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# TAX DEBT MANAGEMENT

## Summary

The FTS of Russia has introduced New Tax Debt Management Strategy that is aimed at encouraging voluntary compliance by simplification of tax procedures for taxpayers and use of big data to ensure that tax collection is effective.

In particular, the FTS of Russia has launched the Single Tax Account mechanism enabling to make a single payment to be automatically offset among taxes due to prevent tax underpayments.

Moreover, the FTS of Russia has developed risk-profiling system (IDMAS) to recover debts on targeted basis by complex analysis of legal, financial and tax debtor's data.

The system highlights risky operations of a debtor that need a personal interference of a tax officer and informs the debtor (or its related party) on potential risk of tax avoidance schemes and insolvency.

When several risk indicators trigger, a recovery action is being formed (e.g. filing debt claim in the court with pre-filled template). Then the recovery action is transmitted to the tax officer's dashboard. The results of recovery action execution are monitored in a distant mode.

IDMAS allows the FTS of Russia to classify all debtors into categories and use more tailored approaches as well as accelerate tax collection in high-risk cases to avoid larger number of written offs.

New Tax Debt Management strategy led to additional recoveries of around 1.46 bln US dollars (with increase by 5.9 times compared to 2015) and reduced the number insolvency write-offs.

Moreover, by introducing the New Tax Debt Management the FTS of Russia has improved conciliation mechanism that allows to recover 567 mln US dollars of tax debt that is in 8.4 times more than in 2015.

## **i. Setting the Strategy**

The FTS of Russia has adopted the vision of customer-centric approach based on the following principles: (i) ensuring that treatment of a taxpayer is fair and equal, (ii) establishing mutual trust between tax officers and taxpayers (iii) protecting businesses against unfair competition created by tax evasion.

These principles define New Tax Debt Management Strategy. It is aimed at encouraging voluntary compliance, while proactively tackling fraud schemes, e.g. asset stripping.

New Tax Debt Management strategy was implemented through organizational, legal and technological changes that pursue the following objectives:

- Supporting taxpayers with services preventing debt and insolvency
- Optimize tax collections by using analytical tools to ensure that tax collection authorities are effective.

These changes include the following:

- Organizational – routine technological processes related to debt collection were simplified and switched from manual to automatic mode in order to proactively react on the earlier stage of the debt cycle
- Legal – legal environment that would provide simple and convenient rules for paying taxes and filing tax returns was established to reduce unintentional mistakes in tax compliance
- Technological – the FTS of Russia started to apply IT tools and use big data for debt management including detection of hidden assets.

Below we explain several practical solutions that were developed or improved under the New Tax Debt Management strategy.

## **ii. Services to Taxpayers**

### **Convenient Ways of Paying Taxes**

Convenient and cost-effective ways of paying taxes may increase voluntary compliance.

One of the major approaches to debt management, developed by the FTS of Russia, is a user-friendly set of services for tax payments.

Taxes can be paid online on the official FTS website with debit/credit card without actual visit to a bank or postal office. This option is applied both to individuals and corporate taxpayers.

Moreover, individual taxpayer could check his or her balance online by signing in personal account on Public Services Portal or Taxpayers online application and easily repay outstanding debts.

Nevertheless, traditional options of paying taxes are still in place for those who prefer to pay taxes through the “Client - Bank” or postal systems.

## Single Tax Account

Single Tax Account (STA) provides for automatic offsetting of tax payments. The tool prevents situation when a taxpayer has both tax overpayments and underpayments and thus gives away unnecessary penalties.

STA allows taxpayers to deposit funds to a single tax account, specifying only two details: the amount of payment and Taxpayer Individual Number. Further STA will automatically offset received funds against tax balances due.

The tool has been piloted with individual taxpayers and give them an opportunity to pay personal income tax (reported in tax return), transport tax, land tax, property tax simultaneously with one click only.

Since July 1, 2022, STA is available for legal entities and individual entrepreneurs. Currently, 762 taxpayers, including 11 Russian largest taxpayers, are piloting this tool.

Starting from 2023 STA tool will be fully launched in Russia. Legal amendments setting single dates for tax reporting and payments for all types of taxes accompany this measure.

