Models of Tax Administration – Key Trends in Developed Countries

Jonathan Leigh Pemberton[1]

This article is based on the remarks I made at the October 2014 meeting of the Foro Fiscal at the Institut d'Economia de Barcelona. The views expressed here are my own and do not necessarily reflect those of the OECD or of its member countries. However, in describing the current trends in tax administration in OECD and other advanced and emerging economies, I have drawn extensively on the work of the OECD's Forum on Tax Administration (FTA) and on the publication "Tax Administration 2013" in particular[2]. The discussion is primarily descriptive, rather than prescriptive but I do explore some of the challenges and opportunities facing revenue bodies at the moment.

In the late 1990's the European Union developed a "Fiscal Blueprint"[3] to assist accession countries to review how well their revenue bodies matched up to best practice within the EU. This remains a robust overall framework for thinking holistically about tax administration and it has influenced the way in which the FTA's Tax Administration Series is structured. The blueprint described five key aspects of good tax administration. There needs to be a clear operating structure supported by underpinning legislation. This aspect includes features such as the revenue body's organisational model and the country's tax legislation, including the administrative rules specifying the responsibilities of taxpayers and the powers of the revenue body. The revenue body will need to have a strategy to manage the people who work within it, embracing ethical standards and human resource management. The revenue body will also need to have certain essential functional capabilities, ranging from revenue collection, the processing of large amounts of tax related data and tax audit, through to dealing with serious fraud and sophisticated tax avoidance. Alongside these capabilities the revenue body is also responsible for the provision of a range of service to taxpayers that will help them to comply with their tax obligations. Finally, the whole operation is

[1] Head of OECD's tax administration unit until April 2015, now an independent adviser.

[2] http://www.oecd.org/ctp/administration/tax-administration-series.htm. At the time of writing the OECD is finalising the next edition of this series and it will be published in April 2015.

[3] The blueprints were updated in 2007: http://ec.europa.eu/taxation_customs/resources/documents/common/publications/info_docs/taxation/fiscal_blueprint_en.pdf.

supported by cross-cutting functions, such as information technology and communications.

The FTA's Tax Administration Series is a comprehensive survey of tax administration systems in countries from across the globe; the 2013 edition covered 52 countries and the 2015 edition will extend the scope to 56 countries. This publication brings together key data relating to all the aspects of tax administration identified in the EU blueprint. Fundamental differences in the way revenue bodies are structured, and in the taxes for which they are responsible, mean that a simplistic overall "ranking" of revenue bodies is neither possible nor informative. However, the data collected for the Series does enable comparative analysis of performance in some areas and also reveals some overall trends and emerging best practice in the more advanced economies of the world. So countries can use the Series not just to see how they compare with their peers, but also to see how the art of good tax administration is evolving. Understanding these trends and developments is increasingly important for the leaders of tax administrations as they are operating in a very challenging environment. Like many parts of public service across the world, following the global financial crisis revenue bodies are being required to do more with less. Sustaining, or better still improving, the flow of tax revenue has an important part to play in rebuilding public finances. In countries where the revenue body is seen as a successful branch of government, it is often being asked to shoulder new tasks, not all of which are closely linked to its core responsibility for tax collection.

Furthermore, the issue of taxation is itself both highly dynamic and topical. The perception that the wealthy and very large corporations are managing to shirk their responsibilities as taxpayers threatened to undermine public confidence in the world's tax systems. That confidence is critical to securing the generally high levels of tax compliance observed in most advanced economies. As a result, taxation is a key priority for the leaders of the G20 nations. The OECD project on Base Erosion and Profit Shifting (BEPS) is addressing directly the shortcomings in the international tax systems that make it possible for multinational enterprises to shift profits to locations where it will be lowly taxed and that are not where the substantive activities that give rise to those profits are undertaken. The work is currently policy focused but all 15 actions will have been completed by September 2015 and the focus will shift to implementation, and that means tax administrations. At the same time another G20 priority, the Automatic Exchange of Financial Account

Information, is also moving from design to delivery. This is a major step forward in the fight against offshore tax evasion and bulk data will begin to be exchanged between around 50 countries in 2017. For tax administrations this means they need to be ready not just to receive, but to keep secure and make effective use of, the very large volumes of data involved. In addressing this challenge and the others facing them, leaders of tax administrations know that learning from one another is going to play an important part in securing the successful outcomes they are seeking. That is why the FTA Commissioners underlined their determination to work more closely together to implement these global initiatives in the communiqué they issued after their meeting in Dublin in October 2014[4].

