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FORUM ON TAX ADMINISTRATION

Information note

**Working smarter in structuring the administration,
in compliance, and through legislation**

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ABOUT THIS DOCUMENT

Purpose

This information note brings together the findings from the three components of the “Working Smarter” project relating to compliance, (re)structuring the organisation, and legislation. The note –which contains a large number of examples of strategies and specific activities– is intended to provide revenue bodies with support and inspiration when developing and deploying strategies to achieve savings or gains in efficiency and/or effectiveness without leading to increased costs or burdens for taxpayers. Specific attention is paid to strategies that also result in improvements for taxpayers.

Background to the Forum on Tax Administration

The Forum on Tax Administration (FTA) was created by the Committee on Fiscal Affairs (CFA) in July 2002. Since then the FTA has grown to become a unique forum on tax administration for the heads of revenue bodies and their teams from OECD and selected non-OECD countries.

In 2009 participating countries developed the FTA vision, setting out the creation of a forum through which tax administrators can identify, discuss and influence relevant global trends and develop new ideas to enhance tax administration around the world. This vision is underpinned by the FTA’s key aim – to improve taxpayer services and tax compliance by helping revenue bodies increase the efficiency, effectiveness and fairness of tax administration and reduce the costs of compliance.

Caveat

National revenue bodies face different environments within which to administer their taxation system. Jurisdictions differ in respect of their policy and legislative environment and their administrative practices and culture. As such, a standard approach to tax administration may be neither practical nor desirable.

The documents forming the OECD tax guidance series need to be interpreted with this in mind. Care should always be taken when considering a country’s practices to fully appreciate the complex factors that have shaped a particular approach.

Inquiries and further information

Inquiries concerning any matters raised in this information note should be directed to Mr. Richard Highfield (International Co-operation and Tax Administration Division, OECD Centre for Tax Policy and Administration) at Richard.Highfield@oecd.org

SUMMARY

All revenue bodies are confronted with the challenge of deciding how their limited resources should be allocated optimally to meet organisational goals and objectives and to satisfy external expectations of good service and reduced compliance burden. This particularly applies in the case of revenue bodies that are currently required to respond to cost-cutting demands flowing from government decisions to reduce the costs of public sector administration. Revenue bodies' structures (and process design) and compliance programmes are a key consideration in this context given the significant level of resources they typically consume and the perceived potential for reform using a combination of improved structures, process redesign, and more effective use of technology and legislation to streamline processes.

Against this background, the Forum initiated a project in early 2011 under the title 'Working Smarter' to examine measures taken by revenue bodies to reduce costs and increase efficiency in the areas of structuring, compliance, service delivery, and by using legislation. This note deals with the 'structuring', 'compliance' and 'legislation' components of the project.

In line with the broad objective of the 'Working Smarter' project, this study sought to identify how (re)structuring processes contribute to improved allocation of resources and reduced expenses, how processes can be optimised and executed with fewer mistakes and disputes and how changes in legislation can contribute to more cost-effective and simplified procedures. Drawing on a survey of revenue bodies and related research, the key findings are as follows:

- Revenue bodies generally rated (re)structuring the administration (and related process redesign and automation) as a high priority area for working smarter and delivering savings/efficiency gains and reported many approaches and specific examples. Significantly, these included a tendency to restructure along more centralised lines, to consolidate smaller or less efficient operations, redesigning and optimising their key business processes using tools developed in the private sector (e.g. 'Lean' principles and similar strategies) and further automating work processes and workflows across the organisation. Examples of significant cost savings or productivity improvements were provided by a small number of revenue bodies.
- Revenue bodies identified many examples for working smarter in compliance, although little in the way of potential for short term gains. It is clear that many are increasing their reliance on modern compliance risk management approaches and the use of technologies to facilitate compliance, support audit strategies or enhance their collection efforts. Another important development is the tendency to adopt co-operative approaches – engaging with taxpayers or other stakeholders to explore shared interests, including the resolution of material tax risks, early certainty, a level playing field, and reduction of costs. In short, smarter compliance outcomes require revenue bodies to invest a fair amount of resources and effort before benefits can be harvested, suggesting the need for a strategic focus over the medium/long term.
- Revenue bodies reported a range of involvement in the legislative process. Although the number of specific examples of efforts reported is relatively small, they do demonstrate how legislative change can readily facilitate smarter working. It is consistent with an approach to improving administration that examines the root causes of inefficiencies by reviewing key processes from end-to-end.
- With few exceptions, survey responses did not shed a lot of light on the specific internal governance/management arrangements in place, including approaches for monitoring and evaluating impacts, to oversee the larger cost reduction efforts underway, making it difficult to fully describe and/or appraise them.

Recommendations

- **Working smarter in structuring the organisation:** Revenue bodies are strongly encouraged to: 1) Keep abreast of technological developments in revenue administration generally

and take advantage of opportunities for further automation of workflows and processes; 2) Oversee efforts to study and apply the methods for process optimisation used successfully by other revenue bodies and the private sector (e.g. Lean approaches); and 3) Be alert to the potential for further concentration or consolidation of work processes.

- ***Working smarter in compliance:*** Revenue bodies should continue to explore opportunities for working smarter by: 1) More rigorously applying modern compliance risk management principles and strategies; 2) Shifting compliance activities upstream and addressing compliance risks earlier in the sequence of events potentially leading to compliance failures; and 3) Facilitating compliance through electronic services with continuous improvement of these services, and by increasing their take-up.
- ***Working smarter with legislation:*** Revenue bodies are strongly encouraged to: 1) Include the legislative aspects of any process in a review of its design and efficiency, 2) Identify ways in which legislative change can reduce costs of tax system administration, whether those are the direct costs borne by the revenue body, or those imposed on taxpayers; 3) Examine the scope to improve compliance with legislation that tackles compliance issues upstream by making it easier to comply, or that enables the more efficient management of issues of difficulty, or disputes; and 4) Ensure that the framework of thresholds, deterrence and penalties is effective and up to date.
- ***Managing with constrained budgets:*** Revenue bodies, particularly those facing significant cost reduction challenges over the short/medium term, are strongly encouraged to have robust governance processes in place for delivering the efficiency gains expected while improving their compliance and service delivery performance levels.

I. INTRODUCTION

Background

1. Government demands and expectations since the onset of the global financial crisis in 2008/09 have heightened awareness among public sector agencies of the need to improve the cost-effectiveness of their operations. This has been particularly relevant in a revenue administration context as revenue bodies in many OECD countries have been set challenging cost reduction targets while maintaining, but preferably improving, their standards of service delivery and the effectiveness of their compliance improvement efforts.
2. The FTA has undertaken considerable comparative work in recent years to identify trends and developments in the administration of tax systems and their operational performance.¹ However, to date there has been only limited focus on the specific programmes and activities of revenue bodies to reduce their operational costs in the face of significant cuts in their administrative expenditure budgets.

The role of the Forum

3. In September 2010 and January 2011, FTA Bureau members discussed proposals for future FTA work and the proposals “*Managing tax administrations in a climate of constrained budgets*” and “*Demand management*” were chosen for future work as a combined new priority project under the combined title of “*Working Smarter*”.
4. The Working Smarter project is to examine measures taken by tax administrators to reduce costs or increase the effectiveness of taxpayer compliance and service activities. Specifically, the project will research and identify measures on the following subjects: working smarter in structuring revenue bodies; working smarter in compliance; working smarter in legislation; and working smarter in service delivery.
5. This information note deals with the subject of working smarter in structuring revenue bodies, compliance and legislation. For this component of the overall project, it was agreed that the work would be led by the Netherlands Tax and Customs Administration under the sponsorship of Commissioner Peter Veld. To assist with the work a number of countries –Canada, Chile, Finland, France, New Zealand, Singapore, Spain, Sweden, and the United Kingdom– agreed to participate in a task group to support the work. This report was prepared by staff from the Netherlands Tax and Customs Administration and the OECD Centre for Tax Policy and Administration.

The focus on structuring, compliance and legislation

6. The purpose of this component of the work is to collect and share knowledge on developments, strategies and solutions for ‘Working Smarter’ as it relates to the structuring of revenue bodies, their compliance activities and the use of legislation. One of the key features and a condition for evaluation

¹ For example, see “*Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series 2010*” (OECD, 2011), which contains a large array of descriptive information on administrative setups and quantitative data related to the costs and performance of revenue bodies in OECD and selected non-OECD countries; “*Survey of Trends and Developments in the Use of Electronic Services for Taxpayer Service Delivery*” (OECD, 2010), which provides a detailed account of progress and plans for the use of technology in electronic service delivery; and “*Right from the Start: Strategies for Influencing the Compliance Environment for Small and Medium Enterprises*” (OECD, 2011), which provides an overview of initiatives to support a pro-compliance environment. Please consult the list of references at the end of this document for more references and links to electronic versions of these documents.

has been the effect of measures on taxpayers: measures should lead to a win-win situation and not an increase in taxpayers' burden. In other words: saving costs should not mean that these costs are shifted on to taxpayers.

7. Specifically, the component has set the following research targets:
 - ***Working smarter in structuring the administration:*** Evaluate, from an organisational perspective, how (re)structuring processes contribute to improved allocation of resources and reduced expenses.
 - ***Working smarter in compliance:*** Evaluate, from a compliance perspective, how processes can be optimised and executed with fewer mistakes and disputes and how other parties, inside and outside of government, can contribute.
 - ***Working smarter in legislation:*** Evaluate, from a revenue body and taxpayer perspective, how changes in legislation contribute to cost-effective and simplified procedures for levying, auditing and collecting of taxes.

The study

8. For the purposes of the study, a survey instrument was designed in conjunction with task group members and issued to all FTA revenue bodies. The survey instrument was comprised of a questionnaire accompanied by separate templates for the provision of examples; countries were asked to fill out the questionnaire and provide examples of activities and projects that aim at achieving savings or increasing efficiency and/or effectiveness without increasing the cost or burden for taxpayers.
9. A total of 28 countries responded, of which 26 completed the questionnaire and 27 provided examples. Participating countries provided a total of 134 examples. Since some initiatives concerned more than one area, templates were carefully judged and assigned to the area that was most central to the initiative. This resulted in the following numbers of examples being considered for each of the areas: compliance: 63, structuring: 53, and legislation: 18.
10. For practical reasons, it has not been possible to reproduce all examples nor to reproduce example templates in full length. Instead tendencies are discussed under the appropriate headlines with reference to relevant individual examples or illustrated by tables bringing together a number of similar examples, and particularly illustrative examples are highlighted in boxes.
11. In addition, the study team in the Netherlands carried out research to better understand the use of some working smarter approaches in the private sector. Specifically the team met with representatives from large businesses in the Netherlands to derive information on how these businesses deal with similar challenges.
12. The input received serves as the basis for the information and analysis provided in later chapters of this note which is structured as follows:
 - Chapter II provides context for the study;
 - Chapter III describes the nature of important restructuring initiatives reported by revenue bodies (and provides practical examples);
 - Chapter IV describes compliance-related initiatives (and provides practical examples);
 - Chapter V describes legislative initiatives (and provides practical examples); and
 - Chapter VI sets out the main conclusions and recommendations.

II. MANAGING IN A CLIMATE OF CONSTRAINED BUDGETS

13. To set the context for the measures being taken by revenue bodies to reduce costs and improve their efficiency, as described in subsequent chapters, this chapter sets out details of:
- The targets and goals that revenue bodies are expected to achieve;
 - Revenue bodies' views on the potential for savings/improvements in specific areas of administration identified in the survey questionnaire;
 - Examples of findings from recent FTA comparative studies that point to the potential for savings/improvements across OECD revenue bodies;
 - Revenue bodies' plans and strategies for bringing together initiatives intended to cut costs and work more efficiently; and
 - Measures and indicators being used to evaluate impacts of programmes.

Cost reduction challenges confronted by revenue bodies

14. In order to understand the scale and nature of the challenges confronting member revenue bodies, the survey undertaken sought information concerning any cost/staff reduction programmes that were underway, as follows:
- 1) Is your revenue body currently actively reducing costs and/or decreasing the number of staff?
 - 2) Does your revenue body have a target or goal to reduce costs and/or decrease the number of staff in the coming years?
 - 3) Does your revenue body have plans or strategies which bring together initiatives towards cutting costs and working more efficiently?
15. Revenue bodies responding positively to questions 2) and 3) above were requested to provide additional information.
16. A summary of the responses received is set out in Table 1 below. As will be evident from the information provided, the circumstances of individual revenue bodies vary significantly, no doubt the result of differing economic circumstances across the countries surveyed and any decisions made concerning demands for cost reductions and/or improvements in efficiency and how they should be achieved. Some observations from the information provided are as follows:
- Significant targets for reduction of costs and/or staff have been imposed in many surveyed revenue bodies;
 - In a number of revenue bodies, significant limits have been imposed on staff recruitment with consequential impact on the capacity of these revenue bodies to replace experienced retiring staff; and
 - A number of surveyed revenue bodies (e.g. Denmark, Finland, France and United Kingdom) were subject to significant programmes for cuttings overall costs and/or reducing staff in the years leading up to 2011.

Table 1. Costs/staff reduction programmes of revenue bodies

Country	Face cuts in costs and/or staff	Reduction targets for coming years	Strategies to bring together initiatives
Australia	✓	The ATO is subject to an ongoing efficiency dividend of 1.5%. For the 2012-2013 fiscal year, this has increased to 4%, together with a 20% reduction in capital expenditure.	
Austria	✓	Reduction in budget of 3% until 2014, but now having to absorb staff from other agencies; no overall change.	-
Belgium	✓	Federal limits of one new recruit for every three departures (around 1,000/1,500 each year in MoF).	✓
Brazil	✓	No set reduction target or goal.	✓
Canada	✓	2010-11 budgets not augmented to cover agreed wage increases; budgets for two following years frozen at 2010-11 levels. Further review in course.	✓
Chile	x	Nil	✓
China	✓	Reduce cost of collection by 30% over coming four years.	✓
Denmark	✓	Long term target to reduce staff levels by 35% and total expense level by 25% compared to 2004; state budget projects 7,764 FTEs (2011) and 6,528 FTEs (2015), a reduction of 17%.	✓
Estonia	✓	Nil	✓
Finland	✓	Reduce staffing by 7% (equivalent to 335 FTEs) from 2012 to 2015.	x
France	✓	Revenue body allowed only one recruit for every three departures (while the ratio is one to two for the government as a whole).	✓
Germany	✓	Targets for cost reductions set individually by most states.	✓
Hong Kong, China	x	Nil (10% reduction in staff levels achieved over last ten years from automation and improved risk management).	✓
Hungary	✓	Reductions of 10%+ (2011) and 3% + (2012) in material costs.	✓
India	x	Nil	✓
Ireland	✓	Reduce staff from 6,581 to 5,944 from 2009 through 2011, and reduce administrative budget by 5% (2009), 13% (2010) and 2% (2011).	✓
Japan	✓	Nil	✓
Netherlands	✓	Reduce budget by EUR 400 million (1/6 of total) until 2015 for tax and customs: EUR 240 million from efficiency gains and EUR 160 million through legislation.	✓
New Zealand	✓	Savings of NZD 29 million (4.5%) delivered in 2010/11. Budget 2011 requires further savings (up to 3%) for 2012 while the revenue body is also seeking to self fund inflation and workload increases.	✓
Norway	✓	Nil	✓
Poland	x	Nil	✓
Singapore	✓	Reduce budget by 0.5% per annum.	✓
South Africa		(Not reported)	
Spain	✓	Salaries cut by 5% in 2010. Budget for 2011 permits only one new recruit for every ten departures.	✓
Sweden	✓	Nil	x
Switzerland	✓	Ongoing freeze on administrative budget	✓
United Kingdom	✓	Savings of 25% required over four years (2011 to 2015) with capacity to reinvest GBP 900 million in compliance activities producing additional revenue. Reduction of 10,000 staff down to 56,000.	✓
United States	✓	Legislative proposal entailing cut of 3% on prior year is being considered.	

Prior work of the Forum

17. Further insights to the potential for savings can be found in the Forum's comparative work carried out in recent years. For example, the comparative study *"Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series 2010"* (OECD, 2011) identifies many examples of administrative arrangements and practices and levels of operational performance that provide indications of potential for significant improvements in efficiency, effectiveness and standards of service in many revenue bodies:

- Concerning aggregate administrative resource usage:
 - Tax administration expenditure of typical revenue bodies (administering personal income taxes, corporate income taxes, and value added taxes) measured as a proportion of their GDP vary by a multiple of over 3;
 - The ratio of citizens to revenue body officials (FTEs) for tax administration-related work in a typical revenue body ranges from just under 300 to almost 1,800, with a concentration of countries (14) in the range 400 to 600, but with 9 below 400:1; and
 - Aggregate staff usage for corporate management functions exceeded 20% in 6 revenue bodies and 15% for 18 revenue bodies.
- Many countries continue to administer the collection/enforcement of social security contributions through a separate agency—in many respects, a separate tax body—while there has been a clear trend towards integration over the last two decades to achieve a range of benefits that have been highlighted in various studies.²
- While there has been considerable growth in the use of electronic services, recent data suggest that many revenue bodies can make far greater use of electronic filing and payment services:
 - Personal income tax: 11 revenue bodies with e-filing rates of less than 50%;
 - Corporate income tax: 14 revenue bodies with e-filing rates of less than 50%;
 - Value added tax: 15 revenue bodies with e-filing rates of less than 50%; and
 - All taxes: 11 revenue bodies received in excess of 40% of their payments by way of cheque or cash payments made by mail or in-person at the revenue body or its agency; over 60% of revenue bodies reported the use of in-house in-person payment facilities, while others are known to have eliminated such facilities for efficiency-related reasons.
- Despite their significant electronic service offerings:
 - Some revenue bodies operate with an unusually large network of offices offering in-person services; related data suggests potential for greater concentration of tasks (e.g. information processing centres and call centres); and
 - Many revenue bodies continue to receive very large numbers of in-person visits and paper correspondence indicating significant savings potential, as also indicated by the Demand Management component of this project.
- A fair number (11) of corporate income tax regimes of OECD countries are still based on legal technical assessment principles, not self-assessment, with implications for work design.
- Some revenue bodies administer personal tax and/or corporate tax advance payment regimes and VAT regimes with very low thresholds, resulting in significantly greater workloads (i.e. payments and registrations) and additional compliance burden for taxpayers.