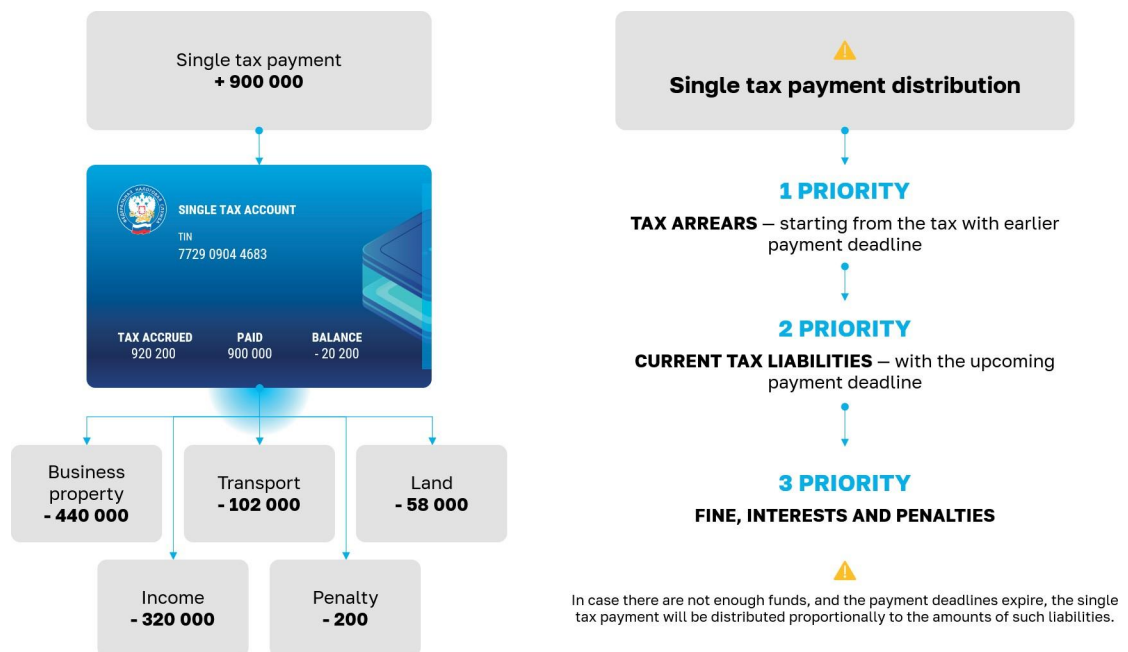


Figure 1. Single tax payment distribution

As a result, tax compliance will become less burdensome for tax authorities as well as taxpayers will make less unintentional mistakes in tax payments.

## Debt Restructuring Unit

Debt Restructuring Unit (DRU) is the specific organizational unit aimed at helping taxpayers to ensure business continuity and avoid bankruptcy.

The creditors without having reliable information on the debtor's financial position escalate bankruptcy procedures. Financial modelling made by the FTS of Russia with

available financial and tax data allows creditors to make informed decision on debt recovery option: additional financing, payment plan etc., considering bankruptcy as last resort scenario.

Due to digital analytical capabilities of the FTS of Russia, the debtor's activities become transparent to any creditor with debtor's personal approval only. In other words, the FTS of Russia acts as a trusted insolvency officer behind the creditors facilitating debt repayments.

For five months period, DRU has processed 699 debt cases amounting to 2,2 billion US dollars, where 324 debt cases amounting to 678 million US dollars were successfully restructured.

### **iii. Integrated debt management and administration system (IDMAS)**

IDMAS is a dedicated IT system supporting debt management that gives tax officers quicker and easier access to debtor's information and enhances their ability to take timely and effective collection actions.

IDMAS provides more comprehensive support for risk-analysis and decision-making capabilities for the tax debt management and enforcement processes.

It introduces tailored techniques to set-up collection strategies and select debt cases based on risk profiles. Data analytics is used to identify risk markers (triggers) and facilitate decision-making process on recovery actions.

Prior to IDMAS all recovery actions required documentary confirmation of the officer. Now recovery actions are targeted automatically. Confirmation from the tax officer is required only in 3% of cases, where complex factors should be considered subject to informing senior management.

Functionality of IDMAS includes 8 recovery actions, which are activated by one or more of 31 triggers. The debtor's controlling persons section contains data on 37 affiliation types by 9 general criteria: corporate, contractual, etc. Action plan in respect of specific debt case is produced with data analytics.

The use of risk-analysis enables FTS of Russia to recover debts on more targeted basis. The collector will be advised on the most efficient and effective collection and recovery measure.

#### **Recovery Action Mechanism**

When several risk indicators trigger, a recovery action is being formed (e.g. filing debt claim in the court with pre-filled template). Then the recovery action is transmitted to the tax officer's dashboard. The results of recovery action execution are monitored in a distant mode.

The feedback loop is integrated into the system providing assessment of the completed case to make dynamic improvements to the risk management process.

For example, in the course of bankruptcy the debtor tries to avoid debt payment by assets selling at an undervalue to a related party.

In this case while initiating the Recovery Action Mechanism, the following markers will be enabled simultaneously: (i) transaction at an undervalue (ii) related-party transaction (iii) the debtor's bankruptcy initiated.

These four markers will make up a trigger that will launch a recovery action to contest the transaction in the court.

## **Digital Profile of the Debtor**

Digital profile of a debtor contains legal and economic information to automate Recovery Action Mechanism. A wide range of data sources (including non-public governmental data) are built up a picture of the debtor, its assets and controlling persons.

The following factors are considered while determining a recovery action:

- Registration data (legal address, executives)
- Tax balances, payment discipline
- and registered property (real estate, land, vehicles)
- Shareholders and individuals operating on behalf of the debtor
- Controlling persons
- Asset's structure, including liquid and pledged assets
- Accounts receivable/ payable
- Litigation tracker
- Enforcement proceedings
- Media publications.

The Debtor's Digital Profile includes:

- Recovery actions applied to the debtor
- Assessment of the debtor's financial position matching assets and liabilities. The section covers hidden assets and liabilities, including estimated amount that could be recovered under litigation related to subsidiary liability and contentious transactions
- Graph of relationships verifying the accuracy of the recovery action. If the recovery action and Graph of relationships outlining the similar enforcement measures' steps in relation to specific debt case, it is most likely to be processed properly. The availability of assets to recover is also double checked with the Graph of relationships.