The work on BEPS and Automatic Exchange illustrates the close relationship between tax policy development and effective tax administration. The allocation of responsibility for tax policy development and tax administration within the government of a country will be affected by a number of factors, including its constitutional arrangements. While it is possible to allocate responsibility for both tax policy and tax administration to a single body, as is the case in New Zealand for example, in most countries we have looked at the two functions are separated. It is more usual for the tax policymaking role to be allocated to the Ministry of Finance in OECD and non-OECD G20 countries and for tax administration to be undertaken by a separate body. Whatever the institutional arrangements, it is important that there is a very close relationship between policy development and administration. If policy making becomes detached from the realities of how those policies need to operate in practice and how taxpayers actually behave, there is a real risk that the outcomes delivered will not be those that were intended. It is equally important that the revenue body understands what those intended outcomes are, so that its administrative efforts and goals can be properly aligned.

The structure of tax administration is affected by the extent to which taxes are levied at the sub-national, as well as the national level. Where this is the case, the tax administration function within the country can be organised in a number of different ways. The precise arrangements adopted by a country will be influenced by a variety of factors, including the constitutional history of the country, the subject matter of the taxes involved, geography and the complexity of the system. In a number of countries revenue bodies at the national and

[4] http://www.oecd.org/ctp/administration/fta-2014-communique.pdf

sub-national level operate relatively independently from one another. This may reflect differences in the types of taxes being levied. For example, if the sub-national taxes are mainly property taxes, while the national taxes are taxes on income, there may not be a great need for close co-ordination of activities. Where both tiers of government are taxing the same thing, such as business profits, the case for co-ordination will be stronger, particularly if it helps to reduce the costs of compliance for taxpayers. In a small number of countries the administration of taxes is fully decentralised, with the sub-national tier taking responsibility for the administration of both national and sub-national taxes. This tends to be the case where the sub-national tier has a high degree of autonomy under the constitution of the country. It is also possible for the administration of all taxes to be centralised in the hands of one body, even if policy responsibility for certain taxes is allocated to sub-national tiers of government. In practice a number of countries have adopted a mix of centralised and decentralised elements in their approach to tax administration.

While the precise structure of tax administration is likely to vary from country to country for the reasons discussed, the FTA’s research has identified certain key features that are associated with successful tax administration. To be effective a revenue body needs to have sufficient autonomy and independence. The first Chapter of the 2013 edition of the FTA’s Tax Administration Series discusses this in more depth and enumerates some of the typical powers of autonomous revenue bodies. These include discretion over the allocation of the overall budget between the different functions of the revenue body and responsibility for its internal organisation, including the geographical distribution of tax offices. Ideally the revenue body should also have the ability to set policies regarding the recruitment, development and remuneration of its personnel, to set the performance standards it will work to, and have the authority to exercise enforcement powers associated with the tax system (powers to obtain information and to collect tax debts for example). The purpose and specific missions and responsibilities of the revenue body should be clearly and explicitly stated. To be successful a revenue body will also need to be allocated sufficient resources and be working within a stable legal framework. The correct level of autonomy will help ensure that the decisions of the revenue body are, and are seen to be, the result of an independent and objective application of the rules of the tax system to the facts of each case.

Overall, more than half of OECD member countries have entrusted the task of tax administration to semi-autonomous bodies. Alongside this increased autonomy it is important revenue bodies are clearly accountable for the results of their operations and the integrity of their decision making processes, through a process of independent oversight and assessment. This has led to the creation of management boards to govern the day to day operations and external agencies to oversee the operation of the tax system.

When it comes to the scope of the responsibilities allocated to revenue bodies, one trend is very clear and that is unification of responsibility for the collection of direct and most indirect taxes (the exception being excise duties, which are generally administered by the body that collects customs duties). The collection of social security contributions on the other hand is still administered separately from taxation in the majority of OECD countries with social security regimes. However, the trend is to integrate the collection of tax and social security contributions, with an increasing number of countries making this change.

