

# Handbook for Tax Administrations



**Handbook for Tax Administrations**  
Organizational structure and management of  
Tax Administrations  
2000

Edited by:

Matthijs Allink  
Victor van Kommer

Inter-American Center of Tax Administrations

© 2000 Ministry of Finance, The Netherlands.

Cover design: The Knowledge and Training Centre of the Dutch Tax and Customs Administration.

koninklijke vermaatschap 

ISBN 90 5458 893 4  
NUGI 969

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the Ministry of Finance.

## Foreword

This is an unique product. A handbook written for and about Tax Administrations. With as main theme the Organizational Structure and Management of Tax Administrations. What's so unique about that? After all much has been written about Organization and Management. Theory and practice. Whole libraries. But as far as I know, this book is the first attempt to give a systematic description of the structure and management of Tax Administrations. The first handbook focusing on the special organizations which Tax Administrations are. Pioneer work in this field.

But that's not all. This book is also unique for another reason. Certainly, two Dutch Tax Administration officials wrote the book, but first two international working groups conducted a thorough exploration of the themes. Input was provided by participants from many countries, in particular from the American continent. The result is a product made in a cooperative project with participants from societies that differ widely in tradition, culture, population make-up, economy and taxation.

This book has primarily been written for members of CIAT, the Inter-American Center of Tax Administration. That's why most of the examples in the book are derived from actual practice in South, Central and North American countries. CIAT took the initiative for this project. The Netherlands is still proud that we were asked to lead the project and do the editing of this book. I gladly gave my approval to that.

It therefore gives great satisfaction that, following the interim presentation of the first part during the Technical Conference in Amsterdam in the autumn of 1998 – the handbook is now complete. I hope it will contribute to the further development of the world's Tax Administrations. May it be received favorably and with a critical eye.

Joop N. van Bunteren.

(PHL April 1<sup>st</sup> 2000) Director General of the Netherlands Tax and Customs Administration



## Foreword - CIAT

In the past decade, we, at CIAT, have had the privilege of accompanying all the member countries in their efforts for carrying out significant initiatives in the tax field, such as legislative reforms, reengineering of the main processes, information systems and application of new technologies, among others.

Specifically with respect to the Tax Administration, we may mention the implementation of significant reforms that sought, with varying levels of success, to institutionally strengthen and consolidate those Administrations as organizations capable of fully achieving their mission and objectives.

On particularly examining the case of Latin American and Caribbean countries, one perceives progress in the rationalization of the normative framework and in the reengineering and computerization of operational processes. Nevertheless, in most of those countries, achievements in such key areas as organizational and managerial development are still incipient and undoubtedly constitute the great challenge of the XXI century.

This manual is precisely intended to serve as reference, to facilitate the progress and modernization of the Tax Administrations of all our member countries, in those two areas, by analyzing and describing outstanding experiences in aspects precisely dealing with the organizational and managerial development of those Administrations.

The organizations themselves must promote their adaptation to the new circumstances and their foreseeable future evolution, among other aspects, by affording their organizational structures greater flexibility whereby they may more timely respond, or even anticipate, the challenges of a markedly changing environment.

Such adaptation should allow for improving the levels of productivity and effectiveness of the Administration. Modern organizational trends are based on more flexible, horizontal organizations, that easily adapt to changes and stimulate creativity and work in multidisciplinary teams.

In particular, there is the need to adapt the organizational structure to the new concepts of modern Administration, that define it as an organization servicing internal and external customers, dealing with such issues as the criteria for customer focused departments, the integrated administration of internal taxes, customs duties and collection of social security contributions, autonomy of the Administration and operational decentralization, among others.

With respect to management of the Tax Administration, it must be noted that the existence of resources and their availability to be used, as well as sufficient legal powers for the performance of its functions could be considered as necessary tools for the effectiveness of the Tax Administration. However, these by themselves do not guarantee its managerial success. The application of all those elements calls for nothing else but efficient and effective management which, although it may feed from the general techniques on the subject, must be adapted to the particular circumstances of the Tax Administration's activity.

Continuous improvisation in the Tax Administration is against the basic requirements for efficient and effective performance. At the same time, even with planning, if the latter is not complemented with effective management control, for evaluating compliance and adapting to the procedures implemented to achieve the proposed objectives and goals, the fundamental instrument to provide feedback to the planning process itself will be missing.

Strategic planning is a rather widely diffused technique among the Tax Administrations of the CIAT member countries. Nevertheless, the strategic plan adopted does not always fulfill one of its essential functions, which is to serve as reference framework for the elaboration of the general activities plan and, through the latter, to guide the elaboration of the operational plans for the different areas of the Tax Administration.

There is one aspect, control, which is essential in management to provide feedback on the Tax Administration's action, and allows for identifying the needs for adjustment to improve the levels of efficiency, ensuring whether the difficulties found in endeavoring to achieve the proposed goals and objectives, result from the lack of severity of the officials in applying such procedures and methods or from the inconsistencies of the latter.

Finally, one of the fundamental aspects in management involves the development of its human resources, since the quality of the latter is ultimately



important for the use to advantage of any progress achieved in terms of organization, procedures, technology or greater availability of financial resources.

To promote the professionalization of the Tax Administration's human resources, in a technical as well as ethical sense, several actions should be considered, all framed within an explicit and systematized policy that may mainly cover such aspects as administrative career, compensation and training.

By way of conclusion, we would like to note that the Tax Administration must be understood as an open organization, with a strategy that may respond to the application of a very complex tax system in speedy and continuous change, particularly resulting from globalization and digitalization and whose main objectives are to satisfy society's increasing demand for high quality services and to provide the financial resources for the State's action in favor of common welfare. Achievement of these objectives is closely related to the progress that may be attained in the organizational and managerial development of the Tax Administration.

We would like to express our appreciation to the Tax Administration authorities of the Netherlands, whose generous contribution on sponsoring and coordinating the Working Group for the elaboration of this Manual, has made it possible to count on a valuable support element to promote the improvement of the Tax Administrations of our member countries.

CIAT Executive Secretariat



## Justification

This publication is the result of an intensive collaboration between a number of countries from Latin and North America; the Netherlands was delighted to direct the collaborative process. The intensive contact of managers and policy makers from the various member states of the CIAT organization laid the fertile foundations for this book.

The collaboration took place in the form of two working groups; the first focused on the organizational structures of Tax Administrations while the second centered on the management of Tax Administrations. Both perspectives contributed to this book. The working group also drew on the input of the CIAT representatives at General Assemblies and Technical Conferences.

The goal of this publication is to create a platform to enable the exchange of experiences. These contributions are in the most part derived from experiences of the participant countries with the topics described. We therefore invite the readers of this book to comment on the subjects dealt with. A follow-up to this first publication will be sure to follow on the basis of this input in the near future. With this objective in mind, the members of the working group gathered information in their own organization. The intention was to develop a book that welcomes studying issues based on the ideas and solutions presented in this publication.

We have tried to avoid writing the book as a blueprint, a definite plan to be met by Tax Administrations. The compilers realize only too well that this would not be feasible and, more to the point, should not be an aim. There is and can never be a blueprint for the ideal Tax Administration. For which we must be thankful - the world is far too complex and diverse for that. The state plays a different role in different cultures, with its own duties and expectations. Tax Administrations do not operate within a closed system in which a technological approach to the processes is sufficient. Tax Administrations are typified by the significance of the role played by people in processes, by both by the enormous number of personnel compared with other government services and the enormous number of citizens it has to serve. For Tax Administrations, the key issue is people and how they work. Which is why structures and working methods are specifically tailored to the culture of a country. This conclusion makes exchanging

experiences essential. If the core tasks of the various Tax Administrations are in general the same or comparable, the chosen structure of the organization, the management philosophy and the personnel policy can widely differ. During the meetings of the working group, the exchange of experiences was very fruitful and stimulating. The Netherlands took great pleasure in chairing and facilitating these working groups and is extremely grateful to all members of the working group for their enthusiasm and professionalism. This book is truly a product of international collaboration. And, of course, thanks must go to the CIAT, represented by the Executive Secretary Jorge Cosulich Ayala and the Director of Programming and Studies Claudino Pita, whose considerable expertise helped to make this project a success. We got to know the CIAT staff and other workshop participants as personalities who continually demonstrate that warm interpersonal relations are the fundament of every collaboration.

Here, we would also like to mention several people in the Netherlands whose dedicated efforts were essential in editing the final version of the manuscript: Alice Thedens, Patrick Rijdsdijk and Emile Rodenhuis. We highly appreciate their tireless work in seeing this book through to its conclusion.

Finally, we would like to thank Joop van Lunteren, who, as Director General of the Dutch Tax and Customs Administration, has given us his confidence and made the realization of this project possible.

Matthijs Alink	Chairman
Victor van Kommer	Secretary

### **Working group participants**

Matthijs Alink	chairman	The Netherlands
Victor van Kommer	secretary	The Netherlands
Jorge Cosulich Ayala		CIAT
Claudino Pita		CIAT
Michael Rosen		CIAT

### **First working group: Organizational structure of Tax Administrations**

Paulo Ramos	Brazil
Juan Carlos Cortázar	Peru
Neil Barclay	Canada
Aldo Schlemenson	special guest CIAT

### **Second working group: Management of Tax Administrations**

Juan Francisco Sánchez Stürmer	Chile
Fernando Benitez Bribiesca	Mexico
Luis Vázquez Cano	Mexico
Virginia Calleja Gjumlich	Mexico
Daniel G. Buersmeyer	USA
Carlos Rosario	USA
Gene O. Sexton	USA



# Table of contents

<b>INTRODUCTION.....</b>	<b>1</b>
<b>1. CORE BUSINESS .....</b>	<b>3</b>
1.1. External factors .....	3
1.2. Definition of a Tax Administration.....	11
1.3. Taxpayer rights and charter .....	14
1.4. Mission .....	21
1.5. Autonomy .....	27
<b>2. GENERAL DESIGN CONSIDERATIONS .....</b>	<b>33</b>
2.1. Coordination, division and integration .....	33
2.2. Management philosophy .....	35
2.3. Roles, responsibilities and accountability in a Tax Administration .....	38
2.4. Existence of a central body and responsibilities.....	40
2.5. Management levels and span of control.....	40
2.6. Modern trends and networks.....	44
2.7. Geographical approach.....	47
2.8. Volume and scale approach.....	48
2.9. Process and functional approach .....	50
2.10. Tax law approach .....	53
2.11. Client approach .....	56
2.12. Front and back office approach.....	62
2.13. Risk assessment approach .....	63
2.14. The current situation in the CIAT member countries.....	67
2.15. The evolution of Tax Administrations .....	69
<b>3. PRIMARY PROCESSES .....</b>	<b>73</b>
3.1. The main processes .....	73
3.1.1. <i>File management</i> .....	73
3.1.2. <i>Levy</i> ing .....	79
3.1.3. <i>Collection</i> .....	85
3.1.4. <i>Supervision and fraud detection</i> .....	91
3.1.5. <i>Service provision and communication</i> .....	97
3.2. The supporting processes .....	106
3.2.1. <i>Human resources</i> .....	106
3.2.2. <i>Finance</i> .....	106
3.2.3. <i>Accommodation and equipment</i> .....	107
3.2.4. <i>Information and automation</i> .....	108
3.2.5. <i>Research and development</i> .....	108
3.3. The role of the Tax Administration in legislation.....	108
3.4. Electronic commerce.....	113

3.5. International cooperation.....	115
<b>4. STAFF AND SUPPORT PROCESSES .....</b>	<b>121</b>
4.1. Human resources .....	121
4.1.1. <i>Introduction</i> .....	121
4.1.2. <i>Values in human resources management</i> .....	122
4.1.3. <i>Recruitment and selection</i> .....	123
4.1.4. <i>Promotion systems</i> .....	124
4.1.5. <i>Compensation and recognition</i> .....	126
4.1.6. <i>Training and development</i> .....	131
4.2. Managing organizational change .....	143
4.3. Leadership.....	147
4.3.1. <i>Introduction</i> .....	147
4.3.2. <i>Concept of leadership</i> .....	148
4.3.3. <i>Theories on leadership as a managerial function</i> .....	148
4.3.4. <i>Contemporary perspective: the negotiation of power</i> .....	150
4.3.5. <i>Abilities and qualities of the leader</i> .....	151
4.3.6. <i>Managers versus leaders</i> .....	152
4.3.7. <i>Leadership on different levels</i> .....	154
4.3.8. <i>Team management</i> .....	157
4.3.9. <i>The manager as coach</i> .....	161
4.3.10. <i>The technical influence</i> .....	163
<b>5. PLANNING AND CONTROL .....</b>	<b>167</b>
5.1. Administrative information .....	167
5.2. The need for management control .....	169
5.3. Limitations of management control .....	171
5.4. Information systems .....	172
5.4.1. <i>The essence of information systems</i> .....	172
5.4.2. <i>Consequences of database for the organization</i> .....	174
5.5. Framework on a management control system .....	176
5.6. The balanced scorecard for Tax Administrations .....	179
5.7. Critical success factors and performance indicators .....	180
5.8. The game of management control .....	184
5.9. Internal control.....	198
5.10. Evaluation.....	199
5.11. The monitoring process.....	200
<b>6. CULTURAL ASPECTS OF MANAGEMENT.....</b>	<b>211</b>
6.1. Cultural differences between societies.....	211
6.2. Cultural change within organizations.....	215
6.2.1. <i>New tendencies within organizations</i> .....	215
6.2.2. <i>Organizational culture</i> .....	218
6.2.3. <i>Cultural change</i> .....	219
6.2.4. <i>Change process</i> .....	220
6.2.5. <i>Training within cultural change</i> .....	221
6.2.6. <i>Change as the only constant</i> .....	222



6.2.7. <i>Learning organizations</i> .....	223
<b>GLOSSARY</b> .....	<b>225</b>
<b>APPENDIX I</b> .....	<b>229</b>
<b>APPENDIX II</b> .....	<b>233</b>
<b>APPENDIX III</b> .....	<b>235</b>
<b>APPENDIX IV</b> .....	<b>247</b>
<b>APPENDIX V</b> .....	<b>251</b>
<b>APPENDIX VI</b> .....	<b>261</b>



# Introduction

The world is composed of many different nations, populated by different people, each with their own language, history and culture. But they have at least one thing in common: a Tax Administration. This organization works for the government and has dealings with almost every citizen. A Tax Administration must steer a course amidst many contradictory expectations. Managing such an organization sometimes demands the skill of a limbo dancer.

Tax Administrations are in need of a handbook on organizational and management issues: there is a dearth of suitable literature on this topic. The specific environment in which Tax Administrations operate differs from that of other organizations. Their importance is underscored by the fact that a smoothly functioning and reliable Tax Administration is a basic condition for sound economic development.

At the dawn of the new millennium, Tax Administrations around the world are faced with more or less the same developments and changing expectations. To mention just a few:

- increasing globalization;
- growing opportunities for automation;
- taxpayers who become more demanding;
- growing demand for good service and a client orientation;
- need to improve efficiency;
- increased expertise and specialization of tax consultants;
- need for transparent management (accountability and responsibility);
- non-stop access to information.

The society in which Tax Administrations must operate is no longer immutable. Changes occur daily. The organization has to be flexible enough to adapt to these developments and to cope with new expectations. A flexible organization does not necessarily imply that structural solutions are always the answer. The organization is more than its structure. The aim of this handbook is to present an overview of the various aspects of a Tax Administration. Although the handbook is theoretical, it is illustrated with a variety of practical examples from the CIAT member states. It is a reference work and a forum of suggestions for management, not a written solution to problems. It does not pretend to be a

handbook on *'how to create a flexible Tax Administration in two months'* The main purpose of this book is to give a survey of trends, to summarize organizational theory and experiences and to point out some new directions for strategies.

# 1. Core Business

The core activities of a Tax Administration are centered around the enforcement of tax legislation and regulations. Against the background of a society that is changing rapidly and that makes new demands of government services, Tax Administrations must develop a contemporary vision. Rapid economic developments and ever-higher expectations on the part of taxpayers make it necessary for a Tax Administration to redefine its strategic course. In consequence, its relationship with taxpayers must be laid down in a system of rights and obligations.

## 1.1. External factors

A number of economic, political, technological and social factors can be identified that will profoundly affect Tax Administrations in the coming years. These include the increasing globalization of the economy, a considerable increase in the provision of 'dematerialized' goods and services, and clear trends toward the decentralization of government activities and toward privatization.

### *Evolution of economic systems*

The persistent trend toward globalization entails a significant increase in the magnitude and complexity of investments and international commercial and service transactions. The effects of increasing globalization of the economy are already apparent. The difficulty in controlling transfer prices is widely known. Unless an organization is established at world level to provide guidelines on how to address these and other problems resulting from the globalization of the economy, the future of taxation of corporate income looks fairly uncertain. New opportunities for electronic commerce will force Tax Administrations to grapple with the question what should be taxed and where the burden of taxation will be placed.

There are doubts regarding the political feasibility of a world tax organization, and for this reason it will be increasingly difficult to administer corporate income taxes. Increasingly, Tax Administrations will have to devote time and resources to monitoring this taxes, while their yield will tend to stagnate or decline. By diverting resources from other, potentially more productive areas, such as value-

added tax auditing, the increasingly complex administration of taxes on profits will adversely affect the overall efficiency of the Tax Administration.

What kind of taxes might offer compensation, albeit partially, for a decline in profit tax revenues resulting from the globalization of the economy? Studies in this area tend to single out transaction taxes, including consumption taxes, and taxes on wages and salaries as taxes that will gain importance because they are relatively easy to administer. However, the administration of these taxes will become more difficult as well. Consumption tax auditing will be complicated by the increase in 'dematerialized' goods resulting from technological progress. In addition, taxes on earned income will be more difficult to administer as the number of self-employed workers increases, also owing largely to technological progress. Environmental taxes are a relatively new form which will probably gain importance in the near future.

