Tax Authority

Country X

Future Development Vision based on Past Development Experience

City 1

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Introduction

This short report sets out to identify the requirements needed to devise a preliminary and tentative projection of medium and long-term development of the Country X Tax Authority. It is anticipated that this report will be adopted by senior management as the blueprint for the future modernisation of the Tax Authority. It is also anticipated that this report will form the basis for an internal preparation program to be launched prior to the engagement of consultants under the Civil Service Modernisation Programme.

Methodology

The approach adapted in the preparation of this report is to set out the current mission, vision and strategic objectives of the Tax Authority together with an outline of the major reforms undertaken to date. The report then goes on to analyse the current performance of the Tax Authority by reference to accepted international norms for tax administrations world-wide. Finally the report sets out the medium and long-term objectives of the Tax Authority in terms of: -

- Organisational goals and objectives,
- Performance indicators,
- Analysis of present services and activities,
- Structural and functional organisation charts, and
- Available information technology and other assets.

Many of the reforms undertaken to date are referred to only briefly. For more detail on these reforms, the following reports and laws are recommended reading.

Bibliography

Discussion document on further reform of the Income Tax Law and Administrative Procedures of Country X, April 1999.

Tax Authority: Computer Options Plan, June 2000.

Tax Authority Country X: Preparations for the Large Taxpayer Unit – A step-by-step guide. October 2000.

Presidential Decree No 140 of 2000, establishing the Large Taxpayer Unit.

General Sales Tax Law No XX of 2001

Current Agency Status

The current mission, vision and strategic objectives of the Tax Authority are as follows: -

Mission of the Tax Authority

The mission of the Tax Authority is: -

> *To register all liable taxpayers in Country X and to collect the correct amount of tax from each by the due date, with significant automatic penalties for non-compliance. In particular the Tax Authority will continue to promote maximum compliance with the tax laws through self-assessment, simplification of tax laws and procedures, comprehensive taxpayer services and the selective auditing of taxpayers according to risk.*

Vision of the Tax Authority

The vision of the Tax Authority is that of a well-trained professional cadre of tax collectors operating in a professional environment utilising modern technology and methods in the efficient and effective collection of taxes. Integrity in tax administration is one of the most important values shared by the professional staff of the Tax Authority.

Specifically our vision includes the following: -

- A substantial reduction in the current numbers of staff,
- The full computerisation of the Tax Authority,
- The introduction of a proper remuneration structure that includes performance-based incentives and is designed to reward staff for doing their jobs properly and to the best of their abilities,
- New modern tax legislation including GST, and
- The provision of such other resources as are necessary for the effective operation of the Tax Authority.

Strategic objectives of the Tax Authority

The Tax Authority has specific strategic objectives, which are: -

- The acceptance and successful implementation of a new General Sales Tax Law (GST), which will substantially replace the existing tax on Production, Consumption and Services.

- The effective establishment of the Large Taxpayer Unit which will deal with all the tax affairs of those taxpayers that will be registered under the new GST Law,

- The review, modernisation and implementation of a new Income Tax Law drafted on modern principles, and

- The phased introduction of a modern computer system that will provide real benefits to the Tax Authority.

Reforms undertaken to date

In order to achieve its strategic objectives, the Tax Authority has undertaken many reforms in recent years. The most significant of these have been the following: -

- The preparation of a new GST law,

- Substantial improvements to the existing income tax law,

- The establishment of the Large Taxpayer Unit[1] and the transfer to that unit of all the tax files of the largest taxpayers in Country X,

- The preparation of detailed job descriptions, mission, vision and strategic objectives for the Large Taxpayer Unit,

- The organisation of the Large Taxpayer Unit on a functional basis with branches in the major cities in Country X,

- The commencement of a full re-drafting of the income tax law [2],

- The preparation of a detailed and costed computerisation plan[3],

- The introduction of an effective computer-based system for the registration of taxpayers and the allocation to each taxpayer of a unique Taxpayer Identification Number (TIN),

- The introduction of on-line registration of taxpayers at 8 main centres,

- The networking of the Tax Authority Headquarters,

- The networking of the LTU office with a direct link to TA Headquarters,

- The creation of a new computer centre at TA headquarters,

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[1] Established by Presidential Decree Number 140 of 2000.
[2] This task is being conducted with adviser assistance together with assistance from the Legal Department of the International Monetary Fund. A draft of the new law is expected by February 2002. For a discussion on the issues involved in this exercise see “Discussion document on further reform of the Income Tax Law and Administrative Procedures of Country X”, April 1999.
[3] Tax Authority Computer Options Plan, June 2000.

