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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.

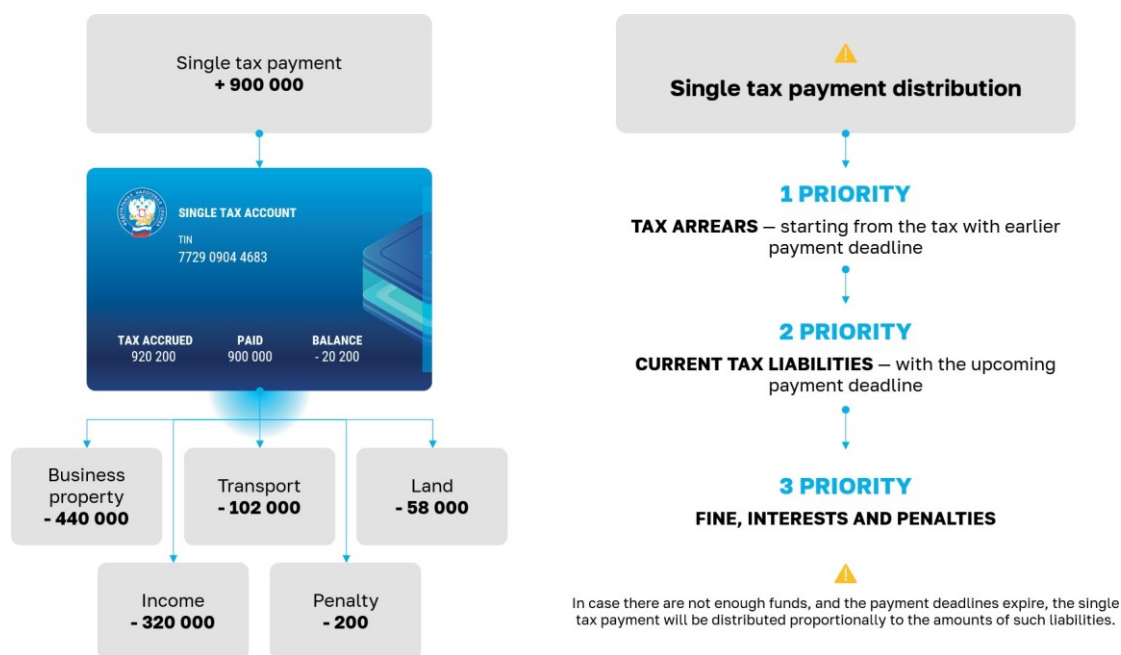


Figure 1. Single tax payment distribution

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.

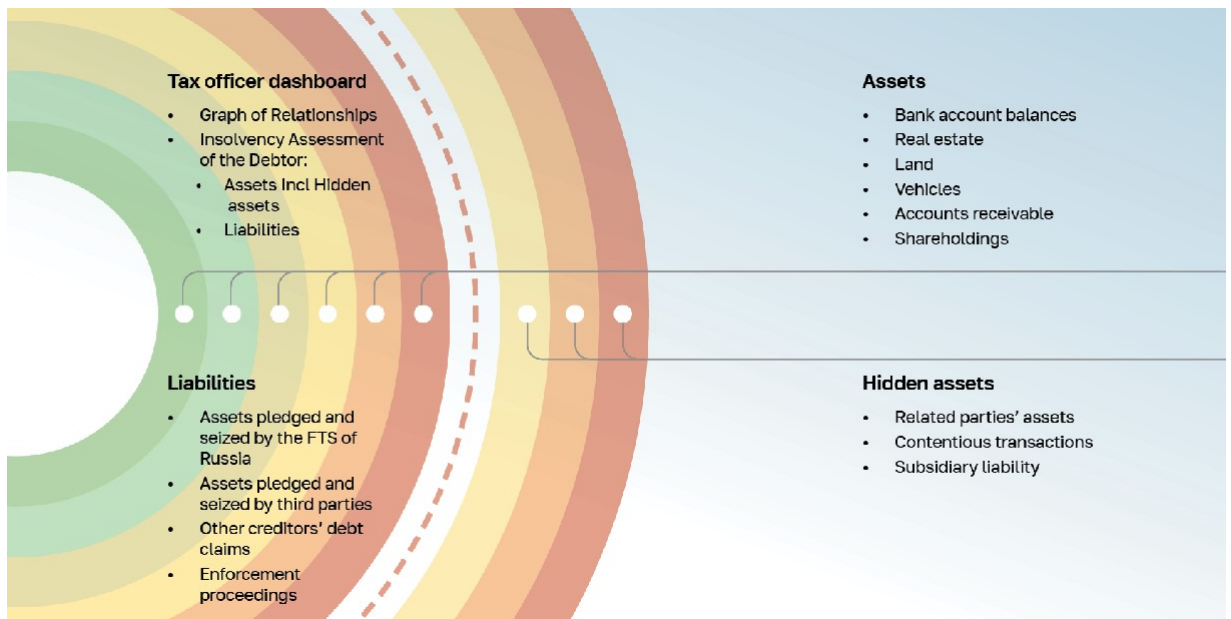


Figure 2. Tax officer dashboard

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.

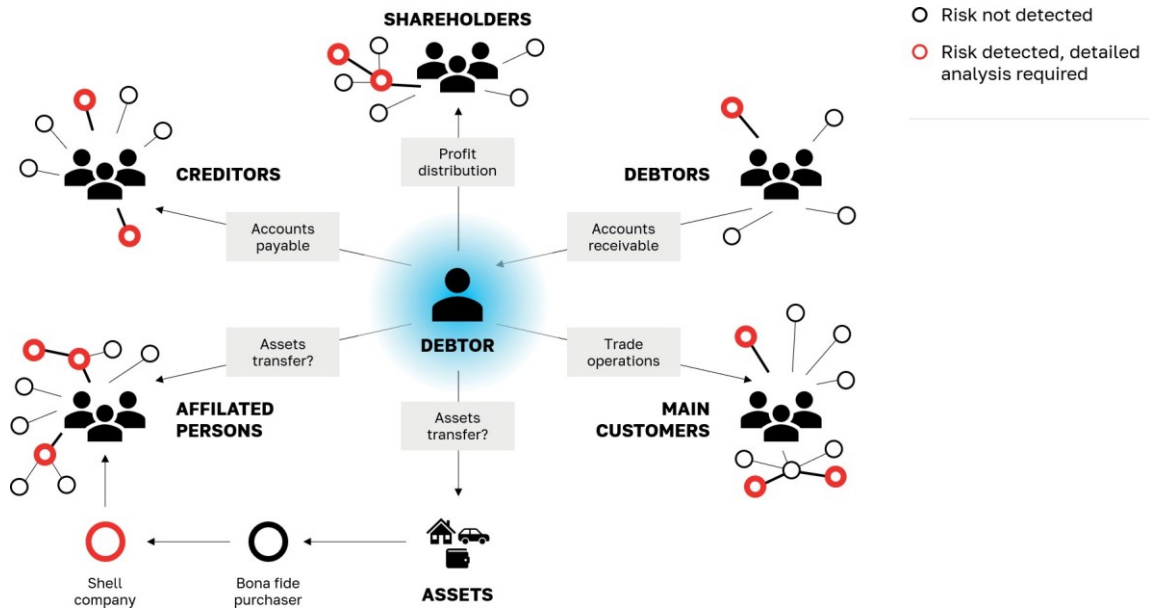


Figure 3. Risk-profile of a debtor

## 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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