#### *The technological evolution*

The rapidly increasing pace of technological change will have a significant impact, positive and negative, direct and indirect, on Tax Administrations. Information technology, which includes telecommunications and computerized systems, looks set to increase productivity substantially, with savings in time as well as money, while at the same time affording customers a better service. On the other hand, the human element is affected by technological changes in different ways, by making jobs more important for some, while posing a threat to others.

#### *Social and legal factors*

In addition to the aforementioned effects of globalization on economic systems, there is another type of challenge in combating tax evasion and fraud, resulting from rather widespread social phenomena, such as illegal activities, especially corruption and drug trafficking.

In concealing such offenses, use is made of such practices as 'money laundering', which abides by legal rules that provide for the secrecy of bank information, thus preventing the Tax Administration from effectively performing its control functions in a broad sense, while in particular, facilitating the financial flows that generate such illegal activities.

If we are to effectively combat tax evasion and fraud, it is essential to provide rules and regulations that will grant Tax Administrations sufficient competencies

to carry out their responsibilities of verification. At the same time, it is necessary to find ways of discouraging socially unacceptable practices such as corruption and drug trafficking.

#### *Organizational trends*

Tax Administrations tend toward greater autonomy so that they may command adequate resources for their needs and also so as to protect themselves from direct political interference. For the better allocation of their limited resources, they are making extensive use of outsourcing for certain specific responsibilities.

Evaluation and analysis of the experiences of the member countries on both aspects autonomy and outsourcing are important to other countries, whether they already involved in these actions or intend to work with them in the future, so that the procedures, mechanisms and limitations can be formulated.

#### *Decentralization trends*

Aside from these challenges, the operations of Tax Administrations will also be affected by current trends in state decentralization and privatization. As sub-national governments gain more fiscal autonomy, the question arises as to what entity should administer the taxes of sub-national entities, and how Tax Administrations at the central and sub-national levels should coordinate their activities.

How will the trend to privatize government activities affect Tax Administrations? The receipt of declarations and payments by the banking system has been a principal step in this direction. In some countries arrangements have been made with the private sector to design new systems and procedures. There is discussion of whether to privatize collection of delinquent taxes, and to a lesser extent, whether audit firms could be contracted to handle the auditing of taxpayer declarations. Of course, the level of privatization will influence the level of the resources allocated to a Tax Administration.

Privatization of the Tax Administration's functions is a highly complex issue. There may be a wide variety of reasons to privatize certain activities. The motivation may be of a political and ideological nature, creating a civil service sector which is lean and economical. The motivation may also be that an existing Tax Administration does not operate effectively or efficiently, or is unable to attract sufficient resources or enough qualified personnel to allow it to carry out its responsibilities within the broader framework of budgetary and personnel

constraints of the national government. A common view is that, although many Tax Administration activities could be privatized, one function (the power to determine the tax obligation) must remain the exclusive prerogative of the Tax Administration. Although a number of support functions can be privatized without many risks, this is not the case for true core business. For these types of activities, however, lessons can be learned from the experiences of the private sector through benchmarking.

### ***The U.S. experience***

In the United States of America, the Internal Revenue Service (IRS) is required by law, as are all other U.S. federal agencies, to identify activities performed by federal employees that can be performed by private sector companies and to contract out those activities. The idea is to prevent the federal government from unfairly competing with private companies that are in the business to provide those same services. The contracting out of administrative support activities has been successful in many instances, such as recruiting drivers as well as acquiring other requisites for local transportation companies, the graphic designs used in government publications, and the development of public service announcements for broadcast on television and radio.

However, the contracting out of key Tax Administration functions has yielded mixed results at best. In 1996 and 1997 the IRS spent \$26 million to test the use of private contractors to collect federal taxes. The test showed that private-sector collection agencies tend to experience significant difficulty in collecting delinquent taxes. For example, of the 150,000 collection cases in the 1996 test, the contractors could contact only 17 percent of the delinquent taxpayers and then had to refer 70 per cent of those cases back to IRS with issues they were unable to resolve.

The test also raised concerns from officials in and out of government about how the government can enforce the privacy rights of taxpayers when the employees of the contractors are free to move from job to job.

From the IRS experience, the conclusion may be drawn that privatization of collection in this form should not serve as a model for other countries.



*Harmonization of tax issues required by economic integration processes*

Within the framework of globalization of the economy, ever greater emphasis is being placed on the constitution or consolidation of economic integration processes among groups of countries, with a view to increasing their competitiveness through access to expanded markets and greater availability of the production factors.

In order to achieve the free circulation of goods, services and production factors, economic integration processes demand tax harmonization among the participating countries. This will include making their tax systems compatible to prevent taxation from generating distortions in economic processes while at the same time allowing them to be used as an instrument for achieving regional objectives whenever useful.

If enforcement of the harmonized tax legislation is to be effective, the Tax Administrations of the participating countries will need to have equivalent levels of effectiveness.

At the same time, it must be noted that economic integration processes will affect the Tax Administrations in two directions. On the one hand, there will be a need for increased tax control of international operations, in view of the increase of such operations as a result of economic integration. On the other hand, strengthened relationships between the countries participating in an economic integration process should also be reflected by their respective Tax Administrations, thus promoting more favourable conditions for cooperation between them.

*The trend to merge the administration of internal taxes, customs duties and social security contributions*

There is also a trend in some countries toward integrating the management of internal and foreign trade taxes and social security contributions. There are several forms of such integration. At times, it implies granting authority to a single organization to administer the three types of taxes, at others it may involve coordinating the functions of the various organizations or rendering compatible, for example, the information systems used by the Administration involved.

*Greater interdependence between tax policy, legislation and Administration*

There is a trend in the Tax Administrations toward tax simplification in order to improve compliance and reduce costs. In an effort to simplify the tax system,

many countries are making use of systems for presumptive assessment of taxes, while others resort to the introduction of new taxes on consumption or the reduction of direct and indirect tax rates for individuals and small businesses.

In addition to simplification through changes in tax legislation and policy, simplification is being achieved at the administrative level through forms that are easy to read and understand, by reducing the number of forms and by introducing simpler internal rules, regulations and procedures.

In this sense, there is a need for coordination between people who take part in formulating and elaborating tax policy and legislation, and people in charge of the Tax Administration. When designing tax measures, the former need to take into account the level of development of the Tax Administration. Coordination will also help prevent legislative measures such as general amnesties from defeating the efforts of Tax Administrations in their struggle against tax evasion, and help create mutual respect.

In drafting new tax laws, efforts must be made to ensure that the Tax Administration will be able to implement and enforce the new legislation. In addition, there is increasing attention to the administrative expense which tax regulations entail, in particular for business and industry. One of the priorities for business and industry is to reduce administrative expenses involved in the implementation of tax legislation.

### ***The Dutch experience***

In The Netherlands, a committee was established a few years ago to make proposals to decrease the administrative expenses resulting from tax regulations. This committee consisted to a large extent of representatives from business and industry. It made significant proposals in the areas of harmonization of concepts, simplification of procedures, reuse of information, and so on, which led to a substantial alleviation of administrative expenses. In addition, a model was developed to assess the effects of new legislation on administrative expenses (the standard costs model).

In 1999 a government-wide committee was instituted which is performing the same investigation for the total government. This committee has identified a

number of projects with which a decrease in administrative expenses can be achieved.

The following projects that are taking place will affect the Dutch Tax and Customs Administration:

#### *Tax legislation 2001*

This legislative proposal aims at a thorough reform of income tax. It includes several proposals which would entail an alleviation of administrative expenses for employers. They include direct payment to the taxpayer of extraordinary tax credits under income tax legislation rather than through the employer, and an amendment to the wage tax system concerning the concept of wages.

#### *The use of ICT*

This primarily has a bearing on the following areas:

- introducing a tax incentive for investments in computers (both for tax purposes and commercial purposes);
- facilitating and expediting the process of submitting declarations, paying and reclaiming wage and turnover tax by (among other things) a large-scale transition to a fully electronic process triangle of business-bank-Tax Administration;
- developing a complete set of instruments and software applications so as to allow the Tax Administration to perform paperless monitoring of businesses;
- introducing an electronic information service for questions from businesses.

#### *Improving compliance*

The attitude of many taxpayers has changed in the past decades. Government and the public services are no longer on a solemn and supreme level in society. More and more citizens expect to be dealt with by public services and their staff of civil servants on a level of equality, understanding and respect. This means the Tax Administrations need to put more effort into establishing a working relationship with taxpayers. The philosophy of voluntary compliance is a result of the contemporary approach to taxpayers.

Social pressure against all kinds of corruption is growing. The public wants to deal with a transparent Tax Administration, where rights and obligations of

taxpayers are laid down, and are not dependent on unwritten rules and unmonitored negotiations.

*Increasing need for professionalizing staff*

The progressive and rapid increase in the magnitude and complexity of economic relationships (particularly at the international level) the changes in technology and its increasing sophistication and the explicit mention of service to citizens in the mission statement of Tax Administrations are some of the factors that make it necessary to seek highly professionalized officials for those Administrations.

Among the mechanisms to be developed in response to these requirements are a human resources policy setting out an adequate career path, remuneration in keeping with the knowledge and responsibilities required by the different positions and functions, training programs, and promoting and monitoring the integrity of officials.

In many cases, the implementation of these mechanisms is related to the need for greater autonomy on the part of the Tax Administrations, in order to establish a human resources policy that can ensure that the performance of its officials is compatible with the requirements of efficiency and effectiveness.

*Cultural differences*

This manual will not only focus on the elements needed for an ideal Tax Administration. In describing an organization, we must recognize that people are the real capital. If we view an organization as a social network, we acknowledge that cultural differences create different organizations.

Culture is defined as the collective mental programming which distinguishes one group or category of people from another. This programming influences patterns of thinking which are reflected in the meaning people attach to various aspects of life and which become crystallized in the institutions of a society. This does not imply that everyone in a given society is programmed in the same way: wide differences between individuals will be found.

This manual will devote some attention to cultural patterns and the way they give a different meaning to some 'general' definitions in organizational theory and to the organization of Tax Administrations.

## 1.2. Definition of a Tax Administration

Tax Administrations, like private companies and other organizations, have a core business. The core business of Tax Administrations is the levy and collection of taxes, which they are required to do by law. It is important that Tax Administrations establish a clear definition of their core business from the outset, and make it known to the stakeholders.

Many countries have separate organizations for taxes and customs. In other countries taxes and customs are integrated in a single Tax and Customs Administration.

The core business of the Tax and Customs Administration usually comprises the following activities:

- assessing, collecting and auditing government-imposed taxes, as well as preventing fraud;
- surveillance by customs of goods imported and exported (in order to assess, collect and monitor the various duties linked with import and export, but also to protect the quality of society);
- assessing and collecting social security contributions;
- other assessment and collection activities on behalf of other governmental agencies.

In some countries, there is a tendency which has been initiated by politicians to give the Tax Administration, as 'the best Administration' in the country, other responsibilities besides its core tasks. Examples are social security payments and collection for public libraries. Australia, Canada, the United States and The Netherlands are examples of countries where this tendency can be seen. The core business is the answer to the question what a Tax and Customs Administration should do. Another question is how the Administration performs the responsibilities assigned to it. This is the field of organizational philosophy, strategic planning, risk management and control of critical success factors.

Administering the tax laws of a country should serve the public interest. That is, it should meet the needs of the government and of the people of the country served by the government. In order for the agency charged with administration of the laws to serve the public interest properly, the agency and its employees must have the confidence and esteem of the public they serve. The primary responsibility of a Tax Administration is to collect the proper amount of tax due to

the government at the least possible cost to the public. In addition, it is essential that a Tax Administration carries out its responsibilities in a manner which warrants the highest degree of public confidence in the organization's efficiency, integrity and fairness. In some cases, a Tax Administration may also be responsible for drafting tax legislation. If it is not directly responsible for drafting legislation, it should at least be involved in determining the administrability of proposed provisions of the tax law.

The taxpaying public should be able to expect that the organization responsible for administration of the country's tax system will administer the tax laws consistently and fairly so that similarly situated taxpayers will be treated the same under the laws. Taxpayers should also receive good value for the dollars spent by the Tax Administration in administering the tax laws. That is, the Tax Administration should operate as efficiently and cost-effectively as possible. In addition to receiving value for their money, the public should expect that the Tax Administration and its employees will be free from any type of corruption or undue influence.

The most cost effective means of collecting taxes is through the voluntary compliance of the public with the tax laws. The more enforcement activities are necessary, the more expensive is the administration of the tax system. In order to encourage taxpayers to comply with their taxpaying responsibilities voluntarily, it is important that the Tax Administration assists them in understanding those responsibilities. This can be done through taxpayer assistance over the telephone, in writing, face to face or through taxpayer education activities. It is essential for the Tax Administration to establish procedures and processes for providing guidance to taxpayers.

Also critical to the concept of voluntary compliance is the belief on the part of the taxpaying public that the Tax Administration respects the rights of taxpayers and operates on the principles of integrity and honesty. For there to be confidence in the tax system, people must believe that it is a fair system administered in an even-handed manner. For these reasons, it is important for the Tax Administration to strike the proper balance between customer service and fair enforcement of the tax laws.

Normally the administration charged with enforcement of the tax laws is the main, if not the sole, administration that brings in the revenue necessary for a government to operate. Even so, it is important that the Tax Administration properly balances the many responsibilities it is charged with. Too much

emphasis on revenue and other statistical goals and not enough on customer service and taxpayers' rights can lead to a lack of confidence on the part of the public in a Tax Administration's ability to manage its responsibilities properly. Lack of confidence in the Tax Administration which administers the law can also lead to reduced levels of voluntary compliance with the law.

It is advisable that Tax Administrations enshrine, in writing, the specific rights of taxpayers when they are dealing with the Tax Administration (these rights may be enumerated in the tax laws). This will provide clear guidance to taxpayers regarding their rights in dealing with the Tax Administration. Ethical standards and rules of conduct for employees should also be set down in writing, and every employee of the Tax Administration should be trained both in the rights of taxpayers and in the rules of conduct to which they are expected to adhere. There should be provisions for and a process for dealing with employees whose actions violate taxpayers' rights or who fail to comply with the rules of conduct. There should also be a means of redress for taxpayers whose rights have been violated (this is often also a part of the tax law).

Any disclosure of tax information should be within strict guidelines established in the law and only for the purpose of the proper administration of the tax laws. Taxpayers should be able to expect that their tax information will remain private, and there should be legal and employment-related consequences for improper disclosures by any employee of the Tax Administration. Every employee of the Tax Administration should be trained regarding the confidentiality of tax information and the consequences for improper disclosures.

Taxpayers have the right to expect that employees of the Tax Administration will be well-trained in their area of technical responsibility. Employees should also have an overall understanding of the Tax Administration's operations so taxpayer problems can be resolved without forcing taxpayers to make numerous contacts. It is a valid expectation on the part of the public that the Tax Administration will have procedures and processes in place on how the law should be applied and how employees should conduct themselves in performing their duties. Proper attention must be paid to the training of employees in order to ensure that the Tax Administration has a technically proficient and professional workforce as well as one that respects the rights of taxpayers.

A public expectation that the Tax Administration will have a management information system in place to provide information necessary for proper decision-

making by the leaders of the organization is a valid one. These systems should also provide sufficient information so the Tax Administration can be responsive to inquiries by government bodies charged with supervisory responsibility as well as to internal organizations charged with review and evaluation of Tax Administration procedures, processes and practices. Great care should be exercised in determining the critical factors that should be measured in order to gauge the effectiveness of operations. The performance measures that the Tax Administration relies on, will be looked to by its workforce in deciding how their assigned responsibilities should be carried out. These performance measures should support the vision of the Tax Administration for fair, consistent administration of the laws it is charged with enforcing.

As can be seen, there are many facets to a Tax Administration's role. In order to administer the tax laws of the country successfully, a careful balance must be maintained among the various responsibilities. Establishing a system for obtaining regular feedback from employees, the taxpaying public, tax professionals and anyone with whom the Tax Administration deals will provide important information that the Tax Administration can use in assessing how well it is fulfilling its Tax Administration's responsibilities. A willingness to solicit and be responsive to feedback from stakeholders of the Tax Administration will improve the confidence that the taxpaying public has in the Tax Administration. As indicated earlier, this confidence is a critical factor in the Tax Administration's ability to successfully administer the tax laws.

### **1.3. Taxpayer rights and charter**

To find the proper balance between tax sovereignty of the state and respect for the rights of individuals, it is important that the Tax Administration operates in a transparent manner, supporting and respecting fully the rights of taxpayers. The Tax Administration should support the right of taxpayers to protest and appeal actions.

Rights and obligations of taxpayers should be set down in the national legislation. In illustration, some examples are described in this chapter. Although they cannot be simply transplanted to another country, some elements of these examples could probably be used in any Tax Administration.

Recent reforms in taxpayer bill of rights and appeal rights are reflective of a new or renewed emphasis on client-focused Tax Administration.



***The U.S. experience***

In the United States, Public Law 104-168, commonly known as the Taxpayer Bill of Rights 2, has been in force since 1996. This law contains numerous provisions which are intended to provide increased protection of taxpayers' rights in complying with the Internal Revenue Code and with the Internal Revenue Service.

A major provision of the U.S. Taxpayer Bill of Rights is the establishment of the Taxpayer Advocate. The functions of the Taxpayer Advocate are:

- to assist taxpayers in resolving problems with the IRS;
- to identify areas in which taxpayers have problems dealing with the IRS;
- to propose changes in administrative practices of the IRS that will mitigate those problems;
- to identify potential legislative changes that may mitigate those problems.

Two annual reports to the U.S. Congress are required. The first reports the objectives of the Taxpayer Advocate for the next calendar year. The second reports on activities of the Taxpayer Advocate during the previous year.