The way revenue bodies are organised internally is also changing. Many original organisational models were focused on the different tax types that the revenue body managed, as were the IT systems introduced towards the end of the last century to achieve savings in processing costs. So, different organisational units would deal with direct and indirect taxes, or corporate taxes and payroll taxes, for example. Over time there was an increased emphasis on functional excellence, with the organisational focus shifting to disciplines such as compliance (enforcement activity), collection and processing, or account management. As revenue bodies have begun to understand more about the ways in which different types of taxpayer behave differently, they have also begun to organise some functions, especially compliance, around broad segments of taxpayers, such as large business, small businesses and taxpayers involved in serious criminal activity. There has been some experimentation with matrix management arrangements, designed to combine the benefits of functional excellence with a greater focus on the customer, but these are quite difficult to implement in practice. More recently, revenue bodies have recognised that a focus on the end to end processes that are central to the operation of the tax system is the best defence against the silo mentality that can grow up in any large organisation, regardless of the specific organisational model it has adopted. Following the way in which work progresses, step by step, through an organisation can help to identify the problems that arise when processes cross internal management boundaries. Taking this a step further, revenue bodies have begun to look at the process from the taxpayer's point of view. This will reveal when processes that seem coherent from an internal perspective, make no sense at all to the taxpayer on the outside of the organisation. It also reminds revenue bodies that the process of good tax compliance starts some time before the submission of a tax return, which is the end of a process from the taxpayer's point of view.

Some revenue bodies are also rethinking how they are organised geographically. It has been commonplace for revenue bodies to have a presence in every major population centre and to allow taxpayers to make unscheduled visits to the tax office to obtain advice and submit returns and other documents. In many countries this remains an essential feature of the way tax administration is managed but some revenue bodies have questioned this model. Norway surveyed the people making unscheduled visits to their local offices and one of the findings was that people living in close proximity to a tax office were much more likely to call in. Taxpayers living further afield generally preferred to transact over the telephone, or electronically. This finding may not be particularly surprising but it helped demonstrate that a local presence was not essential to providing taxpayers with the services they need. Detailed figures about the relative costs of dealing with taxpayers face to face, over the telephone and electronically are not easy to obtain. If countries calculate these costs, they do not do so on a comparable basis. However, the analysis that is available suggests that the cost of dealing with people face to face is highest, particularly if the real estate costs of having a presence in a location that would otherwise not have a tax office are taken into account. That is why we have seen a number of countries moving to rationalise their physical locations and restrict or remove the ability to call into a tax office unannounced. Clearly restricting face to face access makes it even more important that alternative forms of contact work well for taxpayers[5].

The management of revenue bodies has also been evolving. In part this reflects a general trend towards greater transparency in government and increasing expectations from politicians and the citizens they serve in terms of efficiency and service. It is now quite

[5] The FTA recently published a report on improving self-service offerings to taxpayers: http://www.oecd.org/ctp/administration/increasing-the-use-of-self-service-channels-by-taxpayers-9789264223288-en.htm

usual for revenue bodies to publish their forward plans and to report publically how well they have performed against those plans. We make extensive use of these publications when preparing the Tax Administration Series.

I have already mentioned the extent to which the Global Financial Crisis has increased the pressure on revenue bodies to improve their performance. At the same time, the question of how best to measure performance, and what success actually looks like, has become more complex. In the past a revenue body would typically focus on a relatively small number of readily understood metrics. So overall efficiency would probably be measured in terms of the revenue body's own costs as a percentage of the revenue collected and it would discuss the "value added" by its operations primarily in terms of the extra money secured from auditing tax returns. However, if the desired outcome is that taxpayers make prompt payment of the correct tax at the outset, it is not clear that increasing audit yield is a measure of success. Arguably it is a measure of failure, especially if the increase in audit yield coincides with a reduction in the overall tax take that is not fully explicable in terms of policy changes, or reduced economic activity. In practice revenue bodies increasingly recognise the value of investing in measures that will prevent non-compliance occurring in the first place. However, these preventative measures score badly against performance metrics that only count audit yield.