² For instance *"IMF Working Paper: Integrating Tax and Social Security Contribution Collections Within a Unified Revenue Administration: The Experience of Central and Eastern European Countries"* (Barrand et al, 2004) and *"Case Studies in Merging the Administrations of Social Security Contribution and Taxation"* (Bakirtzi et al, 2010).

Potential for savings or gains

18. As part of the survey undertaken, revenue bodies were requested to rank the potential for cutting costs and/or improving efficiency (without shifting the burden to taxpayers) in compliance, restructuring and the use of legislation. Because compliance covers a wide variety of issues, the following categories have been distinguished in the questionnaire: helping taxpayers to comply (facilitating compliance); audit strategies; collection measures; dispute resolution; and other initiatives.
19. The responses (summarised in Table 2 below) indicate that the vast majority of revenue bodies see very significant or reasonably significant potential for savings by working smarter in helping taxpayers to comply and in re-structuring the administration. The responses also indicate that revenue bodies see less but reasonable potential for working smarter through the use of legislation and through audit strategies, followed by collection measures, dispute resolution, and other measures in compliance.

Table 2. Revenue bodies' rankings of potential for working smarter

Country	Working smarter in compliance					Working smarter in structuring	Working smarter through legislation
	Helping taxpayers	Audit strategies	Collection measures	Disputes	Other		
Australia	4	4	3	3	-	3	4
Austria	4	3	3	2	-	2	4
Belgium	3	3	3	2	4	3	2
Brazil	4	4	4	4	-	4	4
Canada	3	3	2	2		3	3
Chile	4	4	4	3	-	2	3
China	4	2	3	1	-	3	3
Denmark	4	3	4	2	4	3	4
Estonia	4	3	3	2	-	3	3
Finland	4	3	2	2	-	3	3
France	3	-	-	4	-	4	2
Germany	3	2	2	2	2	3	3
Hong Kong	3	3	2	2	-	3	2
Hungary	3	4	3	3	4	3	4
India	4	4	4	4	4	4	4
Ireland	4	3	4	3	-	4	3
Japan	3	3	3	-	-	3	3
Netherlands	4	4	2	3	4	4	3
N. Zealand	4	4	4	4	-	4	4
Norway	3	3	2	3	-	4	4
Poland	4	2	3	3	3	3	2
Singapore	4	3	1	1	-	3	3
South Africa							
Spain	4	2	3	1	1	4	1
Sweden	3	2	2	2	3	3	3
Switzerland	3	4	3	2	-	4	3
UK	2	3	3	3	-	3	2
USA	2	2	3	2	-	-	2
No. of 3/4 rankings	25	20	17	12	7	24	20

Rankings: 1=not at all, 2=minor, 3=reasonably significant, 4=very significant.

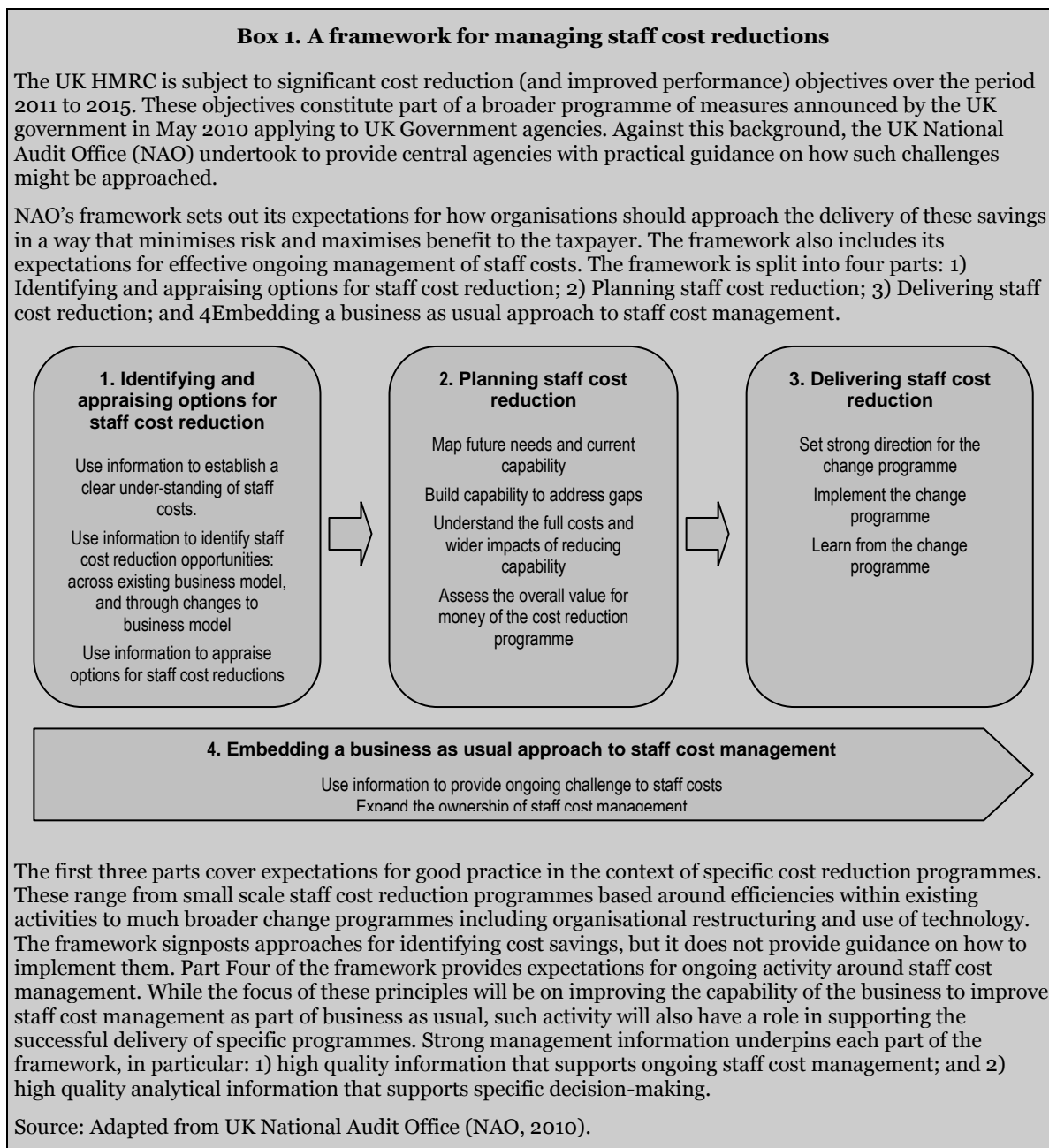
Plans and strategies for managing reduction

20. As noted earlier, the survey also sought to gather information on the plans and strategies used by revenue bodies which bring together initiatives towards cost cutting and working more effectively. Responses to this request were generally limited in detail although some particularly useful insights were reported by a few revenue bodies and these are set out in Table 3 below.

Table 3. Strategies and plans for managing initiatives to reduce costs

Country	Initiative
Ireland	<p>Pursuant to a formal Public Service Agreement (2010-2014), the Irish Revenue has established a detailed plan of actions to be taken over the period to address the challenges arising from reduced levels of staff and funding. These actions are focused in the following areas:</p> <p>1) Better human resource management (including reductions in numbers, redeployment, reconfiguration of service delivery, revisions in attendance arrangements, better attendance etc.</p> <p>2) Better business processes and delivery for citizens (including efficiency measures and improvements to processes through which Revenue delivers its services to the public, including changes to the technology used, better data management, including around identity).</p> <p>These actions are to be integrated into a more detailed Statement of Strategy being prepared in late 2011 and elaborated in the annual Corporate Business Plans. There is also a formal programme of actions being taken or planned, against which performance must be regularly assessed and made public.</p>
New Zealand	<p>Inland Revenue's (IR) vision for the future is set out in the strategic document "IR for the Future", launched in March 2011. The document has a focus on efficiency and working together with other organisations to deliver better services and value. It is expected that this document will influence business plans across the organisation and the development of the strategic plan, reinforcing the need for reducing cost of administration while improving services to New Zealanders.</p> <p>Moreover, IR currently has a programme in place that looks at transforming the business. This long term programme is responsible for finding new ways to deliver customer services, and improve or change business processes and systems. It will make compliance faster, easier and less costly for customers; provide innovative online services, help us respond faster to future changes and maintain the integrity of the tax system.</p> <p>At a governance level, IR reviews quarterly its investment portfolio, forward looking five year financial strategies; this ensures its current investments respond not only to its current needs and challenges but also to future challenges. In this review, the organisational focus on balancing the portfolio of investment between transformation, business improvement, asset management, legislative and government priorities. It also takes into account risk aversion, benefit realisation, fiscal pressures while reviewing and monitoring base allocations of resources across IR to ensure optimal resource allocation.</p>
United Kingdom	<p>HMRC's vision for the future is set out in its strategic document Vision, Purpose and Way. From this flows the HMRC business plan with six strategic objectives. The HMRC business plan for 2011- 2012 includes the purpose, vision and way and sets out how HMRC will use its customer-centric business strategy to deliver its objectives, how it will deal with avoidance, evasion and criminal attack, and how it will provide value for money for the taxpayer. The Business Plan details the customer-centric strategy which is pivotal to HMRC working more efficiently with the full range of taxpayers, adapting the way HMRC deals with each segment according to the behaviour of that group.</p> <p>HMRC's Online and Digital Strategy project is fundamental and outlines the ways and means for it to do more and better for less in terms of: channel shift and the take up of cheaper channels; productivity and operational efficiency and the related cost base; and customers' experience. In addition, PaceSetter is HMRC's continuous improvement programme and each business area is relying on PaceSetter to deliver efficiencies which are necessary to live within the Spending Review budget. PaceSetter is designed to improve efficiency, manage the performance of teams and improve the quality of customer service.</p>

21. With many revenue bodies required to meet significant cost reduction challenges and little information reported on how such efforts are being managed it is possible that some revenue bodies would benefit from practical guidance on approaches to conducting large scale cost reduction programmes. In this respect, the insights set out in Box 1 below, drawn from a recent UK National Audit Office (NAO) report prepared for all UK public sector agencies, may be of assistance.



22. A more recent NAO report described features of UK HMRC’s new governance arrangements for implementing its Change Programme. These may be of interest to other revenue bodies facing similar cost reduction objectives.

Box 2. Main features of HMRC's governance arrangements

Change Directors have been appointed to oversee the cost reduction and Change Programme initiatives in their business areas and are accountable to the relevant Executive Committee member.

Project managers have been appointed for each project and are accountable to a specified Change Director for progress.

Business areas are responsible for ensuring that budgets are met, using well established systems in HMRC for monitoring and authorising expenditure.

The central change programme team is responsible for assuring delivery of overall implementation of the Programme. It has access to a pool of staff experienced in project management that can take control of key projects if they are not progressing as planned.

Central Finance monitors the cost reductions achieved and progress towards targets.

Evaluation and indicators

23. As noted earlier, working smarter focuses on initiatives that will ideally lead to a win-win situation; more efficiency and (cost-) effectiveness for the administration and at the same time less burden for the taxpayer.
24. In order to establish whether initiatives contribute to reaching these goals, some form of evaluation is necessary. In general, in order to determine efficiency, cost-effectiveness and effectiveness a distinction has to be made between input, output and outcome. Input refers to the resources that are being used (e.g. staff, budgets). Output, on the other hand, typically refers to the products of internal activities undertaken by an organisation within a defined period to produce the outcomes sought. For a revenue body this would include tax revenue, answered inquiries, completed audits and finalised debt cases. Outcomes are typically associated with impacts, results, and external consequences (e.g. the level of voluntary compliance, taxpayers' compliance burden).
25. Efficiency relates to the use of resources (input) to produce a certain level of output. Efficiency is greater when output increases with the same level of input or conversely, achieving the same output with less input (e.g. increasing the number of completed audits for a given level of staffing). Effectiveness is typically associated with the extent to which desired outcomes are being achieved. Efficiency measures (e.g. number of audits performed per staff resource) reflect the relationship between outputs and the inputs used to produce them, while effectiveness measures reflect the outcomes achieved (e.g. extent of change in compliance achieved) vis-à-vis the desired outcomes/objectives (e.g. extent of change in compliance sought).
26. In their recent book *"More with Less, Maximizing Value in the Public Sector"* Bernard Marr and James Creelman note that a study of strategic performance management among more than 500 public sector bodies across the globe for the Advanced Performance Institute (API) found that *".....public sector bodies are typically not paying attention to the measures that are more likely to drive breakthrough performance improvements. Mostly, public sector bodies collect data on outputs that are typically things easy to measure, instead of "outcomes", which are the ultimate goals of an organisation..... Being "output" as opposed "outcome" focused drastically reduced the potential of driving efficiency gains and performance improvement."* (Marr and Creelman, 2011).
27. In their survey responses, 21 out of the 23 revenue bodies responding to the question reported that they develop and use indicators to evaluate whether efficiency programmes or activities are having the desired effect. However, much of the details of these responses relate to the systems of performance measurement in place at the aggregate/programme level and it is not clear to what extent evaluation is being undertaken in respect of individual initiatives and whether efforts are being made to assess their

actual impacts (i.e. outcomes) including those affecting taxpayers (e.g. service timeliness and customer satisfaction).³

28. In the responses examples can be found of indicators for inputs, outputs and for a few, outcomes, but in the main revenue bodies appear to focus mainly on outputs. A few have indicators that relate input to output (e.g. “output per staff”, “cost per output”) and thus have a direct indicator for cost-effectiveness. Typical input indicators are the number of staff and the costs or budgets. Output indicators can be performance measures, such as the volume of use of electronic services, progress reports, number of audits, etc. Outcome indicators are related to compliance as a goal, such as timely payments, total amount of outstanding taxes or standards of service delivery or customer satisfaction levels. Only a few countries indicate they use indicators for customer satisfaction. Examples of the approaches taken and measures used for evaluating efficiency are set out in Table 4 below.

Table 4. Indicators or measures for evaluation of efficiency

Country	Use of indicators or measures for evaluation of efficiency
Canada	The Canada Revenue Agency has a performance measurement framework in place that establishes performance indicators and key outputs for all of its major activities. Programme areas are responsible for forecasting their workloads and establishing performance targets for each performance indicator relative to their area of accountability. Progress against the established targets is monitored systematically throughout the year and variances are analysed in detail. Because this approach is firmly embedded within the routine management practices of the Agency, it is reasonable to say that performance measurement indicators are at the foundation of every action in the CRA that assesses and evaluates programme efficiency and effectiveness. This process has led the organisation to make in-year adjustments to its budget in order to address emerging issues.
Ireland	Corporate performance indicators are used both within the organisation and Government to measure and report on Revenue’s performance as a tax and customs administration. These include: gross and net revenue collected as a percentage of GDP; Ratio of tax debt available for collection as % of total gross receipts; Level of timely filing and payment compliance; Yield from risk based audits and % of yielding audits; percentage of correspondence and telephone calls dealt within set customer service standards; Total administration costs as a percentage of gross collection; and Ease of paying taxes (World Bank-PWC ranking). At an operational level, a wide range of more detailed performance indicators are in place. These are measured and reported to senior managers on a monthly/quarterly basis. A project is underway to improve the measurement and reporting of costs and performance. This project will deliver more flexible and outcome-focused management information. The first phase of this project was delivered in May 2011, with other phases scheduled for September 2011 and late 2012.
Singapore	The Generic Design Process defines the procedure for the design, development, implementation and review of any initiative in IRAS. Some initiatives that have used the process are the projects on mobile services, e-filing service and introduction of IRAS’ official Twitter page. The framework has four steps—prepare design requirements; develop and review; implement and launch, post implementation review (PIR). For PIR, a paper must be tabled to inform senior management of comparisons between actual and planned project cost, schedules, and savings. The owners also touch on the difficulties faced and lessons learned, including recommendations on how to overcome them in the future.
United Kingdom	HMRC’s business plan includes a key set of performance indicators (which have related monthly targets). The Performance Committee discusses progress against these targets on a monthly basis. In 2011-12 the efficiency programme will have the following aims: 1) Make further efficiency and value for money savings; 2) Continue to reduce property estate; 3) Raise productivity and quality through leadership and new ways of working; 4) Drive better

³ Similar concerns has been raised in past Forum work and it was, in part, for this reason that it undertook work in 2009/10 to devise a set of practical guidance for evaluating the effectiveness of compliance risk treatments—refer “Evaluating the Effectiveness of Compliance Risk Treatment Strategies” Guidance Note (OECD, 2010).