The law also gives the taxpayer advocate broader authority to take action for taxpayers with potential significant hardship conditions created by tax law administration. For example, the authority to modify or rescind a Taxpayer Assistance Order (TAO) is given only to the taxpayer advocate or the (Deputy) Commissioner of the IRS.

The following declaration of taxpayer rights is shared with the U.S. public and includes the most important rights a United States taxpayer has by law.

**U.S. Declaration of Taxpayer Rights****1. *Protection of Your Rights.***

IRS employees will explain and protect your rights as a taxpayer throughout your contact with us.

**2. *Privacy and Confidentiality.***

The IRS will not disclose to anyone the information you give us, except as authorized by law. You have the right to know why we are asking you for information, how we will use it, and what happens if you do not provide requested information.

3. *Professional and Courteous Service.*

If you believe that an IRS employee has not treated you in a professional, fair, and courteous manner, you should tell that employee's supervisor. If the supervisor's response is not satisfactory, you should write to your IRS District Director or Service Center Director.

4. *Representation.*

You may either represent yourself or, with proper written authorization, have someone else represent you in your place. Your representative must be a person allowed to practice before the IRS, such as an attorney, certified public accountant, or enrolled agent. If you are in an interview and ask to consult such a person, then we must stop and reschedule the interview in most cases.

5. *Payment of Only the Correct Amount of Tax.*

You are responsible for paying only the correct amount of tax due under the law - no more, no less. If you cannot pay all of your tax when it is due, you may be able to make monthly instalment payments.

6. *Help With Unresolved Tax Problems.*

The National Taxpayer Advocate's Problem Resolution Program can help you if you have tried unsuccessfully to resolve a problem with the IRS. Your local Taxpayer Advocate can offer you special help if you have a significant hardship as a result of a tax problem.

7. *Appeals and Judicial Review.*

If you disagree with us about the amount of your tax liability or certain collection actions, you have the right to ask the Appeals Office to review your case. You may also ask a court to review your case.

8. *Relief from Certain Penalties and Interest.*

The IRS will waive penalties when allowed by law if you can show you acted reasonably and in good faith or relied on the incorrect advice of an IRS employee. We will waive interest that is the result of certain errors or delays caused by an IRS employee.

### ***The Dutch experience***

The permanent task of the Dutch Tax and Customs Administration can be described as follows: the Tax and Customs Administration implements the legislation with which it has been charged as efficiently and effectively as

possible and in its actions strives to maintain legal certainty and equality before the law. Service to and respect of the public are an integral part of this conduct”.

Legal principles such as legitimacy, legal certainty and equality before the law are essential for a law enforcement body like the Tax Administration. When the legal principles are not properly safeguarded, the confidence of citizens in the constitutional state is impaired and with this their willingness to meet their obligations.

Respect for and service to taxpayers arises from the position of citizens in a democratic constitutional state. Respect presupposes good faith, equity and loyalty. Emphasis lies on civil liberties and reserve on the part of the state. Only when means are misused will the government take action to delineate borders.

The Tax Administration is convinced that the willingness of taxpayers to meet their obligations is influenced by its own attitude towards taxpayers. For this reason, a number of basic values have been formulated. These basic values define the way in which the Tax Administration should behave towards taxpayers. The basic values are reliability, responsibility and due care and caution.

Reliability demands exemplary conduct, avoidance of any conflict of interests and an independent staff.

Each member of the Tax Administration’s personnel is responsible for enforcing fiscal and customs law. This means that citizens must be able to have confidence in this and be able to address the Tax Administration on this point. Care and caution demand a service attitude characterized by openness, reliability, objectivity and certainty. Notions such as accessibility, speed and comprehensibility also play a role here.

The role fulfilled by the Tax Administration, on the one hand an organization carrying out statutory responsibilities and on the other hand a service organization which establishes the tax obligations of taxpayers, has given rise to the formulation of a strategic objective. The strategic objective, which ensures maintaining compliance and countering non-compliance, is formulated as follows: the Tax Administration strives to enforce and reinforce the willingness of taxpayers to comply with statutory tax obligations.

Central to this strategic objective is the interaction between the Tax Administration and its environment. This illustrates how the Tax Administration wishes to implement the responsibilities it has been given. Permanent efforts are invested in this goal through the provision of good services and supervision and, if necessary, through detecting and prosecuting illegal actions.

### ***The Canadian experience***

The declaration of taxpayer rights is: you are entitled to a fair hearing and courteous treatment. Fair handling of a complaint is one of your fundamental rights. One of our obligations is to help you exercise your rights.

In your dealings with Revenue Canada on income tax matters, you have important rights:

- Information: you are entitled to complete and accurate information about the Income Tax Act, the entitlements it allows you, and the obligations it imposes on you;
- Impartiality: you are entitled to demand impartial application of the law. It is our job to collect only the correct amount of tax, no more and no less;
- Countries and consideration: you are entitled to courteous and considerate treatment in all your dealings with us, whether we are requesting information or arranging for an interview or an audit;
- Presumption of honesty: you are entitled to be presumed honest unless there is evidence to the contrary.

You are entitled to many other rights under the law of Canada:

- Privacy and confidentiality: you are entitled to expect that we will use the personal and financial information you provide to us only for purposes the law allows;
- Impartial review: you are entitled to object to an assessment if you believe you have been treated unfairly. You must exercise this right within a specific period. Once you have filed a notice of objection, we will conduct an impartial review of you file. If the matter is not resolved to your satisfaction, you can appeal to the courts;
- Disputed amounts: you are entitled to withhold disputed amounts, to the extent the law allows, until our officers or a court decides on your objection. If

you appeal to a higher court, you can put up security instead of paying the disputed amounts;

- Bilingual service: you are entitled to service in the official language of your choice.
- You are entitled to know your rights and to insist that they be respected;
- You have the right to every benefit the law allows;
- You are entitled to arrange your affairs to pay the least amount of tax the law allows: we are committed to applying the tax laws in a consistent and fair manner and we will be firm with those who are guilty of tax evasion.

### ***The Panama experience***

In Panama, the rights of taxpayers are published in a clear-cut notice (Carta al contribuyente) containing many frequent questions from the point of view of the taxpayer, the response of the Tax Administration and their legal boundaries.

They include questions such as:

- what are the obligations of a taxpayer;
- what is an auditor allowed to do;
- what is the time limit for an audit;
- which documents may the Tax Administration ask from a taxpayer;
- what are the sanctions if a taxpayer does not fulfil his obligations;
- what information may the Tax Administration keep on its records.

### ***The Italian experience***

The principles of the charter of taxpayer's rights are:

- The right to statistical transparency and the right to become acquainted with the knowledge of tax and other public economic bodies;
- The right to be approached in good faith by the Tax Administration;
- The right to be approached on the same level as the Tax Administration in matters concerning payments, interests and refunds;
- The right to be informed about the interpretation of laws and about the consequences of the taxpayer's own behaviour;

- The right to be protected from excesses of legislative pressure and the right to legal certainty;
- The right to be informed and to be heard;
- The right not to be obliged to comply in useless or overly expensive actions in relation to results;
- The right to promptness and timeliness of the administrative action in tax matters;
- The right not to pay more than provided for by law;
- The right to monitoring of law enforcement.

Certain suggestions were recently entertained by the Italian Higher Council of Finance which expressed a favourable opinion to the Minister for the issuing of directives providing for:

- Clearness and transparency of tax provisions. It is recommended that administrative provisions and procedures of the Tax Administration should enable the taxpayer to perform his tax liabilities with the smallest number of compliances as possible and in the easiest and least expensive way;
- Knowledge of rules. The Tax Administration must take the initiative in order to enable citizens to receive all information concerning administrative provisions in force in taxation. Moreover, the Tax Administration must publish, in a timely fashion and making use of appropriate means, all its circulars and resolutions and any other acts or decrees concerning its organization, its functions and its procedures. The proclamations containing these acts, and in particular the coordinated texts, are at the taxpayer's disposal in every tax office;
- Knowledge of acts. In addition to any further elements provided for by law or statutory provisions, all acts announced by the Tax Administrations to taxpayers must indicate the following:
  - at which tax office complete information about the announced act is available;
  - the time limit and the administrative and/or judicial authority to which it is possible to appeal, including all the necessary information to be contained;
  - the officer or office which is responsible for the procedure.
- Directives on refunds, entry in the tax-rolls, and simplification of procedures;
- Directives on the carrying out of tax audits. All entries, inspections and audits held on the premises used by commercial, industrial, agricultural, artistic or professional activities are made on the basis of real needs concerning on-the-spot checks and controls. With the exception of particularly urgent cases (to be supported by documentary evidence), they must take place during

working hours and in a way so as to avoid creating obstacles for professional and commercial business relations of the taxpayer. Moreover, an on-the-spot audit may not last more than 30 working days;

- Taxpayer's warrantor. Every Regional Directorate of Revenue shall appoint a qualified officer who can request documents or explanations from competent offices to questions submitted in writing by the taxpayer or any other person concerned and complaining about malfunctions, irregularities, inaccuracies, anomalous or unreasonable administrative practices and any other behaviour susceptible of undermining the trust relation between citizens and Tax Administration. The competent offices must reply within 30 days.

The warrantor informs the competent regional or departmental directorate about the results of the activity carried out, and if necessary he also informs the control bodies, when informing the person who submitted the notice;

- Non-resident taxpayers. The offices of the Tax Administration must ensure that taxpayers residing abroad are able to obtain timely information on the arrangements for the implementation of taxation, possibly through cooperation with consulates, and that they may use a simplified set of forms and facilitated procedures for the issuance of their tax code, the submission of tax returns and the payment of taxes.

The above directives are preceded by a ministerial decree on *self-defence* according to which the Tax Administration is entitled to 'reexamine, in cases of public interest, its own jurisdiction so as to obtain the annulment of acts which have proven to be unlawful'.

Countries like Spain and Nicaragua have similar declarations.

#### **1.4. Mission**

Tax Administrations, like private companies and other organizations, have a core business, that business being the levy and collection of taxes which they are required to do by law. It is important that Tax Administrations establish a clear definition of their core business from the outset, and make it known to the stakeholders. The core business is the answer to the question what a Tax and Customs Administration should do. Another question is how the Administration performs the responsibilities assigned to it. This is the field of organizational

philosophy, strategic planning, risk management and control of critical success factors.

The mission statement shows in what direction the organization will develop and what has to be accomplished in the future. In general, a mission does not contain indicators of quantity, nor does it indicate time limits. Targets, indicators, measurable quantities and similar figures are stated in the strategic or annual plan and form the detailed and concrete elaboration of a mission.

The mission of an organization, its strategy and its goals are connected. The mission is always a concise statement of what the organization wants to achieve. The strategy points the direction for how the main responsibilities will be carried out in the near future. Goals are only the operational tools with which to bring the strategy into alignment with the daily activities. The management of the organization has to deal with the external expectations and developments and with the limitations of the organization. The playground of management is the so-called strategic gap. And in this field, the game is making the proper choices.

Some guidelines for fair taxation are:

- the subjects of every state ought to contribute towards the support of the government, as nearly as possible in proportion to their respective abilities;
- the tax which each individual is bound to pay ought to be certain and not arbitrary;
- every tax ought to be levied at the time and in the manner in which it is most likely to be convenient for the contributor to pay it;
- every tax ought to be contrived so as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state.

### ***Some examples of mission statements by CIAT Tax Administrations***

#### Canada:

Our mission is to promote compliance with Canada's tax, trade and border legislation and regulations through education, quality service and responsible enforcement, thereby contributing to the economic and social well-being of Canadians.



We believe integrity is the cornerstone of our Administration. Integrity means treating people fairly and applying the law fairly. Integrity requires that we act with honesty and openness.

We believe professionalism is the key to success in achieving our mission. Professionalism means being committed to the highest standards of achievement. Professionalism requires that we act with dedication and skill.

We believe respect is the basis for our dealings with colleagues and clients. Respect means being sensitive and responsive to the rights of individuals. Respect requires that we act with courtesy and consideration at all times.

We believe cooperation is the foundation for meeting the challenges of the future. Cooperation means building partnerships and working together toward common goals. Cooperation requires that we act with leadership and innovation.

Chile:

The Internal Revenue Service is responsible for applying and administering the internal tax system, monitoring taxpayers to ensure that they comply with the tax provisions and facilitating such compliance.

Colombia:

To administer the tax and customs systems, and control exchange operations, for the purpose of guaranteeing:

- equity, neutrality and progressiveness of taxes;
- conditions of loyal competition and competitive collection levels.

The Colombian Tax Administration will face the challenges of the 21st century with strengthened, efficient and effective processes based on participative management, adequate technology and a high level of public trust.

Dominican Republic:

Vision: to create among taxpayers a national tax consciousness, by eliminating the culture of tax non-compliance and evasion, promoting the transparent and efficient action of its officials, in order to provide the state and the taxpayers top quality service.

**Mission:** to guarantee and facilitate the taxpayers' precise, voluntary and timely compliance with tax obligations and to fulfil the tax goals and policies determined by the state.

**Objective:** to guarantee timely collection of taxes budgeted by the central government on the basis of a program that will increase the taxpayers' perception of risks for non-compliance with their tax obligations.

Mexico:

To collect the necessary federal contributions with quality and efficiency to finance public expenditures, by guaranteeing the correct and equitable application of tax legislation and promoting voluntary and timely compliance.

**Vision:** to become a modern, professional, honest Tax Administration with a service vocation that projects a high level of trust in society.

**Values:** credibility, respect, soundness, service and effectiveness.

The Netherlands:

The strategic objective ensures maintaining compliance and countering non-compliance. This objective is formulated as follows: the Tax Administration strives to enforce and reinforce the willingness of taxpayers to comply with statutory tax obligations.

United States:

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

Venezuela:

Actively contributes to the formulation of the fiscal tax policy. Modernize and administer effectively and efficiently the national tax collection system, thus promoting the development of a tax culture; based on the principles of legality, honesty, equity and respect for the taxpayer, in order to help improve the population's quality of life.

Another three examples from non-CIAT members:

Singapore:

We will be responsible to the government by administering our tax laws effectively. We will ensure that taxes are collected promptly; and the cost of collection kept low. We will give taxpayers timely and quality service, encourage compliance and assistance, and simplify our procedures.

We will deal firmly with non-compliance and tax evasion and ensure that taxpayers only pay their fair share of tax. We will achieve this through motivated, competent and well-trained staff.

Ireland:

Maintain public confidence in revenue through efficient and customer-oriented operation. Maximize voluntary compliance and deter evasion and avoidance. Optimize staff performance and development. Use resources efficiently, effectively and properly.

New Zealand:

Inland Revenue is to provide quality tax and social policy service to government and the community. We aim to maximize compliance with New Zealand's tax and social policy legislation through education, quality service and fair, but firm, enforcement.

In all these examples of missions for a Tax Administration, we discovered a wide variety of strategic goals which are measurable:

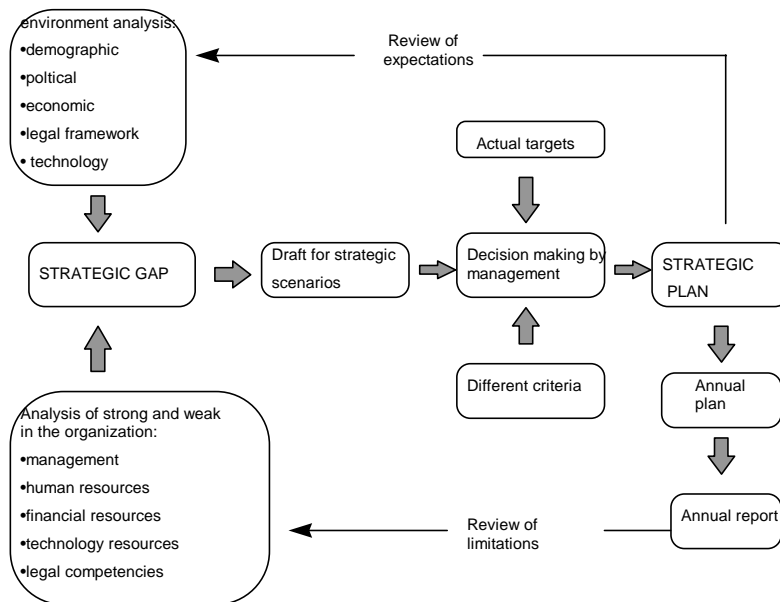
- optimizing compliance;
- acting as a provider of services in accordance with compliance goals;
- warranting the confidence of the public in the Tax Administration's integrity and fairness;
- ensuring fairness, equity and equality in the levying and collection of taxes;
- improving productivity;
- improving the quality of products and services;
- optimal prevention of fraud in society;
- efficient, effective and proper use of resources;
- motivated, competent and well-trained staff.

Whether these goals have been clearly and precisely put in writing is irrelevant to their existence. They have different stakeholders, each with its own interest in

the performance of the Tax Administration. Some of these goals are very explicit and have even been talked about, but most are not. These are not really specific and are only vaguely known.

Strategic performance and the determination of critical success factors are the result of an environment analysis and an analysis of the strong and weak points in the organization.

The way in which strategy might be determined is shown in the following diagram:



Model 1.1 Strategic determination

**Voluntary compliance**

Many Tax Administrations have adopted the mission of voluntary compliance. This mission is based on three principles:

1. In the performance of its tasks the Tax Administration seeks to improve compliance with tax law. Every official seeks to maintain and improve

compliance by taxpayers, or the willingness of taxpayers to observe their tax obligations as voluntarily as possible;

2. Voluntary compliance by taxpayers with their tax obligations has a dual effect. The tax laws will be better observed, which means greater effectiveness, and the Tax Administration can work more efficiently. As a result, the total tax levied and collected will increase in the long term, while at the same time the costs of collection will decrease;
3. Compliance links two elements of the mission of the Tax Administration. Fair and proper treatment of taxpayers is essential to achieve compliance. Increased compliance leads to better tax returns from taxpayers and thus to optimum results.