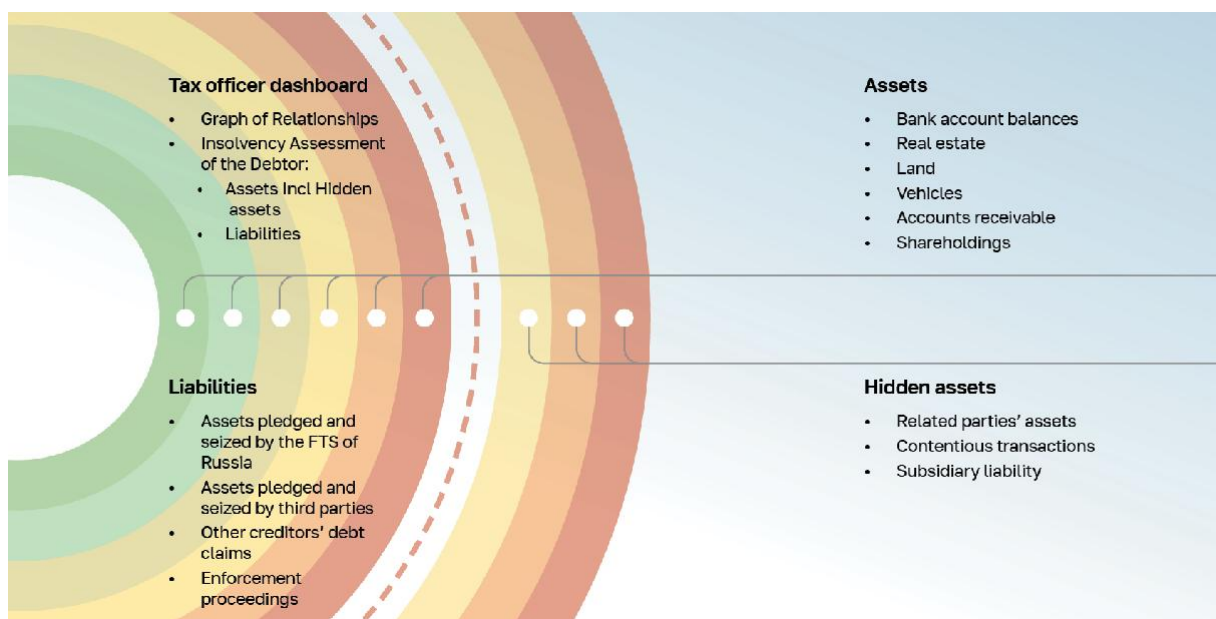


Figure 2. Tax officer dashboard

With the Tax Officer dashboard an inspector could visually assess debtors' financial position by seeing detailed information on all kind of assets and liabilities at one glance as well as its estimated value.

## Graph of Relationships

The Graph of relationships supports analysis on the detailed level of taxpayer and its controlling persons' transactions, red flagging fraudulent activities.

For example, the debtor shipped the goods to the customer, but did not receive compensation for it. However, the payments for the sold goods were received by the debtor's related party. It evidences that the debtor evades paying off tax debt to the budget.

In this case, the debtor, its customer, and related party are to be informed on the risky behavior that could be challenged by the tax authorities. Early intervention prevents increase of tax liability and reduces the tax gap between tax evasion and its detection to make tax collection successful.

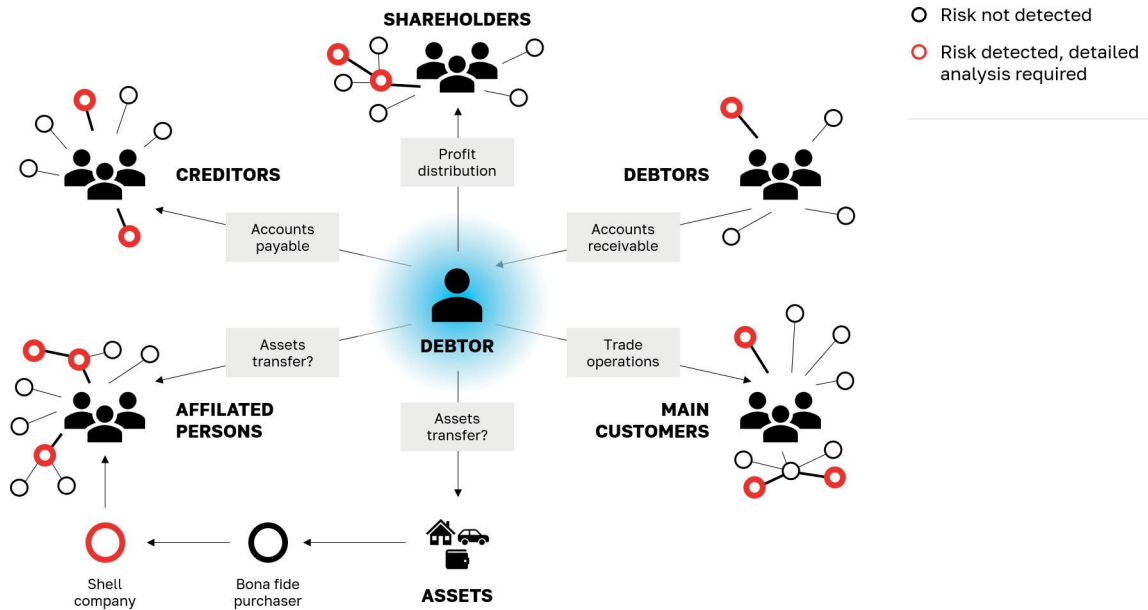


Figure 3. Risk-profile of a debtor

## Debt scoring

Scoring models can help making decisions on relevant action to be taken.