	<p>value for money from suppliers and ensure budgets are spent wisely; 5) Increase the effectiveness and efficiency of central and support functions; and 6) Learn from and share best practice with other Government departments and tax authorities.</p> <p>There are key performance indicators against each of these aims: 1) To achieve efficiency savings of GBP 355 million, gross terms before redeployment, while maintaining or improving performance on Quality, Lead Time and Work Done on Time against 2010-11 baselines; 2) To reinvest GBP 132 million of those savings to deliver additional revenues of GBP 2bn; 3) To reduce staff numbers to about 63,400 FTEs by April 2012; and 4) To clear all legacy Open Cases and to stabilise PAYE by getting up to date by December 2012</p> <p>In addition, effectiveness and pace of efficiency is being monitored through the Change Programme.</p> <p>Finally, an efficiency plan will identify the value of efficiencies sought from each initiative and this will be monitored throughout the period. This monitoring includes reporting monthly the change in number of full time equivalent (FTE) posts and whether they have been redeployed into work which is part of the reinvestment package; additional yield, customer benefits. Each initiative funded through the Change Programme will be subject to post implementation review. In compliance, measures are developed such as productivity ratios per staff unit; number of interventions completed; average elapsed time for intervention; yield; cash to bank, revenue loss prevented, and deterrent effect.</p>
United States	The organisation uses measures of productivity (e.g., units per FTE) and programme delivery (e.g., timeliness or level of service), as well as overall programme cost indicators to assess the impact of efficiency improvement efforts.

29. The template used to gather examples of working smarter initiatives also asked whether the initiative was evaluated and what lessons had been learned. The results are discussed in the following chapters.

III. WORKING SMARTER IN STRUCTURING THE ADMINISTRATION

30. Revenue bodies continue to develop new ways of working that will reduce costs whilst protecting the revenue base and reducing the size of the tax gap. These include innovative approaches to structure their administration. This chapter evaluates, from an organisational perspective, how structuring processes contribute to improved allocation of resources and reduced expenditures. This part of the research is more inward-looking as it focuses on revenue bodies' internal structuring of functions and tasks.
31. The chapter starts with a section setting out the overall findings from the survey relevant to structuring the administration. This is followed by separate sections related to organisational redesign, business process redesign, workflow management, knowledge management and subcontracting processes.

Overall picture from the survey

32. From the survey responses it appears that revenue bodies consider structuring the administration, together with facilitating compliance, to have the most potential for working smarter. A total of 24 revenue bodies consider the potential for working smarter in structuring the administration to be significant or reasonably significant, while only two revenue bodies considered it to be minor or non-existing. This is also an area where almost all the revenue bodies are focussing in order to work smarter. This trend is reflected in the examples supplied by countries on actual activities. A total of 53 of the examples supplied are about initiatives in structuring the administration.
33. The survey provided a few examples of categories related to working smarter in structuring the organisation. The two categories that have received the greatest attention in the questionnaire responses were the category organisational redesign and the category business process redesign, as most of the responses are related to these categories. Other example templates were related to workflow management, knowledge management and outsourcing of work.

Organisational redesign

34. One of the two categories that received the greatest attention in the example templates is the organisational redesign of the tax administration.

Centralisation of processes under one management

35. Traditionally in many countries tax administrations had a decentralised structure. Physical presence at local level was necessary to be in contact with the taxpayer and to perform audits. Coordination of activities to attain unity in the execution of tax law was reached by extensive central guidance and complex internal procedures.
36. From the survey responses it is evident that numerous revenue bodies have strategies in place to redesign their organisation towards a more centralised approach. Governing the tax processes under one central management is part of these strategies. This centralisation tendency has to be placed in the context of technological developments and compliance strategies.
37. Technological developments in services such as e-services and modern call centres make it possible to provide better service in a more efficient way. For compliance activities, physical presence at the local level will often still be needed, but to a lesser extent than before. Many countries switch their strategies from focusing on individual tax returns to a more integrated approach based on compliance risk management. This, however, needs a strong coordination at the central level. See Table 5 below for examples of centralisation.

Table 5. Centralisation of processes

Country	Initiative
Hungary	In Hungary, the two existing organisations have been integrated into a new unified organisation responsible for almost all government revenue activities (taxes, contributions, duties, customs duties). The different organisational cultures, historical traditions, personnel and generational differences of the two predecessor organisations, as the harmonisation of the IT systems are issues which are continuously handled.
Denmark	Denmark has restructured the revenue administration from 2005 to 2010. In 2005 there was a merger between state and the municipal administrations to one unified state administration also including recovery. In 2009, 13 nationwide and specialised units were created within the frames of the unified administration. The administration is organised in six regional units each responsible for two or three of the 13 specialised units. The structure is inspired by the business model of the tax administration based on the main processes: guidance, collection, compliance, recovery, management and development and also support.
Germany	To optimise the organisational structure of tax offices in Germany, various business functions (assessment, collection, treasury and bookkeeping) have been centralised under a uniform management.
France	In 2008, France decided to merge the Revenue Agency with the Public accountancy, in order to create one unified structure. The tax administration offers now dedicated units and contact-points for all taxpayers' segments, individuals, Small and Medium Companies and Large Businesses. This organisation strengthens the capacity to collect in complex tax situations, brings together support functions and offers expended services.
Chile	In 2008 Chile began a process aimed at adjusting the structure of the tax administration to a recently established taxpayer classification model. As a result, the local offices were organised into two areas: taxpayer services area and compliance control area, which is structured according to taxpayer.
Canada	In Canada the administration of Ontario's corporate tax was transferred to the Canada Revenue Agency. Prior to this transfer, the Ontario Ministry of Revenue administered its own provincial corporate tax programme. This meant Ontario businesses had to file two tax returns and work with two separate tax administrators. Under the new single administration, Ontario businesses would benefit from one set of rules, one tax return, one audit, one process for rulings and appeals, and one point of contact for corporate income tax issues. In addition to what has been done in other provinces, Canada has centralised the collection and administration of value added taxes for the province of Ontario. This initiative reduces overall processing costs as returns can be submitted once by the claimant and processed from the same form, leading to much greater processing and administrative efficiency. With a centralised administration, greater validation of processing data is also possible.
China	China is facing a rapid growth of the amount of taxpayers and of the scale of companies. To respond to this situation, China is implementing a pilot in several provincial tax offices. The guidance is risk management based on taxpayer classification. The standardisation of management procedures and of tax collection is also part of the pilot.

38. These examples underline that placing the tax processes under one central management function helps to improve the uniformity and efficiency of processes. The example below from the Finnish Tax Administration is particularly significant in this regard.

Box 3. Restructuring the Finnish Tax Administration

The Finnish Tax Administration is currently restructuring the entire organisation. In the 1980s the organisation was in three levels (national board of taxes, regional tax offices, and local tax offices) and the number of tax offices was very high. Over the years the number of tax offices has been steadily decreasing and the organisation was changes at two levels (national board of taxes and regional tax offices).

The current restructuring started some years ago. The new organisation will be based on business lines according to taxpayer segments (Corporate taxation and taxation of individuals/entrepreneurs) and nationwide units instead of independent regional and local tax offices. As of beginning of 2012 there will be nationwide mandate in both business lines.

This change also required changes in legislation as the regional jurisdiction had to be replaced by national jurisdiction.

The goals of the reorganisation are to increase uniformity of decisions and interpretations made both within taxpayer segments and nationwide, to create synergies inside business lines, more effective use of competence, to enable transformation and change towards compliance risk management.

The reorganisation is still partially in progress. From Corporate Taxations (which has already been in operation for over a year) point of view the change has already been very positive. Processes and interpretation of law in corporate tax offices have been harmonised.

39. It is noteworthy that the received survey responses show two approaches for the centralisation, one approach according to specific taxes/processes and one approach according to taxpayers segments. There is no uniform way to organise the segmentation.

Process concentration

40. Technological developments make it possible to concentrate tax processes in fewer locations. Examples of these are the division of processes in front-office and back-office processes. Back-office processes can be concentrated to gain efficiency, but also to improve quality. Another consideration for concentration can be scarce competencies or creating economies of scale for processes that demand high investments. See Table 6 below for examples of process concentration.

Table 6. Concentration of processes

Country	Initiative
Canada	<p>To enable the management of specific workloads better, regional centres of expertise were established in Canada. These centres of expertise now exist for various workloads.</p> <p>The centres of expertise were created to deal with the large file objections. It was determined that a separate centre would be established in each region and that the work would fall under the responsibility of a chief of appeals in each region. In addition, each centre would be considered a point of reference for specific industries. This would enable industry experts being identified to assist other areas if needed.</p> <p>Furthermore, two intake centres were created. Considering the high volume of work in appeals, it was decided that economies could be created by centralising the receipt and screening of objections received.</p> <p>Another example relates to the processing of taxpayer relief programme requests. Previously, requests were allocated and dealt with by various areas of the revenue body, usually the area responsible for the assessment. To increase efficiency, a separate centre of expertise was set up in most regions to deal with the relief requests. The second implementation phase will be to ensure that all taxpayer relief requests are processed in these centres of expertise.</p>
Finland	<p>Finland is concentrating tax control and services for large corporate taxpayers, foreign companies having permanent establishment in Finland and non-profitable corporate such as housing companies, associations, foundations and public entities. This concentration must respond to the needs to develop customer relationship management for the purpose of providing services best suited to these groups needs, assessing the tax risks involved in each group and targeting the control best suited to each group.</p>
Spain	<p>Since 2004 the Spanish tax administration has been adapting the organisation and the functions of his territorial offices to the social changes. The initiative involves changes in the operational framework, procedures and especially in the organisation.</p> <p>The revenue body performed several studies about the procedures performed by local offices and established a flexible classification of local offices. Some control procedures were centralised, and some of the local offices were dedicated to information and assistance to taxpayers. The standard human resources requirements and the functions of these offices were determined. Further to these studies, the calendar for the changes for the new structure has been scheduled.</p> <p>The process is almost finished. Periodically, every department is measuring the workload of the local offices in order to make a balanced distribution of personnel and retributions.</p>

Business process redesign

41. An important trend with potential for working smarter is the tendency among revenue bodies to redesign and optimise the business processes in order to become more efficient and deliver better service to the taxpayer. The survey gives examples of Lean-related approaches and of various other approaches for optimising processes.

Lean and similar approaches

42. Lean manufacturing or lean production, often simply 'Lean' is a production practice that considers the expenditure of resources for any goal other than the creation of value for the end customer to be wasteful, and thus a target for elimination. Working from the perspective of the customer who consumes a product or service, value is defined as any action or process that a customer would be willing to pay for. Basically, lean is centred on preserving value with less work.
43. Some countries have established a Lean programme to evaluate and improve their processes or followed a more or less related approach. The focus in this is on continuous improvement. Experiences from a number of countries (the United Kingdom, New Zealand, Norway and the Netherlands) indicate that considerable efficiency gains can be achieved.
44. One of the most global and advanced continuous improvement programmes identified is the PaceSetter programme in the United Kingdom. Each business area is relying on this programme to deliver efficiencies.

Box 4. Continuous improvement programme in the United Kingdom

PaceSetter is a significant part of the programme of the UK revenue body (HMRC) to increase efficiency, manage the performance of teams and improve the quality of the customer service. Inspired by 'Lean' approaches to business improvement, it is a set of principles, supported by tools and techniques that all the staff can use to improve the way they work.

Through PaceSetter, HMRC aims to engage employees in streamlining its processes. PaceSetter implementation in a business area usually begins with workshops and training for staff at all levels, followed by a 6-16 week exercise to analyse existing processes, establish which parts really add value, and redesign them to improve performance. For example, before PaceSetter each office processing Self Assessment returns did so in different ways, in terms of the number and types of checks carried out, the order in which the processing took place, and office layout. Through PaceSetter, HMRC designed a standard approach, which it rolled-out to its largest processing sites. This standard approach aimed to streamline the process by stopping unnecessary steps and establishing a more steady flow of work. Implementing the new approach could involve a variety of changes, such as stopping an initial sort of forms into different categories, advising staff not to print out information available on screen, or moving staff working on sequential steps in the process physically closer together. While individual changes might be small, a number of incremental improvements can make a significant difference over time, particularly in high volume processes such as Self Assessment.

Through PaceSetter, HMRC also aims to encourage teams to continuously improve what they do. One of the main tools it uses is 'visual management'. The purpose of visual management is to display relevant, real-time information to teams to prompt them to take appropriate action. This information usually includes measures of quality, productivity and workload. In the Processing parts of HMRC, for example, PaceSetter has led to hourly tracking of the number of forms each team processes, with performance discussed at daily team meetings. Another key feature is introducing teams to a structured approach for identifying concerns and ideas for improvement, and resolving problems.

HMRC initially confined the use of PaceSetter to processing areas but since January 2009 has been rolling it out across the department. Changes initiated by PaceSetter to streamline business processes have led to some significant increases in output per person per day and enabled reductions in staff.

45. The Netherlands is implementing Lean management in various processes. One of the most successful examples is the implementation within the administrative processes (see Box 5 below). The

Netherlands also started with the implementation of Lean by IT organisations within the tax administration, where the results were an increase of 8% in productivity within one year.

Box 5. Professionalisation, Standardisation, Uniformisation in the Netherlands

The aim of the Professionalisation, Standardisation, Uniformisation initiative (PSU) is to optimise the administrative processes, establish that all offices work in the same way, set key-performance-indicators, determine norms for the time to spend on tasks and find the possibilities for concentration or centralisation of processes.

After this screening of the processes by the employees themselves, the 'new' way of working is implemented in all offices. The control of the process (based on the key performance indicators and the norms) is also implemented, using an application special build to register the performance and the time spent on tasks.

To let it work out, also after the implementation, there is attention for the aspects Behaviour and Leadership. To reach a situation, where the teams are constantly looking for improvements in the processes and controlling the performance themselves, it is necessary they use instruments like day-starts, improvement-boards etc.

Monitoring the processes and the performances is an important aspect. The monitoring concerns the level of reaching the key performance indicators, the level of sticking on the uniform and standard way of executing the process and the level of spent time and/or the amount of the operating capacity.

At this moment about 80% of administrative processes have been screened. The tax administration has saved 25% in operating capacity. The key precondition to ensure the success of PSU is to involve the employees in the preparation, the screening and the implementation of the processes.

46. Norway is implementing a programme based on Lean thinking. This programme will contribute to the Norwegian Tax Administration's ability to adapt more effectively to users' expectations and changes in conditions. This example is significant as it applies the Lean thinking not only to IT or administrative processes, but to the whole organisation.

Box 6. Continuous improvement programme in Norway

The Norwegian Tax Administration must prepare for a situation in which the complexity and volume of tasks is increasing, while the availability of resources decreases. Therefore the Norwegian Tax Administration took the initiative to establish the Lean-inspired "Programme for continuous improvement". The aim of this programme, in co-operation with the management, is to create smart and efficient work processes that ensure high productivity, quality and equal treatment in the daily work of each region and across regions.

The programme is responsible for implementing Lean as a management tool and a way of work for the entire agency. The initiative focuses on three main areas in order to meet the objective of the programme. The first focus is on processes: the Tax Administrations core processes will be continuously developed to be easier, smarter and more customer-friendly. The second focus is on leadership for continuous improvement. The third focus is on culture (attitudes and values).

The programme will help the tax administration to reach its goal of increasing productivity through a balanced scorecard covering 4 effect areas: streamlining of work processes, consistent and predictable quality, management of continuous improvement, employee-driven improvement.

The programme is implemented through projects and every project goes through three phases. So far 10 projects have been implemented. Every project develops its own benefit plan that is followed up by the regional management and the central agency. Because of the nature of the project, results will gradually be visible over the years to come.

However, the tax administration can already see some positive implications: considerable improvement in processing time, in some areas up to 50%; great improvement in productivity, in some areas up to 20%; improved overview of production, improved resource management by dedicating more time on important tasks; increased co-operation and learning across groups, departments and regions; culture for systematic and conscious changes.

47. In New Zealand, KiwiSaver is a new tax type introduced in August 2007. Its processing was kept separate from the other streams of work and was not the most effective given duplication, inconsistent handling, processing delays and excessive specialisation. The project team went through the robust

Lean Six Sigma principles of Define, Measure, Analyse Improve and Control to reach a solution. Part of the solution was to share contact centres with other units.

Other process defining and measuring approaches

- 48. In addition to the Lean examples discussed above, the survey results provide numerous examples of other approaches to optimise processes. These examples are focussing on learning circles, planning and control of work and targets.
- 49. In New Zealand, Operations Management is an industry best practice solution that helps managers make fact-based decisions about where resources should be best allocated to meet business and customer needs. This example illustrates how an operation management cycle can help to achieve efficiency.

Box 7. Operations Management in New Zealand

Operations Management's accountability model delivers clear targets, goals, responsibilities and deliverables through all levels of management down to team leaders. The methodology uses an operations management cycle to increase productivity and utilisation with structured and measurable outcomes. The cycle consists of four phases.

The first phase is forecasting. A forecast looks at what is expected to happen in the future and the workload that can expect in the coming weeks, months or even a year ahead. A forecast makes certain assumptions about the future in order to be able to set in motion activities that have a lead time to completion, for example work volumes, recruitment lead times, etc.

The second phase is planning. The planning focuses on how to achieve the work in hand. This still involves looking forward but there are fewer unknowns. The plan is a detailed set of intentions based on the forecast which are achievable.

The third phase is controlling. In this phase the performance is monitored against the plan in order to correct any deviation from plan as early as possible. This is a critical feature to Active Operations Management.

The fourth phase is reviewing. In this phase the team analyses how it performed against a plan and use this information to learn for future forecasting and planning activities while creating continuous learning.

Typical benefits of implementing Operations Management include 10%-15% improvement in productivity during the first year, a structured sustainable process for running the operation, skills development for leaders at all levels, a more flexible, higher morale workforce delivering improved productivity, quality and service, ongoing cultural change and leadership capability.

