

Closing the tax revenue gap with IBM Tax Compliance Intelligence

Highlights

- Employ relationship resolution across registration, payments and audit
 - Quantify revenue compliance analysis and enable tax revenue improvements
 - Improve existing investments to optimize skills and infrastructure
 - Detect noncompliance, revenue losses and help ensure tax compliance
 - Implement with established IBM technologies and techniques
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More effective taxpayer registration, reporting and compliance

Today's tax agencies typically lose 15 percent or more of total revenues to tax evasion and other types of noncompliance, often known as the 'tax gap.' At a time when tax evasion techniques have grown more sophisticated, agencies have been hit with budgetary and staffing restrictions and continually changing tax statutes. As a result of these pressures, many agencies continue to rely on audit selection, tax collection and enforcement methods they know to be outdated. These methods are reinforced by reliance on old data and data relationships that are insufficient to promote maximum compliance. That is, they lack innovative data matching or comparison capabilities.

Tax agencies are facing strategic issues that require major changes in the way they do business to be successful. They need to:

- Address growing public pressure to deliver more tax revenue
- Provide tax compliance collectors with a solution that supports and empowers them to make better, real-time decisions
- Educate the public that efforts to aggressively identify and pursue evaders, while protecting honest taxpayers from onerous examinations, are in place
- Detect and mitigate fraud to manage risk and follow up on tax evaders and underground economies

Tax gap scenarios

Many tax agencies finding it extremely challenging to detect tax evasion and compliance, as described in the following scenarios.

Serial debtors and collection

- ABC Company accrues a large delinquent income tax withholding debt
- John Doe, sole owner, closes ABC Company
- Two months later, XYZ Company opens in same location and registers with Tax Agency, with Jane Doe listed as owner
- This same pattern may occur multiple times, with names of different family members
- The result: Taxpayer avoids payment of delinquent tax debt(s)

Compliance web or taxpayer registration

- ABC Company registers with Tax Agency
- ABC Company is owned by Mega Corporation and ABC Partners, a partnership
- Mega Corporation wholly owns two other entities and partially owns four other entities. Of these six, five have delinquent tax debts
- ABC Partners partially owns eight other entities, two of which have delinquent tax debt
- The result: ABC Company accrues a delinquent tax debt

Non-filer

- John Doe lives and works at a full- time job in New York
- He purchases a vacation home in Florida where there isn't state income tax
- He declares the Florida home his primary residence and stops filing in New York state
- From May to September Mr. Doe lives in New York and from October to April he lives in Florida—he commutes to New York monthly and works from his vacation home otherwise
- The result: Mr. Doe avoids paying state income tax in New York

Additional tax scenarios

Identify multiple back taxes owed to one merged entity, making collection more productive and efficient. For example Tax person A owes \$5,000 in back taxes and tax person B owes \$7,000 in back taxes. IBM InfoSphere Identity Insight merged person A and B to one entity that owes \$12,000.

- Identify all real property purchases and ownership to obtain liens on all property owned for collection of owned taxes
- Businesses and multiple tax types report on entities that don't pay all required taxes, including the following scenarios:
 - Entity pays liquor tax but not sales tax
 - Entity pays income tax but not sales tax
 - Entity pays liquor tax but not cigarette tax

Business franchisees

- Sales tax is inconsistent with franchise reported revenue
- Income tax is inconsistent with franchise reported revenue
- Link franchisees to individual tax payer

Federal tax data

- If applicable, load federal taxpayer information for jurisdiction
- Validate local taxes records exist for federal tax payers

VAT tax or transfer pricing schemes

- XYZ Phones, N.A., manufactures mobile telephones in the Netherlands
- XYZ Phones has a facility in South Africa operated by a wholly owned subsidiary, UVX Phones
- XYZ Phones manufactures all components except the plastic casing at €25 each
- XYZ Phones sells mobile phones to UVX Phones for €20 each. UVX Phones adds plastic casing to the mobile phones and sells the fully manufactured phones back to XYZ Phones for €50 each
- The result: XYZ Phones moves profit to a lower tax jurisdiction and lowers the Value Added Tax payable