- Commencement of the computerisation of the Tax Authority's information-gathering function,
- The introduction of direct computer links with other agencies (beginning with the Customs Authority) so that information on TIN numbers, importations and other data may eventually be shared electronically,
- The training of staff in modern tax enforcement methods,
- Generic training of staff including ELT, Training of trainers, management training, computer training, etc[4].
- The preparation of three-year rolling training and development plans, which are reviewed annually,
- The conduct of a survey of taxpayers nationwide on a staged basis, and
- The establishment of a Task Force charged with guiding the Tax Authority's activities under the Civil Service Reform Project.

Administrative status by reference to international norms

The current administrative performance of the Tax Authority is assessed by reference to the following agreed international norms for evaluating the performance of tax departments around the world.

However it should be recognised that any tax administration involved in a serious reform programme, as is the case with the Tax Authority in Country X, may face difficulties in meeting ambitious revenue collection targets during the period of reform.

International benchmarks

1. Costs of collection expressed as a percentage of the revenue collected.
2. Tax collected as a percentage of Gross Domestic Product,
3. Ratio of staff employed to the number of registered taxpayers.
4. Assessment of taxpayers, whether by self-assessment or agency assessment,,
5. Extent to which computers and other modern means of tax collection are employed in the agency, and
6. The quality of taxpayer services including the costs of compliance and the improvement of audit and enforcement activities.

These international benchmarks are considered individually below.

[4] The Tax Authority acknowledges the support of the SEFM project with this training, with the procurement of equipment and with many other activities.

Costs of Collection as a % of tax collected: -

Costs of collection globally tend to fall within the range of between 1% and 2% of the tax actually collected, with the more efficient agencies coming in around the 1% figure. Costs of collection generally include human resources costs (salaries, bonuses, overtime, etc), and overhead costs such as rent of premises, transportation, computer systems, utilities, etc.

During the year ended 31 December 2001, the Tax Authority collected **78,167,000,000 while the overall cost of running the department was **1,747,000,000 of which human costs amounted to **1,135,000,000 (65%). This translates into a cost of collection figure of 2.235%..

Collection of tax as a % of GDP: -

The collection of tax as a percentage of GDP allows for a judgment to be made of the overall effectiveness of tax collection. This ratio, which measures the amount of tax collected by reference to the national tax base, will vary from country to country depending on a number of factors, including the level of economic development. It is difficult to speculate on a target ratio for Country X as the ratio could change dramatically due to changes in the tax system and as mentioned earlier changes in the tax system are constantly being considered in a period of reform.

The relevant figures for Country X are as follows: -

2001	**
Direct and indirect taxes collected by the Tax Authority:	78,176,000,000
Indirect taxes collected by the Customs Authority:	33,790,000,000
Total direct and indirect taxes	111,966,000,000
(Of which 70% is collected by the Tax Authority)	
Non-oil Gross Domestic Product at nominal prices	1,006,000,000,000

Tax collected as a percentage of GDP - 11.13%

Ratio of staff employed to the number of registered taxpayers: -

A good figure internationally is anywhere between 1:500, and 1:1,000 i.e. one staff member for every 500 to 1,000 taxpayers. Many countries operate on figures that are much higher than this.

The relevant figures for Country X are as follows: -

Number of staff employed in the Tax Authority	3,995
Number of registered taxpayers	128,000
Therefore the ratio of staff to registered taxpayers is	1:32

The figure for Country X is well below international norms.

Method of assessment

It is generally accepted world wide that self-assessment, whereby taxpayers file tax returns and simultaneously pay their taxes, is the most efficient means of assessing taxpayers. For self-assessment to work, it needs to be combined with significant automatic penalties (which must be well advertised to taxpayers) and an effective risk-based audit capability.

The forthcoming GST law is an example of a self-assessed tax. However the income tax is currently not a self-assessed tax, although a draft amending law has been prepared to allow for self-assessment. It is also expected that the forthcoming re-write of the income tax law will include self-assessment as well as an overall improvement to the procedures for tax withholding.

Use of computers

All modern tax administrations rely on the widespread use of computers for the collection and dissemination of information on taxpayers and the effective control of the return filing and payments processes.

Some of the features of such systems are: -

- Electronic registration of taxpayers and the assignment of unique taxpayer identification numbers,
- Collection of information on taxpayers from a wide variety of sources, (e.g. company registrations, importations, vehicle registrations, domestic purchases, government tenders, loans and other financial flows, etc.) and the dissemination of this information to appropriate departments,
- Development of a master tax file for each taxpayer, which contains up to the minute details of all assessments and charges levied, taxes paid and balances outstanding, collection status, etc.
- Computer-based training of staff,
- Web-based services for taxpayers,
- Production of up to the minute lists of non-filers and stop-filers,
- Production of computer-generated risk-based audit lists,
- Computerised office procedures, form letters, etc and
- Production of detailed management information and tax collection reports.

While the Tax Authority has made great strides in the use of computers in recent years, only the registration of taxpayers function has been effectively computerised to date, while work is ongoing in the introduction of computers into the information collection department.