### **1.5. Autonomy**

A Tax Administration has a highly technical component which must be maintained regardless of political changes that may take place in the government. Autonomy is basic to the good performance of a Tax Administration, mainly for reasons of effectiveness and efficiency in its operation and in the allocation of resources. Another reason to espouse autonomy is to rule out political influence (particularly in specific and individual cases).

Autonomy often has a statutory basis, but there are some examples in which this is not the case. An example of autonomy which is not statutorily defined is the Dutch Tax and Customs Administration, which is based on a delegation system. An example of statutorily based autonomy is the IRS in the U.S. At the head of this system is an appointed Commissioner who is politically responsible for the Tax Administration. An IRS commissioner is appointed for a 5-year period, so as to ensure his independence.

As a rule, it can be said that autonomy of the Tax Administration is based on the following underlying ideas:

#### *1. Budgetary autonomy*

A Tax Administration should be responsible for managing its own budget in order to carry out its programs. Budgetary autonomy should also include the possibility of budgetary credit generation, depending on the fulfilment of the objectives, linking this directly or indirectly with increasing global collection and collection thanks to the performance of the Tax Administration (evaluation, audits and tax enforcement). Along with efforts to achieve greater flexibility in internal resource

management, the concept of allocating a fixed percentage of tax revenue to the Tax Administration to finance its requirements is gaining acceptance.

While the allocation of a fixed percentage of tax revenue to finance Tax Administrations may be an effective instrument for the short term, there are a number of valid arguments against its use as a medium or long-term measure. As an interim measure, for the short term, it may be justified by the fact that a profound reform of the administration is being undertaken, which generally involves considerable infrastructure investment. Maintaining this percentage allocation for a longer period of time means introducing undesirable rigidities into the allocation of resources to the Tax Administration. Revenue may fluctuate for reasons totally beyond the control of the administration for example, due to periods of sustained economic development or cyclical crises. Should a Tax Administration be at the mercy of cyclical highs and lows? This is why, after the stage of heavy infrastructure investment has been completed, and once the amounts needed to cover the Tax Administration's actual requirements have been determined, a more traditional budgetary system should be restored.

In this connection, the subject of the budgetary cycle should be mentioned. Budgets, of course, are prepared on an annual basis. However, Tax Administration plans generally cover a number of years. To reduce uncertainty in financing, it is advisable for the authorities (e.g. the Ministry of Finance) to agree on the financing of such plans for periods of at least two years. It would also be advisable for the annual presentation of the budget to the representative body (e.g. Parliament) to include an explanation of the financing requirements for the reform plan through its completion. These measures would give a certain level of assurance to the Tax Administration in the execution of its reform plans.

### *2. Autonomy in management of human and material resources*

Tax Administrations must have the capacity to design a flexible human and material resources policy, adapted to the functional needs of the organization. The issue of resources management is explained in more detail in other chapters of this handbook.

### *3. Autonomy in defining the objectives*

Tax Administrations must have the ability to define their own objectives: to achieve results, an autonomous Tax Administration needs to define a performance horizon. According to this criterion, the preoccupation of 'how' to administer must yield to the question of 'why' or 'for what' administration is done.

Because of this, the Tax Administration must seek approval for its program of objectives within the context of a discussion and analysis process in which all responsible parties (central, regional and local governments) take part.

#### *4. Autonomy in incentives policy*

This autonomy refers to the relationship between objectives and occupational incentives. The last demonstration of autonomy is a link between fulfillment of objectives and an incentives scheme that affects the salary of civil servants. This is an effective way of involving them in achieving the goals and also stimulates personal initiatives, favouring the effectiveness of administrative performance.

What are the benefits of autonomy? An autonomous organization, with adequate supervision in the highest levels, allows a greater degree of professionalism in civil servants and a greater measure of efficiency in the management and collection of taxes.

In itself, autonomy does not solve any of the problems that surround the application of the tax system, but it allows for the introduction of new instruments and a more rational organizational structure to deal with them, as soon as a Tax Administration is able to make its own decisions and to assume its own responsibilities.

What are the limits to autonomy? The autonomy of the Tax Administration is not in conflict with the need for the Minister of Finance to define tax policy. It is also compatible with the cooperation between the Ministry and the management of the Tax Administration.

An autonomous organization needs to implement adequate control mechanisms which serve as essential tools to assure efficiency in resource management while providing the information needed to make decisions, thus providing security to the organization as soon as the rules of the organization have been tried and tested. The main objective of autonomy is to achieve greater adaptability and flexibility in the management of human and material resources, and as a result, more efficient Tax Administration. However, this greater autonomy entails risks of its own, and must be accompanied by a retrospective control mechanism to ensure that flexibility does not mean unnecessary expenditure and to guarantee that the public interest is protected at all times.

Greater autonomy alone does not guarantee an automatic increase in the efficiency or effectiveness of the organization. Autonomy is just one component that, in combination with clear objectives for the organization and an adequate strategy to effect change, can help make Tax Administrations more efficient. Without clear objectives and an adequate strategy, greater autonomy will not improve the effectiveness of Tax Administration. Autonomy is therefore not an end, but a tool or a means to an end.

The desire to achieve greater flexibility in resource management has inspired the present movement toward more autonomous Tax Administrations. As indicated, more flexible resource management can help enhance the efficiency of the Administration.

### ***The U.S. experience***

For the Commissioner of the United States' Internal Revenue Service, autonomy is a relative concept. In the United States, public officials are held accountable to the people primarily through the democratic political process. In the case of the IRS Commissioner, accountability is directly linked to the President of the United States who nominates him or her, and with the Senate which confirms the new Commissioner through formal and public confirmation hearings. Even with these democratic constraints, the United States takes great pains to ensure that the Commissioner and the IRS are as autonomous as possible.

For example, only two of the nearly 100,000 employees of the IRS are political appointees, the Commissioner and the Chief Counsel. The rest of the workforce, including the Deputy Commissioner, hold positions under civil service rules and regulations.

In 1999 the U.S. Congress approved a five-year term for the Commissioner of the IRS. This ensured that the Commissioner's term of office would extend beyond the President's own four-year term of office (unless, of course, the President is reelected to a second term of office). In 1999, Congress also approved an IRS supervisory board with a majority of the board's members consisting of private (non-governmental) individuals representing the interests of a broad spectrum of American taxpayers. These 1999 initiatives created greater autonomy for the Commissioner vis-à-vis party politics while at the same time making the Commissioner more directly accountable to the American people.



The autonomy of the Commissioner in overseeing the financial and budgetary needs of the Internal Revenue Service is significant but not absolute. In the annual budget formulation process, the Commissioner prepares and forwards the agency's budget to the Department of the Treasury and defends mission-critical cuts proposed by the Department. This process is repeated when the Treasury Department forwards the IRS budget to the Director of the Budget. The Director of the Budget and the Secretary of the Treasury are both in the President's cabinet.

The Director of the Budget annually compiles the budget of the federal government on behalf of the President. This budget, when submitted by the President to Congress, is called the 'President's Budget'.

The Congress reviews the President's Budget and in that review may hold public hearings on different parts of the budget called appropriations. When public hearings on IRS appropriations are announced, the Commissioner of the IRS or his designate sits before the congressional budget committee hearings to defend his and the President's budget for the IRS.

The political review of the IRS budget has historically been focused on the public policy debate rather than on the cost-benefit analysis debate. The policy debate, for example, drove the current IRS budget for the funding of the reform and restructuring of the IRS and the implementation of the Taxpayer Bill of Rights.

However, there are notable exceptions to the pure public policy debate. A clear example of this occurred when an IRS Commissioner successfully lobbied for legislation requiring all children claimed as dependents to have a Social Security Number (SSN) and requiring taxpayers to name that SSN on their tax returns. With the implementation of this legislation over 6 million non-existing children, primarily children claimed twice by divorced parents in separate returns, were dropped as dependent allowances on tax returns. This initiative increased taxpayer compliance while decreasing the cost of enforcing compliance.

Once the IRS budget is approved by Congress, it is signed into law by the President (but always subject to his veto if he strongly disagrees with the bill sent to him) and is allocated to the IRS. The Commissioner has full managerial discretion to spend the money within his or her legal authority as defined by the law and by Congressional records that clearly define what the congressional

intent was for spending the money. Thus ultimately the financial process begins with the Commissioner and ends with the Commissioner.

In summary, the autonomy of the Commissioner in financing the Internal Revenue Service is preserved even while he or she is actively participating in a major political process. This apparent contradiction works well because the budget is openly debated, allowing the opposition party to review the President's Budget for initiatives the opposition feels is contrary to the public good. This openness includes the televising of congressional debates and budget hearings and easy media and general public access to official congressional documents.

For an overview of CIAT-members Tax Administrations under the authority regime, see Appendix VI.

## 2. General design considerations

A Tax Administration can be given shape in various ways, whereby a number of considerations are important. For example, there can be opted for different coordination mechanisms, management philosophies and organizational models. Consideration must also be given to instrumental considerations (such as span of control) and organizational trends.

### 2.1. Coordination, division and integration

Structure involves two fundamental requirements: the division of labour into distinct tasks and the achievement of coordination among these tasks.

Mintzberg<sup>1</sup> mentioned five coordinating mechanisms which seem to explain the fundamental ways in which organizations coordinate their work. These should be considered the most basic elements of structure, the glue that holds organizations together. The five mechanisms are:

1. Mutual adjustment achieves the coordination of work by simple process of informal communication;
2. Direct supervision achieves coordination by having one person take responsibility for the work of others, issuing instructions to them and monitoring their actions;
3. Work processes are standardized when the contents of the work are specified or programmed;
4. Outputs are standardized when the results of the work, for example the dimensions of the product or the performance, are specified;
5. Skills (and knowledge) are standardized when the kind of training required to perform the work is specified.

As organizational work becomes more complicated, the favoured means of coordination seems to shift from mutual adjustment to direct supervision to standardization, preferably of work processes, otherwise outputs, or else of skills, finally reverting to mutual adjustment.

---

<sup>1</sup> Mintzberg, H., Structure in Fives, designing effective organizations, Prentive Hall, New York 1983.

Integration is the act or acts that systematically bring together a set of operations. Integration exists in many forms and on many levels. Integration is the opposite of the division of labour. Every organization is based on the principle of this division.

There are two dimensions:

1. Horizontal division: how many different tasks are combined in each person or function and how broad or narrow is each of these tasks.
  - horizontal job specialization: organizations divide their labour to increase productivity. Horizontal specialization increases the repetition in the work, thereby facilitating its standardization. The outputs can be produced more uniformly and more efficiently. Horizontal specialization also focuses the attention of the worker, which facilitates learning. A final reason for specialization is that it allows the individual to be matched to the task.
  - horizontal job enlargement: the employee engages in a wide variety of the tasks associated with producing products and services. He may either do more tasks in sequence, or do them one at a time, as before, but interchange tasks with his colleagues periodically so that his work becomes more varied.
2. Vertical job specialization: separates the performance of the work from the administration of it. Organizations specialize jobs in the vertical dimension in the belief that a different perspective is required to determine how the work should be done. In particular, when a job is highly specialized in the horizontal dimension, the worker's perspective is narrowed, making it difficult for him to relate his work to that of others. So control of the work is often passed to a manager with the overview necessary to coordinate the work by direct supervision or to an analyst who can do so by standardization.

Integration is the opposite to division. There are different methods and scope for integration. To be mentioned are:

- Substantive integration. This occurs when two or more tax bases are integrated into one. For example: the salary definition as the base for social security contributions is the same as the one for personal income tax and only one amount will be collected;
- Functional integration. This occurs when actions are integrated. For example: social security declarations and individual income tax declarations are presented in the same form, or they are paid together, or both; there is a single audit for all taxes for which taxpayers are liable;
- Data integration. This occurs when two units access each other's data;

- Infrastructure integration. This occurs when the equipment of another partner is shared.

## **2.2. Management philosophy**

Increasingly, Tax Administrations are expected to provide rapid and appropriate responses, in a cost-effective manner, to the changing scope and complexity of government and the expectations of citizens.

As progressive organizations that are responsive to change, Tax Administrations need to be guided and influenced by:

- a set of common values: integrity, professionalism, respect and cooperation;
- a corporate culture founded on high-quality service, responsible enforcement, efficiency and teamwork;
- service delivery that is visible, accessible, open and responsive to clients.

Well-functioning organizations achieve success in providing high-quality service and responsible enforcement by:

- providing responsible and effective service at points of delivery;
- committing to consultation and communication with clients;
- being open to emerging concepts and technological change;
- promoting professionalism and integrity;
- developing professional and committed employees:
  - in an environment of continuous learning;
  - through employee communication, consultation and feedback;
  - by providing opportunities for development.

Modern organizations, including Tax Administrations, often use teamwork as a guiding management principle, whether in the front line or at the centre of the organization. Teamwork has its foundation in leadership that promotes coaching, shared information, communication, participation and delegation of authority. Teamwork creates an organization where people review, consult and work with each other in a partnership in order to continuously improve and to achieve the organization's goals.

Teamwork is based on teams that have a clear mandate, the authority to make decisions, the ability to design their operations to achieve success and a shared responsibility for results.

Teamwork means:

- creating a structure in the organization where teams can deliver a complete service to clients. In many cases this necessitates the integration of duties previously dispersed in other units into a single team;
- empowering team members to be able to deliver services that are result-oriented and responsive;
- reinforcing the leadership role of managers, moving beyond the command and control role to one of coaching, facilitating and coordinating;
- using a technical adviser, when required, to assist the team;
- moving to larger team sizes as the organization evolves.

In a effective team, each member:

- has a role to play;
- participates in the establishment and achievement of the goals;
- understands the roles of the others and how they all interrelate.

Within the framework of teamwork, the team leader is responsible and accountable for the actions and results of the team and each of the individual members. The team leader coordinates, facilitates, guides and develops the team and the team members to be innovative and responsive to the clients' needs.

While the team leader facilitates the overall attainment of goals by the team, the technical adviser supports the team in a specific way. The technical adviser assists team members in carrying out their duties by facilitating the acquisition and application of technical knowledge.

Within the concept of teamwork, staff are empowered to provide responsive service to clients, efficiently and effectively. In a highly technical organization, staff need specialized knowledge, abilities, tools and resources to respond to the needs of clients.

One of the resources is the team technical adviser whose job is to facilitate the technical learning of others in the team.

The organization supports teamwork by developing a clear corporate vision anchored by service excellence and continuous organizational improvement. It achieves this by encouraging a responsive work environment, fostering participative leadership (e.g. by increasing delegation) and encouraging the

development of program efficiency and effectiveness improvements, together with instrumental support from centred training.

The senior management team of the organization, including the head of the organization and all those reporting directly to the head, are responsible for establishing the strategic vision, objectives, performance indicators and standards. They also promote corporate values, demonstrate leadership and ensure effective internal communications. In addition to this, they must develop a policy for the administration of programs and the management of human and financial resources. They are also responsible for the allocation of resources and the approval of corporate plans, for performance and accountability. Last but not least, they have to resolve significant issues.

Management teams work together to ensure that the fundamental objectives of the organization are met. They direct the programs and the delivery of services and perform management functions, including financial and human resources management and communications. Moreover, they ensure that authority is delegated within approved mandates, and communicate and consult with employees on issues which affect their work, including performance expectations, and they evaluate the results achieved. To complete their task, they bring local issues, innovations and other important matters to the attention of the senior management team.

All employee teams, whether they are created to deliver a program, to solve a particular problem or to work together on issues that cross organizational units, are responsible for cooperating in performing the work assigned to the team and they focus on results.

The teams share responsibility for:

- planning and organizing the team;
- identifying the required resources;
- identifying client needs;
- setting performance goals;
- solving problems;
- developing strategies for improvement.

### **2.3. Roles, responsibilities and accountability in a Tax Administration**

The modern Tax Administration organization is responsible for collecting taxes in accordance with the law in a manner that is fair to all taxpayers and free from corrupt influence.

A traditional view of the roles, responsibilities and accountabilities to achieve this purpose was based on the following:

- the top executives of the Tax Administration organization developed the vision and policy of the organization and provided the leadership the organization needed;
- the middle managers translated the policies into programs by leading and instructing lower level managers and controlling the implementation of the those programs;
- the lower-level managers and employees implemented and maintained those programs based on instructions from upper management;
- accountability at all levels of the organization was achieved by information reports and performance measures.

Today, a sense is emerging that every employee of the Tax Administration must share roles, responsibilities and accountability for each of the above elements. In addition, each manager and employee must see himself or herself as a stakeholder in the outcomes resulting from Tax Administration programs, and not just the outputs.

In the traditional model of roles, responsibilities and accountability, the communication that took place was usually one-way and top-down. In order to be successful, the modern organization must have a two-way communication culture, with lower level and middle managers being held accountable for the communication of the necessary feedback up to the executive level if necessary.

#### ***The U.S. experience***

In the United States the IRS implemented a set of five guiding principles that link the strategic goals to the actions of every employee. These guiding principles have a direct relationship with the roles and responsibilities of every manager and employee of the IRS.



The guidelines are:

1. Understand the customer's point of view and use this understanding to prevent and solve problems and provide quality service;
2. Enable managers to be accountable, with the knowledge, responsibility and authority to take actions to solve problems and achieve IRS goals;
3. Align the organization and each employee's performance to support the overall IRS strategic goals;
4. Foster open, honest communication. Acknowledge and address problems and use them as learning tools;
5. Insist on total integrity. We must perform our duties in accordance with the public interest.

Organizational values are communicated through a variety of means, both explicit and implicit, including what behaviour is rewarded, ignored or punished.

What an organization holds its people accountable for goes to the heart of what the organization really values. Again using the United States IRS example, that organization is implementing performance measures:

- that measure what it really wants;
- that are derived from its three corporate goals;
- that are aligned at all organizational levels.

