related landing pages.

Well-established working relationships with other public agencies and third parties (e.g. the tax and accounting professions and industry associations) are also allowing some revenue agencies to coordinate efforts with other stakeholders in the business ecosystem.

The ability to communicate with individuals and businesses through a whole-of-government mailbox has allowed some revenue agencies to get ahead of demand. The Danish Tax Agency for instance used the secure public digital mailbox to reach out to 140,000 personally owned businesses days ahead of the 20 March deadline for PIT installments with information on how relief measures affected them.

Some revenue agencies have been able to respond quickly to the unprecedented situation through the skillful combination of these levers, which will serve to enhance relationships with taxpayers and stakeholders going forward.

The pandemic and the relief measures are also impacting on **compliance risks** and the ability of revenue agencies to effectively manage them.

The unexpected and dramatic reduction of economic activity puts many otherwise viable businesses under pressure or even at risk of bankruptcy. This is bound to have an impact on compliance behavior particularly in the hardest hit industries, which have significant overlap with industries identified in OECD work on underground economy as 'difficult to administer' segments characterized by a high incidence of informality.

The disruption is also likely to be viewed by some segments as an invitation to defraud the tax system. For instance, VAT/GST fraud and 'phoenix schemes' with deliberate accumulation of tax debt (including deferred SSC and PAYE installments) are significant risks that are both accentuated by the deferral of filing and payment obligations.

The processing of VAT repayment claims is one of the areas that call for special attention in the light of changes in the risk picture caused by COVID-19. There is an inherent tension between the need to expedite refunds to businesses that may badly need the liquidity on one hand and the need to protect the integrity of the tax system on the other. To manage this tension, the Australian Taxation Office reports having allocated additional staff to checking high-risk claims as part of its COVID-19 response.

In managing these risks, revenue agencies will need to meet the challenge caused by the impact of the pandemic on data and steering information. Existing dashboards and risk assessment models relying on historical performance may require significant adjustments to account for the conjuncture and the data discontinuity that come with the deferral of obligations and the merger or movement of multiple deadlines.




Revenue agencies need to urgently adjust their compliance risk management activities to manage these risks without compromising the policy intent of the relief measures. Prudent first steps include analyzing how the pandemic affect the risk picture; determining what adjustments to processes, compliance strategies and risk assessment tools are appropriate; and shifting priorities and resources accordingly.



## Final considerations

It is clear that the COVID-19 crisis will continue to test the resilience and leadership of revenue agencies for the foreseeable future. There are no tried-out recipes and what is needed will depend on the circumstances of individual countries. The checklist below nevertheless suggests a series of actions that revenue agencies might find helpful in managing urgent priorities.

### Checklist for tackling the COVID-19 crisis

 <b>Maintaining business continuity</b>	 <b>Implementing government policies</b>	 <b>Managing service demand and compliance risks</b>
<ul style="list-style-type: none"> <li><input type="checkbox"/> Closely monitor performance of core business processes</li> <li><input type="checkbox"/> Consider implications for compliance and institutional risks</li> <li><input type="checkbox"/> Review cyber and information security implications of remote working</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Consider how relief measures can best be implemented and administered</li> <li><input type="checkbox"/> Review how measures affect workloads and compliance risks</li> <li><input type="checkbox"/> Plan for situation after expiration of relief measures</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Leverage digital channels and ecosystem partners to get ahead of service demand</li> <li><input type="checkbox"/> Analyze how the pandemic affects risk picture and what options are available</li> <li><input type="checkbox"/> Adjust processes, compliance strategies and risk assessment tools</li> </ul>

## Get in touch

Deloitte stand ready to help revenue agencies manage these priorities and emerge strengthened from the COVID-19 crisis. Please do not hesitate to reach out.

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