Revenue bodies have begun to develop performance measures that are more balanced and better aligned with the desired outcomes. Some countries have developed measures designed to track the "tax-gap", which is the difference between the taxes actually collected and the taxes that should have been paid. This is not straightforward and tax gap measures tend to be backward looking, as the results take some time to compute. As a result, they are of limited value to operational managers. Other measures are needed to help guide day to day operational decisions; measures that focus on maximising the amount of tax that is paid correctly and on time[6]. Measures of compliance are also commonly complemented by measures of the quality of service provided to taxpayers (is the revenue body both timely and accurate when dealing with correspondence and telephone calls for example). Increasing use is being made of surveys designed to test the levels of taxpayer satisfaction with, and confidence in, the revenue body. These

[6] This subject is explored in much greater detail in the FTA's report on Measures of Tax Compliance Outcomes: http://www.oecd.org/ctp/administration/measures-of-tax-compliance-outcomes-9789264223233-en.htm

provide indirect evidence of how likely taxpayers are to comply fully with their obligations.

Measures of the cost to taxpayers of complying with their tax obligations are less well developed. Where they are used, they are often quite stylised and mainly intended to encourage simplification of the tax system at the policy level. Measuring the actual costs of compliance is not easy, particularly in the small business sector, and yet the cost of compliance is a real concern for small businesses. Small businesses are numerous and diverse and surveying the actual cost would be costly and potentially a further burden for the businesses. This is an issue that would repay closer examination. It should be looked at in the context of the compliance burdens imposed by government as a whole. There are real opportunities to eliminate the burdens that arise from duplicated demands and overlapping processes. In the meantime, revenue bodies have taken steps to simplify a number of key processes, taking advantage of technology to do so. The majority of revenue bodies we survey have enabled electronic filing of tax returns and on-line payment is increasingly widespread too. Pre-filling of the tax return for individuals is becoming more common. Some revenue bodies are now exploring how they can make tax compliance an integral part of the systems businesses use to transact and manage their affairs and this has real potential to both improve compliance and reduce the costs for business[7].

Successful tax administration is dependent on having the right staff with the right skills and staff salaries are the single largest cost for revenue bodies. It is therefore not surprising that the vast majority of revenue bodies have a formal HR strategy (88%). Staff development is also vital and most revenue bodies continue to focus on the areas of commercial awareness (63% is the latest figure) and/or risk management (89%). In terms of staffing numbers, the dominate trend is to reduce the overall size of the workforce (around 60% of revenue bodies taking part in the latest survey reported staffing reductions, while just a third increased staffing). The age profile of staff varies considerably. In the Nordic countries and a number of other European countries (Belgium, Italy, the Netherlands, Portugal and Spain) 50% or more of staff are over 50 years of age. Staff are younger on average in Eastern European countries, Asian countries, Russia, Saudi Arabia and South Africa. Where the majority of staff are under the age of 50,

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[7] The concept of "Tax Compliance by Design" is discussed in a recent FTA report: http://www.oecd.org/ctp/administration/tax-compliance-by-design-9789264223219-en.htm

there is a tendency for a higher proportion of them to hold academic qualifications at degree level.

Revenue bodies with an ageing staff profile face a challenge and an opportunity. The challenge is that several revenue bodies will see large numbers of their more experienced and senior staff retire in the near future. This is potentially a significant loss of knowledge and expertise, and requires careful management if it is not to disrupt operational effectiveness. In many cases financial constraints will mean that is it not possible to replace all retirees but there is still an opportunity to refresh the workforce. We have already noted that a younger workforce tends to be better qualified. But this is also an opportunity to diversify the skills and capabilities of the staff working on tax administration. Revenue bodies are increasingly aware that the levels of compliance observed in most advanced economies cannot be explained by reference to an economically rational model of taxpayer behaviour. The economically rational model assumes that taxpayers calculate the objective risk that any non-compliance will be detected and dealt with. In reality most taxpayers do not have the data on which to base that kind of calculation, and several other factors are in play, particularly social norms. Understanding what actually drives taxpayer behaviour and how to influence it, requires insights from diverse disciplines, such as analytics, social psychology and behavioural economics. Refreshing the workforce is an opportunity to recruit people with those skills. Unfortunately in many economies demand for people with these skills is high and revenue bodies may need to accept that a smaller workforce will also have to be one in which individuals are better rewarded.