Goals	Measures		
	Top Level Organization	Operating Organization	Front-line Employees
Service to each taxpayer	Customer Satisfaction	Satisfaction with particular service	Service to taxpayers
Service to all taxpayers	Compliance	Quality and quantity of cases	Case quality & time management
Productivity through a quality work environment	Employee satisfaction	Employee satisfaction	Contributions to improving service

Model 2.1 Measuring Performance at the IRS

#### **2.4. Existence of a central body and responsibilities**

Every Tax Administration in the world has a central body, usually located in the country's capital, sometimes as an independent office, sometimes as a part of the Ministry of Finance. The central body of the Tax Administration always acts as an interface organization between political decision-making and the operational offices. Generally speaking, it is the responsibility of the central body to design the strategy of the Tax Administration. This always requires the approval of the responsible politicians. The central body supports the highest civil servant of the Tax Administration in command.

The activities of such a central body will likely focus on the following aspects:

- defining the strategic orientation;
- laying down working methods and procedures;
- distributing resources;
- controlling results;
- defining maintenance actions for the decentralized functions;
- public relations;
- addressing political demands;
- advising the top administrative level and the responsible politicians as to the implementation of new legislation.

#### **2.5. Management levels and span of control**

The number of management levels and the span of control are the result of developments in an organization, some of which will be mentioned in this section.

The amount of work, whether in a Tax Administration or any other organization, is influenced by many organizational characteristics, ranging from broad aspects such as organizational environment (or corporate culture) to the definition of the work within an unit, and the role and responsibilities of each of its members. The list below discusses the effect of each of these characteristics on span of control.

<b>Organizational environment</b>	
Corporate culture (environment)	In organizations that encourage employee involvement and risk taking, teams can be larger. Increased understanding of and commitment to the corporate values, philosophy and vision by team members, can increase the team size.
Organizational assistance	If organizational support functions (e.g. information and communication systems) reduce the leaders workload, then a work unit can be larger.
Roles and responsibilities	The more that a supervisor acts as coach as opposed to cop, the more that team players are empowered, and the less that technical advice is necessarily provided by the leader, the larger the team can be.
Degree of empowerment	The more that team players can act without seeking approval, the larger the team can be.
<b>Work and task aspects</b>	
Similarity of tasks performed	The more similar or repetitive the tasks, the larger the work unit can be.
Complexity of tasks	Simpler tasks usually require less supervision. Problems are less demanding on the leader, solutions come more quickly by the team, and then the team size can be larger. The more difficult the tasks, the smaller the team.
Newness of tasks	Well defined responsibilities allow for a larger team, newly defined or assigned responsibilities suggest a smaller size.

Coordination	The more liaison is required, the smaller the team. The more coordination and communication required within the team, the smaller the team should be.
Criticalness of the tasks	When there is little downstream impact of the operations of the team, the team can be larger.
Time for planning	The more time required for planning, the smaller the unit should be.
<b>The players on the team</b>	
Direction and control	The more direction and control required by the players from the team leader, the smaller the team should be. Well-established functions, with strongly recognized need, can support a wider span of control.
Ability to delegate authority	Teams should be smaller for a team leader who is not able or willing to delegate.
Ability to accept authority	Teams made up largely of members who are unable or unwilling to accept delegation must be smaller in size.
Training and experience	The more skilled the team members are, the larger the team can be. A new team size need to be smaller than a mature team.
Degree of professionalism	With high educated professionals is the need for direction and control very small. In some professional branches (and even in some parts of Tax Administrations) there are selfsteering teams without a formal leader.

Turnover of team members	The more frequent the requirement to integrate new members, the smaller the team should be.
Geographic proximity	If all team members are not co-located (or do not have a common home base), the team should be smaller.

*Model 2.2 Span of control*

Generally speaking, highly skilled work that is not repetitive and that is fairly complex will be performed in smaller teams (10-20 employees) than simple work which is subject to a framework of regulations. This work could be executed in departments with 25-50 employees. The less skilled work is the potential working area of automation.

	<b>More management levels Tense control</b>	<b>Less management levels Loose control</b>
Type of products	Homogeneous products and repetitive process	Tailor-made products and a process with specific individual demands by clients
Type of skill	Simple or low skilled labour	Specialist and professional labour
Type of organization	Machine bureaucracy back-office	Professional bureaucracy or adhocracy front-office
Type of division of labour	Functional (task) approach clear tasks and regulations	Client approach freedom in decisions
Type of relations	Strong relationship between manager and employees	Network relation with other professionals and a mutual understanding with clients
Type of management	Hierarchy manager is instructor and controller	Delegation manager is facilitator and delivers inspiration

Type of loyalty	Employees are loyal to the organization	Employees are loyal to their professional network
Type of targets	Avoiding of errors; pace of process and improving logistics	Client satisfaction; making advance agreements
Type of control	Verification, instructions	Mutual adjustment

*Model 2.3 Management levels and control*

In conclusion, it may be stated that the size of the group, the amount of responsibility and the degree of professionalism determine the span of control within an organization. Important hereby is that the organization must be adapted to the activity and the environment and because of this must continue to develop itself in view of the dynamic environment of a Tax Administration.

## **2.6. Modern trends and networks**

The trend toward modern organizations based on networks has been very well described by Gareth Morgan<sup>2</sup>. A summary is described in this paragraph.

Most of us are familiar with the bureaucratic organization that is specified in almost every detail and run in a tightly controlled way by the executive at the top. Many government organizations with their rigid departmental divisions and clearly defined roles and rules, mobilized through a hierarchical chain of command, provide obvious examples.

While this kind of organization once dominated many aspects of society, most bureaucracies are in the process of being reshaped along with the changing demands and challenges of the world around them. Sometimes the changes are quite marginal. Many organizations often resist fundamental change, because people, for one reason or another, wish to cling to a hierarchical model. But in some cases, significant transformations in organizations can be achieved.

---

<sup>2</sup> Morgan, G., Creative Organization Theory, From Bureaucracies to Networks, 1990

Conceptually, the range of organizational forms to be discussed can be represented by a continuum ranging from the rigid bureaucracy on the one hand (model 1) to the loosely coupled, organic network form of organization (model 6), on the other. The aim of the discussion is twofold. First to illustrate how a bureaucracy can, in principle, begin to transform itself over time from one form of organization into another (but probably not all the way from model 1 to models 5 and 6 and second to contrast the principles that underpin organizations at different ends of the continuum.

Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
The rigidly organized bureaucracy	The bureaucracy run by a senior executives' group	The bureaucracy that has created cross-departmental teams and task forces	The matrix organization	The project-based organization	The loosely coupled organic network

**MECHANISTIC / BUREAUCRATIC**  
Organized for Stability

**ORGANIC NETWORK**  
organized for flexibility and change

*Model 2.4 Models for organizations*

Model 1

This is Weber's classical bureaucracy. It represents the traditional organizational pyramid under the strict control of the chief executive. The organization has tried to codify all important operational principles, and is run in accordance with those principles. Meetings are viewed as a waste of time, and are rarely necessary, because almost every contingency is well understood. The organization operates in an ultrastable environment.

Model 2

This organization finds that the environment generates novel problems, issues, and concerns on an ongoing basis. It is impossible to codify all appropriate responses. The chief executive has thus decided to create a 'management team', comprising himself and the heads of principal departments, which meets on a weekly basis. This team makes all policy decisions and settles the problems

that cannot be handled through the organization's normal routines. Each department head exercises clearly defined authority in relation to his or her area of influence. Managerial styles vary from department to department, being shaped by the personality of the department head and the kind of task being performed. Some departments are highly authoritarian, others are more participative.

#### Model 3

This organization has found that the senior management team cannot handle all the issues that require an interdepartmental perspective and has created a number of project teams and task forces involving staff at lower levels of the organization. The departmental structure and sense of organizational hierarchy, however, are very strong. The members of the teams and task forces tend to see their primary loyalty as being to their department head rather than to the team to which they belong. They realize that promotion is largely a departmental affair. They sit in team meetings as representatives of their department. Team leaders feel that they have relatively little power, and find it difficult to develop commitment and momentum in relation to the activities that they are charged with managing. The organization *looks* as if it is moving toward a 'matrix' or project team structure, but in reality it operates like a loosely structured bureaucratic organization where information is passed up the hierarchy and decisions down.

#### Model 4

This organization has decided to organize itself in a matrix form. Its special character rests in the fact that it had decided to give more or less equal priority to functional departments such as finance, administration, marketing, sales, production and R&D, and to various business or product areas. Thus people working in the various product or business teams that cut across the functional areas have to work with two perspectives in mind, functional and end product. This dual focus, under ideal conditions, allows the various operating teams to combine functional skills and resources with an orientation driven by the key tasks and challenges from the organization's environment, such as those relating to the need to fine-tune products for specific market segments or the needs of specific geographic areas.

#### Model 5

This organization has decided to tackle most of its core activities through project teams. Nationally, there may be functional departments, but they only play a



supporting role. Key specialists belong to teams, and make their main contributions through their team. The organization recognizes that its future lies in the dynamism and innovativeness of these teams, and tries to give them a free rein within the parameters and values that senior managers have used to define the strategic direction of the organization. The organization is much more like a network of interaction than a bureaucratic structure. The teams are powerful, exciting, and dynamic entities. Coordination is informal. There is frequent cross-fertilization of ideas, and a regular exchange of information, especially between team leaders and the senior management group. Much effort is devoted to creating shared appreciations and understandings of the nature and identity of the organization and its mission, but always within a context that encourages a learning-oriented approach. The organization is constantly trying to find and create the new initiatives, ideas, systems and processes that will contribute to its success.

#### Model 6

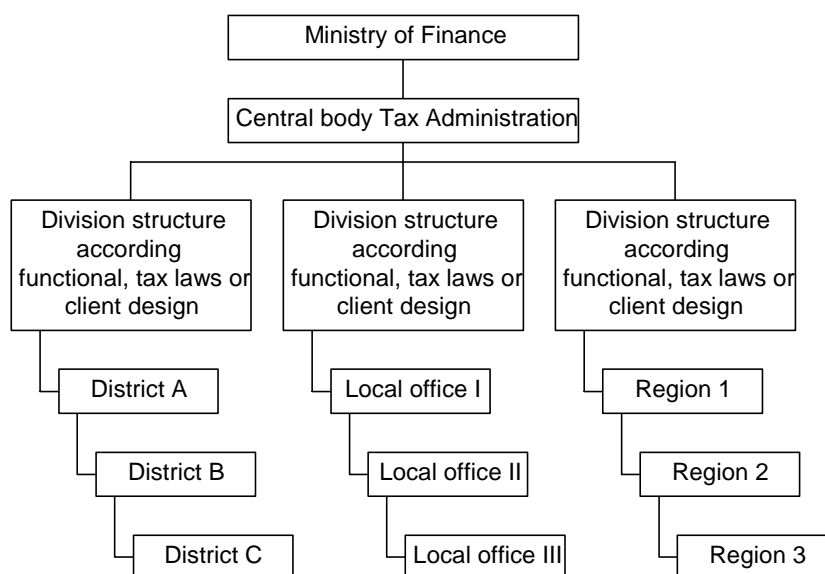
This organization has decided to become, and stay, a loosely coupled network. Rather than employ large numbers of people, it has decided to operate in a subcontracting mode. It has a small core of staff who set a strategic direction and provide the operational support necessary to sustain the network, but it contracts other individuals and organizations to perform key operational activities. Its network at any given time operationalizes the 'ideas' that the central group wishes to develop. It changes from month to month as different ideas and products come on line, and as the core organization experiments with different partners. The firm is really a system of firms, an open-ended system of ideas and activities, rather than an entity with a clear structure and definable boundary.

In reality, the transformation process from one end of the continuum to the other is extremely difficult to make and the required change is more than structural, it is cultural and political as well. The culture and politics of many organizations constrain the degree of change and transformation in which they can successfully engage, even though such change may be highly desirable for meeting the challenges and demands of the wider environment.

### **2.7. Geographical approach**

Many Tax Administrations in the world have designed parts of their organizations according the geographic approach. It is the most common form and makes an

ideal combination with other approaches. A possible structure with geographic influences is shown in the next chart.



*Model 2.5 Geographical approach*

## 2.8. Volume and scale approach

The impression may have been aroused that each Tax Administration is free to choose its own approach and can experiment with any type of structural or process redesign. This section will show that there are limits in this freedom.

Tax Administrations are limited by the geographic situation of the nation. Due to their size, countries such as Brazil, Mexico, Argentina, Canada and the United States are obliged to structure their Tax Administrations according to their geography. It is perhaps useful to compare a number of ratios for the CIAT members states. For example, customs could be compared as to:

- boundaries in kilometers / number of customs staff;
- total value of import and export / number of customs staff;
- complexity (open or closed economy and number of partners / number of customs staff.

The Tax Administrations for private individuals and enterprises could be compared as to:

- area / number of staff;
- population / number of staff;
- enterprises / number of staff;
- number of assessments / number of staff;
- number of audits (and their duration) / number of staff;
- national income (GDP) / number of staff;
- tax revenues / number of staff;
- budget for the Tax Administration / tax revenues (= expenditure costs);
- total number of civil servants / number of staff.

Although these ratios will not provide an answer to the perfect size of a Tax Administration, a comparison provides insight into the margins within which the size of an Administration varies.

An initial attempt at a comparison is shown in the following table.

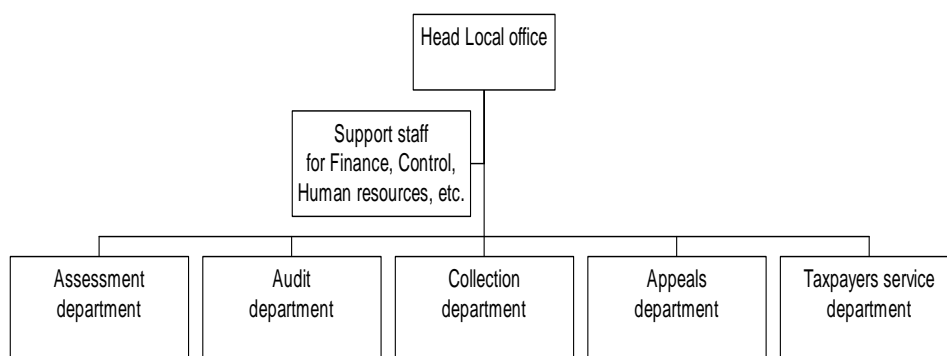
<b>Ciat countries</b>	<b>Inhabitants (x millions)</b>	<b>Tax offices (responsible for assessments and auditing)</b>	<b>Tax office per inhabitants</b>
Chile	13,2	16	825,000
Equator	11,7	10	1,170,000
France	58,1	854	68,000
Nicaragua	4,4	15	293,000
Panama	2,7	8	338,000
Peru	22,1	27	819,000
Portugal	10,5	22	477,000

*Model 2.6 Density of tax offices*

Of course it is not possible to draw any quick conclusion, but the table gives some indication that the Andes countries of Latin America have scales of similar scope (between 0,8 and 1,2 million inhabitants per tax office). France is at the other extreme, with 854 tax centres, 734 collection offices, 314 land tax centres and 354 mortgage offices. The many offices are the result of a rural policy to keep the villages alive with sufficient public functions.

## 2.9. Process and functional approach

Most often, the Tax Administrations assume all the tasks that derive from their general responsibility assessment, auditing, collection, appeals and taxpayer service for the tax system they manage. This very broad organizational method is logical: it ensures great internal cohesion, since all operations take place in the same Administration, from the identification of the taxpayer to the collection of the money. Of courses the mere fact that all these functions are performed within the same Administration does not mean that each official can perform all of these functions. The operational units may be relatively specialized, nonetheless, all the necessary functions rely on a single command centre.



*Model 2.7 Process and functional approach*

Less frequently, various functions in relation to the management of taxes have been separated so as to specialize administrations in some operational fields. Two examples can be cited: tax collection and financial investigating units.

### *The specialization in collection*

The collection of an amount of money owed by an individual or a private company generally relies on a set of techniques and proceedings relatively indifferent to the nature of the claims, e.g. authentication of the claim, reminders in the case of nonpayment, application of penalties for delay, action for collection with or without judiciary intervention and payment plans.

This absence of technical specificity (i.e. lack of any link to the nature of the taxes) allows the tax collection to be concentrated in a single administration for all types of taxes, even if they are assessed and audited by other administrations.

The benefits of this kind of specialization are the concentration of the tax collection, which allows some savings in the costs of the financial administration and makes it profitable to use modern means of payment (optical character recognition, bank transfers, etc.). In addition, it gives the collection office an overall view of the situation of a taxpayer as regards all its fiscal debts and thus makes it easier to defend the financial interests of the state. It can also authorize offsetting of different taxes for a given taxpayer.

The limits of this specialization are that this operational specialization clearly separates collection from the other tax functions. It may lead to more difficult connections between the assessment and audit departments on the one hand and the collection departments on the other hand.

*The specialization of investigation*

The functions of intelligence and combating the most serious forms of tax evasion cases are sometimes transferred to financial investigating departments.

An investigating department might have responsibilities in the following areas:

- fiscal investigation (tax evasion);
- financial investigation (money laundering, insider trading on the stock exchange, etc.);
- economic investigation (import or export of forbidden goods, abuse of merchandise marks, etc.);
- criminal investigation.

The investigation department works together with several other organizations: customs, police, public prosecutor, units in Tax Administration (collection, audit) and foreign investigating departments.

What are the benefits of this specialization? An unit that is responsible for tax evasion must by definition deal with very difficult taxpayers who deliberately try to avoid their legal obligations. Intervention methods used by traditional Tax Administrations, especially if they are implemented by officials who are accustomed to working with less difficult taxpayers, may quickly reach the limits of their

efficiency. A financial investigating unit makes it possible to assemble teams that are specialized in combating economic and fiscal delinquency, where all the necessary abilities and skills are combined in the same unit.