- 50. An example from Denmark is also focussing on a learning circle. Denmark has chosen to implement its compliance strategy through compliance treatment projects. The revenue body is working on a project whose aim is to ensure that new knowledge from these compliance projects will play a larger role in the development of the ordinary business. It also implies a higher degree of knowledge sharing between the various divisions, units, levels etc. That requires a new look at the setup, the processes for deciding and starting up of new projects, how they are carried through, management involvement etc. The project is in a testing phase.
- 51. The following examples focus on the planning and evaluation of activities. The example from Finland is interesting as it makes a connection between activities and resources.

Table 7. Strategies for optimising processes

Country	Initiative
Finland	In Finland, Tax auditing has created a system for strategic planning and management, firstly to measure the strategic performance of the activities, secondly to aim resources according to the strategic aims and thirdly to monitor the performance. The aims of the system is to ensure that 30% of time is devoted to grey economy audits, that 10% of companies of fiscal

	importance (turnover below EUR 5 million) are audited, that every auditor audits minimum 13 companies/year on average and that the duration of an audit does not exceed eight months.
France	In France, a new service was created within the central headquarters, in charge of the reengineering of the processes. This service examines the main processes which represent a strategic interest for the revenue body, looking for optimisation. Several processes are currently analysed, among them the tax dispute process.
Switzerland	In Switzerland, administrative processes in the audit division grew to be more and more complex and complicated. Therefore efforts were made to structure these processes. Team leaders have been involved in a project to analyse and improve these processes. Visual presentation of the processes, clear definition of the single steps, and clear responsibilities for the single tasks are important aspects of the project.

52. The two following examples are concerning strategies to analyse and improve the complex Information Technology (IT) processes. Norway is starting a programme to renew the IT management processes and systems. This programme has numerous achievements: the implementation of a renewed process of portfolio management to take control of the IT investment, the implementation of a new IT organisation based on the principals of plan/build/run, the definition of a new IT-architecture based on modern technology, separation of data and business processes, and service oriented architecture.
53. In New Zealand, an initiative still in development will change the nature and method of delivery of processes, services and practises of the IT organisation. Some key elements of the outcomes are that the IT organisation is proactively managing those business systems that support the revenue body obligations, that it has the capability to support the implementation of complex business process changes and that its outcomes are properly defined and measured.

Project management

54. Few examples of initiatives whose key elements are keeping an overview of the numerous projects within the revenue body and improving the coordination within these projects.

Table 8. Project management initiatives

Country	Initiative
Brazil	Brazil established in 2009 a Bureau for Strategic Projects. Its goal is to define management methods for projects, support clear control mechanisms at higher management levels and define clear criteria for prioritisation of projects.
Switzerland	In Switzerland, the Multi Project Management (MPM) implements a new project management framework to have a better overview and a more efficient coordination between the different projects in the main division VAT. The MPM project and the associated platform are a fundamental tool to coordinate all the projects of the main division VAT on a strategic level.

55. One important aspect of project management is the evaluation of the impact of the project, in terms of costs savings and in terms of quality. An example from Singapore illustrates how projects can be monitored to fit in the costs-cutting goals.

Box 8. Economy Drive in Singapore

The Inland Revenue Authority of Singapore (IRAS) participates in the government-wide initiative known as the Economy Drive (ED), which targeted a reduction of 0.5% of each agency's Budget annually. In the Financial Year 2010, savings of SGD 2.1 million or 0.65% of the budget were achieved, exceeding the target by 0.15 %. This is an improvement of SGD 1.7 million or 0.61% in FY2009. Every half-year the achieved savings are reported.

ED savings are defined as meeting the current level of requirement at a lower cost, or attaining greater output at the same cost. If the project is deferred, cancelled or scaled back as a result of ED, the cost saved will also

constitute ED savings. Cash savings resulting from the conscious efforts of agencies to economise on development and operating expenses can generally be counted as ED savings.

The 0.5% target has been removed with effect from the Financial Year 2011. However, the ED has raised awareness among staff about cost consciousness and encouraged staff suggestions on cost cutting measures.

56. In the UK, the Performance Committee of the revenue body discusses performance against the business plan targets on a monthly basis. The effectiveness and pace of efficiency from each initiative is being monitored and recorded through a change programme. The monthly report includes reporting the change in number of full time equivalent (FTE) posts, the additional yield generated and customer benefits.
57. In the Netherlands, the Dutch tax authorities decided to create in 2009 a Task Group Working Smarter. The Task Group was created to supervise the costs cutting measures and to advise about the choices in measures to make. The Task Group is keeping the overview on all the measures taken to reduce costs (except IT). It can also facilitate the achievement of measures.

Workflow management

58. The optimisation of workflow management within the revenue bodies is the third important trend with the potential for working smarter among revenue bodies, besides centralisation/concentration and redesigning the processes. Numerous examples related to this topic were received.

Digitalisation of workflow and processes

59. The digitalisation of work is an important trend with the potential for working smarter among revenue bodies, as numerous examples related to this topic were received. A paperless process enables flexible workload management, by making it easier to share the workload between different offices. It is also possible to centralise specific tasks to one or few offices. It also helps to automate manual bulk processes.

Table 9. Digitalisation of workflow and processes

Country	Initiative
Switzerland	Switzerland has replaced in 2002 in the VAT administration its paper archive with an electronic archive system by scanning all the taxpayers' documents. Every piece of paper is scanned and put in the electronic dossier of every single taxpayer. The staff treating the taxpayers' declarations and the taxpayers' demands for standard authorisations is administratively supported by a case workflow tool called Open Case management.
Finland	Finland started a project, aimed to digitalise the work process in Corporate taxation offices (Income taxation). In Finland about 70% of income tax returns are still filed in paper form. This is why Finland chose to digitalise the tax returns by scanning.
Poland	In 2008 the Ministry of Finance of Poland has established an e-tax programme. The tax administration aims to take up best practices from corporate management like centralisation of the data processing, using service oriented approach – both in the IT and business domains, establishing of services centres, pre-filing and withholders records data exchange. This programme is a part of a nation-wide e-administration initiative.
Chile	In Chile all auditing related activities and formal tax proceedings (administrative proceedings) carried out at the tax administration offices are registered in an electronic record. Tax auditors and their supervisors have access to such e-records, allowing the latter to evaluate the workload of their team members.
Canada	In Canada it was determined that certain workloads related to objections would be shared on a national and regional basis. This is an effective way to deal with fluctuations in workload levels, as it made it possible for trained staff to work on workload from other offices. Canada

	also recognised the need to implement a variety of methods to distribute the workload (Ca3). One of them is the National Workload Allocation Model. Cases are routed to the next available officer, regardless of their geographic location. This only applies to the workload that is normally conducted without meeting the taxpayer in person.
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60. From the examples received we can notice that the creation of a digital dossier for each taxpayer, or the implementation of digital audit records are approaches used by revenue bodies to keep a better overview of the workload. It also facilitates the allocation of cases between employees.
61. An example from Brazil combines electronic files with digital workflow allocation in the administrative processes. Brazil started to implement an electronic document management system and a workflow technology.

Box 9. Electronic document management in Brazil

Because documentation is a powerful source of information and management of documentation needs to be efficient and flexible, a decision making model has been formulated that is based on security and flexibility. The Electronic Document Management system, which applies IT to automate the management of archives, processing and access to documents within the administrative processes, was further digitalised. Workflow Management is closely linked to the document management system. Workflow Management applies IT to organise and direct workflows, as a result of which information that is needed for processes is available faster and more easily.

The general goal of the project is to implement a full, digital administrative tax process using document management and Workflow technology, in all tax areas.

The project is still running but already yielding fruitful results. It has not been evaluated through formal calculations, but the advantages for users of the system were observed. The most important results to be expected are: more paid debts as a result of drastic decrease of processing times; fewer bureaucratic procedures for taxpayers; availability, security, speed, standardising and automation of processes; less paper use and more quality control of all processes.

62. Acknowledging the progress of a number of revenue bodies on digitisation of workflow and processes, it seems reasonable to conclude from the examples above that there is still potential for working smarter through the systematic application of digitisation to the work within the revenue bodies.

Measures to increase the flexibility of staff

63. Revenue bodies have to deal with workflow that is not equally spread over the year. At the same time they are expected to maintain or improve their processing time.
64. An example from Germany proposes a way to deal with this dilemma. Germany is asking from its staff flexibility in the tasks that they are carrying out by assigning additional staff from auditing services to the treatment of assessments.

Box 10. Structured Allocation of Staff in Germany

In Germany, annual fluctuations in the number of incoming tax returns are dealt with by assigning additional office staff. The 'Structured Allocation of Staff in the Tax Office' organisational model concerns the allocation, for a limited period of time, of staff in external auditing services to units dealing with employees and commercial tax assessments.

More than half of all tax returns are received between April and August. Only few are received between December and February, by contrast. In order to be able to guarantee that tax declarations are dealt with in a timely fashion and that they are of high quality, staff in the external audit services are assigned to office duty for approx. three months a year to deal with the increased demand.

The allocation of additional staff in the period between April and August goes hand in hand with a reduction of staffing levels between December and February. The measure gives suitable and interested employees in the

assessment departments the opportunity to gain a variety of experience in the tax office and, possibly, to recommend themselves for external auditing assignments at a later stage.

This is a very effective and appropriate means of coping with peak periods in tax assessment and of avoiding the negative attendant circumstances which regularly arise on account of heavy workloads (e.g. increased sickness rates). Taxpayers benefit from consistently short throughput times and the consistently high quality of the outcome.

Knowledge management

65. The example templates provide limited but interesting examples of knowledge management, for example through the creation of databases to share information within the revenue body. Knowledge management is particularly valuable, as numerous revenue bodies will have to deal with important outflow of employees due to retirement. The increased complexity of tax law also requires an adequate share of information within the revenue body.

Databases

66. In Switzerland a database structured following the VAT law has been built up to ensure that everyone in the tax administration can be at the same level of information about tax practice.

Box 11. VAT Database in Switzerland

Switzerland built up a database structure following the VAT law to share information in the tax administration about the VAT practice. In the tax administration a lot of knowhow exists from persons, which have worked for a long time in their jobs and collaborated with the introduction and many changes and adjustments within the VAT rules. The idea was to centralise this knowhow and pass it to other employees. In addition, many of the key persons are close to retirement. With the practice databank it is planned to limit the danger of losing knowhow.

The database is mostly filled in by specialists' groups. Each group is responsible for an area of VAT, mostly determined by economic branches. Every special problem or case which is not yet found in the database is treated by the specialists' group in order to achieve one unique practice for all regions. The decided practice will be inserted in the practice database.

Expected is more efficiency through quicker information available on specific problems and equality in treatment through the specialists' groups.

67. Hong Kong is implementing an online library as a pilot system. The Inland Revenue Department is planning to integrate the current Intranet and knowledge database into a rich centralised repository of information with value-added features such as advanced searching capabilities. This initiative aims to ensure that the right knowledge is made available to the right staff.

Idea management

68. Revenue bodies have a wide range of initiatives to save costs. These initiatives can, among others, be initiated from ideas of employees or from ideas from outside the organisation. The following example from the Netherlands gives an example of how to use these ideas.
69. The Netherland created the Future Centre. This centre is meant to increase the intellectual capital of the organisation, by using the capability of employees to innovate. The 'Licence to Disturb' initiatives led by the Future Centre are set up with, for example, universities or offices of the tax agency. This happens always with the strategic goals of the organisation in mind.

Outsourcing

70. One possible way to save costs on a process is through the use of subcontractors. From the survey responses, it is evident that revenue bodies are not actively investigating this strategy.
71. Ireland nevertheless has mentioned a successful example of subcontracting a process, the National Car Testing Service. This service is in charge of a range of vehicle registration functions.

Box 12. National Car Testing Service in Ireland

All motor vehicles in Ireland, other than those brought in temporarily by visitors, must be registered with the Revenue Commissioners. A vehicle must be registered before it can be licensed for road tax purposes.

Vehicle Registration Tax (VRT) is chargeable on the registration of motor vehicles (including motorcycles) in Ireland. In September 2010, following a review and re-design of VRT structures, a range of vehicle registration functions were handed over to the National Car Testing Service (NCTS).

This was the culmination of a series of processes including legislation to underpin the changes, the enhancement of Revenue's ICT systems, building interfaces between Revenue and the NCTS infrastructure, a significant change management process and a series of communications with the media and detailed consultation with external stakeholders.

The NCTS are delivering a comprehensive vehicle checking service in respect of used vehicle imports and are facilitating a streamlined registration process. As a result citizens can now register used vehicle imports at NCTS centres nationwide and authorised traders can complete the registration in their own premises using Revenue's ICT systems once the vehicle has been checked by the NCTS. Registration of used imports now takes place in 24 of the NCT Centres around the country. This has allowed Revenue to close its 22 Vehicle Registration Offices and redeploy 57 staff to other duties.

The yearly pay bill saving in administering VRT is approx EUR 2.35 million. The project cost of transfer to NCTS was EUR 567,000 and the estimated administration cost per annum will be under EUR 1 million.

IV. WORKING SMARTER IN COMPLIANCE

72. Compliance with tax obligations is the high-level goal shared by all revenue bodies. A major share of the activities undertaken by revenue bodies is about facilitating or enforcing compliance, and working smarter in compliance is therefore central to meeting the strict requirements for savings and/or gains in efficiency and effectiveness faced by a majority of revenue bodies.
73. This chapter focus on possibilities for working smarter in compliance, including how compliance processes can be optimised and executed with fewer mistakes and disputes, and how taxpayers and other stakeholders can contribute. The chapter starts with a section setting out the overall findings from the survey relevant to compliance. This is followed by separate sections on each of the four categories referred to in the survey –facilitating compliance, audit strategies, collection measures, and dispute resolution– as well as a section on measures that fall outside these categories.

Overall picture from survey

74. In the survey carried out in preparation for this information note, revenue bodies were asked to what extent they considered that a number of areas have potential for working smarter. Among the categories relevant to compliance, the most potential for working smarter is clearly seen in the facilitating compliance category, followed by audit strategies, collection measures and dispute resolution.
75. Revenue bodies were also asked about what areas they are focusing on in their efforts to improve efficiency and effectiveness. A total of 24 revenue bodies declared to be focusing on facilitating compliance, 22 on audit strategies, 21 on collection measures and 12 on dispute resolution. This is also reflected in the focus of the examples provided on actual activities. A total of 63 examples were supplied about initiatives in the compliance area; of these, 32 are about facilitating compliance, 16 are about audit strategies, 5 are about collection measures, 5 are about dispute resolution, and 4 concern initiatives that fall outside these categories.
76. A number of interesting trends can be identified based on a first analysis. Perhaps most striking is that a large share of the examples is about the application of technologies to facilitate compliance and support audit strategies. Another trend is the application of co-operative arrangements involving taxpayers and other stakeholders in order to leverage compliance. Finally a tendency to shift activities upstream (by addressing risks earlier in the sequence of events potentially leading to compliance failures) or to seek more systemic solutions can be observed. These trends will become more apparent and nuanced, as examples are presented and discussed in the following sections.

Facilitating compliance

77. The category that has received by far the greatest attention in the questionnaire responses and example templates supplied is, as established above, facilitating compliance. At the same time, a large majority of revenue bodies declared to be focusing on this area as part of their working smarter efforts. This attests to the increasing importance attached to voluntary compliance.
78. Revenue bodies increasingly adopt modern compliance risk management strategies that make provisions for the use of a broad suite of tools to complement traditional enforcement approaches by facilitating and encouraging voluntary compliance. Two revenue bodies in particular emphasise the importance of such strategies. The Austrian tax administration is implementing a new compliance strategy with great emphasis on facilitating and encouraging compliance, while the German tax authorities are focused on what it can do to strengthen voluntary compliance.

79. The principles underlying modern compliance risk management (risk-orientation, differentiation, application of a broad suite of tools, and systematic evaluation and learning) are explored in other FTA publications. Revenue bodies looking for inspiration in this regard may consult the guidance note “*Managing and Improving Tax Compliance*” (OECD, 2004), which provides a framework for the application of risk management principles to tax administration, including a step-by-step description of a strategic process for the identification and treatment of compliance risks.
80. The 2004 guidance note is complemented by more recent FTA publications on specific aspects of compliance risk management, including innovative risk treatments, drivers of taxpayer compliance behaviour, evaluation of risk treatment strategies, and strategies for addressing compliance risks at an early stage when interventions are likely to be most cost-effective.⁴

Provision of electronic services

81. A total of 20 examples (equivalent to roughly two thirds of the examples for the facilitating compliance category and a third of the examples for the compliance chapter) provided by revenue bodies concern the provision of electronic services, making it by far the biggest single category for working smarter in compliance.
82. The responses reveal a consensus around the importance of electronic services as a means of facilitating compliance in the area of personal income taxes. Revenue bodies from countries as diverse as Austria, Belgium, Brazil, Canada, Chile, France, Hong Kong, Hungary, Japan, Spain and the United States emphasised efforts and expectations in this area. The initiatives cited (see Table 10 below for some illustrative examples) include pre-filing based on third-party information, online information and guidance, online filing and payment facilities, and access to digital communication.

Table 10. Electronic services targeting private individuals

Country	Initiative
Belgium	The MyMinfin platform in Belgium supports taxpayer compliance by providing small tools like a fiscal agenda, tax balance sheets and online consultation. The platform also supports the exchange of information between the revenue body and taxpayers by providing access to documentation (for instance documents concerning leases and property tax) and historic data.
Hong Kong	In Hong Kong, electronic services in the area of taxes have been built into the MyGovHK integrated government platform, allowing citizens to use a government-wide electronic account to access tax files and sign digital transactions. Another initiative allows citizens to change their address records with 22 government agencies by use of a one-stop online service.
France	Electronic filing in France is supported by user-friendly interfaces and procedures differentiating between taxpayers with complex and simple tax matters. The filing process is facilitated by pre-filing of key data (like wages, pensions and dividends) and automatic calculations. This setup allows taxpayers with simple tax matters to make their declaration with just three clicks.