There is a continuous monitoring of outstanding debt against a wide range of internal and external data sources with automatic updating of the status of the debt and possible recovery actions.

IDMAS classifies debtors into three categories an Operating debtor, a Debtor having insufficient assets and a Debtor having no assets.

The segmentation determines the collection approach to debt cases. It has improved resource efficiency and helps in dealing with high complexity cases.

The scoring profile is based on the data collected for the debtor's profile mentioned above and predicts debtors who are the most and least likely to deteriorate into insolvency. Those debtors who cannot pay are assessed earlier before racking up significant amounts of debts which may become a written off.



**OPERATING DEBTOR**

- Initiating bankruptcy
- Restoring payment discipline



**DEBTOR HAVING INSUFFICIENT ASSETS**

- Sale of the bankruptcy estate
- Asset recovery, discovering hidden assets



**DEBTOR HAVING NO ASSETS**

- Secondary liability
- Recovery of damages
- Civil claim

Figure 4. Debt recovery options

The use of analytics enabled FTS of Russia to better understand details of debt cases. This resulted in tailored approaches and accelerated tax collection in high- risk cases.



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# Effective use of AEOI data—CRS Tool

## Summary

The Common Reporting Standard (CRS), developed in response to the G20 request and approved by the OECD Council on 15 July 2014, calls on jurisdictions to obtain information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis.

The completeness and correctness of data relies on financial institutions. While financial institutions need to be compliant with CRS requirements and due diligence procedures, but the quality and truthfulness of information heavily relies on the account holders' self-certifications. Since the CRS was a rather new standard, financial institutions often did not have the opportunity to access all the information related to the client to be reported or to prove its accuracy. Those factors result in practical problems associated with automatic matching of data received with the available taxpayer data in internal databases. For example, issues arise when tax identification numbers (TINs) are unavailable, names and addresses cannot be matched, or jurisdiction uses numbers other than TINs.

The FTS of Russia has developed a special software (CRS Tool) that ease the resource burden and facilitating review the CRS information provided by foreign counterparts and match it with the taxpayer's data in our internal databases.

The CRS Tools provides:

1. Automatic identification by means of verification, normalization, and saturation techniques
2. Risk-Profiling of identified CRS records by matching CRS data with Personal Income Tax Returns and CFC databases
3. Risk processing to local tax authorities to conduct tax audits.

## A. Background

Since 2018 the FTS of Russia has been participating in the Common Reporting Standard (hereinafter – CRS). On an annual basis, the FTS of Russia receives financial data on the foreign financial institutions’ accounts of Russian tax residents.

	2017	2018	2019	2020
Number of exchange partners from which information was received	59	76	79	73
Number of Financial Accounts reported	556 266	836 557	950 052	1 239 699
Identification rate	84.9%	81.2%	78.5%	83.6%

Table 1. The FTS of Russia CRS background

The FTS of Russia has faced several issues considering identification of raw data received from other jurisdictions:

- low percentage of Tax Identification Numbers (TIN) regarding accounts of individuals (only 50% of accounts are reported with TIN);
- fake TIN data (around 28% of TIN are not valid);
- some reported accounts do not contain dates of birth;
- CRS data is received in the Latin alphabet while all internal databases in Russia are in the Cyrillic alphabet;
- first/last/middle name mixed up;
- wrong dates of birth or date/month mixed up in the reported dates of birth;
- middle names are not reported in CRS while it is an important part of the name in Russia;
- data technical errors (multiplication of accounts or overestimation of generated income amounts).

Dedicated software has been designed to address data quality issues and automate risk assessment. The FTS of Russia has developed a digital solution (CRS Tool) aimed at the automatic identification of CRS data and its risk profiling in 2019.

According to Russian law, all Russian tax residents are subject to income tax on their worldwide income. Generally, personal income is taxed at 13% tax rate that could be adjusted based on the relevant Double Tax Treaty. Besides, Russian tax residents must report controlled foreign companies (CFCs) and pay taxes on the undistributed income of CFCs.

The CRS Tool was meant to identify taxpayers avoiding paying taxes on foreign-sourced and CFC income.