The Tax Authority has prepared a costed computerisation plan as well as a detailed systems assessment document in advance of funds becoming available for the widespread introduction of computers.

The quality of taxpayer services including the costs of compliance and the improvement of audit and enforcement activities

The Tax Authority has established a Taxpayer Services Unit aimed at providing better services to taxpayers. Better taxpayer services and good taxpayer education are an integral part of the preparations currently under way for the introduction of the new GST law.

The Tax Authority is well aware of the costs of compliance and in this regard has attempted to significantly simplify its procedures, prepare simpler declaration and other forms and issue guides to taxpayers. The Tax Authority accepts that more work needs to be done in this area and remains alert to the needs of taxpayers.

The Tax Authority also recognises the need to target its auditing activities in a more scientific manner. Currently consideration is being given to the need for selective audits and to develop a programme encompassing a wide selection of different types of audits.

Evaluative Notes based on previous analysis

An evaluation of the previous analysis reveals the following outcomes: -

1. The Tax Authority has made great strides in the preparation of modern tax legislation, although more needs to be done. In particular amendments need to be made to the new GST law, penalties provisions need to be vastly strengthened and a first draft of the new income tax law needs to be prepared, debated, approved and enacted in due course.

2. While the establishment of the new Large Taxpayer Unit is a significant administrative step, more needs to be done in terms of amending its structure to a fully functional one as is required by law.

3. The preparation of the detailed job descriptions, mission, vision and strategic objectives for the LTU is a significant advance. However these now need to be prepared for the Tax Authority as a whole. The functional structure envisaged for the LTU needs to be implemented in full and then ‘rolled out’ to the entire Tax Authority.

4. The relatively high costs of collection as a percentage of tax collected point to the significant overstaffing of the Tax Authority. Although wage rates are low in the Tax Authority, as they are throughout the civil service, human costs amount to 65% of total costs. A substantial reduction in the numbers of staff would bring the costs of collection within international norms, even without an increase in tax collected.

5. However the relatively low ratio of tax receipts by comparison with national income indicates high inefficiencies in the collection of tax. There are many

reasons for these inefficiencies, some of which are: -

i. Absence of a broadly-based GST law with minimal exemptions,
ii. Absence of a reformed income tax on modern principles, including self assessment,
iii. Poor rewards structure and no performance-based pay leading to the preponderance of informal relationships between taxpayers and tax officials,
iv. Lack of widespread use of computers in the assessment and collection of tax,
v. Poor or non-existent sharing of information between revenue collection departments and with other government agencies.

6. The very high ratio of staff to taxpayers is again a pointer to high inefficiencies in the administration of tax. To make this figure approach reasonable international standards, there would need to be a halving of the number of employees combined with a trebling of the number of registered taxpayers. This would allow the ratio of tax officials to taxpayers to approach 1:200, which is certainly a respectable figure.

7. The Tax Authority believes that reducing the number of employees to within the range of 2,000 –2,500 is feasible in the medium term, provided that computers are widely introduced into the Tax Authority and staff rewards are strongly linked to productivity outputs.

8. The poor showing of tax collections as a percentage of GDP indicates the opportunity for substantial revenue gains as a result of productivity gains. The analysis indicates that there may be as much as ** 20,000,000,000 of potential additional revenue waiting to be collected. This is the potential dividend awaiting the government should a well-constructed performance-based rewards structure be introduced to accompany the pending legislative and administrative reforms that are under consideration.

Five and Fifteen-year objectives

Five-Year Objectives

1. Modern and internationally acceptable GST and income tax laws in place.

2. The phased introduction of computers utilising off-the-shelf modular software and covering the new GST, all the taxes for which the Large Taxpayer Unit has responsibility and the rolling out of the new system to the larger tax offices.

3. Reduction of the numbers of staff to 2,500 employees.

4. Ratio of tax officials to taxpayers, 1:200.

5. Real [%] increase in the 2001 ratio of tax to GDP figure.

6. Real increase [%] in the number of female employees in quality jobs.

7. Real increase [%] in the number of graduates in Law, Business and Economics.

8. Performance-based rewards and career structure in place and fully operational.

9. Evaluation of alternative organisational structures such as an independent revenue authority with the powers of hiring and firing staff, setting wage rates and bonuses, etc.

Fifteen-Year Objectives

1. The establishment of an alternative organizational structure such as an independent revenue authority with the powers of hiring and firing staff, setting wage rates and bonuses, etc.

2. Real [%] increase in the 2001 ratio of tax to GDP figure.

3. Ratio of tax officials to taxpayers, 1:500.

4. The further rolling-out of the computer system to the remaining tax offices.

5. Introduction of electronic returns filing by larger taxpayers.

6. Further real increases in the number of females and graduates employed within the TA.