83. In a number of cases, initiatives were presented as part of broader packages integrating a number of these elements. Another interesting tendency involves the integration of multiple government services into single platforms, as illustrated by the example from Hong Kong.
84. A similar consensus was revealed regarding the importance of electronic services for facilitating compliance with tax obligations falling on businesses, although examples are not as plentiful as for personal income taxes. A number of revenue bodies –including Finland, France, Hong Kong, Ireland, the Netherlands, Spain and Sweden– provide examples, while others make more general observations.

⁴ For details, please refer to the list of references at the end of this information note.

Most initiatives cited (see Table 11 below for some illustrative examples) are about shifting communication and filing to digital channels.

Table 11. Electronic services targeting businesses

Country	Initiative
Ireland	In Ireland a new system for the administration of the Relevant Contracts Tax will be implemented in January 2012. The system will involve moving from the current paper based process to a new totally electronic real time payment based system, which not only should contribute to bringing down costs for businesses and the revenue body, but also facilitate compliance by reducing opportunities for fraud or unintentional errors.
Spain	Business taxpayers in Spain are being shifted from print communication to (secure) digital communication. From January 2012 it will be possible to make the secure electronic channel obligatory as the only way for official communications with the Spanish Tax Agency. The secure access is guaranteed by an electronic signature based on an electronic certificate.

85. It is apparent from the survey that revenue bodies have great expectations invested in electronic services not only as a driver of efficiency, but also as a means of reducing the compliance burden and improving service levels. However, while the considerable efforts undertaken by some revenue bodies must be acknowledged, it also seems reasonable to conclude from the nature of the examples that not all countries have been equally active in taking advantage of the opportunities offered by electronic services.
86. These observations are consistent with findings from earlier FTA work in this area. The 2010 survey report *“Survey of Trends and Developments in the Use of Electronic Services for Taxpayer Service Delivery”* (OECD, 2010) found that while considerable overall progress had been made in the preceding five year period, the potential was by no means fully exploited. It is worth recapitulating the high-level findings from this study concerning e-filing and e-payments respectively:
- **E-filing:** There has been considerable overall progress in the use of e-filing for the major taxes and a number of revenue bodies can report substantial progress over the last five years; for many, this progress has been facilitated by the use of mandated e-filing requirements; however, around 30% of surveyed revenue bodies still have considerable progress to make across some/all of the major taxes, including a number who have made quite limited progress over the last five years.
 - **E-payments:** Take-up of fully electronic e-payment methods (e.g. Internet payments, phone banking, and direct debit) has not progressed at the same rate as e-filing take-up rates and only around one third of revenue bodies can report that the majority of tax payments are made via fully electronic methods; considerable potential exists in over more than half of surveyed countries to exploit the significant benefits that can be obtained from wide use of fully electronic payment methods, with available industry data from one country indicating a cost differential of up to 1:5 between fully electronic and manual payment methods.
87. In this context, it is also important to acknowledge that the benefits of electronic services are not limited to efficiency gains in the compliance work carried out by the revenue body, but also include efficiency gains on the side of the individual taxpayers and businesses, which again contribute to the well-being of the economy as a whole.
88. A recent study by PWC found that: *“Effective electronic solutions for filing and paying taxes lighten the compliance burden, bringing efficiency benefits for both business and government. Where business is able to use effective online systems, the compliance burden is lighter. For a sample group of economies with electronic filing systems, VAT compliance time [was] reduced by 30%.”* (PWC, 2011: p.10).
89. The findings of the 2010 survey note and the external report referenced above would seem to suggest that considerable potential remain for working smarter through the application of electronic services to

facilitate compliance. Revenue bodies looking for inspiration to this end are strongly encouraged to consult these sources.

Strategies for increasing take-up of electronic services

90. In the survey instrument sent out in preparation for this information note, revenue bodies were asked specifically about strategies and initiatives to increase take-up of electronic services. It is evident from the number and nature of the responses (summarised in Table 12 below) that revenue bodies are undertaking considerable efforts to increase take-up among groups of taxpayers that are not willing or able to use electronic services.

Table 12. Strategies to increase take-up of electronic services

Nature of strategy	Examples of activities
Making the use of electronic services easy and convenient for taxpayers	A number of revenue bodies (Denmark, France, Germany) emphasise the benefits of pre-filing based on third-party information. Spain provides personal login information by SMS instead of by mail, which involves at the same time meeting customer expectations and cutting costs. UK emphasises the importance of providing targeted assistance to taxpayers who need help to use electronic services.
Marketing electronic services	A number of revenue bodies (Denmark, Spain) are undertaking marketing efforts to increase awareness of electronic services and the advantages relating to these. Spain makes reference to electronic services in all communication with taxpayers.
Providing additional incentives to taxpayers for using electronic services	A number of revenue bodies (Australia, Finland, Switzerland) provide extended deadlines if filing is done using the electronic interface. Other examples of incentives provided to stimulate take-up include quicker repayments for users of electronic services (Brazil) and automatic reduction of fines and interest charges when debt is paid through internet within certain time window (Chile).
Making the use of electronic services mandatory for selected groups of taxpayers	A number of revenue bodies (Canada, Ireland, Finland, Singapore, Spain) have introduced mandatory arrangements around the use of electronic services for selected groups of business taxpayers. Arrangements of this type generally focus on sales taxes and may involve threshold considerations, but there are also examples of broader arrangements. In Finland, for instance, electronic filing is mandatory for certain large business returns. Mandatory e-filing for VAT and corporate income taxes is also under consideration in Norway.

91. A comprehensive strategy for increasing take-up of electronic services would plausibly include elements from a number of these categories. The three first categories in particular are interrelated. Making electronic services attractive provide the basis for communicating the benefits of these services to taxpayers. Providing incentives (in the form of preferential treatment) for taxpayers that take-up electronic services will reinforce these benefits and make the message more credible.
92. The fourth broad category comprises the introduction of mandatory arrangements targeting selected groups of taxpayers. Revenue body experience suggests that this may be complementary to initiatives comprising elements from the first three categories. An example from Singapore (see Box 13 below) is illustrative in this regard.

Box 13. Compulsory e-filing in Singapore

In Singapore, compulsory e-filing for GST was phased in from January 2007 to October 2008. The initiative is part of government-wide efforts to take advantage of opportunities presented by new technologies for cost-effective service delivery. Part of the strategy is to make selected services available only online in order to stimulate development and take-up.

GST filing was assessed as suitable given the relatively small customer base (of about 60,000 registered businesses) with a high degree of IT penetration. Among the advantages that e-filing offers to this group are convenience, fast processing, early certainty, and quick refunds. In addition, built-in validation routines reduce the frequency of errors and the need for subsequent corrections. The resulting savings and opportunities for

further efficiency gains make e-filing an attractive solution for both the businesses and the revenue body.

Paradoxically, the success of the paper-based system meant that some businesses were less receptive to the benefits of e-filing. The communication strategy therefore focused on articulating these benefits to the business community. Great emphasis was also placed on providing businesses with the necessary information and guidance for a smooth transition. Assistance was provided in the form of a range of self-help materials, workshops, a helpline, and an e-mail account; direct letters were sent to individual traders six months in advance; and e-mail alerts were set up to remind traders of the filing dates.

The phased-in implementation allowed traders with less IT sophistication time to prepare for the transition. It also gave the revenue body the opportunity to adjust details on the way. Learning from the earlier groups, for instance, allowed officers to better handle questions from the later groups. It was also discovered that letters to the businesses were often not read. Instead outbound phone calls during the off-peak months proved effective at assisting businesses and reducing the workload during the filing season.

A recent survey showed that 69% of 1,617 respondents had little difficulty with e-filing, but the challenge remains how best to educate newly registered businesses and help the minority of businesses that repeatedly seek help to e-file. The initiative has brought annual savings to the revenue body of SGD 838,000 on mail-handling alone.

93. The example is notable for the use of mandatory arrangements for a specific group of taxpayers to leverage a wider government strategy for increasing the take-up of electronic services. Used in this way, mandatory regimes may not only be effective in shifting groups of taxpayers to preferred channels, but also in creating momentum for the wider take-up of electronic services.
94. An example from Canada adds further weight to this argument. Following the introduction of mandatory electronic reporting arrangements for GST registrants with turnover above CAD 1.5 million, or meeting certain other conditions, the take-up of electronic services for the group of GST registrants as a whole increased by 70% (well exceeding what could be expected based on the size of the group directly affected) for the 2010/2011 fiscal year compared to the previous year.
95. Another example from the United States illustrates that mandatory arrangements need not be limited to business taxpayers. Legislation introduced in 2009 requires return preparers who file more than ten returns on behalf of taxpayers to do so electronically. This has led to a significant increase in the number of returns filed electronically, as more than 60% of returns are filed by preparers, which again results in significant savings, as the cost of processing a paper return is more than ten times the cost of processing an electronic return (approximately USD 3.5 and USD 0.30 respectively).
96. An important consideration relating to mandatory arrangements is what to do for those taxpayers that are unable to use electronic services. Irish Revenue emphasises that taxpayers may be exempted from requirements if mentally or physically unable to comply. Revenue bodies may also find reason to put in place special arrangements for groups of taxpayers that would need extensive support or drive compliance failures if shifted to electronic channels.

Future of electronic services

97. The preceding sections have mainly been concerned with some of the more traditional applications of electronic services. In the context of working smarter it is, however, relevant to consider the implications of emerging technologies and new ways of service provision. An example from the Netherlands (see Box 14 below) is illustrative.

Box 14. Facilitating online bookkeeping in the Netherlands

In the Netherlands, smaller companies, especially the self-employed (begin 2010 they were 714.000), often do not have a bookkeeping or a poor bookkeeping. To improve this situation, online bookkeeping offers the opportunity to build in important quality measures in the bookkeeping system. Online bookkeeping is growing very rapidly in the Netherlands and is expected to be the most common method of bookkeeping for starting businesses within a few years.

The NTCA is participating together with software companies in a community that is introducing a certification mark called “Secure Online”. The aim is to create a high quality online administrative environment which offers certainty and security to the stakeholders: entrepreneurs, accounting bodies, government bodies, banks, etc.

The tax agency is involved in the determination of the standards of the certification mark, but the development phase is in hands of the private sector. The parties which offer such bookkeeping systems in the cloud are frequently checked by an independent party.

This project, which is in the starting phase, is intended to create a standardised administration chain in which transactions are automated as much as possible. The goal for the future is bookkeeping without human intervention. After the initial booking entry the records cannot be changed without leaving a clear audit trail. Apart from that, timely and correct booking is supported by the system by using a knowledge base that supports the booking entries: the intelligent software recognises the entry from elements on the basic document. This means that most transactions are booked automatically i.e. e-invoices, scanned invoices, bank transactions, etc.

98. An example from Sweden strikes a similar note, as it aspires to integrating bookkeeping software used by businesses with the filing systems of the tax administration, which should lead to seamless information exchange, at the same time facilitating compliance processes and reducing the administrative burden.
99. Both projects, while still at a relatively conceptual stage, points to the potential for working smarter in compliance by taking advantage of opportunities for third-party reporting and automatic data exchange in facilitating compliance, reducing the administrative burden and driving efficiency within the revenue body.

Co-operative approaches

100. An important trend with potential for working smarter is the tendency to adopt co-operative approaches based on engagement with taxpayers and other stakeholders. This trend is based on the recognition that revenue bodies, taxpayers and other stakeholders have important shared interests that can be explored to leverage compliance and provide other benefits, including smoother processes, early certainty and a healthy business climate based on a level playing field.
101. The trend is most pronounced for large businesses, as these represent a counterpart with substantial resources and adequate structures in place to engage in dialogue. An important part of this dialogue will concern the identification and management of material tax risks. This is illustrated by an example from Australia, where legislation currently being introduced will provide a mechanism for the early identification and resolution of large business tax risks (see Box 15 below).

Box 15. Reportable Tax Position Schedule in Australia

The Australian Tax Office is introducing a Reportable Tax Position (RTP) schedule providing for the systematic disclosure of contestable and material tax positions by large business taxpayers.

The initiative is part of a broader strategy to support early engagement and collaborative identification and resolution of complex tax issues. The aim is to better understand and address tax risks for large businesses, while also providing businesses with greater assurance about their most material tax risks.

The schedule will extend the current range of risk-based tools and provide real-time information. The information will ultimately be used by case officers dealing with large businesses as an integral part of their compliance work. It will help to identify compliance risks close to real-time, underpin the risk-rating of large businesses and inform the direction of compliance activities. This in turn will balance and address currently discrepant levels of transparency and compliance efforts between lower and higher risk taxpayers.

The RTP schedule will be introduced with the 2012 company tax return. For the 2011-12 income year, however, it will only apply to the largest economic groups, and businesses that have entered into an Annual Compliance Agreement will not be required to make a disclosure.

102. The example is notable for its focus on generating intelligence that can be applied almost real-time across the segment of large business taxpayers. This will mean that the revenue body will be in a better position to differentiate compliance activities based on the degree of transparency displayed by the businesses, which will at the same time drive efficiency in the revenue body *and* provide incentives to compliant taxpayers.
103. Two initiatives in the United States illustrate the potential for working smarter by building on the existing control chain to leverage compliance activities without introducing significant new burdens for taxpayers. The first initiative requires large businesses to provide information on Uncertain Tax Positions prepared for financial reporting. The second initiative will require return preparers to include (from 2012) a specific worksheet used for the preparation process with tax returns, which will allow the revenue body to determine whether the requirements for joining an income credit programme (associated with a high frequency of error) are met.
104. Another segment that form an important part of the tax base in most countries are the large and heterogeneous group of SMEs. Revenue body experience indicate that the frequency of intentional and unintentional compliance failures in this segment is high, and that it is generally not cost-effective to seek to resolve these on a case-by-case basis. In this context, involving other stakeholders (for instance industry organisations, accountants and developers of business software) in an effort to raise compliance levels through leverage and enhanced reach would seem a promising way forward.
105. An example from the Netherlands (see Box 16 below) illustrates how revenue bodies can work with the accountancy profession to raise compliance levels in the SME segment.

Box 16. Co-operating with tax intermediaries in the Netherlands

The Netherlands Tax and Customs Administration (NTCA) is working with a co-operative approach towards fiscal intermediaries. For this group the NTCA has adopted the strategy of “customer intimacy”, which means getting to know this group very well and be more receptive to their needs and ways of working.

The largest tax intermediaries (top 150) and intermediaries that are members of an industry organisation may be eligible for entering into a horizontal monitoring agreement with the NTCA. Among the benefits of horizontal monitoring are that focus is placed on the processes and policies that lead to tax compliance (or compliance failures) and that major compliance risks are tackled upfront – leading to a low-intervention regime and increased certainty for the companies and tax intermediaries as well as the tax administration.

So far agreements have been signed with about 150 tax intermediaries, making it possible for about 200.000 businesses to join the programme.

But for those tax intermediaries who are not eligible for horizontal monitoring, the NTCA is also looking into ways to increase the compliance of tax-payers through their tax intermediaries. The focus here is on treating signals, not one signal at the time per tax-payer but compiled signals per tax intermediary. Signals (such as overdue tax-returns) or fiscal risks (e.g. certain deductions) are compiled per tax intermediary. This bundle of signals is then discussed with the tax practitioner and together the NTCA and the tax intermediary agree upon a way in which the situation is dealt with.

The NTCA now can deal with a number of taxpayers at once instead of one taxpayer at the time. Another gain is related to the fact that the NTCA is discussing signals based on actual data. The focus is on what happened in the most recent tax period, and what can be done to prevent that from re-occurring in the future. Only when it deems very necessary, signals in the past (up to seven years back) are also further investigated.

106. The example is notable for the notion of ‘compiled signals’. These are aggregate expressions of the compliance risks posed by the client base of each tax practitioner. By involving the practitioners in the management of these macro-level risks, the revenue body is able to translate the concept of an enhanced relationship into something that is operational for the SME segment, as it extends benefits to participating businesses while reserving a key role for the accountancy profession.

107. An example from the United States (see Box 17 below) strikes a similar note by focusing on the opportunities for leveraging resources by working with return preparers to raise the compliance levels for individual taxpayers.

Box 17. Return Preparer Initiative in the United States

The Internal Revenue Service (IRS) is implementing a comprehensive oversight programme for individuals who prepare tax returns for compensation. Known as return preparers (or tax agents), this group, numbering somewhere between 750,000 and one million, prepares more than 60% of all individual income tax returns in the United States. The IRS conducted a six month review and concluded that oversight of this community could improve tax administration and compliance by raising standards for returns filed by this group – essentially leveraging IRS resources by focusing on one individual doing many returns as opposed to the more traditional one-on-one examination. The regime includes registration, testing, background checks and continuing education requirements.

108. Another strategy is to engage directly with representatives of the SME segment in order to enhance customer understanding. An example from Australia (see Box 18 below) illustrates how social media may be used as a platform for engaging with the SME segment and building a better understanding of their circumstances and needs, which in turn can inform services and compliance activities directed at this segment.

Box 18. Australian SME Tax Forum

The SME Tax Forum is an online community hosted by the ATO. The aim of the forum is to foster a stronger relationship between the ATO and SME business operators by working together to identify opportunities to make it easier to meet their obligations and reduce compliance costs. This is done via online discussions, surveys, webinars and live chats.