## B. Solution

The process of CRS data analysis consists of the following stages:

1. Identification of CRS Records
2. Risk-Profiling
3. Risk-processing to local tax offices

Stages of the business process:

### 1. Identification Process

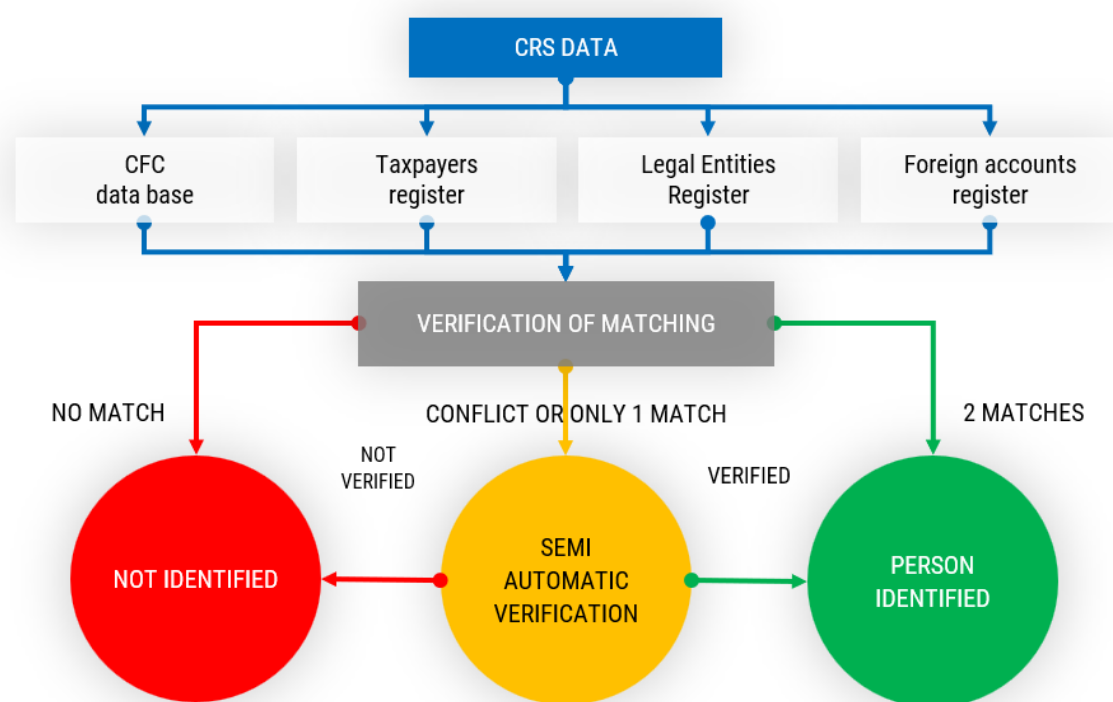


Figure 1. Identification stage

We use the following datasets for identification purposes:

- CFC database
- Individual Taxpayers Register
- Legal Entities Register
- Foreign Account Register

**Automatic Matching Facility** is the application of the CRS Tool which is operating the following sub-stages:

- (i) transmitting the CRS data and internal dataset to the Data Lake;
- (ii) applying normalization (cleansing) techniques to prepare CRS data for

subsequent matching for identification purposes;

(iii) launching of 16 matching ID algorithms in hard tune (at least two ID elements of the CRS record and dataset record have to be fully matched).

The detailed comments on these stages are provided below.

The CRS Tool assumes that the Account Holder has been identified in case at least two of Account Holder’s ID elements are fully matched. Based on our experience, “Name + BirthDate” combination appears to be the most effective one.

However, if initial CRS data contains valid TIN, the CRS Tool captures it to identify the CRS record.

TIN identification is to be achieved with the following techniques:

- First, we use standard basic normalization techniques which represents simple deletion of letters and symbols in TIN records.




Received TIN	Normalized TIN	
<b>INN 665 901 499 163</b>	<b>665901499163</b>	 Valid TIN after normalization
<b>04 21 456 563 115 C</b>	<b>0421456563115</b>	 Unknown numbers
<b>Passport No: 71 6289698</b>	<b>716289698</b>	 Not a TIN, it’s number of foreign passport

Table 2. Basic normalization

- Secondly, Intelligent normalization techniques are devoted to data mining analysis of non-identified CRS records with TIN element filled in.

Intelligent normalization deals with patterns like replacing letters with a zero if such letters are located between digits or adding a zero to the beginning / end of TIN received.

Received TIN	Basic normalization		Intelligent normalization		
3608136691RU13 08193601	360813669113 08193601		3608136691 1308193601		Not a TIN, it's number of internal passport
51 3346352 21/03/1957	513346352 21031957		513346352		
7727DD748430	7727748430		772700748430		Valid
99C9189335	9999189335		9909189335		Valid IN
24504945308	24504945308		024504945308		Valid

Table 3. Intelligent normalization

- Thirdly, algorithm saturates ID elements of the CRS record for the previous period with subsequent period data, in case other elements (e.g., AcctNumber, FI's name, and IN, Account Holder name) are fully matched.

Reporting Period	Transmitting Country	Account Number	Reporting FI Name	Reporting FI IN	Account Holder Name	TIN/IN	BirthDate
31.12.2018	AB	AB987654321	ABCBank	340.201	Ivanova Tatjana	Copied	
	=	=	=	=	=		
31.12.2019	AB	AB987654321	ABCBank	340.201	Ivanova Tatjana	770871060520	

Table 4. Saturation algorithm

The technique was developed while analyzing the tax risks of a particular taxpayer. There were risks identified for the 2019 year in the CRS Tool but not detected in the 2018 year.

So, the initial CRS data was re-checked and it turned out that unlike 2019, the 2018 CRS record did not contain both TIN and Birth Date.

