Large Traders' Customs Units

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Abstract

Large Traders' Customs Units (LTCU) are important for customs and revenue collection as a strategy to mitigate revenue risks. In addition, Customs administrations may utilise such units to implement pilot projects in order to develop faster clearance procedures and more effective post-clearance audits.

Large Taxpayers Units

The introduction of Large Taxpayers Units (LTU) by tax administrations is a well established practice which is based on the premise that a few large taxpayers account for the majority of an economy's revenue collection (Pareto principle). Tax administrations recognise that large taxpayers are different from other groups of taxpayers, requiring specially designed tax compliance programs. As such, LTUs provide large taxpayers with a single point of contact with the tax administration, and enable the administration to tailor their compliance programs to meet the specific circumstances of the taxpayers' commercial activities.

Several international organisations recommend the practice of establishing LTUs. Among the key findings listed by the OECD in their guide are:

- Criteria to identify large businesses vary from country to country. However, characteristics of large taxpayers are generally very similar: complex in their structure, having multiple operating entities with international business dealings, and responsible for a high portion of tax revenue.
- Some tax administrations have special units to perform risk analysis and intelligence gathering, provide technical advice, and to monitor and evaluate performance of large taxpayers.
- All participating countries cite tax compliance issues related to international transactions and international business structures as major areas of concern and focus.
- A focus on building a better relationship between the tax administration and the large taxpayers is a common approach across the countries and is contributing to more cooperation and openness.
- All countries recognise that the complexity of the tax law, business structures and transactions in the large business segment have created a need for specialised knowledge and expertise in certain areas.
- Technology is not only used to improve the quality of service to large taxpayers but also to manage compliance, including the capability to identify risk early, and to increase efficiency in operating the large business unit (OECD 2009).

In summary, a significant number of tax administrations has established, with positive results, special treatment around different types of taxpayers, or taxpayer segments.

International trade concentration

In several economies a relatively small number of traders and a few significant import/export products account for a large share of international trade. Degrees of trade concentration vary according to factors such as geography, internal market size, industrialisation, national income, dependence on exported/imported commodities. The lessons learned by tax administrations in relation to LTUs are considered to be of particular relevance to the customs environment, and the introduction of LTCUs by Customs administrations is likely to provide a significant enhancement to their compliance management programs.

When dealing with large traders, Customs administrations are faced with a range of compliance management issues such as multiple units of operation; high volume of imports/exports; complex international sales contracts (royalties, engineering projects, financial terms); cross border transactions with related parties; complex issues relating to tax law and accounting principles; polices and strategies to minimise tax liabilities; and complex financing and business structures. Customs administrations should therefore focus their efforts on monitoring and analysing the constantly changing trends in international trade in order to identify potentially high risk products and industry sectors.

LTCU and Authorised Economic Operators

The innovative concept of the Authorised Economic Operator (AEO) and its initial complexity of compliance assessment provides a perfect opportunity for Customs administrations to introduce LTCUs. Recognising the fact that most AEOs are also large traders/taxpayers, the LTCU approach should prove to be an ideal method of developing, implementing and hosting the AEO program.

Technical assistance and capacity building support for the establishment and operation of LTCUs could be provided by international organisations. This should include advice on best practices in relation to key components such as mission, human resources, risk management, audit and enforcement.

Conclusions

The advantages of establishing LTCUs in the customs environment should be similar to those reported by tax administrations when establishing LTUs. To maximise their utility, LTCUs should be staffed by motivated officers who would monitor and analyse commercial trends as well as the compliance behaviour of relevant traders and other stakeholders. This approach will also provide an important avenue for enhancing customs expertise in the area of compliance management.

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