



Office of the State Comptroller | 2020

The State of Israel Response to the COVID-19 Crisis
Special Interim Report

Aspects of the Tax Authority's Activity During the COVID-19 Crisis

Abstract

BACKGROUND

The Israel Tax Authority is responsible for collecting direct and indirect taxes, ensuring the legality of imports and exports, paying compensation for damage caused by hostilities, and paying the work grant. These functions are of particular importance at a time of economic crisis and a contraction in economic activity.

Because of the COVID-19 crisis, during March-April 2020, 74% of businesses in Israel suffered significant economic damage, and turnover dropped in almost every field of economic activity. The arts and entertainment, education, tourism, hospitality and catering industries suffered the most. Smaller businesses with a turnover of up to NIS 300,000 suffered more severely.

During the crisis, the Tax Authority was required to continue providing routine services such as processing tax refunds, confirming tax deducted at the source and multi-year reporting of severance payments, despite the government imposed restrictions on the number of personnel allowed to work. In accordance with several government resolutions, the Tax Authority operated a grant payment mechanism for grants intended to help businesses during the crisis. This involved defining the eligibility criteria, determining eligibility, calculating the grant amount for each business, and deciding how to pay the grant.

KEY FIGURES

~19%

Decrease in collection of direct and indirect taxes March-July 2020, compared to forecasts

25%

Rate of small businesses with annual turnover up to NIS 300,000, whose turnover in March-April 2020 fell by 80%-100%

NIS 1.1 billion

Allocated for first stage grant to self-employed. By 31.7.20, 88.3% of this amount (NIS 971 million) had been paid.

NIS 2.8 billion

Allocated for second stage grant payment. By 31.7.20, 92.6% of this amount (NIS 2.6 billion) had been paid.

NIS 5.2 billion

Allocated for a third stage grant to partially fund fixed costs.

NIS 1 billion

Tax refunds given by the Tax Authority in a concentrated move to tax payers

58,355

Inquiries on COVID-19 to the Tax Authority call center in March-July 2020

5,174

Answered calls out of 13,699 calls relating to COVID-19 in March-April (37.8%)

Audit Actions



The State Comptroller's Office examined aspects of the Tax Authority's activity during the COVID-19 crisis with the focus on its continued regular function, customer service, organizing and operating the grant payment mechanism. The Audit deals with the period from 15.3.20 to 30.6.20. Some of the information was updated to 31.7.2020.

Key Findings



Criteria for receiving grants: the published criteria contained some distortions, which affected the ability of some groups of self-employed and businesses to receive the grants, for example, businesses who report on a cash basis, salaried controlling owners (in the first stage), businesses that reported losses in 2018, and businesses who report as a business association.



Control of grant payments: in the first and second stages, the Tax Authority distributed grants without verifying the declaration from the recipients of a 25% drop in their turnover compared to the same period in 2019. It is uncertain whether these declarations will be retroactively examined. In this situation, it is possible that businesses that did not suffer a 25% drop in turnover received grants.



Computer system: during the COVID-19 crisis, a number of problems arose in the Tax Authority online system, which affected services to the public. For example, 15,000 businesses simultaneously submitted grant applications which overloaded the system and additional users were unable to submit applications. 22,000 grant applications were not received due to a system fault, and the late upload of some segments of the system caused a delay in examining applications. Moreover, The Tax Authority computer system was not linked optimally to those of other Government ministries and other relevant bodies.



Regular services during the crisis: some of the Tax Authority services during the COVID-19 crisis (refund of fixed costs and multi-year spread of severance payments and submission of annual reports) required manual filing of documents. In early May 2020, and only for the crisis period, taxpayers could submit annual reports and tax refund applications online, rather than manually.



The Call Center: in the months March-July 2020, the average maximum waiting time for a telephone response was an hour or more in most cases; for responses on the subject of COVID-19 the average maximum waiting time was about 42 minutes, and on the subject of grants to small businesses it was about 1 hour and 18 minutes. The Audit also found that some callers waited over 2 hours for a response to questions on COVID-19 and the grant to small businesses.



Bad debts: the Tax Authority makes significant demands on taxpayers to prove that bad debts are uncollectible, in order to obtain a refund of taxes paid on sales written off. The income tax section did not receive definitive guidelines on the conditions for recognizing bad debts during the COVID-19 crisis.