Identification of Individuals and passive non-financial entities' (NFE) names is to be achieved with the following techniques:

As CRS data is presented in the Latin alphabet, we use a complex combination of transliteration methods (three Russian official standards and one customized) and

matching techniques:

- data normalisation rules

Deletion of default words

“NFN”, “NONE”, “Middle Name”, “Mr”, “Mrs” etc

- first/last/middle name recombinations

Name data received	Last name after separation	First name after separation
IVANOVSTEPAN NFN	IVANOV	STEPAN

- transliteration

Three basic Russian standards	One customized standard by the FTS
ГОСТ 7.79-2000 (ISO 9-95)	<pre> normal: nikolay variants: - nikolai - nikolaj - nicolai - nicolay - nicolaj - nicola - nicolas           </pre>
Transliteration standard by the Russian Ministry of Internal Affairs	
Transliteration standard by the Russian Ministry of Internal Affairs	

- typo exclusion rules
- separation rule

Last Name + First Name ± Middle Name	First Name + Last Name ± Middle Name
Last Name + Middle Name + First Name	First Name + Middle Name + Last Name etc

Once all the automatic stages of identification process are accomplished, each CRS record is marked with one of the following statuses:

- Identified
- Non-identified (If there is no match at all, then CRS record is recognized as non-identified)
- To be verified

In case of (i) a conflict between IDs or (ii) only one ID element match, the Account Holder data is taken for semi-automatic verification to **Master of verification mode**.

The Master of verification is the application of the CRS Tool that displays potentially identified taxpayers from our internal dataset that have to be manually verified by the tax inspector.

For example, the Individuals Taxpayer Register contains two taxpayers with same BirthDate, Surname, and First Name, while TIN was not reported in CRS.

This is quite a typical case for widespread Russian Surnames.

The algorithm cannot identify the correct taxpayer in a fully automatic way and thus sends this record to the Master of verification where tax inspector identifies the

correct taxpayer based on the address reported in the CRS record.

**Automatic Matching Facility** allows us to achieve an average matching rate of **82%** for CRS records received.

## 2. Risk-Profiling

At this stage, basically the similar technology as at the Identification stage is applied.

Identified CRS records are transmitted to the Data Lake and matched with Personal Income Tax Return data and CFC databases.

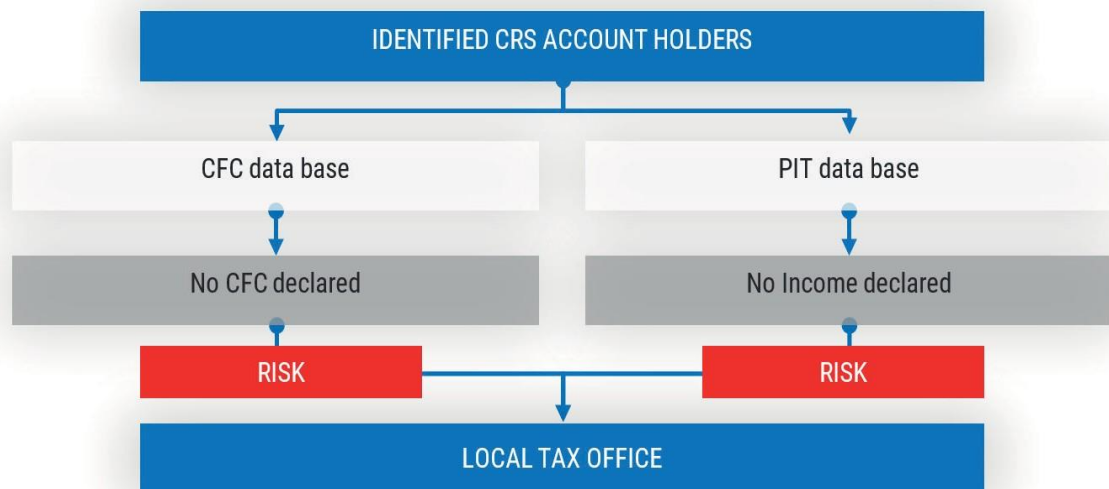


Figure 2. Risk-profiling stage

When the risk is identified, it is delivered to responsible local tax offices for double verification and tax audit measures.

For data protection purposes, local tax officer is granted access to CRS data limited to high risk taxpayers that are registered in the relevant local tax office.

## 3. Risk-processing

Risk processing is the last stage of the CRS Tool process, where calculated tax risks are being delivered as user tasks to particular local tax offices and monitored by upper-level tax authorities (see Figure 3).