There are some limits to this kind of specialization. The financial investigating unit is superimposed on the normal administrative structures, inevitably leading to rivalries with the traditional tax departments that have their own audit function. Moreover, to be truly efficient, this will require maintaining very large bilateral exchanges of information between the different partners. On account of these methodological difficulties, this would seem to be a solution only in some specific situations, particularly when the illegal or underground activities represent a very substantial portion of Gross Domestic Product (GDP).

If possible, the tax or investigating unit should come under the responsibility of the Tax Administration in order to find a proper balance in its activities. If not, some examples show that there is a risk that such units soon concentrate their efforts on combating organized crime instead of dealing with tax evasion and fraud. Although close cooperation with the police force is possible when they are dealing with financial crimes, the Tax Administration should retain control of the different activities of its tax investigators.

*The specialization in auditing*

Many countries have special units, departments or offices for auditing. The reason is clear: the Tax Administration wants its organizational structure to support one of the major aspects of its core business. The audit process is less vulnerable if the audit specialists are brought together in a single team. On the other hand, an audit team entails the risk that auditors lack information from the departments for taxpayer service, assessment and collection, which means a coordination problem in the organization.

***The Bolivian experience***

The Tax Administration of Bolivia has divided the organization in six levels. Every level has his own field of responsibilities. In such level more sub-levels could be divided.

Level	Examples of the Functions
Decision level	• General Directorate
Counseling level	• Internal Auditing • Management Control
Superior coordination level	• Deputy General Directorate
Normative strategic level	• External operations system development • Programming and supervision
Normative support level	• Human Resources • Communication • Training • Budget and accounting
Decentralized operational level	• Regional administration

*Model 2.8 Levels of responsibility*

## 2.10. Tax law approach

### ***State taxes, customs and excise duties and social security contributions***

Tax Administrations specialized in accordance with the various types of taxes is a widespread pattern. Many countries have an Administration specifically in charge of state taxes (sometimes several administrations, depending on the indirect or direct nature of the taxes), an Administration specialized in customs duties (which most often covers excise duties and more rarely, in Great Britain, Barbados and the Dutch Antilles, VAT) and sometimes one or more agencies in charge of social security contributions. Generally, these Administrations take on all the fiscal functions in relation to a type of tax.

This organizational set-up based on types of taxes has many benefits. They include the identification of a specific group of taxpayers, generally a fairly homogeneous group which makes it easier to get to know, it facilitates an understanding of the tax system and allows for adaptation of the geographical positioning of local departments to risks typology. More particularly, Administrations specialized as to types of taxes make it easier to integrate tax collection with auditing. The efficiency of the close integration of these two functions has been demonstrated for taxes such as VAT, which are both calculated and paid by the taxpayer.

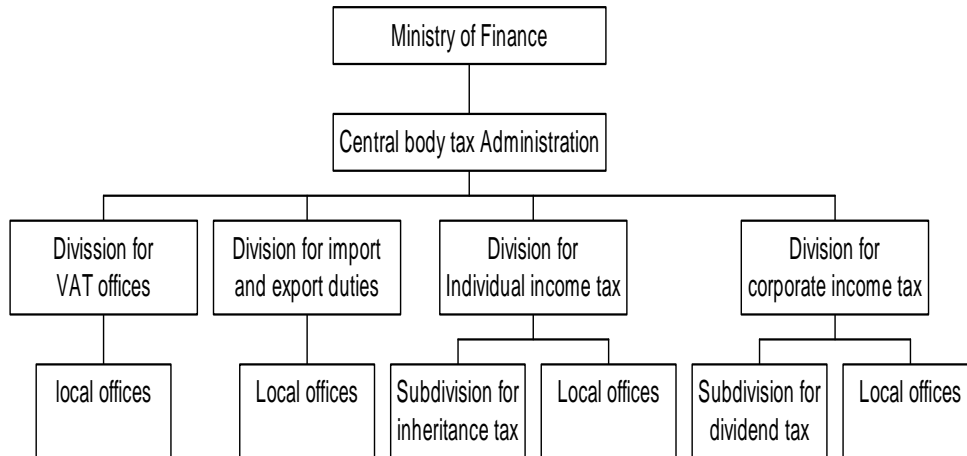
An organizational set-up according to types of taxes also has some disadvantages. In the first place, it can prove to be quite expensive. Even if the overall purpose of the different Tax Administrations is identical (that is the collection of tax revenues) when they are specialized by types of taxes, this set-up tends to have several parallel hierarchies including not directly operational levels. From the point of view of the taxpayer, who will often have to depend on several different Administrations, it is a source of evident complexity (multiple contacts and different procedures lead to burgeoning the administrative costs).

In fact, the narrowest forms of specialization according to types of taxes are on the decrease and tax functions are more and more being gathered together in multipurpose entities. For example, there have been mergers of departments which were previously specialized according to the indirect or direct nature of taxes (this took place in France in 1970, in Italy during the nineties).

More recently, some states (Argentina, Brazil, Canada, Colombia, Denmark, Honduras, The Netherlands Antilles, The Netherlands and Venezuela) have broadened this set-up to extend to integration of Tax- and Customs Administrations, a radical solution to promote the closest possible relationships between the two departments. In a way, the British approach, which consists in entrusting the customs with the management of the VAT, is also a form of integration for indirect taxes. Another possibility is to transfer Customs employees to the Tax Administration (and Tax officials to Customs) and to develop specific training programs so as to initiate better understanding and cooperation.

In both cases, the strategic objective is to promote a consistent and efficient exchange of information between the different financial Administrations concerning the companies that run import-export businesses. This is an issue to be considered by EU applicant countries which will have to envisage the consequences of belonging to the single market.





*Model 2.9 Tax laws approach*

### **Local taxes**

As a general point in respect of the legal framework, sharing taxes between different entities (for instance, sharing personal income tax revenue between central and local governments), if it is politically feasible, is certainly the simplest and most cost-effective way of providing local authorities with the required financial resources. Funding for the European Union is presently accomplished in this way using VAT revenues.

When they are different from the other state taxes, the local taxes are subject to various organizational diagrams. Their management is sometimes taken over directly by the state Tax Administration, in addition to the taxes that it manages for central budgetary purposes. The importance of grouping is self-evident. When state and local taxes are similar or even identical, it is more economical to entrust their management to a single administration. Moreover, it makes matters simpler for taxpayers if they have to deal with only one administration.

Management of local taxes can also be ensured by the local authorities, which will be often the case in the federal states. This has the benefit of asserting the autonomy of local authorities, which then no longer have to rely on the central government to collect their financial resources. However, as it doubles the number of administrative structures in charge of tax collection, this solution obviously does not reduce costs, and will involve operating expenses which are

not negligible for taxpayers. Moreover, it is only reasonably possible for larger states in which the local financial system represents a significant weight in public budgets.

### **2.11. Client approach**

Many different internal organizational methods for the different departments may be encountered within one and the same Tax Administration. More often than not however, a given territorial department is in charge of the broad spectrum of fiscal functions in respect of all taxpayers in its geographic district.

Some organizational set-ups rely on the specialization of some departments in one or several specific categories of taxpayers. Such categories may include, for example, different types of taxpayers (natural persons or companies), different sizes (large or small businesses) or different types of activities.

The idea behind each kind of specialization is always the same: thanks to their better knowledge of taxpayers' behaviour and a lower number of laws and procedures which they must master, the specialized departments will achieve a higher level of efficiency in dealing with some groups of taxpayers which present either important budgetary stakes or specific types of risks. In this handbook, two common examples of specialization (large companies, non-resident taxpayers) are discussed, but depending on local situations, the number of specialization formulas is virtually unlimited.

Specific organization of the Tax Administration towards the large companies<sup>3</sup>. Some states (many of the CIAT members) have chosen to have tax departments specialized in processing returns of the hundreds or thousands of large companies. For a Tax Administration, efficient management of these companies is an issue of strategic importance. This is due, first of all, to their obvious financial weight in the state budget, but also to the necessity of being able to provide these large companies, which are crucial to the economic health of a country, the legal security they need to fully develop their activities.

This specialization may be total. In that case, a single tax department performs the follow-up of the mandatory tax returns, the collection of amounts due in tax,

---

<sup>3</sup> See next paragraph: Importance of large taxpayers.

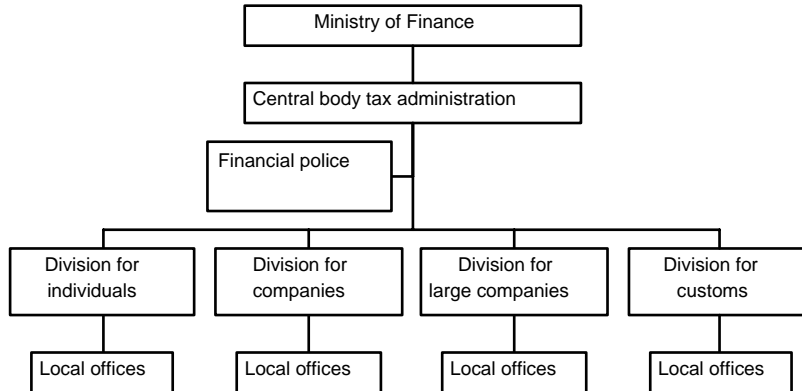
the tax auditing and the taxpayer service for the large companies, whatever their geographic location within the national territory.

The specialization may also be only partial. In France, for example, one national tax department is in charge of the fiscal auditing of all the largest companies and their subsidiaries.

Benefits of this approach are that large companies present very marked characteristics from a fiscal point of view. They are not very numerous and, therefore, easy to check off. They represent an extremely important share of state revenues and are generally better organized than small businesses (accounts department, chartered accountant, etc.). Similarly, they often resort to the most sophisticated fiscal measures and may have international relationships. In that case, it may be of interest to give the Treasury some security about an important portion of budgetary incomes by concentrating a relatively small percentage of the Tax Administration's human and technological resources on the handling of the largest companies.

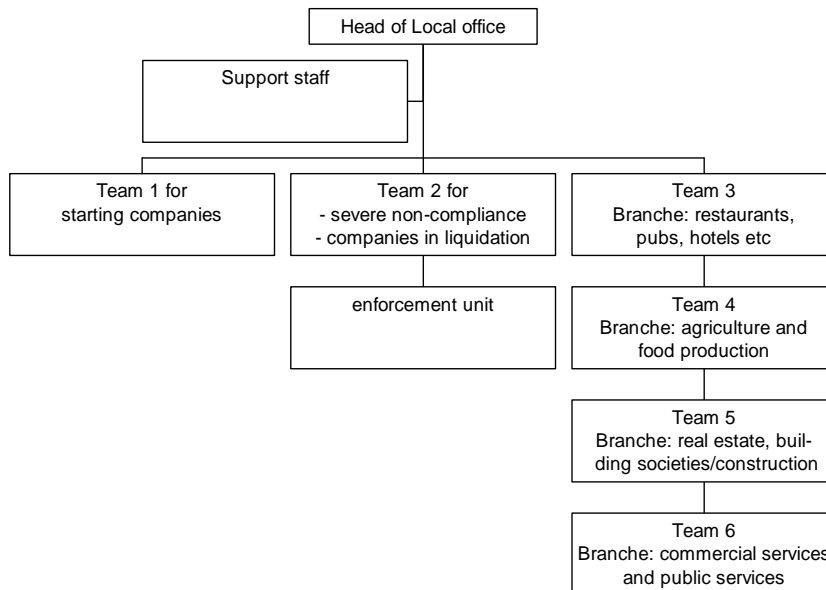
Limits to this approach are that this strategy of specialization seems to offer few disadvantages. However, it implies the necessity of attracting the best officials to a Tax Administration specialized in large companies and demands an appropriate remuneration policy. Furthermore, if the national territory is extremely large, the fact that the tax department for large companies is located in one particular place may cause some difficulties for taxpayers at a great distance. In such a case, it is always possible to divide the tax department for large companies into smaller geographical areas.

Two examples will be given of an organization with a client-oriented design (the design of the Dutch Tax and Customs Administration is based on this model, and that of the Internal Revenue Service of the United States will be in the near future). The following diagram shows the structure for the central Tax Administration.



*Model 2.10 Client oriented design*

The second example is the organization for a local Tax Administration for medium-sized companies.



*Model 2.11 Client approach organization for medium-sized companies*

***Importance of large taxpayers***

This section indicates the main factors to consider when introducing a system and a unit responsible for administering a group of large taxpayers.

Establishing a system and an unit such as described here represents an attempt to apply a healthy general administration principle, which is dictated by the ultimate usefulness of dealing first with the most significant issue.

It is extremely important to stress from the outset that whereas this group of large taxpayers may well represent up to about 80 percent of collections, the Tax Administration can at no time disregard the need to take simultaneous action regarding the management for the other taxpayers. It should be borne in mind that the concentration of collections with these large taxpayers reflects, on the one hand, an economic structure that is solidly condensed and, on the other hand, greater evasion by medium-sized and small taxpayers, who should therefore be the object of special campaigns.

Why large taxpayers? It is indisputable that Tax Administrations have a responsibility and an obligation to ensure that all taxpayers pay their taxes to the maximum extent that they are due, whatever their relative importance for the Tax Administration. However, experience has shown that administering and controlling all taxpayers at once requires great and continuous efforts at all levels of the Tax Administration, which the latter is not always in position to make.

Addressing the problem of totally controlling the entire tax situation has proven to be a complex, difficult, and costly enterprise, with results that take much time to achieve. This is because it often involves, in addition to the necessary legal adjustments, profound changes in the organization, systems, procedures, education and training, as well as changes in the attitudes of a fair number of the Tax Administration's officials and of taxpayers themselves.

It is also relatively easy to observe that Latin American tax systems show a high level of concentration of collections from a limited number of taxpayers, who individually pay the highest amounts of taxes. This obviously reflects the strong reliance of collections on the compliance of a limited number of taxpayers, however substantial the tax involved and however high the number of taxpayers. In fact, if just a few of these taxpayers stopped paying taxes or were late with their payments, the collection could be seriously affected, and the Treasury's flow of funds could thus be jeopardized.

Also, in view of the economic importance of this limited group of taxpayers, it generally adopts special operating methods and ways of avoiding or evading taxes, and even ways of interpreting tax laws. Some of the services that this group requires from the Tax Administration, especially those relating to information and reviews, are very different from services required by small or even medium-sized taxpayers. This is also true of the fiscal importance of the Tax Administration's response.

It should be borne in mind that large taxpayers are different from the others and should therefore be treated differently. Their operations are complex, and they normally perform a very high volume of transactions. They generally operate in the area of foreign enterprises or they have branches abroad. They have highly qualified accountants and lawyers, and sometimes use forms of evasion that are difficult to detect, such as transfer pricing. They resort to tax avoidance more often than other taxpayers and use transactions between branches to make monitoring difficult. These characteristics of large taxpayers make it necessary to establish special monitoring systems and to utilize highly specialized personnel to implement them.

In developing countries that require in-depth Tax Administration reform, the first step will have to entail setting priorities, because not everything can be reformed all at once. The first reason for this is the introduction of a new system that covers all taxpayers will require a great effort on the part of the Administration. Where the number of taxpayers included in the new system is limited, the probabilities of success are higher and when resources are limited, the probabilities of success increase substantially. Operational adjustments that are inevitable in systems of this type are easier to make when the system oversees only a few taxpayers. The second reason for this is that the Administration's human and material resources are limited, and its staff are often not adequately trained to carry out a total reform of an Administration. This implies that reforms should be gradual, starting with the monitoring of a small group of large taxpayers. Because this is more manageable, the probabilities of success are greater.

The application of adequate systems for monitoring large taxpayers generates efficient collection results in the short term. The mere introduction of a new system leads to a change in the behaviour of taxpayers. In a study carried out in one Latin American country in 1992, the behaviour of taxpayers subject to a

special system for the monitoring of large taxpayers was analyzed. A sample of about 1,000 taxpayers was selected, and the data submitted the previous year were compared with those submitted the year following their inclusion in the system of special monitoring of large taxpayers. The study showed an increase in the payment of value-added tax (VAT) in excess of 22%. Economic growth over the same period was 4%. The study was repeated in 1993 with new taxpayers included in the system, and the results were the same.

In light of above, it is advisable to consider initiating the modernization of Tax Administrations that require it, establishing special treatment for the group of taxpayers that contributes a very high share to collections and attracts a high level of interest from the Tax Administration. Given the limited number of persons in this group, there is much greater potential for dealing with them, helping them to meet their obligations, administering them, and supervising them successfully. This can make it possible to gain control of a considerable portion of collections, using few resources, in the short term.

Large taxpayers are generally limited in number, and this enables the Tax Administration to set up a system to serve as a pilot project, in which the organization, administrative procedures, computing systems, training of individuals, taxpayer education, etc., can be tailor-made. In addition, excellent quality can be more easily obtained in the processing of the data that these taxpayers provide (in their payments, returns and any other information required). This facilitates their supervision and provides strong support for the control, administration, and auditing of other taxpayers. Obtaining data of excellent quality and timeliness facilitates the checking of defaults and forced collection. This will make it possible to select large taxpayers that should be audited. In the same way, from the data available on large taxpayers, it will be possible to determine which of them should submit information on sales to customers and purchases from suppliers, withholding tax, etc. This will help to detect evasion by other taxpayers.

Adjustments that have to be made to the operations, which are inevitable in this type of system, are easier to perform and cause fewer difficulties and complications when the system controls a small number of taxpayers. The experience to be gained by Tax Administration officials from this effort and the success they achieve will give them confidence and will be a key factor for expanding the application of the system to another group of taxpayers.

