



VAT inspections

Evaluating the strategy, implementation and results of external inspections

Key facts

Value-added tax (VAT) was introduced in Switzerland in 1995 to replace sales tax. In 2004, revenues from the 300'000 or so entities liable to pay VAT were CHF 17.7 billion, which is approximately one third of overall federal government revenues.

The main VAT division of the Federal Tax Administration (FTA) is responsible for auditing entities liable to pay VAT (registrations, declarations, payments). The purpose of inspections carried out on the premises is to examine the accuracy and completeness of the tax returns, based on the financial and operating accounts, along with the records, and, if need be, to adjust them.

In 2004, approximately 9'000 VAT inspections were carried out. The inspections resulted in adjustments in favour of the auditees to the value of CHF 60.9 million, and adjustments in favour of the Tax Administration of CHF 448.4 million. The net additional claims were amounting to CHF 387.5 million. These claims from inspections represent approximately 2% of overall VAT revenues. In approximately 80% of the inspections tax adjustments were made.

The inspectorate division has 186 full-time positions, of which approximately 160 are inspectors who deal with inspections carried out on the premises. The possibility of increasing the VAT revenues through additional inspections has been discussed several times already in parliament. Time and again demands for boosting personnel in the inspectorate are made with accompanying references to the considerable net revenues.

Switzerland occupies a special position with its system of tax controls restricted to VAT. In the 15 member states of the European Union, priority is given to controls integrated with other taxes, and even countries which until recently still had a separate VAT control are in the process of combining VAT controls of taxable entities with other controls (amongst others indirect taxes).

The evaluation of the Swiss Federal Audit Office (SFAO) specifically highlighted the procedure for selecting inspection cases. In addition, the goals, the inspection process, duration, the quantity and the results of the inspections and what they recover were examined. In

doing so the SFAO analysed data from the information system, carried out a written survey in the inspectorate and conducted interviews with employees. Within the scope of the evaluation, the SFAO ran a parallel audit with the Austrian Court of Auditors. The results of this comparison will be published in a second, joint report. The essential results of the parallel audit were taken into account in the current main report.

Most important observations

In general terms, the SFAO noted that the responsible for VAT are presented with a difficult task of prioritising the use of limited personnel resources and optimising the selection of taxable entities to be inspected.

The efficiency of the VAT inspections is noteworthy. Analysis of the audit data from the FTA's information system shows a high number of inspections per inspector, significant revenue per inspection day and a high level of claims that are actually recovered in comparison to Austria. In 2002 the VAT inspections resulted in an average of additional claims worth approximately CHF 38'000, and per inspection day the amount was approximately CHF 13'900. In 2002, an average of 42 inspections per inspector were carried out, resulting in claims averaging approximately CHF 1.6 million. The higher productivity level in comparison to Austria is in particular due to the fact that the inspection intervals in Switzerland are longer and a relatively high number of initial inspections are carried out.

In 2004, on average a VAT inspection covered overall costs nine times over. Inspectors are VAT specialists with extensive specialised knowledge. They enjoy considerable autonomy, in particular when setting priorities. As they see it, incorruptibility is a core personal attribute. The inspection procedures are regulated pragmatically, with three types of inspection which are partially standardised. The inspectors have at their disposal practical IT tools for inspections carried out on the premises and these IT tools are being further developed. The high level of amounts in additional claims that are actually recovered from the inspection is an indication that the inspectorate is making realistic additional assessments. The acceptance of the VAT audits can be categorised as good.

The FTA attaches considerable importance to the quantitative goals of the controls. The inspection activities are highly geared to the number, duration and revenue from the controls. The inspectorate had, even before the introduction of VAT, issued manually produced periodical statistics per inspector on these figures. The inspection concept of the inspectorate has the explicit and core goal of increasing the number of controls. Increased revenues through VAT-inspections are planned in the FTA budget. The position of the main VAT division in relation to the goals of preventing revenue losses and equal treatment of the taxable entities is not expressly stated, although specific measures are targeted at preventing revenue losses and promoting equality.

The procedure for selecting inspection cases should be redesigned and freshly implemented. The SFAO has identified four procedures for selecting taxable entities to be inspected. In recent years, the selection procedures have gradually been developed without being systematically documented or analysed by the FTA. For an external office such as the SFAO, the mixture of procedures is incomprehensible. The lists of enterprises to be

inspected were partially renewed but without adopting a new concept. Before the new selection of inspection cases in 2004, no systematic risk analysis based on sector, size of the company or results of the previous controls was carried out. Almost eight years elapsed between the first and the second new selection of cases to be inspected. This gives the impression that, for the inspectorate, inspection carried out on the premises are more important than planning for them and risk analysis. The SFAO examination of the 2000 and 2002 monitoring statistics shows significant differences between the cantons in the inspection intervals. It is striking that the likelihood of an inspection was four times higher in the cantons of the French-speaking part of Switzerland than in certain cantons in the German-speaking part of Switzerland. In the 2004 new selection of entities to be inspected, the FTA took account of this problem. The number of reports of negligent tax evasion from other divisions of the FTA and from the cantons is far too low. There are cantons which do not use the reporting procedure at all.

Recommendations

Overall the SFAO notes that the inspectorate is highly geared to operational activities and financial results of the inspection. The SFAO recommends that more attention should be paid to the goals of the inspections, the impact of the inspections on taxable entities, the risk analysis and the exchange of experience and knowledge. Out of this general assessment, five recommendations emerge to improve the inspection system.

Recommendation 1: The main VAT division should draw up a specific strategy for the inspection of entities and the inspectorate should have a clear stance on the goals of the inspections. Personnel resources should be assigned to the priority goals in accordance with what is planned.

Recommendation 2: The main division should improve the orientation, the documentation and the mix of its inspection procedures. In order to improve the effectiveness of the selection procedures, the results of the inspections should be recorded and be used as a basis for a risk analysis. The exchange of information and reporting in the FTA and with the Federal Customs Administration should be further extended, and the information exchange with the cantons should be placed on a new footing.

Recommendation 3: The main division should set up a new organisational unit for risk analysis with the job of better evaluating and managing the inspection data for risk-oriented selection and controlling. Through its activities this unit should support the risk orientation of internal controls and inspections of taxable entities. The exchange of experiences with the tax authorities of other countries should be promoted, in particular in the area of risk-oriented selection.

Recommendation 4: The main division should use the opportunity provided by the impending reorganisation of the FTA to reassess its organisational structures and to implement action to improve contact between the inspectorate and the other divisions.

Recommendation 5: The main division should improve advanced training opportunities and support "best practices", so as to more strongly promote the exchange of experiences and knowledge in the inspectorate and the main division.

As part of the 2004 Relief Programme, the Federal Council has decided to increase revenues through additional VAT inspections . For 2007 and 2008, the budget envisages that there will be CHF 70 million of additional revenues from the VAT inspections. However, the Relief Programme and the Systematic Programme for the Renunciation of Tasks of the government will also contribute to the fact that in 2008 the total number of jobs in the FTA will be at the same level it was in 1998. Lasting additional revenues from the VAT inspections in the order of magnitude of the budget are unrealistic without staff transfers and improvements to the selection procedure and IT systems.

The Federal Tax Administration has indicated its support for the five recommendations detailed above to the SFAO as an improvement to the inspection system. Within the scope of the current organisational projects, according to the FTA, "modifications are envisaged which would be incorporated in the future organisation and which, to a large extent, coincide with the SFAO recommendations". The SFAO will be closely monitoring whether its recommendations, the pledges and measures of the FTA are implemented.