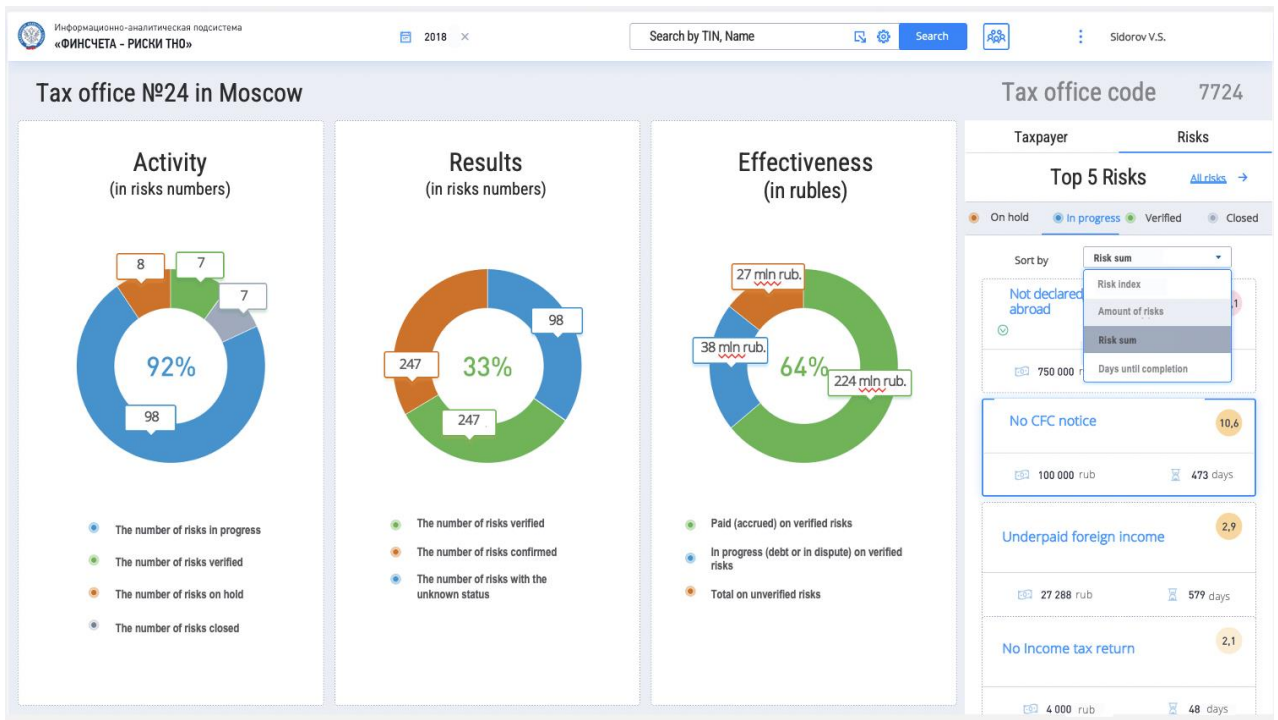


Figure 3. Dashboard of risks life cycle in the tax office

The left block presents the widgets containing information on the activity performed by local office staff, results of automated risk profiling, and effectiveness which is calculated as amounts of taxes recovered (incl. penalties).

The right block presents a chart of TOP-5 taxpayers or TOP-5 risks identified.

The same visualization is used for upper-level officials' dashboards allowing them to monitor the local tax offices' performance.



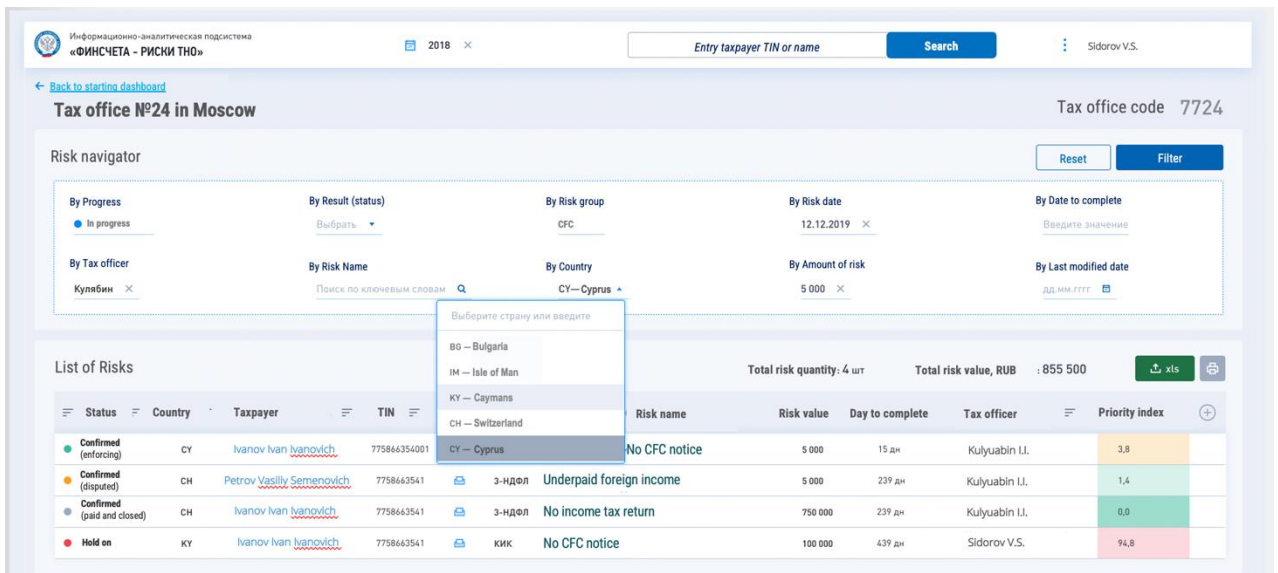


Figure 4. The interface of the Tax Official CRS Tool

The CRS Tool dashboards allows to navigate through identified risks using various filters: by work progress, risk type, risk value, or tax officer who is in charge of the risk, etc.

Risks can also be ranked by the above-mentioned filters and extracted to Microsoft Office Excel.

The risk profile is an analysis of all information on a risky taxpayer that contains in the CRS Tool and internal databases.