From the start of the crisis, the Tax Authority functioned according to emergency procedures, with regular reviews to resolve problems. This stabilized the system and optimized activities.

The Tax Authority was active in a number of areas to ease the burden on civilians and even found solutions to special challenges posed by the crisis.

Thanks to hard work and dedication of the Tax Authority's employees, especially the Shaam digital processing service, it was possible to operate the computer system and promptly pay the grants.

Key Recommendations



The State Comptroller's Office recommends that the Income Tax Authority analyze, in a timely manner, provisions for dealing with the continuing pandemic and ensuing impact on segments of the national economy and specific businesses. Accordingly, it should help design accommodations for business segments and related firms.



In the time remaining to submit grant applications, the Tax Authority should examine the option of allowing businesses' representatives to submit applications on their clients' behalf, also for future grants.



In view of the continuation of the COVID-19 crisis and other emergencies that the country may encounter in future, the Tax Authority should draw conclusions from the grant program planning and implementation process, in order to optimize the system.



To handle the need for a rapid emergency distribution of grants, the Tax Authority should consider setting up a system to review eligibility. This system could be based on randomized examination of grant recipients, online controls relying on the Tax Authority's database, or reviews as part of the examination of annual tax reports.



The Tax Authority should consider ensuring optimal linkage of its computer systems to the systems of the National Insurance Institute and the Employment Service. It should also ensure that the Government Merkava (financial reporting) system specifies all the reasons for failure to transfer grants instead of just giving one reason each time. In addition, it must be possible to perform regular updates of the Merkava system.

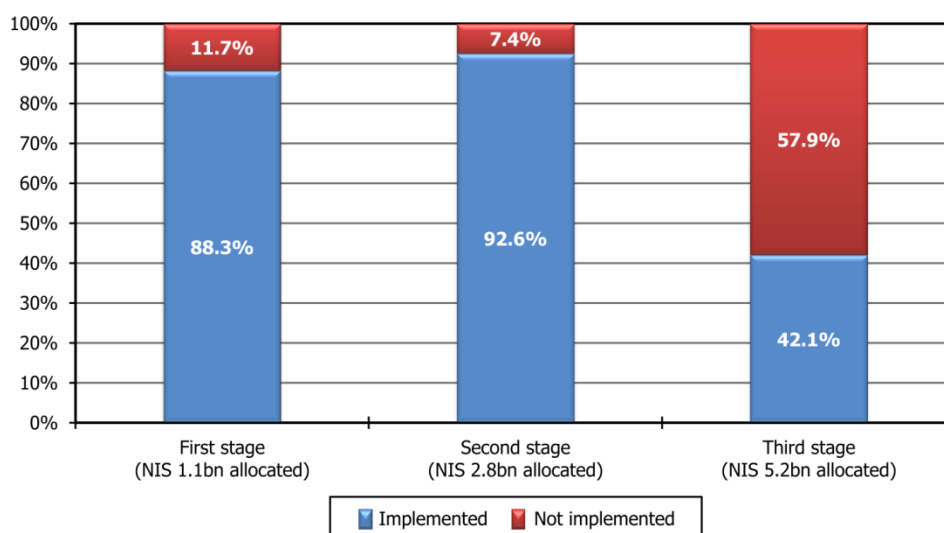


The State Comptroller's Office recommends that the Tax Authority utilize the experience it has acquired during the COVID-19 crisis to improve its service in normal times, and consider enabling taxpayers and their representatives to submit their annual reports and requests for tax refunds online, without the need to come to the Assessment office. The Tax Authority must also improve its service by introducing a computer system for booking appointments in all its offices.



The Tax Authorities should consider a temporary easing of the conditions for recognition of bad debts during the crisis. It should also use the data at its disposal or that it can obtain, such as information about business closures, non-reporting of turnover and applications for protection against creditors, in order to support the debt write-off decision. This will assist taxpayers to establish their requests in these cases.

Budget allocation and usage of grants in each stage implemented by 31.7.20



Summary

The Audit found that in spite of the rapid preliminary preparations made by the Tax Authority to continue its normal operation during the COVID-19 crisis, there were still problems with the provision of a fast and efficient response to taxpayers who required its services. The Tax Authority must examine the problems that emerged in the Audit and draw appropriate conclusions, in order to improve its services, both in view of the continuing crisis, and in preparation for a return to routine operations.