## 2.12. Front and back office approach

Every Tax Administration has some characteristics of an organization with a front and a back office design. The front office is the part of the organization where the taxpayer meets the officials of the Tax Administration. It is the point where the contacts between organization and clients are made. Non-physical contact (information by telephone, Internet, etc.) are front office tasks as well. In particular, a client orientation will result in a structure with clear front office tasks. The back office is the part of the organization without contacts with taxpayers. Automation centres for massive processes such as automatically produced assessments are a good example of a back office function.

	Few contacts	Average contacts	Intense contacts
<u>Functional design:</u> <ul style="list-style-type: none"> <li>• assessment dept.</li> <li>• audit dept.</li> <li>• collection dept.</li> <li>• appeals dept.</li> <li>• taxpayers service dept.</li> </ul>	X	x x	x x
<u>Tax laws design:</u> <ul style="list-style-type: none"> <li>• individual income tax</li> <li>• corporate income tax</li> <li>• wage tax</li> <li>• social security taxes</li> <li>• value added tax</li> <li>• transfer tax property</li> <li>• import taxes</li> </ul>	x  x  x	   x  x	     x
<u>Client design:</u> <ul style="list-style-type: none"> <li>• individuals</li> <li>• companies</li> <li>• big companies</li> </ul>	x	  x	  x
<u>Risk assessment design:</u> <ul style="list-style-type: none"> <li>• low risks</li> <li>• middle risks</li> <li>• high risks</li> </ul>	x	  x	  x

### *Model 2.12 Front and back office approach*

These simplified examples already show the contours of the front and the back office. Some practical cases:



- an income tax office whose clients are 95% individual taxpayers in a sub-urban district (middle-class, white-collar workers) needs a back office design;
- an office for large companies with an intensive audit program needs a front office design;
- the help desk for import and export companies is a front office;
- an automation centre that is responsible for producing assessments automatically is 100% a back office;
- surveillance by customs is a front office function, sometimes without any client contacts. The physical part of the organization, its employees, is the first thing to give an impression of the organization;
- an investigation department operates most of the time in the field of desk research. But it is also responsible for the image of the entire tax administration. For that reason it is a front office.

Front and back offices have their strengths and weaknesses:

	<b>Front office</b>	<b>Back office</b>
Critical success factors	<ul style="list-style-type: none"> <li>• Client satisfaction</li> <li>• Confidentially</li> <li>• Carefulness</li> </ul>	<ul style="list-style-type: none"> <li>• Productivity</li> <li>• Efficiency</li> <li>• Processing quality</li> </ul>
Weakness	<ul style="list-style-type: none"> <li>• Product quality for processing quality</li> </ul>	<ul style="list-style-type: none"> <li>• Processing quality for product quality</li> </ul>
Risks	<ul style="list-style-type: none"> <li>• To great understanding for taxpayers needs</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of interest for client needs insufficient knowledge (and budget) for improvements in automation</li> </ul>

*Model 2.13 Strengths and weaknesses front and back offices*

### 2.13. Risk assessment approach

Risk assessment is an integral part of a Tax Administration. The resources are not unlimited and the risk of tax evasion is always present. Accordingly, there is a need for risk assessment in order to allocate available resource rationally. Risk assessment enables the managers and the staff to achieve optimum outcomes. It is accomplished by providing a systematic manner for decision-making and allowing a broader analysis of the issues.

A risk assessment system has to apply comprehensively and exactly to the organizational context of a Tax Administration. If done correctly, it allows enforcement of the tax legislation in a demonstrably effective and accountable manner.

The methodology suggested in the risk assessment cycle is readily adaptable to strategic, operational, and tactical applications.

In practical terms, it is desirable that the cycle is developed initially at the strategic level in the Tax Administration. It is then relatively straightforward for operational and tactical managers to evolve operational and tactical versions. The cycle will, of course, differ in terms of depth, emphasis, and details from Tax Administration to Tax Administration, reflecting the underlying character of the concrete context in which the Tax Administration in question operates.

The cycle contains the following main steps (these steps are described in detail in appendix I):

- Step 1 - Risk identification
- Step 2 - Risk assessment
- Step 3 - Risk management decision
- Step 4 - Evaluation and audit
- Step 5 - Performance measurement
- Step 6 - Review

A risk assessment system is necessary in a contemporary Tax Administration to make means meet ends in a rational way. The system must be designed to fit into the environment of the Tax Administration in question. The aforementioned model or cycle could serve as a well-trying platform for setting up a risk assessment system. Risk assessment could be a model for a type of organization based on certain risk groups of taxpayers that need special attention.

A simple example of a risk assessment approach is the next model, which divides taxpayers according to their financial and fiscal importance and their fiscal behaviour in the past. The fields of the model state the risk involved. A multinational with a profit of \$200 million per year but with a very compliant attitude entails a lower risk than does the owner of a restaurant with a turnover of

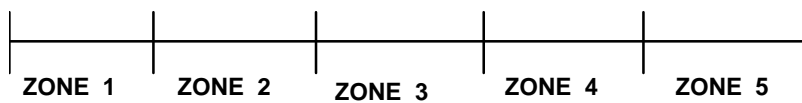
\$2 million per year and a declared minimum amount in profit who has the reputation that every audit was wound up with a huge correction.

Fiscal importance →	none	low	average	high	very high
Recent behavior ↓					
unknown	-	low	medium	high	very high
bad	-	low	high	very high	very high
reasonable	-	very low	medium	high	high
satisfied	-	very low	very low	low	medium
very good	-	very low	very low	very low	very low

Model 2.14 Risk assessment

It is also possible to select tax payers with no intentions of evasion up to tax payers with high frequency verification. The model below shows how to deal with this method.

**Line of tax compliance by the taxpayers**



Model 2.15 Line of tax compliance

Zone 1: Taxpayers that comply and have no intention of evading.

- Zone 2: Taxpayers that comply, but have intentions of not complying or evading.
- Zone 3: Taxpayers that do not comply, but have intentions of complying.
- Zone 4: Taxpayers that do not comply or evade.
- Zone 5: Taxpayers that commit fraud.

Based on the foregoing, the selection of taxpayers should be made in such a way as to favor, with a high frequency, verification in zones 5 and 4, in that order of importance. Likewise, resources should be oriented toward zone 3, because these taxpayers without intention of evading do not comply, which may reflect a lack of knowledge of the tax norms or involuntary errors that must necessarily be corrected. However, to overcome the problems of compliance posed by these taxpayers, forms other than field verification should be promoted, in the understanding that there are more effective ways of educating the taxpayer universe that is found in this zone. It is also necessary to allocate resources to zone 2 and, to a lesser extent and periodicity, to zone 1. Likewise, the selection of taxpayers should consider zones 2 and 1, since the behaviour of officials is dynamic, and so it is appropriate to provide equitable and permanent signals of verification.

In other words, it is best that the selection of taxpayers be guided and not made at random, so as to reduce the risk of mostly selecting taxpayers from zones 1 and 2, with which the marginal result of the verification effort might be less than its marginal cost, possibly leading to erroneous conclusions and an inefficient use of resources.

It is also important to combine the allocation by zone with the criterion of economic importance of the taxpayers, since it would be very difficult to verify all the taxpayers in the non-compliance zones. In this way, the collection impact of the verification process can be maximized, as can the indirect effect of verifying taxpayers that have significant relationships with other economic agents.

#### ***The handling of non-resident taxpayers***

Most of the fiscal systems include the possibility to tax the transactions and specific incomes of non-resident persons or companies. The handling of these taxpayers is often facilitated by the creation of a specialized department.

Benefits of a specialized department for the handling of non-resident taxpayers is the fact that non-resident taxpayers only have to deal with one Tax Department which makes life easier. It means they only have to address a single

administrative official, whatever the place or the nature of their activities are outside the national territory. Furthermore, the non-residents department can make profitable the technical investment represented by the mastery of legislation which is often highly specific and complex. If non-residents are handled by a traditional department, the infrequency of their files will lead to lower efficiency of the Tax Administration in this field.

### ***The handling of new self-employed businessmen***

New taxpayers, and interesting ones, are self-employed businesspersons, and they need special attention, because the fulfillment of their tax obligations is not their main target. It is not that they do not intend to pay taxes, but the reason is more that they are too occupied with their new enterprise. The first contact with the Tax Administration is an important one. Special units could train the new taxpayers in taking a compliant attitude. Registration and tax assistance are the main activities of the tax units at this stage of existence. Another point of interest is that over fifty percent (or perhaps even over eighty percent) of the starting businesses do not survive their first year. Most of the time, this group of taxpayers has a high fiscal risk but a low financial importance.

## **2.14. The current situation in the CIAT member countries**

The next table shows an overview of the current organizations of the different CIAT countries. For further details, please refer to the annual publication by the CIAT entitled "*Organization of Tax Administrations in CIAT member countries*"<sup>4</sup>.

CIAT members	Central level			Operational level			Merging with customs	Large enterprise unit
	f	t	c	f	t	c		
Argentina	x			x			x	x
Aruba	x	x		x			x	
Barbados	x			x				
Bermuda				x				
Bolivia	x			x				x
Brazil	x			x			x	
Canada	x			x			x	
Chile	x	x		x				

<sup>4</sup> CIAT review 98-99.

General Design Considerations

CIAT members	Central level			Operational level			Merging with customs	Large enterprise unit
	f	t	c	f	t	c		
Colombia	x			x			x	
Costa Rica	x			x				x
Dominican Rep.	x			x				x
Ecuador	x			x				
El Salvador	x			x				x
France	x			x				x
Guatemala	x			x				
Haiti	x			x				
Honduras	x			x			x	x
Italy	x			x				
Jamaica	x	x		x				
Mexico	x			x				
Neth. Antilles		x			x		x	
Nicaragua	x			x				x
Panama	x			x				
Paraguay	x			x			x	x
Peru	x			x				x
Portugal	x	x		x				
Spain	x			x				
Suriname				x				
The Netherlands			x			x	x	x
Trinidad and Tobago	x			x				
USA	x			x		x <sup>5</sup>		
Uruguay	x		x <sup>6</sup>	x				
Venezuela	x			x			x	

f = functional approach; t = tax law approach; c = client approach

*Model 2.16 Current situation in CIAT member countries*

<sup>5</sup> The IRS is restructuring the organization from a functional to a client oriented approach.

<sup>6</sup> The General Directorate of Taxation (DGI) of Uruguay has at the central level some characteristics of a client approach, because there are some departments for specific target groups (auditing for : industrial; commerce and agriculture and livestock sector).

Some conclusions can be drawn from this overview:

- most countries have their own typical and clear organizational design based on functions. The recognized functions are usually: auditing; collection, taxpayer assistance and service, legal or juridical affairs and registration. There is the same type of functional division at the central and at the operational level. The advantage is that specialists can find each other very easily at the different levels in the organizations. Another advantage is the transparent structure which aids the top management level in stirring up the organization (top-down);
- a few countries (particularly in the Caribbean region) have central directorates for indirect or direct taxes (sometimes even directorates for VAT or personal income tax). These directorates generally give guidelines for the auditing and assessment producing processes;
- the client approach is still very rare. At this moment The Netherlands is the only example. The IRS in the U.S.A. has made a decision to reorganize the structure of the administration in this way, and has started with the implementation;
- it must be remarked that reality is in most cases more complex than the written models. We see a mixture of types of organizations in a great many cases.

### 2.15. The evolution of Tax Administrations

The development of a Tax Administration is closely linked with the development of the state, the economy and cultural behaviour. A starting economy is mostly based on a rural concept or a mono-industrial structure. The highest level is a country with a national income that is created by services. A theoretical model of the development of Tax Administrations is shown in the table below.

<u>Stages</u>	<u>Development economy</u>
1.	Rural society and some simple and mono industrial complexes (mining, textile industry, lumber projects, etc.).
	<u>Development tax system and administration</u>
	- Tax Administration mainly dominated by customs.
	- State Revenue based on excise and duties (import / export).

2. Development economy

- Urbanisation and the need of investment in infra-structure are the resulting in rising debts of the state.
- The need for more income to pay the rent.

Development tax system and Administration

Introduction of some simple forms of tax legislation, sales tax and VAT. The problem is that the Tax Administration has no reliable system of data (taxpayers, files, etc.). Especially the growing number of participants of the gray economy (in urban regions) is a problem for the Tax Administration to control and manage.

3. Development economy

- The critical situation that the economy try to get less independent of some western countries (sometimes former colonial powers).
- The scope of the government is to get the attention of foreign investors (multinationals).
- State owned enterprises could only survive with joint ventures with these multinationals.
- The investors are interested in stability and want guarantees for long term investment programs.

Development tax system and administration

- The tax system (and the Administration) is situated on a cross-point to avoid high taxation of foreign investors and the need to tax individual national taxpayer to pay their contribution to the financial needs of the national government.
- In this stadia the first thoughts are coming to introduce an income tax for the growing middle-class.
- Political it is a handicap to find a balance between the pressure on the middle-class and their contribution for society.
- It is proven that a growing middle-class is important for a stable democracy.
- People are willing to pay their fiscal obligations if they see more individual rights and substitution.

4. Development economy

- The transformation from an industrial economy to a financial and economical center.



- The industries find cheap investments and labor in other countries and are exporting the production lives.
- Financial and commercial importance change the economy more to a 24 hours business.
- The focus of the state change from internal (national) to external (global).

#### Development tax system and Administration

- The Tax Administration has to play an important role to the desires of the taxpayers. Specially large enterprises (holdings, banks, etc.) wants an individual approach.
- Not only the tax pressure is important but more and more the reliability of the tax system (important for long term investment) and the Administration (free of corruption on police abuse). Also the neutrality is a main attention of the large taxpayers. They want an equal treatment with other taxpayers.
- The system (specially legislation) is confronted with international competition.
- The Tax Administration is losing the feeling to be a monopoly.

#### 5. Development economy

- The transformation of a regional center of commerce to a mondial distribution center.
- The importance of infra-structural projects are immense (international airport, harbor, good transportation facilities). Also the existence of a high qualified labor force is important.

#### Development tax system and administration

- Specially the customs had to change their approach. Not the levying of excises and duties are the main process. Customs had a task to keep an eye on the quality of society.
- To protect the society for unwanted goods (based n reasons for national health, political boycott program, safety or society) and individuals who are not allowed to enter the country.
- This policy could only be successful with an approach based on risk analysis and a sound data warehouse for information of taxpayers behavior and the characteristics of distribution of goods.
- The other point of the Administration (branches for VAT, component tax and income tax) has the same philosophy.

- The client approach is the new philosophy.
- Programs to stimulate that almost every taxpayer voluntary full-fill his obligations are getting popular.
- The taxpayer who is dealing with tax evasion is confronted with professional specialist who are dealing with risk analyses programs.
- The professional specialist is the key player in the organization and is supported by management and staff.
- The Tax Administration is transformed from a simple organization with low administrative skills to a professional organization with one prime task to maintain a high level or level and productive use of this information.

## 3. Primary processes

There are various ways to classify the processes used within a Tax Administration. One way is to make a distinction between main processes and supporting processes.

The substantial main processes are the result of the core tasks, the business philosophy and the enforcement policy of a Tax Administration. These processes are file management, levying, supervision of the execution of fiscal and non-fiscal legislation, investigation and prosecution, collection and service provision and communication.

In addition to these main processes, the Tax Administration distinguishes supporting processes. These are the processes that enable the organization to carry out the main processes. The supporting processes used within the Tax Administration are finance, accommodation, human resources, information and automation and research and development.

### 3.1. The main processes

#### 3.1.1. File management

The main process file management consists of the following constituent processes:

- data collection: the (active) collecting and processing of fiscally relevant information from and about taxpayers;
- registration and management: the registration and management of information on taxpayers with the relevant links between taxpayers;
- making data available: making information available to the processes of levying and collection;
- supplying data: supplying information about the registration of taxpayers to other government bodies and the taxpayer himself.

#### ***Electronic filing***

Processing return and payment information is one of the most time-consuming activities of Tax Administrations. Furthermore, traditional data-entry systems for return and payment forms frequently generate an unmanageable number of

errors, which obstruct efficient action by the Administration. To overcome these problems, Tax Administrations might consider the use of electronic filing systems for returns and electronic payments.

What are the possible problems with the use of electronic filing and payment systems? There are some arguments against implementing these systems:

- The signature problem: a taxpayer may deny that a given return is his. This problem is however not unique for an electronically filed return, because a taxpayer can also deny that a paper return is his. In addition, electronic signature authentication systems have been developed through public/private keys and encryption systems;
- Risks to the confidentiality of taxpayer information. The solution for this problem is cryptography techniques;
- Risks to the integrity of taxpayer information: the chance exists that the information on a return or a taxpayer's payment has been unduly modified. To minimize this possibility however, computer technology has developed several tools;
- Risks of fraud: for example it is argued that IRS return reviewers have some type of 'sixth sense' to detect fraud based on paper documents filed by taxpayers, and that this skill has become useless with the advent of the electronic filing system;
- Taxpayers' fear of using direct-debit systems. This resistance originates from the fear that the Administration could order unauthorized debits to their accounts.

There are several benefits of the electronic filing and payment systems:

- taxpayers are assisted in the preparation of their returns and payments;
- reduction of costs, for both the taxpayer and the Administration. Taxpayers normally take less time to prepare their returns and payments when using such systems. Furthermore, in many cases they will stop using accountants or tax consultants, given that the electronic filing and payment systems allow them to comply with their obligations without other types of help. Regarding the Administration, the processing cost is reduced by eliminating the entry of data from the forms;
- there is less time required to make return and payment information available to the Administration's users. The information received through electronic media can be loaded onto the Tax Administration's database and used to support audit and enforce the payment of arrears almost immediately;

- the quality of return and payment information increases. Since the program of the electronic filing and payments systems used by taxpayers performs strict validations of the information entered, the error margin is minimal, in fact close to 0 percent.

An important question regarding the design of the electronic filing and payment system is the implementation strategy. The majority of countries have preferred to start with one or two groups of taxpayers (large taxpayers, for instance). Some countries, like Brazil, have preferred to start with all taxpayers wishing to file electronically.