The forum provides a unique opportunity for the ATO to engage directly with business operators and decision makers representing a diverse range of industries within the SME market. The forum is an interactive closed community with anonymous participation. The approximately 500 members have signed up to the terms and conditions, including confidentiality, and know that any information covered on the site is not binding. Suggestions and feedback from members are presented to the relevant areas.

The forum came about as a result of SME market research conducted in 2008, which led to an ambitious initiative to explore the relevance of social media for the SME market. The ATO has collaborated with Colmar Brunton Research, a recognised leader in the private online communities' space in Australia, in the design and management of the forum.

The ATO continues to critically evaluate participation rates and quality of feedback in order to constantly improve the forum and the engagement with the community. It is also collaborating with Colmar Brunton to develop a forum for small businesses with turnover below AUD 2 million.

109. Part of a co-operative approach is providing for early certainty. This can also be achieved by reinforcing the mechanism of binding rulings, which is already in place in most OECD countries. An example from New Zealand (see Box 19 below) is illustrative as to how the process for issuing binding rulings may be adapted to become at the same time more co-operative and more efficient.

Box 19. Enhanced process for binding rulings in New Zealand

An initiative in New Zealand has significantly improved the timeliness of the delivery of binding rulings by introducing a collaborative and streamlined process, involving closer liaison between tax agents and the tax administration both before applications are lodged and while considering applications.

The initiative – developed in consultation with the New Zealand Institute of Chartered Accountants, the New Zealand Law Society and the Corporate Taxpayer Group representing large business taxpayers – involve changes in approach and process by both the applicant and the revenue body, as well as changes in policy. The changes were designed to shorten the process and to introduce a more collaborative approach both between the applicant and the revenue body and within the revenue body itself.

The key features include: routine use of pre-lodgement meetings to enable a common understanding and agree

on the scope; requiring that applications and supporting documentation be provided in electronic form enabling easy dissemination and use; encouraging applicants to focus on key issues and limiting the number of issues to a maximum of eight; allocating the applications to a coordinating team with access to expertise across business areas; moving from sequential to simultaneous issue consideration; more extensive use of meetings during the process; more overt reliance on the facts as stated in the application and greater use of appropriate conditions and assumptions; restricting possibilities for alterations or further submissions; and introducing an externally reported three months timeliness performance standard.

The timeliness standard, which so far has been met in all cases, provides a target for the delivery of 90% of draft rulings within three months unless the application raises more than eight legal issues; has not involved a pre-lodgement meeting; or is about an advance pricing agreement.

110. A recurrent theme in the examples of co-operative approaches is that engaging taxpayers and stakeholders has had a positive impact on organisational culture and the public image of the revenue bodies involved, as it contributes to building and projecting a more nuanced understanding of the taxpayers, the compliance risks and the processes around tax compliance.

Other measures to facilitate compliance

111. In addition to the trends and examples discussed above, a number of examples on other measures to facilitate compliance have been identified. These examples (see Table 13 below) are illustrative as to three promising strategies for working smarter in compliance: early interventions, simplification and differentiation.

Table 13. Other measures to facilitate compliance

Country	Initiative
Estonia	The Estonian Tax Administration has implemented a process for pre-notification of business taxpayers who are at risk of submitting their returns too late. The process relies on a client segmentation based on filing history, and makes use of e-mails as a cheap, convenient and direct form of communication. The impact is measured by new operational indicators tracking the number of late filers. These show that the number of late filers were reduced roughly by half (from a peak of 17,000 and 16,000 for VAT and corporate income taxes respectively) in the first year of operation, and that the number of late filers have remained constant after that.
Hungary	In Hungary, a simplified tax return form allows private individuals with simple tax affairs to file their returns faster, more easily and with reduced risk of making errors. Content requirements for the simplified form –which is about half as long as the original– are determined on the basis of previous returns, and some items that applied to a very small number of taxpayers have been eliminated altogether. Taxpayers need to print only ID lines and relevant items. The simplified form was used by more than 2.2 million taxpayers (amounting to 60% of the total returns for personal income taxes) when filing their returns for the tax year 2010.
Australia	A new initiative under preparation in Australia involves introducing differentiated annual reporting requirements based on a business taxpayer circumstances and compliance behaviour so as to better match reporting requirements for businesses with the level of risk they pose to the system. The initiative is part of a five-year programme aiming to achieve a better balance between the information needs of the revenue body and the compliance costs passed on to businesses.

112. The Estonian example on pre-notification of late filers illustrates the potential for working smarter by shifting activities upstream. Through a relatively modest upstream investment, the revenue body has achieved substantial improvements in downstream compliance, which should allow it to focus subsequent activities on the taxpayers that failed to respond to the early measures. The example is also notable for the sophisticated evaluation setup making it possible to monitor compliance levels and document the impact of the initiative.

113. The two other examples are both about differentiating reporting requirements. The Hungarian example simplifies reporting for 2.2 million taxpayers by tailoring the return form to their needs. The Australian differentiated reporting requirements for businesses will shift a greater part of the burden of regulation to those businesses that represent the greatest risk to the system. Such strategies promise at the same time to drive efficiency in the revenue body *and* deliver benefits to taxpayers in the form of improved services and reduced compliance burden.

114. Revenue bodies looking for more inspiration for working smarter in facilitating compliance may consult the recent FTA information note “*Right from the Start: Strategies for Influencing the Compliance Environment for Small and Medium Enterprises*” (OECD, 2011). The note provides a comprehensive framework for addressing compliance risks at an early stage (when interventions are likely to be most cost-effective) and also includes a large number of practical examples provided by countries.

Audit strategies

115. A balanced compliance strategy will naturally complement strategies for facilitating compliance with strategies designed to deter would-be evaders and provide the community with reassurance that deliberate non-compliance is not taken lightly. The tools most frequently applied for this purpose – audits and similar one-on-one verification activities – are costly and can produce mixed or even counterproductive results under the wrong circumstances. Therefore it is not surprising that revenue bodies also see considerable potential for working smarter in this area.

Risk identification and workload selection

116. The basis for effective audit strategies is reliable risk identification and workload selection. Improved capabilities or improved processes in these areas are likely to bring about considerable effectiveness gains. It is therefore not surprising that a number of examples (see Table 14 below) are focused on working smarter in this area.

Table 14. Strategies for risk identification and workload selection

Country	Initiative
Canada	The Canada Revenue Agency has redesigned compliance systems in order to improve the business intelligence capability of compliance programmes. The project began in 2002 and was implemented in April 2011. Among the expected benefits are improved risk management and workload selection; improvements to audit quality in terms of fairness and integrity as well as the ability to protect the revenue base; and a lower burden placed on honest taxpayers.
Chile	A system is under implementation in Chile will allow the revenue body to consolidate and match all VAT credit and debit information provided (through tax returns, sworn statements, electronic accounting books, and electronic invoices) by taxpayers and third parties. This information will also be available to taxpayers, who will be able to correct inconsistencies through an electronic interface.
Finland	The Finnish Tax Administration is implementing new risk management procedures designed to achieve a more optimal allocation of audit resources. Management decides to what risk areas resources should be allocated, and the different functions of the administration then co-operate to design and implement projects addressing these risks. It is expected that the initiative will result in a more uniform selection and more effective use of resources.
Switzerland	In Switzerland, the pre-selection process for risk-based audits has been amended in order to improve case selection. The idea is to select more cases than needed and let audit staff do a short analysis of each case to assess the risks involved before accepting or rejecting the selection. The short analysis provides valuable feedback that is used to improve future selection – for instance by correcting wrong information in databases or updating outdated information. As a result of the amended process, the number of unproductive audits has decreased.

117. With modern compliance risk management strategies, more emphasis is placed on identifying and responding to aggregate risks as opposed to individual cases. This development is illustrated by the example from Finland, which is focused on building uniform processes around risk identification, risk assessment, and resource allocation. The example from Canada further emphasise the importance of counting on reliable business intelligence capabilities to support compliance activities.
118. The value of third-party information is widely recognised, and it is clear that access to reliable third-party information can greatly enhance the reach of verification activities. The example from Chile shows how third-party information can be applied not only for matching purposes, but also be used to stimulate compliance by making the information available to taxpayers.
119. Finally the Swiss example is illustrative of how selection processes may be improved through systematic feedback mechanisms. In addition the example shows how empowering staff (in this case allowing auditors the discretion to accept or reject cases on the basis of their professional judgement) may contribute to working smarter.

Allocation and processing of cases

120. A considerable part of the work carried out by revenue bodies resolve around the allocation and processing of individual cases. Efficiency gains in these areas are thus likely to involve considerable savings. This is illustrated by an example from South Africa (see Box 20 below), where a thorough revision of the audit process for private individuals has resulted in dramatic efficiency gains.

Box 20. Revised process for personal income taxes in South Africa

In South Africa, the standard audit process for personal income taxes has been thoroughly modernised since 2007.

The revised process embraces modern risk management principles and the use of third-party data to support the identification of high-risk cases. The workflow is supported by a case management system allowing for the automation of manual bulk processes, including the automation of initial information requests, the preparation of case-material in digital format, and the pre-population of standard letters.

The modernised process has led to dramatic efficiency gains: for instance assurance output per auditor has increased from eight cases per year to between 15-20 cases per month.

121. One of the features that stand out in this example is how the audit process is supported by case management systems allowing for the automation of manual bulk processes. This is mirrored by an example from Chile, where an electronic application to digitalise and support the audit process is under implementation, which will improve central oversight while also supplying auditors with standard forms, letters and other documents required during different stages of a tax audit.
122. An example from Canada (see Box 21 below) illustrates that there may also be potential for working smarter in adapting the processes around case allocation for a more efficient distribution of the workload.

Box 21. Canadian Accounts Receivable National Inventory

Over the past few years, various task force reports have indicated that there are potential effectiveness gains in allocating system-generated workloads differently. The Accounts Receivable National Inventory (ARNI) initiative ensures accounts are systematically distributed to each collector across the country equitably using a more responsible risk enforcement approach regardless of their geographic location.

The ARNI initiative includes all major revenue types and only applies to work that is normally conducted without meeting the taxpayer in person. ARNI business rules and administrative processes have been developed to ensure the consistent collection of accounts. The ARNI tools and referral processes are stored in a central location to facilitate easy access for collection officers, technical advisors and team leaders. ARNI has provided the ability to assign higher priority accounts more effectively, address growing inventories and

provide flexibility to respond to changing priorities. As a result of the ARNI initiative being recently implemented in April 2011 a full-scale evaluation has not yet been completed.

123. An example from Australia (see Box 22 below) attest to the potential for working smarter in the actual processing of the individual cases by leaving case preparation to a specialised team.

Box 22. Australian case preparation team

The Australian Tax Office (ATO) has optimised audit processes by establish a team responsible for collecting and collating the information and data necessary to initiate and conduct a full review or audit of a company or group.

The initiative involved the development of a range of new processes and practices and the establishment of a team of lower graded staff to undertake this work. It also involved improved use of the risk assessment and profiling tool deployed in the ATO. The aim is to get the best cases onto the desk of the case officers in a form that allows them to immediately begin the review and audit process without spending time on routine activities that can be done more effectively and cheaply by less expensive staff.

The initiative is in its first year of application and has not yet been formally evaluated, but experience so far indicate that the prepared cases allow case officers to proceed more quickly with the review or audit based on a better initial understanding of the taxpayer and the risks involved.

Other measures to enhance reach of audit activities

124. Some compliance risks can be difficult to manage by traditional enforcement measures. This is for instance true of the underground economy, where informal employment and cash transactions can be difficult to detect in a traditional audit. An example from Sweden (see Box 23 below) illustrates how revenue bodies can enhance the reach of audit activities by strengthening the control chain.

Box 23. Certified cash registers in Sweden

All traders in Sweden selling goods or services in return for cash (or card) payments are required as of 1 January 2010 to use a certified cash register and provide customers with receipts. The cash register must be registered with the tax agency and comply with detailed specifications.

The tax agency has powers to make inspections as well as disguised visits (involving control purchases) to verify that transactions are registered and receipts are provided to customers. Traders that fail to comply face instant fines, and control visits can escalate to full scale field audits when relevant.

The background to the legislation was significant tax evasion in industries with high cash turnover, which proved difficult to deal with through traditional enforcement measures. A political initiative consequently involved strengthening the control chain by introducing certified cash registers.

The initiative is supported by industry associations, as it will contribute to achieving a level playing field for businesses in sectors affected by unfair competition.

125. An important feature of this example is that the Swedish Tax Agency was able to get the support of the business community despite the investment required on their part, as the strengthened control chain will contribute significantly to achieving a level playing field by reducing opportunities for unfair competition based on cash transactions that go unregistered or are subject to manipulation.

126. The introduction of certified cash registers in Sweden was preceded by another initiative that required businesses in risk sectors to register staff and working hours in staff ledgers. The initiative was highly successful in reducing the incidence of informal employment based on cash-in-hand wages; this in turn led to a more level playing field and the creation of thousands of jobs in the formal economy, as can be observed from the detailed description featured in the FTA guidance note “*Evaluating the Effectiveness of Compliance Risk Treatment Strategies*” (OECD, 2010).

Managing debt

127. Even the most sophisticated strategies for facilitating or enforcing compliance are worth little if the tax owed is not actually collected. Having appropriate strategies in place for debt management is particularly pressing in the present climate of financial crisis, where most revenue bodies face rising levels of tax debt with corresponding resource pressures and risks. Some revenue bodies also have debt collection responsibilities that go beyond the collection of tax debt.
128. An important aspect of debt management is ensuring that adequate information exchange takes place between debt collection functions and payment functions that may reside within different public agencies. This is illustrated by an example from Hungary (see Box 24 below), where changing processes around payments of public grants to allow for automatic withholding of outstanding public debt has also led to improved service to grant beneficiaries.

Box 24. Automated process for checking debts in Hungary

Beneficiaries of public grants in Hungary are required to prove that they have no public debts before the grants can be transferred; for certain grants this is even a prerequisite for the grant to be awarded.

While facilitating the collection of public debt, this conditionality principle also generated a recurrent demand for certificates to prove non-indebted status, which placed a significant burden on customer service and slowed down processes for the tax administration as well as for taxpayers. At the same time, the manual processes and time-lapses involved frequently led to payments being made to beneficiaries with overdue public debts.

In response to these challenges, it was decided to introduce an automated process for checking the debt status of grant beneficiaries. The regular transfer of the relevant data was organised in several steps in order to mitigate the workload, increase process speed and widen transparency. The Treasury and the Agricultural and Rural Development Agency, the two main agencies responsible for making payments, now each receive a daily report on the public debt of grant beneficiaries, which is used as a basis for adjusting payments.

In practice the tax numbers of beneficiaries are submitted electronically to the tax administration. This information is then checked against current accounts in order to identify beneficiaries with overdue public debt. Any outstanding debt is detailed for individual beneficiaries by tax type and in net aggregate in order to facilitate withholding and transfer to the appropriate accounts.

The automated process has resulted in large efficiency gains, drastically reducing live labour need, as more than 3.3 million current account scannings took place before the process was fully implemented in July 2011. At the same time grant applications are processed faster and payments can be made more quickly.

129. Several features of this example merit attention. The process is built around a conditionality principle implying that public grant beneficiaries cannot at the same time have public debts, which not only provides a mechanism for collection, but also an incentive for not accumulating debt in the first place. The example is also notable for the dramatic efficiency gains achieved by replacing a process based on manual transactions with an automated process based on the electronic exchange of information between public agencies.
130. The principle that certain privileges administered by public agencies (like in this case access to public grants) could be made dependent on compliance behaviour seem to hold much promise as a tool for debt collection or compliance risk management more broadly.
131. Not all debts can be prevented or collected by automated processes. Sometimes it will still be necessary to resort to enforced debt collection. An example from the Netherlands (see Box 25 below) illustrates how this can be done in an innovative way by making use of new technologies.

Box 25. Dutch 'stop-and-pay' operations

The Netherlands Tax and Customs Administration is using Automatic Number Plate Recognition (ANPR) as a tool for enforced debt collection.

Motorists with outstanding debts are stopped at checkpoints during 'stop-and-pay' operations carried out in co-operation with police and municipal authorities. Debtors are identified with ANPR (based on comparison of number plate scans with entries in national registers) and required to settle the debts immediately. This can be done either in cash or with a mobile PIN payment machine. The car is seized if the debts are not settled on the spot.

The 'stop-and-pay' operations have proven an effective form of enforcement. The combination of instant sanctions, high visibility and press leverage mean that the operations provide a strong deterrent against accumulating tax debt. They also contribute to giving the tax administration a highly visible profile.

In 2010, the tax administration seized a total of 2,000 cars and collected payments of almost EUR 5 million in outstanding debts during 'stop-and-pay' operations.

ANPR data generated by the tax administration and other authorities is also used to ensure compliance with obligations in the fields of vehicle taxes and related wage taxes.

132. Another example involves publishing the names of taxpayers with debts. The Finnish Tax Administration has been given the authority to publish debts relating to employers' contribution and VAT. The administration is now considering the possibilities for publishing the debts. These will likely be published on the revenue body website and/or in commercial magazines. This 'name and shame' initiative is expected to be an effective sanction that will also have a significant preventive effect. The Finnish Tax Administration is therefore considering the possibility of expanding the initiative to include other taxes.

133. An important aspect of debt management is that it involves significant customer interaction with corresponding pressures on resources. Two examples illustrate how revenue bodies may respond to this. The Canada Revenue Agency has tasked a Debt Management Call Centre with managing high volume calls for several tax and government programmes, while HMRC in the UK is using specialised Debt Collection Agencies as one element of its debt collection strategy. These entities allow for the efficient handling of debt-related customer contact, including the mitigation of fluctuations in demand by balancing inbound calls with outbound activities.