Intensifying challenges

Today's intensifying tax agency challenges mandate a fresh approach to managing tax compliance and fraud information. A number of reasons are impacting this increase, including the following:

- Multiplication of fraud types, frequency, complexity and interconnectedness of people and organizations
- Fraud is increasingly asymmetrical
- Explosion in complexity of fraud identification
- Frequency of transactions and interactions
- Regulatory pressures are increasing
- Intensifying budget and tax revenue pressures
- Customer-centric approach

Many current approaches to address tax noncompliance have become obsolete, including the following:

- User SSN and EIN are no longer reliable as the sole means of identification and linkage to other taxpayers
- Information is compartmentalized—lack of full integration obscures visibility
- Query restrictions limit ability to address complexity of fraud—investigators must know the right question to ask
- Untimely awareness—when fraud is identified retroactively
- Inaccurate information as a result of broadscale false positives and false negatives
- Acquired information is out of context—a lack of decision support or guidance may be an issue after fraud is identified

More effective taxpayer registration compliance

IBM Tax Compliance Intelligence is a powerful, sophisticated solution that can be configured to meet a given agency's compliance needs. It helps improve the compliance process in the following ways:

- Detect and determine if taxpayers are properly registered—eliminate duplicate registrations by up to 50 percent
- When applied at the time a tax return is filed, the system can promptly identify compliance problems, helping save years of tracking, investigation and collection costs
- Auditors require tools to know how noncompliance occurs and at the same time protect taxpayer privacy

IBM Tax Compliance Intelligence provides the following capabilities:

- Using name recognition, identity and relationship resolution techniques, it detects attempts to defraud or misrepresent oneself and escape paying taxes due

Recognizes multicultural name variations

- The solution can detect multiple name variations including name order, multiple titles, name variants, multiple prefixes, phonetic transpositions of nicknames
- For example, Kate, Cait, Catherine, Katherine, Kat would be designated as name variants

Recognizes identities

- Provides the ability to identify people versus organizations

Recognizes relationships

- Identifies what relationships exist between a taxpayer and people and organizations

More effective taxpayer under-reporting compliance

Ideally, tax agencies need to determine if a taxpayer is of interest prior to any revenue loss. If the taxpayer is deemed out of compliance, the agency must then determine if they should be pursued. A typical method is to establish the degree of risk associated with noncompliance, then decide what to do and what resources should be applied to the case while ensuring information security and integrity. With IBM Tax Compliance Intelligence you can experience the following benefits and features:

- Full attribution with a complete history of a taxpayer and never throw away data about them

- Real-time updates that provide an accurate view
- Multiple degrees of separation relationship insight, for example, person A knows person B, and person B knows person C—the three are related by two degrees of separation
- Segment taxpayers to detect who may be a higher risk to focus appropriate attention and resources where the suspect taxpayer profile suggests such attention

Why IBM?

IBM has invested significant resources in Tax Compliance Intelligence to bring together a range of tools and techniques specifically designed to enhance the implementation of integrated tax case and risk management solutions for tax agencies.

IBM is one of the largest providers of solutions to government agencies around the world. The IBM Tax Compliance Intelligence is built upon:

- IBM Global Name Recognition, which recognizes names across multiple cultural variations
- IBM Identity Resolution identifies who is who
- IBM Relationship Resolution: identifies who knows who by detecting relationships across multiple degrees of separation

For more information

To learn more about these solutions, and try a demo, visit ibm.com/demos/.

For more information on IBM InfoSphere Identity Insight, visit: ibm.com/demos/collection/IBM-InfoSphere-Identity-Insight/.

For more information on Global Name Management, visit: ibm.com/demos/collection/IBM-InfoSphere-Global-Name-Management/ or contact your IBM sales representative.

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