

Executive Summary

The taxpayer audit function plays a critical role in PAYE tax administration. In addition to their primary role of deterring non-compliance, the officers conducting PAYE tax audits are often required to understand complexity of PAYE tax laws. The primary goal of PAYE tax audit is to improve overall compliance and in the process inculcate confidence in the community that the tax system and its administration are fair.

PAYE audit programs are designed to deliver number of benefits to the administration of IRD. These include enforcing compliance, educating taxpayers, minimizing defiance and targeting non-compliant taxpayers to ensure a return on the resources allocated to audit activities. PAYE audit policies and procedures should be based on principles of accuracy, efficiency, fairness, objectivity, transparency, completeness and consistency.

In this policy paper, the current policy adopted by IRD in relation to PAYE tax audit will be described and then the negative consequences of the current PAYE tax audit process will be identified. After that, the root causes for the negative consequences of current PAYE tax audit policy will be discussed.

Then, it will be discussed the literature review with relates to tax audits and under the fourth chapter of this policy paper, a study framework has been developed to address the identified negative consequences in the current PAYE tax audit policy adopted by IRD. It has been used both primary and secondary data for the purpose of analysis. A questioners for survey, questioners for interview and the sample selection to collect primary data have been discussed under study framework. Ten senior officials in IRD were interviewed to get ideas of current system, to identify negative consequences and the root causes for negative consequences. It has been included 20 questions in the questioner prepared for field survey. The survey questioners have been distributed among 120 selected officials at IRD and 102 officials have been returned the questioners with their opinions. Then, the results were summarized according to the identified main five negative consequences of the current PAYE tax audit policy adopted by IRD.

Finally, it has been made some suggestions and recommendations to minimize the identified negative consequences in the current PAYE tax audit policy adopted by IRD and to improve the prevailing PAYE audit plan to strengthen the current PAYE tax audit process. At last, policy guidelines and implementation plan has been provided and it has been included the authorized officers who are responsible to implement the policy recommendation guidelines with time frames to complete each item mention in the list.