134. These examples highlight the importance of efficient demand management. This issue is further explored in the demand management component of this project, which has uncovered considerable potential for achieving savings and/or gains in efficiency and effectiveness through the application of modern demand management strategies. Revenue bodies looking for inspiration in this regard may consult the separate report on demand management or the relevant chapter in the summary report bringing together the four components of this project.

135. The examples presented above comprise preventive measures, sanctions and organisational responses, including efficient demand management. An example from the UK (see Box 26 below) emphasises the importance of bringing together all these elements in a coherent debt management strategy.

Box 26. Global debt strategy in the United Kingdom

The UK revenue body (HMRC) is implementing a global debt strategy. This strategy aims to increase the likelihood of recovery, improve the speed of collection and reduce its costs. The strategy is based on various initiatives, ranging from payment facilitating measures to firm actions targeting those unwilling to comply.

The HMRC is making it easier for individuals and businesses to pay on time, by promoting simple, easy and secure payment methods such as paperless direct debit, debit and credit cards, and budget payment plans for self assessment payers. Measures to removing any advantage from paying late are also used; in particular by introducing new penalties for late payment.

The use of Debt Collection Agencies (DCAs) is an important element of the debt strategy. This initiative began with an initial pilot using four DCAs. The HRMC is investigating how it could optimise the use of DCAs, for example in handling particular types of debt in cost-effective ways.

During 2011-12, DCAs will be used at the end of high volume activities, either before or after cases are referred to enforcement agents. They will also be used to add capacity where there are resource contentions.

136. In addition to the measures suggested by these examples, revenue bodies have at their disposal a range of tools for the collection of debt. The application of these tools across countries is presented and discussed in the FTA publication *“Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series 2010”* (OECD, 2011), which also includes comparative data on tax debt relative to net revenue for the 49 participating countries.

Managing disputes

137. Another area in compliance with potential for working smarter is dispute resolution. Disputes essentially represent a sign that the system has in particular instances failed to meet the expectations (whether justified or unjustified) of taxpayers. Disputes recognise that taxpayers should have recourse to judicial review of administrative action, and revenue bodies must have proper regard to fairly balancing public and individual taxpayer interests under the law. Research has documented that receiving a fair and dignified treatment – what is often referred to as procedural justice – during interaction with authorities is generally more important than the actual outcome in determining acceptance and future compliance (Kirchler, 2007).

138. It follows that dispute resolution represents an opportunity for revenue bodies to safeguard system integrity and improve future compliance levels. At the same time, there may be opportunities for efficiency gains by revisiting and adapting some of the processes around dispute management more broadly. A number of examples (see Table 15 below) provided by revenue bodies provide practical inspiration as to how this might be achieved.

Table 15. Strategies for dispute resolution

Country	Initiative
Netherlands	From January 2010 the Netherlands Tax and Customs Administration has implemented the policy of calling taxpayers who have filed an objection to their tax assessment in order to avoid further escalation. The goal is to provide better service and prevent unnecessary objection procedures by involving taxpayers at an early stage. The policy was implemented following regional pilots that showed positive results.
New Zealand	In 2010 New Zealand introduced administrative changes to make the tax disputes process more efficient, accessible and transparent. These changes clarified when a truncated disputes process would be considered, and introduced facilitated conferences to resolve disputes before reaching formal litigation. Some legislative amendments designed to complement these practices are currently before Parliament. The changes were initiated following a period of consultation with the New Zealand Law Society and the New Zealand Institute of Chartered Accountants.
Canada	Fast-tracking of objections that are fully documented allow for more expedient handling, which in turn has positive impact on procedural justice and satisfaction parameters. At the same time, formalised feedback mechanism ensures learning from appeals that can then be applied to improve processes and reduce the number of future appeals.
UK	HMRC’s revised Litigation and Settlement Strategy from July 2011 places more emphasis on preventing disputes from arising in the first place and on resolving those disputes that do arise through collaboration with customers. There is also increased focus on case selection to ensure that the potential revenue flows make any dispute worthwhile. While pilots are still ongoing, initial results are promising, as where resolution is achieved outside the litigation route, it is reached in a shorter timeframe and with less cost for both parties.

139. When taken together, these examples illustrate what an efficient strategy for dispute resolution could look like: early intervention, efficient workload management and systematic learning. Early contact may pay off through reduced pressures downstream. Fast-tracking of fully documented disputes will avoid long delays that represent at the same time a waste of revenue body resources and a source of frustration to taxpayers. And a formalised feedback mechanism should ensure that learning from disputes will contribute to reducing the future workload and safeguarding system integrity.

140. The tendency among revenue bodies to adopt co-operative approaches in effect involves a form of dispute resolution, as illustrated by the example from New Zealand. This is for instance true of some for the enhanced engagement arrangements with large businesses touched upon earlier as the early identification and mitigation of material tax risks amounts (among other beneficial outcomes) to the prevention of potential disputes. Revenue bodies that engage taxpayers and stakeholders in co-operative approaches would thus seem to be in an advantageous position with respect to preventing and managing disputes.

Other measures

141. Many of the aspirations of revenue bodies for working smarter in compliance revolve around the application of IT, as illustrated by a number of the examples featured in the preceding sections, particularly in the sections on facilitating compliance and audit strategies. Revenue bodies increasingly rely on IT for risk analysis, workload management, information exchange, service provision, and communication with taxpayers. And it is clear from the examples that a significant number of revenue bodies expect improvements in the application of IT to be a key enabler of efficiency gains.

142. With this increasing reliance on IT for key processes, appropriate planning for IT assets and capabilities becomes a critical factor for long term success – especially when bearing in mind the considerable investments and risks involved in large IT development projects.

143. An example from Singapore (see Box 27 below) describes how a multi-year framework may be applied to ensure that the right IT assets and capabilities are in place to manage the compliance process from the level of risk analysis over data management down to actual cases.

Box 27. Planning for IT capabilities in Singapore

The Inland Revenue Authority of Singapore (IRAS) has strong IT capabilities in the processing and service areas. The compliance area, however, has mainly been supported by stand-alone tools not integrated in the main systems, which represents a challenge when planning and co-ordinating across divisions.

In order to overcome this situation, the IRAS has developed a multi-year framework, called the Compliance IT Blueprint, for the development of IT capabilities and the acquisition of IT assets. The Compliance IT Blueprint is essentially a planning document detailing IT assets and capabilities desired to support the compliance area. The three project phases laid out in the document are: 1) risk analysis, 2) data management, and 3) case management. The goal of the project is to be in a position to better use technology to drive compliance and attain sustained high levels of voluntary compliance

The first phase focuses on the implementation of IT aided high performance data analytics for risk scoring and assessment. The focus on developing the analytics capability first will strengthen the risk profiling process and help identifying high risk taxpayers based on patterns and trends in the data.

The second phase focuses on the implementation of divisional data marts allowing data analytics to better target the needs of divisions. The scope also includes the setup for external data management by creating a centralised platform to import and manage the data coming in from external sources in the most efficient and secure way. This will enable users to supplement the data required for analytics with potentially unstructured data from external sources.

The third phase focuses on the development of a Case Management system, an Investigative Workbench and on passing results back into processing systems and taxpayer relation management to support Operational Analytics.

Experience from the first phase demonstrates that analytics can significantly improve compliance processes. A project in the Corporate Tax Division dramatically improved audit yield: the 6,594 cases selected by the model for the tax year 2008 led to SGD 125 million worth of adjustments (compared to SGD 117 million for 44,000 cases reviewed for the tax year 2005). Another project in the Individual Income Tax Division reduced the time required for a data extraction process from 30 staff days to only 6 days.

144. Another aspect of strategic planning around IT relates to the overarching public data infrastructure. Revenue bodies are not alone in relying on IT for purposes of regulation and service provision, and

public data infrastructure –for instance the extent to which data is recycled across public agencies– may impact on customer experience and compliance outcomes.

145. An example from the Netherlands (see Box 28 below) illustrates how a public data infrastructure based on a system of key registers may contribute to reducing the compliance burden while facilitating the work of public agencies.

Box 28. Key registers in the Netherlands

The system of Key Registers is a government-wide development. The core of the initiative is that a large number of data about private individuals, companies, buildings, premises, motor vehicles, income, etc. will in future be gathered once from the public, by only one designated government body with the goal of multiple uses by all other government bodies in the Netherlands.

The System will eventually consist of 13 Key Registers which are interconnected and are used as a single, logical and coherent whole. Each Key Register contains authentic data and is kept by a government body.

Citizens and companies are required once to supply data which are then re-used. Government bodies are no longer allowed to ask citizens and companies for these data.

The NTCA fully participates in the project and is the Keeper of the Key Register Income. The NTCA is using (or will be using) data from other Key Registers such as the Municipal Personal Records Database (kept by municipalities), the Trade Register (kept by the Chambers of Commerce) and the Addresses and Buildings Register (kept by Land Registry Office).

The most important benefits for the NTCA are saving on costs of gathering data (including ceasing manual processes) and improved enforcement as a result of higher data quality. In the longer time benefits can also be gained in management and exploitation of IT systems because of simplification of the landscape of systems.

V. WORKING SMARTER THROUGH LEGISLATION

146. In order to work smarter, formal procedures for levying, auditing and collecting taxes may need to be changed (e.g. new legislation for enabling e-filing). Changing existing legislation or developing new proposals is usually not part of the mandate of a revenue body as it is a matter of policy. However, in practice revenue bodies are often involved in the development of new proposals or give advice about the feasibility and effects of legislative proposals. In the questionnaire the participating revenue bodies were asked about the part they play in proposing, influencing and assessing legislative proposals and their effects on taxpayers and revenue bodies.

147. This chapter starts with a section setting out the overall findings of the survey about legislation. This is followed by a section describing in more detail the specific roles of certain revenue bodies in the legislative process. The next section contains examples illustrating how revenue bodies have used their role in the framing of legislation to help them work smarter.

Overall picture from survey

148. In the survey responses a total of 18 revenue bodies indicated that they consider the potential for working smarter through legislation to be significant or reasonably significant, while eight revenue bodies considered it to be of minor, or no importance. A majority of the revenue bodies surveyed also indicated that they are actively focussing on ways in which legislative change can enable them to work smarter. Nonetheless, the number of examples in this area is relatively small in comparison to the number of examples of working smarter in compliance and in structuring the administration. A total of 18 templates were related to working smarter in legislation.

149. The distinction between working smarter in compliance, in structuring the tax administration and through legislation is not always clear-cut. In some cases proposals concerning compliance or structure need to be enabled by changes in legislation. For this reason a number of examples from preceding chapters have been reproduced in this chapter.

Regulatory and advisory role

150. The questionnaire responses show that many revenue bodies participate in the legislative process in some way. In some cases this extends to a direct responsibility for the drafting of new legislation and revenue bodies will often give advice about the practical and administrative aspects of legislative proposals. More generally revenue bodies explain the law in various ways, which include regulations, instructions and advice. The advisory function can include the provision of rulings and the interpretation of case law that results from litigation, a role that is particularly important in common law jurisdictions.

151.

Role in drafting legislation

152. Some revenue bodies indicate that they are responsible for drafting all, or certain parts of new legislation. Table 16 below gives some examples of countries where this is the case.

Table 16. Regulatory role in legislative proposals

Country	Initiative
China	The Chinese Tax Administration has the authority to formulate the tax administration

	regime. Proposals are examined and have to be approved by the National People’s Congress.
Denmark	In Denmark, the Ministry of Taxation is integrated into the Tax and Customs Administration and is independent from the Ministry of Finance. As a result, tax and e-filing legislation can be specified taking administration experience and needs into account.
United Kingdom	In the UK the revenue body (HMRC) has a specific responsibility for the drafting of administrative legislation. This means it is in the lead in the drafting process. This includes taking new legislation through Parliament.

Advisory role

153. Many revenue bodies have some kind of advisory role in the legislative process. These revenue bodies are asked for their opinion on legislative proposals, enabling them to give an assessment as to the feasibility of these proposals. This implies some form of co-operation with the body responsible for fiscal policy and legislation in their country.

154. Where revenue bodies have an advisory role, the questionnaires suggest that its main focus is on the proper and effective implementation and administration of new pieces of legislation.

Table 17. Advisory role in legislative proposals

Country	Initiative
Sweden	The Swedish Tax Agency can advise the government and propose changes to the legislation. The Swedish Tax Agency often participates in the drafting of new tax legislation. The Tax Administration is asked for its comments on all proposals regarding tax related legislation. There is a combination of formal procedures and informal communications.
Switzerland	The Swiss Tax Administration can propose, influence and assess legislative proposals.
Netherlands	The Netherlands Tax and Customs Administration (NTCA) actively participates in discussions on new legislation within the Finance department. Its role is to ascertain that it can properly implement and apply the new laws. The NTCA advises on issues such as necessary changes in ICT-systems, staff training, comprehensibility for taxpayers, etc. Also, the additional cost of applying the proposal is determined. Normally, the NTCA is compensated for these costs.

155. Some revenue bodies have been given a formal authority to advise the minister responsible for tax legislation in the legislative process.

Box 29. Advisory role of the Chilean Tax Administration

According to the law that regulates the functioning of the Chilean Tax Administration, the Commissioner of the administration has the role of providing information and advice to the Minister of Finance in matters of tax administration and, in particular, with respect to measures and changes to the existing legislation that could improve tax compliance and auditing activities. The Commissioner has traditionally had an active role in terms of proposing and assessing legislative proposals.

156. The advisory role on new legislation can extend to appearing before parliament to set out the tax administration’s view on new legislation.

Box 30. Advisory role of the Finnish Tax Administration

The Finnish Tax Administration is requested to issue opinions on government proposals for new legislation and is regularly heard by parliament committees when new legislative proposals are being discussed.

The Finnish Administration may also participate in tax legislation work through its representatives in working groups and co-operates all the time with the Ministry of Finance in tax legislation issues. Naturally, the Administration’s focus is to see that proposed legislation can be effectively implemented and controlled, as

simple and plain as possible, and leaves no room for interpretation etc.

The Finnish Administration has also initiated new legislation to the Ministry of Finance especially to improve and facilitate taxation procedures and compliance both for taxpayers and the Finnish Tax Administration.

157. In Canada a framework has been developed, aimed at identifying potential enhancements to the legislation. Thus, revenue body experience in applying the law is used to make recommendations on how the law can be improved.

Box 31. Enhanced Legislative Change Framework in Canada

While administering tax laws, programme areas within the Canada Revenue Agency (CRA) identify potential enhancements to the legislation. In this context, the CRA has developed a strategy to enhance the Agency’s legislative recommendation process, which will lead to more strategic and timely amendments to the various statutes administered by the CRA and ultimately lead to a more effective administration of CRA programmes.

The objective of the enhanced legislative change framework is to formalise a process whereby legislative issues are identified, validated, analysed, well documented and prioritised before being submitted to the Department of Finance. This includes establishing content requirements for proposals such as the need for relevant supporting statistics and establishing a process to manage proposals effectively. In addition, processes and systems were enhanced in order to provide feedback and keep stakeholders involved.

Issue of regulations and instructions

158. In a number of questionnaires, revenue bodies indicate that they have a responsibility to explain the law through regulations and instructions. In doing so, they can ensure a uniform application of the law. This may range from clarifying how the law should be interpreted, to the provision of guidance on issues such as valuation, tax free amounts, fringe benefits, etc. Generally speaking, this responsibility must be exercised within the existing legal framework.

Table 18. Explaining the law through regulations and instructions

Country	Initiative
France	The French Tax Administration has developed rulings which represent a position of the administration on demands of taxpayers regarding certain issues. The rulings may either address a general explanation of the law, or its application in a specific situation.
Finland	The Finnish Administration has powers to issue legally binding regulations on the basis of a specific authorisation in the tax legislation. These regulations may concern valuation for tax purposes of fringe benefits, tax free amounts of work-based compensation, more precise rules on declaring obligations, etc.
Netherlands	The Netherlands Tax and Customs Administration publishes regulations in which it explains its understanding of the law. New regulations are usually published when it is expected that a tax administration position in an individual case is of importance for other, similar cases. The regulations are binding for the tax administration. Thus, regulations are used as a guarantee for a uniform application of the law throughout the tax administration.

Examples of working smarter through legislation

159. However revenue bodies are involved in the legislative process, that involvement offers opportunities to improve the efficiency of the tax administration. A large number of revenue bodies have included examples in their questionnaires of changes in legislation aimed at working smarter. The questionnaires show that in some cases the revenue body initiated legislative change to improve efficiency. In other cases the revenue body actively participated in developing policy proposals in a way that supported smarter working.

160. From the examples it is possible to identify three main ways in which legislative change can enable smarter working. Legislative change can be a key enabler in reducing the cost of tax administration, for taxpayers and revenue bodies alike, particularly if it encourages the use of electronic methods of filing and communication. Legislation also features in efforts that revenue bodies have made to encourage compliance, particularly by businesses. And legislation is an essential component in creating the right framework of deterrents for the would-be non-compliant.

Reducing costs through legislation

161. Legislative change can make a significant contribution to the reduction of the costs of tax administration for revenue bodies and taxpayers. A number of tax administrations gave examples of instances when a critical review of existing legislation indicated that it had fallen behind the times and was driving unnecessary costs. For example, if monetary thresholds governing matters such as which businesses are included in value added tax systems, or the frequency of reporting and making payments, are not kept under review, fiscal drag will mean that revenue bodies have to deal with many more low value transactions. At a more fundamental level, governments are increasingly looking at ways in which the different elements of public administration can be better co-ordinated to provide a more joined up service at a lower overall cost.