Whatever staffing model revenue bodies adopt, it is likely to be one element in an overall drive to reduce the costs of the revenue body as a proportion of the taxes collected. It is typical for this cost of collection ratio to be used as the basis for comparing the relative efficiency of tax administration in different countries. The 2013 edition of the FTA’s Tax Administration Series suggests that the cost of collection is generally around 1% of the revenue collected. However, these figures need to be treated with care, both when making comparisons and when looking at trends over time. For example, if social security contributions are not included in the revenue total in one country, it is very hard to compare the figures with another country that does include this income. The 2015 edition of the Series will provide more recent figures and discuss the various factors that make it unwise to make crude comparisons based on these raw figures. Comparing total costs with GDP provides an alternative basis for comparison. This helps balance the picture but it too can be influenced by abnormal factors-for example the one-off capital costs of putting in a new IT system, or of implementing a brand new tax. The 2015 edition will provide the latest figures we have. The results vary significantly but there is a concentration of around one third of revenue bodies whose costs consistently fall in the range 0.15-0.25% of GDP over most, if not all, of the years surveyed.

The functional analysis of staff usage, which is a proxy for total costs, is not straightforward as definitions of what is audit, or verification, as distinct from account management, do vary. Even so, the range of results is striking. The 2015 Edition will show that some countries devote a very large percentage of their staff resources to verification-30-40% and in one case over 65%. On the other hand, some figures are much less, with the lowest being 9%. The proportion of staff allocated to account management also varies from less than 20% to over 40%. Debt management seems to be more consistent at around 10% but there are some countries with significant tax debts that are spending less than the average on debt collection.

In looking at key trends in operational performance in the 2013 edition we noted an increasing trend in the proportion of tax being refunded to taxpayers. The 2015 Edition will return to this issue and note that the there is an overall increasing trend in OECD countries but that the incidence of refunds is generally much lower in non-OECD countries included in the survey. The figures on tax debt reveal a wider variation in the amounts of debt outstanding as a proportion of total revenue. This suggests that there is significant variation in the effectiveness of debt collection strategies across the countries surveyed[8]. The results of verification activities (essentially any actions taken to check that tax liabilities have been properly reported) vary as proportion of revenue collected from 2% (or less) to over 8%. The reasons for these variations are not entirely clear.

The contribution that tax intermediaries can make to effective tax administration is something that we have highlighted in the Tax Administration Series. In the 2013 edition we noted that relatively few countries have comprehensive laws in place regulating the activities of tax intermediaries. The 2015 Edition will describe a number of recent

[8] The FTA published a report on modern tax debt collection methods in October 2014: http://www.oecd.org/ctp/administration/working-smarter-in-tax-debt-management-9789264223257-en.htm

developments that suggest more countries are moving to regulate tax intermediaries but that is just one element of a strategy to make more effective use of tax intermediaries to improve the operation of the tax system. The role of intermediaries is likely to be a focus for future work by the FTA.

As I noted at the outset, the environment in which revenue bodies operate is both challenging and increasingly dynamic. This is not just because tax administrations will need to address some major challenges of implementation as the G20 priorities around BEPS and Automatic Exchange move from design to delivery. To be successful revenue bodies will have to look at the challenges of tax administration in different ways. Increasingly they will need to look beyond the confines of their own organisations in order to deliver the outcomes expected of them. This reflects the fact that good tax compliance outcomes require revenue bodies to work with taxpayers to improve the processes they use to deliver accurate tax returns and timely tax payments. It will be reinforced by the realisation that a good understanding of what drives taxpayer behaviour enables the development of cost-effective ways of encouraging high levels of compliance. Revenue bodies will also need to look beyond pure tax administration too. Governments are becoming increasingly serious about joining up delivery across government and citizens' expectations are rising. This has implications for the core functions of revenue bodies, such as debt collection. Future Editions of the Tax Administration Series will follow these developments closely.