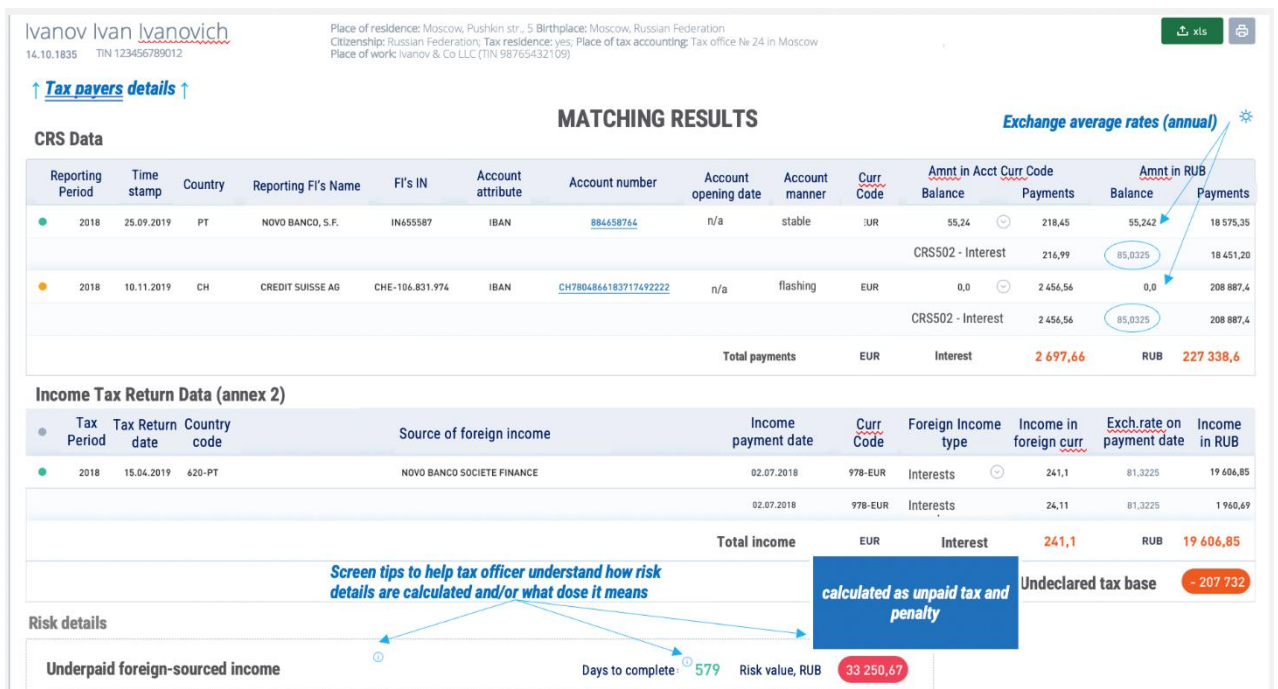


Figure 5. Taxpayer's risk profile

The CRS Tool has a special dashboard interface that presents CRS data and data from the Income Tax Return and allows the tax officer to visually compare data and extract it to Microsoft Office Excel.

The dashboard is divided into three main sections:

- Left Panel (Taxpayer Details):**
  - Back to risk list** (link)
  - Ivanov Ivan Ivanovich** (Name)
  - TIN 123456789012
  - Controlling person** (toggle)
  - CC type:** CRS809-account holder
  - Account holder:** CASPER GHOST & PARTNERS BVI
  - TIN:** 1238K
  - Address:** ..., VG, ..., Tortolla, Main Street, 12
  - Account details:**
    - Reporting period:** 31.12.2018
    - Number:** ICFEL-12
    - Acct manner:** stable
    - FI's name:** SNS (Cyprus) limited Кипр
    - FI's IN:** 1238569Q
    - FI's address:** Trust, ..., VG, ..., Tortolla, Main Street, 12
- Central Panel (Risk Details):**
  - Risk details:**
    - No CRC notice:** Code 123
    - Day to complete:** 65
    - Risk value:** 50 000
    - Progress:** Closed (dropdown)
    - Result:** Not verified
    - Risk accuracy:** Low
    - Risk Group:** CRC
    - Risk date:** 12.12.2019
    - Last comment:** Risk is confirmed
    - Last modified date:** 01.02.2020
    - Tax officer:** Kulyuabin I.I.
  - Risk grounds (matching results)** (button)
  - Change progress** (button)
- Bottom Panel (Risk progress chronology):**

Date	Tax officer	Action or updates	Comments
12.02.2019	Sidorov V.S.	Responsible tax officer is Kulyuabin I.I.	
12.02.2019	Kulyuabin I.I.	Document is uploaded	
12.02.2019	Kulyuabin I.I.	Risk value is 50 000	
23.02.2019	Kulyuabin I.I.	Risk is confirmed	Documents are uploaded
- Uploaded documents:**
  - Объяснительная записка.pdf
  - Объяснительная записка.pdf
  - Объяснительная записка.pdf
  - Объяснительная записка.pdf

Figure 6. Taxpayer's dashboard

On the left side, the ID data on taxpayers and details on his foreign account are presented.

The central part of the Interface contains risk details. The tax officer must fill in all follow-up audit activities conducted.

The CRS Tool has a function of uploading of all relevant tax audit documents to quickly assess the results of tax officer tax audit measures.



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