Table 19. Reducing costs through legislation

Country	Initiative
Ireland	Modernisation and simplification of the Capital Acquisitions Tax (CAT), comprising of Gift Tax, Inheritance Tax and Discretionary Trust Tax. The CAT was brought in line with other self-assessment taxes. Thus, Ireland reduced administrative and compliance costs for taxpayers, practitioners and the tax administration.
Hong Kong	Hong Kong revised its legislation to enable a one stop shop business registration service, which is also treated as a notification to the Commissioner of Inland Revenue.
New Zealand	New Zealand repealed the gift duty. Gift duty revenue had been approximately EUR 1.6 million, whereas (direct) yearly cost of administering the gift duty was app. EUR 0.43 million.

162. The example from New Zealand is instructive, as a tax with direct costs of administration that comprised approximately 25% of yearly revenue was repealed. Generally speaking the administrative costs of taxes in developed tax administrations would be much lower (between one and two percent being a common level). Costs amounting to 25% of yield certainly bring into question the ongoing viability of the tax in question.

163. Enabling the move away from paper communications and towards electronic filing is another theme in recent legislative changes that include cost reduction as a main aim. In France, the introduction of electronic filing and e-payment was supported with legislation making electronic filing and e-payment mandatory for companies exceeding a certain turnover threshold.

Box 32. Mandatory electronic VAT filing and e-payment for businesses in France

In France, compulsory e-filing and e-payment for VAT has started gradually in 2001 with the objective of reaching a no-paper situation by 2015. In 2001 e-filing and e-payment of VAT were mandatory only for large businesses. Gradually, the threshold of turnover was reduced to also oblige smaller businesses to make use of e-procedures. For example, the threshold for mandatory e-filing and e-payment for VAT purposes was EUR 500,000 starting 1 October 2010 and is currently EUR 230,000. In 2004, 26% of e-Corporate Tax (CT) returns and 2% of e-VAT returns were filed electronically. In 2010 1.6 million companies were paying CT (70% of e-CT returns) and 4.6 million were paying VAT (30.9% of e-VAT returns). EUR 164bn of business taxes were paid online in 2010.

A project for 2011-2015 plans to further lower the thresholds. By October 2012, all companies paying Corporate Tax will be required to e-file and e-pay VAT and e-pay CT. By May 2013 they will also have to e-declare CT. Companies not paying CT will be required to e-pay and e-declare VAT by 2013 (turnover of more

than EUR 80,000) and e-declare profits by 2014 (respectively 2015 for the smallest companies).

It has been necessary to create a dedicated telephone-platform to answer companies' technical questions at the time of entry into force of the new thresholds and procedures. Indeed, difficulties arose in the first years of implementation but the process is now well-known by tax officers and tax intermediaries.

The initiative has brought annual savings to the revenue body of 200 fulltime equivalents (FTEs) from 2005 to 2008 (VAT) and of 477 FTEs over the period 2010-2012. The French tax administration expects savings of 417 more FTEs from 2012 to 2015 with the new legislation.

164. In South Africa, the tax administration initiated the introduction of a generic administrative law aimed at creating one legal framework for the application of various tax acts. This was an integral part of their programme to modernise the tax administration.

Box 33. Tax Administration Bill in South Africa

The current administrative provisions in South African tax acts are outdated and do not fully support the revenue body (SARS) modernisation programme. Although the provisions have been amended over the years, the tax acts have become fragmented and disparate provisions arose in the different tax acts.

The legislative framework needs to be aligned with modern approaches, business practices, accounting practices and constitutional rights. A new legislative framework is accordingly required for the modern administration of the collection of revenue, the consolidation of duplicate provisions and the alignment of disparate provisions in existing law.

The drafting of the Administration Bill was proposed by SARS and approved by the Minister of Finance. It was announced as a project to incorporate into one piece of legislation generic administrative provisions in various tax Acts. The Bill is aligned to and will underpin SARS's strategies and strategic framework. It will affect SARS's operational frameworks, systems, services, processes, procedures and practices.

The Bill entered the Parliamentary process in June 2011 and its implementation will depend on the conclusion of this process.

Encouraging compliance through legislation

165. Chapter III of this report discusses the central contribution that good management and improvement of processes can make to smarter working. The legislative framework will affect the way in which those processes operate. Critical review of the design of key processes should not overlook this legislative component. In particular, changes to legislation can make a positive contribution to levels of voluntary compliance. Legislative changes that are designed to encourage voluntary compliance include reforms that make it simpler to comply in the first place and changes that make it easier to resolve issues that are inherently complex.

Table 20. Encouraging compliance through legislation

Country	Initiative
Switzerland	Switzerland created an 'easy' VAT-declaration for SMEs that allows turnover to be calculated with a percentage (defined for each sector of the economy) lower than the legal rate, but without input tax deduction (i.e. not amounting to a discount on taxation). As a result, SMEs can more easily comply with VAT regulations, the declaration frequency has gone from four to two times a year, their administration is simplified and there are no longer problems with input tax.
Austria	Austria changed its legislation for the introduction of an advanced tax ruling. Rulings can be given on transfer pricing, on the reestablishment of companies and on group taxation. For the ruling a fee is charged ranging from EUR 1,500 to EUR 20,000, mainly dependent on the sales revenue of the applicant.

166. Process improvement also focuses on opportunities to redesign processes in a way that eliminates opportunities for error and so saves all the costs associated with subsequent error correction. This is an

aspect of continuous improvement that is an integral feature of 'Lean' ways of transforming organisational performance. It is also an area where changes to legislation can make a contribution.

Box 34. Measures to design out errors in Denmark

The Danish Tax and Customs Administration carried out a large-scale random audits programme on the basis of 22,000 tax returns for the tax year 2006. The results of the audits into businesses were analysed in two comprehensive reports, which present detailed information about compliance failures for individuals and businesses, including a break-down of error types and tax gap for 16 business sectors. The reports (available in English translation at the International Tax Dialogue website) reveal that while errors are present in 42% of cases, only 7% of cases seem to involve deliberate attempts at fraud or evasion. Most errors appeared to be unintentional, and there were a large volume of low-value errors. In most cases there was more than one error.

A task group has worked to identify a range of possible legislative or administrative remedies to the top ten error types. Some of these ideas are still under consideration but specific changes (including the introduction of third-party data on buying prices of shares and stocks as well as the blocking of some particularly error-prone fields on the electronic tax return) were included in a tax reform implemented from January 2010. The introduction of third-party data on buying-prices on shares and stocks alone will, when fully implemented, lead to the elimination of a risk that led to a tax gap of approximately EUR 100 million in the tax year 2006.

167. Another way of working smarter is aimed at resolving disputes before reaching formal litigation. The example from New Zealand illustrates this idea.

Box 35. Amending the disputes process in New Zealand

In 2010 New Zealand introduced administrative changes that sought to make the tax disputes process more efficient, accessible and transparent to taxpayers. These administrative changes clarified when a truncated disputes process would be considered, as well as introducing facilitated conferences to try to resolve as many disputes as possible before reaching formal litigation. Some legislative amendments, designed to complement the administrative practices, are currently before Parliament.

The changes were initiated as a result of a periodic review of the tax disputes process, which was introduced in substantially its current form in 1994. This review was initiated by a joint submission from the New Zealand Law Society and the New Zealand Institute of Chartered Accountants. These organisations felt there were improvements that could be made to the disputes process. A period of consultation took place between these organisations and Inland Revenue. Although Government did not agree with all of the suggestions of the organisations, it is anticipated that the administrative changes made and legislative changes proposed will considerably alleviate the pre-existing concerns of those groups.

Detering non-compliance

168. Tax administrations have to rely on legislation to provide effective deterrents and remedies for non-compliance. It is important to keep these under review and to ensure that they have kept pace with developments in the wider environment.

Box 36. Review of powers in the United Kingdom

The purpose of the Review of Powers initiative was to align and modernise HMRC's powers, deterrents and safeguards. This was made necessary as a result of the merger of HM Revenue and HM Customs in 2005. The individual tax regimes varied both within and across the two departments. Each had been developed separately which meant staff could not work across regimes because of different legislative parameters.

Existing powers of the new organisation were 'ring-fenced'. Each of the former Departments would align and modernise existing powers and safeguards. Legislative change would include full consultation and guidance. Separate implementation teams subsequently turned the legislation into operational reality. Legislative change was also intended to facilitate operational culture change.

The Review was designed to bring the previously separate regimes into alignment but also to ensure that the new regime is modernised and improved. The review was comprehensive in scope: Criminal investigation powers, penalties for incorrect tax returns, higher penalties for offshore tax evasion, compliance checking

powers, payment and debt and legislation to enable a new Charter for HMRC's customers covering rights and duties.

The Review is likely to be completed in 2013 having started in 2005. To date the Review has legislated some 170 pages of new law. The opportunity has been taken to remove out of date legislation. The objective of achieving behavioural change underpins the whole Review.

169. In the current climate, reducing levels of tax debt is a central preoccupation for revenue bodies and legislation can help here too. In Finland, the tax administration aims at improving payment behaviour by publishing tax debts. This is considered a preventive measure that should compel taxpayers to pay on time.

Box 37. Expanding the publicity of tax debts in Finland

The Finnish Tax Administration has been given the authority to publish debts of certain taxes (employers' contribution, VAT) in commercial magazines. This is a preventive measure to compel taxpayers to pay on time. The Tax Administration wants to expand this possibility to other taxes. This initiative was triggered by a desire to simplify the collection process and a need to reduce administrative costs. In addition, it is expected to improve taxpayer compliance. The necessary revision of the legal framework may be arduous.

Technically, there are several different possibilities for publishing tax debts. The Finnish Tax Administration has yet to choose which alternative it will apply. Possibly, tax debts will be published on the Tax Administration website. As this is a new initiative, currently there are no experiences on how the expansion may work out.

170. Hungary has also made changes to its law recently designed to improve its ability to collect tax debts. It has introduced legislation that enables property seized in lieu of tax debts to be offered for sale over the internet. The Hungarian Tax Administration is making use of this facility approximately 15,000 times a year.

VI. CONCLUSIONS AND RECOMMENDATIONS

171. The preceding chapters provided details of the significant cost-reduction objectives set for many revenue bodies, their views on savings' potential in key areas of administration, and approaches to co-ordinating cost-reduction efforts and evaluating their impacts. This was followed by an account of the measures being taken to achieve these objectives under the headings of: working smarter in structuring the administration; working smarter in compliance; and working smarter through simplified legislation. This chapter draws out the key conclusions in each of the areas examined and in an overall sense, and makes a number of related recommendations.

Working smarter in structuring the administration

172. Revenue bodies generally rated (re)structuring the administration (and related process redesign and automation) as a high priority area of focus for working smarter and delivering savings/efficiency gains. However, while they reported many approaches and examples few provided any firm quantified evidence of such gains or details of their approach to measurement.

173. It is evident from the approaches and examples presented that many revenue bodies are redesigning their organisation along more centralised lines. Concentration of processes and more centralised management are part of these strategies. However, there are variations in this approach. Some revenue bodies have adopted a more centralised form of organisation and management based largely on tax type or process criteria (e.g. audit and taxpayer information) while others have adopted a model based largely on taxpayer segments (e.g. SMEs and large businesses). This latter approach appears to offer numerous benefits (e.g. easier for businesses to handle their tax affairs while enabling the revenue body to apply a more customer-centric approach in service delivery and risk management strategies).

174. Importantly for many revenue bodies, working smarter also means redesigning and optimising their key business processes. To this end, a number are using 'Lean' principles and similar strategies to analyse their business processes and identify ways to improve them. For some, this approach is being pursued on an ongoing basis, not as a "once off" exercise.

175. The automation of workflows within revenue bodies is another area with potential for working smarter. Investing in the automation of work appears to be one of the more successful strategies to reduce process costs, as it facilitates faster and easier data processing and improved work movement and management across work areas. Survey responses suggest, however, that not all revenue bodies have yet achieved the same level of automation in this regard and for many significant potential remains.

176. There were interesting but limited examples of knowledge management and the use of outsourcing. Databases are used successfully by some revenue bodies to share information within their staff and to capture the knowledge/experiences of departing employees. Outsourcing, while not reported widely in survey responses, may also offer potential for savings drawing on private sector practice.

Recommendations

177. Revenue bodies ranked this area very highly in terms of its potential for reform to deliver significant savings and efficiency gains. For this reason, they are strongly encouraged to:

- Keep abreast of technological developments in revenue administration generally and take advantage of opportunities for further automation of workflows and processes;
- Oversee efforts to study and apply the methods for process optimisation used successfully by other revenue bodies and the private sector (e.g. Lean approaches);
- Be alert to the potential for further concentration or consolidation of work processes.

Working smarter in compliance

178. The approaches and examples presented identify numerous opportunities for working smarter in compliance, although little in the way of potential for short term gains. By and large, smarter compliance outcomes require revenue bodies to invest a fair amount of resources and effort before benefits can be harvested. This would suggest that working smarter in compliance requires a strategic focus over the medium and long term.
179. It is clear that many revenue bodies are increasing their reliance on modern compliance risk management approaches, involving risk-orientation, differentiated responses based on intelligence and analysis, and continuous learning through evaluation and feedback mechanisms. For some, this development is complemented by a tendency to shift activities upstream—addressing risks earlier in the sequence of events potentially leading to compliance failures— or to seek more systemic solutions.
180. Many of the examples reported concern the use of technologies to facilitate compliance, support audit strategies or enhance the reach of collection efforts. The area with most hope invested in technologies is the provision of electronic services to facilitate compliance and reduce costs and burdens. The potential is by no means exhausted.
181. Another important development is the tendency to adopt co-operative approaches – engaging with taxpayers or other stakeholders to explore shared interests, including the resolution of material tax risks, early certainty, a level playing field, and reduction of costs and burdens. Examples show that this approach is not limited to large businesses, but can be extended to SMEs and individual taxpayers.
182. While efforts by some revenue bodies must be acknowledged, it is also clear that there is considerable scope for working smarter by increased efforts to evaluate the effectiveness of compliance risk management strategies. Only a small number of reported examples identified efforts to quantify savings and/or gains in efficiency and effectiveness; and among those that included evaluation there was a tendency to focus on outputs rather than outcomes (i.e. the actual *impact* of activities on present and future compliance levels).

Recommendations

183. Compliance is a critical area for all revenue bodies, being at the forefront of their interactions with taxpayers, while typically consuming a large share of revenue bodies' resources. In this context, they should continue to explore opportunities for working smarter by:
- More rigorously applying modern compliance risk management principles and strategies, including risk-orientation, the systematic use of knowledge and intelligence, the application of a broad suite of tools, a focus on outcomes, and provisions for continuous improvement through evaluation and feedback processes;
 - Shifting compliance activities upstream and addressing compliance risks earlier in the sequence of events potentially leading to compliance failures; and
 - Facilitating compliance through electronic services with continuous improvement of these services, and by increasing their take-up through a balanced set of strategies comprising marketing, incentives and, where appropriate, mandatory arrangements.

Working smarter through legislation

184. Survey responses show a range of revenue body involvement in the legislative process. Some are themselves responsible for drafting legislation, while many others have an advisory role of some kind. In certain cases, revenue bodies have initiated new legislation. A number have the authority to explain the law by issuing regulations and/or instructions. Although the number of specific examples of efforts

in this area is relatively small, they do demonstrate how legislative change can readily facilitate smarter working. It is consistent with an approach to the improvement of tax administration that examines the root causes of any inefficiency by reviewing key processes from end-to-end.

185. The benefit of optimising processes was discussed at greater length in the chapter on structuring. That should be extended to a critical review of those aspects of process design and workload that are dictated by legislative design. An example of the latter are thresholds (e.g. for VAT registration and advance payments of tax) that can influence workload volumes. It is as legitimate to examine the contribution legislation makes to the overall efficiency of a process, as it is of any other aspect. The examples mentioned in this report give a flavour of how legislation can become outdated and impose requirements, or mandate steps in a process that do not contribute to the desired outcome.

186. Clearly legislative reform can be complex and will not always be easy to achieve. Legislative changes need to conform to the overall policy direction of governments. Legislative proposals may well have to compete with other priorities for reform, in the tax system, or elsewhere, which may be of higher priority. Recognising these constraints, it is clear that working smarter through legislation has real potential to contribute to improving the effectiveness of tax administration.

Recommendations

187. The degree of involvement in legislation clearly varies from country to country, but revenue bodies should take the opportunities they have to use legislation to enable smarter working. In particular they should:

- Include the legislative aspects of any process in a review of its design and efficiency, as this will provide valuable evidence for policy makers and support proposals for change that revenue bodies may wish to support;
- Identify ways in which legislative change can reduce costs of tax system administration borne by the revenue body without increasing the compliance burden of taxpayers;
- Examine the scope to improve compliance with legislation that tackles compliance issues upstream by making it easier to comply, or that enables the more efficient management of issues of difficulty, or disputes; and
- Ensure that the framework of thresholds, deterrence and penalties is up to date and effective.

Overall approach to managing with constrained budgets

188. With significant cost reduction challenges remaining for many revenue bodies, it is imperative that they have effective governance processes in place for their overall cost reduction efforts. Such a process plays an important role in providing leadership and support to line managers, overseeing the establishment of a vision for strategic change, developing a communications strategy to inform and convince staff of the need for reform, developing an overall plan and assigning responsibilities for individual reform measures, and monitoring and evaluating progress with the overall effort. While this issue was raised with revenue bodies, relatively limited information was forthcoming in survey responses. This suggests that this matter may require greater attention by senior management in some revenue bodies.

Recommendation

- Revenue bodies, particularly those facing significant cost reduction challenges over the short/medium term, are strongly encouraged to have robust governance processes in place for delivering the efficiency gains expected while improving their compliance and service delivery performance levels.

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