Another important aspect is whether the Administration should require taxpayers to file electronically or not. In Argentina and in some Brazilian states, taxpayers are required to exclusively file electronically. The Brazilian SRF requires that firms declare exclusively on diskettes or through the Internet. In the Netherlands, taxpayers are free to choose between electronic and paper declarations.

As soon as the Administration has the infrastructure to receive the returns and payments filed electronically, it should make this form of filing and payment mandatory. Logically, this requirement should be introduced properly, taking into account taxpayers' availability.

### ***Taxpayers identification***

The record-compilation function, comprising identification and registration of taxpayers, constitutes an important task for the Tax Administration. Although departments have a tendency to improve management of taxpayers who are already known and listed, they must also make an effort to include in the tax-return system all persons and companies that have succeeded in escaping their notice.

Management of taxpayers' records may be divided into three basic functions: creation, updating and deletion.

Creation (or initial registration) occurs when the taxpayer voluntarily fulfills his legal obligation to file a tax return when he comes within the scope of a tax. However, it is also necessary to establish a system whereby the Tax Administration is notified of all external events with tax implications: setting-up of companies or one-man businesses, transfer of registered offices, start of gainful employment for natural persons, changes of residence, changes of activity, etc.

Links are therefore established with firms, government services and other bodies whose job it is to be aware of these events in order that the tax authority can ask potential taxpayers for information with a view to entering them in the records. Information on employees can thus be supplied by the companies paying them. Similarly, institutions which, under commercial law, are responsible for registering business start-ups or changes in company capital, can be required to make this information available to the tax authorities. This is the case in France for the commercial courts, which handle the compulsory registration of all firms in the 'commercial register' for purpose of disclosure and security of commercial transactions and which forward information on business start-ups to the Tax Administration. On the common issue of retrieving moving taxpayers, it is useful to establish consistent exchanges of information between the Tax Administration and the post offices.

The record-compilation function usually involves the task of allocating registration numbers to firms or natural persons liable to tax, allowing more accurate identification and better monitoring of their transactions (the number may thus be indicated not only on tax returns but also in invoices, letter-heads, business letters, etc.). If possible, and especially if allowed by law, this number must be unique (social security number, national identification number, etc.) and be used by all Administrations likely to administer some or all of the taxes. But, starting from the experience of many countries, it is already possible to achieve a lot with a specific number, assigned for taxation purposes only.

When defining the identification numbers system, countries may find it useful to refer to the standards proposed by the OECD in order to facilitate in future the exchange of information's between different Tax Administrations.

The Tax Identification Number is the linking element of the information which is included in the Administration data bases with reference to each taxpayer, and without any doubt, it is a very useful instrument for facilitating the exchange of information between different countries. The use of the Tax Identification Number helps improve the efficiency in the information management and makes possible the realization of matching controls.

The Tax Identification Number is assigned to individuals as well as to corporations, in principle for tax purposes, though in some countries it is also used in private transactions. In fact, in some countries, including various countries that are members of the Intra-European Organization of Tax

Administration, its use is so generalized that the whole population has, since birth or when reaching a certain age, a tax identification number. This practice facilitates its generalized application in tax matters.

The Tax Identification Number is an instrument which can be used by the Tax Administration to obtain two fundamental objectives:

- an easiest identification of individuals and corporations;
- a most effective control of meaningful operations (commercial transactions, for example) as long as the communication of the Tax Identification Number is demanded between those that intervene in the operations.

If the Tax Administration has an adequate information system, a unique and permanent number can identify, unequivocally, the taxpayers that must declare and pay taxes. It is very important that each individual or each corporation maintains the Tax Identification Number initially assigned until death or winding-up and not change it under any circumstance.

Equally, in order to accredit the Tax Identification Number, every taxpayer must have a card or documental support, to be exhibited before other taxpayers or before the Tax Administration. In the case of individuals, this documental support may coincide with the identity document, passport or social security card.

In most countries, the Tax Identification Number consists of numerical characters, alphabetical characters, or a combination of both, though exclusive use of numerical characters is preferred, including a self-tester digit, because it facilitates its computer processing and the receipt and transmission of the information.

Furthermore, in order to facilitate the information exchanges between the Tax Administrations of different countries, it is advisable that each taxpayer should maintain the same Tax Identification Number that he possesses in his country of origin, even though he operates in a different country, because, in this way, it will be easier to identify him and exchange information among the various Administrations .

As has been indicated, it is advisable that taxpayers, both individual and corporations, should be obliged to use the Tax Identification Number in their transactions with tax implications and, in particular, in the following:

- in commercial transactions between entrepreneurs, the Tax Identification Number must be shown on their invoices;
- in payrolls containing details of the salary paid by the employers to their employees, including the Tax Identification Number of both parties should be included;
- in insurance and retirement plans. The persons or entities that participate in these plans must communicate their Tax Identification Number to the assurance company;
- in transactions with banks and, in particular, when opening an account, Tax Identification Numbers must be communicated to the bank.

In addition to the previously described transactions, the Tax Identification Number must appear in statements, communications or other documents presented by individuals and corporations to the Tax Administration, the Customs or the Social Security Agency.

The obligation of communicating the Tax Identification Number can be observed from a triple perspective:

- communication of the own Tax Identification Number;
- communication of the Tax Identification Number of other individuals and corporations in order to inform the Tax Administration about who they maintain a professional or economic relationship with;
- communication of other taxpayers not fulfilling their obligation to use their Tax Identification Number when it is mandatory to do so in relationships among taxpayers. This behavior should be punishable by law.

On several occasions, reference has been made to use of the Tax Identification Number in the information exchanges between Tax Administrations of different countries. To establish an efficient control over income from foreign sources, an adequate identification of the receivers is required both in the country of origin and in the country of destination. For this purpose, it is very useful to maintain the Tax Identification Number which was assigned by the country of origin. This will greatly facility the exchange of information.

### ***Classification of taxpayers***

Taxpayers can be classified in various ways. Most countries classify their taxpayers by their tax importance. Some concepts used in the evaluation are:

- amount of assessed tax;
- amount of paid tax;



- amount of withholdings;
- subject to specific taxes (tobacco, beer, etc.);
- economic activity.

In Bolivia, Colombia, Ecuador and El Salvador taxpayers are classified according to their tax behavior. Some factors which are considered when analyzing their behavior are:

- amount of demands for payment;
- amount of tax returns filed;
- amount of tax returns with zero payment;
- level of compliance with their obligations;
- background on verifications and/or collections;
- taxation index.

Naturally it is also possible to opt for a combination of tax importance and tax behavior (in The Netherlands, for instance).

### **3.1.2. Levying**

The main process 'levying' consists of the following constituent processes:

- registration and management: the registration and management of information derived from tax returns for the purpose of selection and treatment;
- evaluation of contributions: the evaluation of contributions in order to establish tax liability on the basis of the various contributions made (income tax, corporation tax, turnover tax, wage tax, etc.);
- establishment of treatment strategy: evaluation, assignment and choice of the type of treatment:
  - technical fiscal test, divided into an office test and a field test;
  - revaluation;
- establishment of the basis of tax assessment: execution of the treatment process, including the establishment of the basis of tax assessment and possibly the application of administrative-legal sanctions;
- calculation and conclusion: the process of calculating and producing assessments and other decisions.

#### ***Assessment of the amount of tax obligations***

The Administration must be formally aware of the amount of tax owed by each taxpayer. At this point, one observes an almost exclusive peculiarity of the tax service with respect to any other sector of the economy.

In fact, in every economic relationship there is a supplier and an addressee (or customer) and the supplier is the one who assesses and formalizes the transaction by delivering the corresponding invoice on the goods or services provided, while the customer must pay the amount indicated in the invoice.

In the tax field, since there is no direct provision of goods or services for the amount paid as tax, there is generally an inversion in the role of whoever documents the debt resulting from the operation. Generally it is the taxpayer who assesses and pays the tax, and then the Administration uses its legal powers to revise and reassess the tax debt declared by the taxpayer.

This inversion of roles is one of the main causes of the complexity and difficulty of effectively administering the tax system.

In general, the tax debt corresponding to internal taxes is made known to the Administration through the filing, by the taxpayer, of a tax return (in some countries it is called sworn return). Although this is the main formal back-up of the tax debt, it is not the only one. There are other concepts and documents used by the Administrations to formalize the tax debt, such as:

- assessment for advanced payment of the tax;
- assessment of the breakdown of the tax debt (for its payment in installments);
- summons requesting payment on account of the tax owed for not having filed the return within term;
- summons requesting payment of taxes for mathematical errors or errors in the use of rates incurred when preparing the tax return;
- assessment of interest for delay in payment of taxes;
- the document which entitles the Administration to proceed to enforced collection of the tax debt (debt receipt, debit note, statement of violation, etc.);
- assessment of the tax for adjustments made as a result of verification (in some countries rectifying returns are used);
- jeopardy assessment of the tax when the taxpayer disagrees with the tax adjustments made by the Administration;
- assessment of fines for tax violations incurred by the taxpayer.

Tax assessment based on information declared by taxpayers is the most widely used form of assessment. Two separate administrative procedures may be identified:

- a first phase to carry out formal checking of the information declared (whether all compulsory particulars have been filled in, the relevant documents provided, etc.);
- a second phase which consists in applying a scale or rate to the tax base which has been formally checked.

These procedures result in the preparation of two documents:

- the notice of assessment, which is sent to the taxpayer. This constitutes the writ of execution for payment of the tax (indication of the relevant statutes and regulations, the tax base, the amount of tax, the address of the department to which the payment is to be sent, and the deadline for payment);
- the tax roll, which is a vital document for tax collection since it validates the debt.

If tax is not determined by means of the roll, it is the taxpayer's return which fulfills the functions of assessment and validation.

It is not enough simply to assess taxes from filed tax returns without any specific action on the part of the Tax Administration. It is also necessary to check that all taxpayers who are legally required to send in tax returns have without exception satisfied this requirement.

At the same time as processing these returns, the departments responsible for assessment must therefore take a number of steps to ascertain whether the filed tax returns exactly match the record of taxpayers.

In order to get defaulters to fulfill their obligation to provide a tax return, assessment departments use a whole spectrum of methods, which become steadily more coercive: they range from a simple reminder letter to a notice to comply with legal consequences.

The main consequence, when assessment departments requests have been of no avail, is the initiation of an estimated assessment procedure from the office: the taxable amount is then determined by the assessment department in the light of all the facts in its possession (turnover for the most recent periods known, amounts of most recent income declared, extent of production facilities, etc.). This procedure may differ markedly from one country to another, but it must be

respectful of the defense rights, which is a fundamental notion for the European Court of Justice. The taxpayer must be fully informed of the legal bases from which the Tax Administration takes the right to use the estimated assessment procedure and of each fact or piece of information used to this end. Of course, the taxpayer must have the right to make an appeal against the Administration's decision.

The assessment department keeps the professional records up to date. To this end, it is responsible for compiling and maintaining taxpayers' records. This includes classifying filed returns or estimated assessments, inserting in the records all the cross-checking slips required to check the consistency of filed returns, and centralizing all tax events relating to the same taxpayer.

In this field of activity, a modern Tax Administration must take into account the most recent possibilities to use information technology for filing tax returns, payment of taxes or any other information collecting procedures. These possibilities help taxpayers to meet their administrative obligations, reduce the cost of compliance and lighten the workload for the tax departments. This is especially true for business entities which are already using the most recent tools and software in their mutual dealings.

#### ***Declaration of taxes***

Most Administrations use the self-assessment system for the most important taxes (income tax, value added tax, net worth tax, excise tax, etc.). Taxes on specific net worth items (real estate, automotive properties, ships, etc.) are generally controlled by dependent Administrations of the states, departments of provinces, or by the mayor's offices or municipalities. In those cases, generally the tax is invoiced by the Administration.

Concerning the design of the returns, they should include minimum essential data, if possible not exceeding one sheet, to enable the Administration to carry out its work. An optimum design return would be a return that exclusively uses the face of the document.

If there are no significant financial distortions, expirations of the tax obligations of the same taxpayer should tend toward unification. This allows obligations corresponding to different taxes, or to different institutions controlled by the same Administration, to be reported in a single collective return, thus avoiding unproductive procedures and reducing the costs to the Administrations as well

as to the taxpayer. In practice, this is preferably done in the case of obligations which must be complied with on a monthly basis.

Another important concept that has been incorporated in the past decade is that of the 'return-payment', wherein the same form includes the tax return and payment made by the taxpayer.

The returns for the same tax should not necessarily have the same design and the same data. It is useful to further simplify the returns for small taxpayers, so that they can include the minimum amount of data possible, data which is easy to obtain and simple to include in the form.

### **Appeal procedures**

When a taxpayer does not agree with a tax assessment, he must have a right to lodge an appeal against it.

Appeal procedures offer a number of benefits:

- right and interest protection: concerned parties have the opportunity to make their appeal to provoke a new decision;
- arbitration: there are many ways to find a solution for the problems, aside from declaring the appeal valid;
- improving the quality of the decision process: during the reconsideration of the appeal the committee will take notice of the social situation of the taxpayer;
- file collecting: when the appeal is brought to court, the appeal will only be judged on the facts which are used in the appeal procedure;
- filter: the use of appeal procedures decreases the work pressure of the court. According to Dutch research, the decrease is almost 80%.

### **The U.S. experience**

United States customers have several appeal options if they do not agree with the IRS's position on the amount of taxes they owe. One option is to seek an internal remedy through an IRS Appeals Officer. The Appeals Office is separate from and independent of the IRS Office taking the action which the taxpayer disagrees with. The Appeals Office is the only level of administrative appeal within the IRS. Appeals Officers may reverse all or part of an audit recommended assessment, based upon individual case circumstances and

facts. Currently, there is no national tracking system that records the reasons why some audit-recommended assessments are reversed while others are not.

Increasingly, the IRS and other regulatory agencies are concluding that giving more attention to early intervention and preventing problems has a significant impact on compliance. Regulatory agencies are working 'smarter', seeking to understand where compliance problems lie and focusing their efforts on them. The Task Force found that in many other agencies this involves establishing a partnership with the groups that are regulated.

Conferences with Appeals Office personnel are held in an informal manner by correspondence, by telephone or at a personal conference. The Office of Appeals can settle most differences without expensive and time-consuming court trials. There is no need for the taxpayer to have representation for an Appeal conference, but if the taxpayer chooses to have a representative, there are administrative procedures for the taxpayer to follow to arrange this.

The process begins when a taxpayer does not agree with the findings of the Internal Revenue Service. First the taxpayer is given a document entitled, "*Your Appeal Rights and How to Prepare a Protest If You Don't Agree*" and other information and instructions. The taxpayer may then:

- request a meeting or telephone conference with the supervisor of the person who issued the findings. If the taxpayer still disagrees, he or she may appeal his or her case to the Appeals Office of the IRS;
- when requesting an appeals conference the taxpayer may also need to file a formal written protest or a small case request (small case request procedures apply when the tax amount in disagreement does not exceed \$25,000 in any tax period). Instructions for the process are given to the taxpayer;
- if the taxpayer does not agree with the findings of the Appeals Office, or if the taxpayer decides not to appeal within the IRS, he or she may take their case to the United States Tax Court, the United States Court of Federal Claims, or to a United States District Court after satisfying certain procedural and jurisdictional requirements. These courts are independent judicial bodies and have no connection with the IRS;
- if the Tax Court determines that the taxpayer filed the case with the intent to cause a delay, or that the taxpayer's position is frivolous or groundless, the Court may award a penalty of up to \$25,000 to the United States in its decision;

- if the taxpayer prevails in the courts and meets certain other requirements, he or she may be able to recover reasonable litigation and administrative costs.

### ***The Dutch experience***

The Dutch appeal procedure seeks to be as independent as possible. Therefore, the reconsideration of the decision will be made by a person who was not involved with the original decision. A taxpayer will get a re-decision within six weeks. When the appealing taxpayer disagrees with this decision, he can go to the court with his appeal.

The public authority can ask a committee to advise it concerning the appeal. To this advice can be added a tentative decision.

The committee is only an advisory body. Therefore, the public authority has to examine their tentative decision. If the public authority wants to depart from the given decision, it must adduce it with arguments.

### **3.1.3. Collection**

Collection is the main objective of a Tax Administration and the reason for its existence. The collection function consists in collecting the amount of tax calculated from taxpayers' returns or on the basis of other legal evidence. The collection function has two aspects. Firstly, the collection department enters into the accounts the means of payment used for payment of taxes; it is also responsible for the sale of tax values (tax discs, stamps, stamped paper, etc.). Secondly, the collection department is responsible for initiating all necessary procedures to obtain payment of tax by taxpayers who have not voluntarily fulfilled this obligation.

The accounting function provides a record of all financial transactions with taxpayers (recognition of payments in cash, by cheque or by bank transfer, in full or in part, for discharge of specific taxes or penalties, etc.), but it also has the task of determining the revenue to be allocated to public authorities (central government, regions, local authorities, etc.) when a single Tax Administration handles taxes on behalf of various public bodies.

Action taken to collect taxes involves obtaining payment of sums owed by taxpayers who have not voluntarily paid the total amount of their tax after having sent in their self-assessed return, or, in the case of taxes being collected by the assessment departments, who have not paid within the allotted time.

Departments generally send out reminders before initiating procedures for enforcement of collection if the reminders are of no avail.

***The bank collection system***

One form of collection that has been used for a long time consists of hiring the banks for the purpose of receiving taxpayer payments. This procedure has been improved in recent years in Spain and in some countries of Latin America, whereby the banks also receive tax returns.

The use of the bank system has the advantage of decentralizing the receipt of returns and payments, thus avoiding agglomerations of filed returns as was customary in many Administrations on the dates of expiration. In general the banking system is very widespread in every country, in accordance with the economic development in each region. Bank branches often are located close to those who must fulfill the tax obligations, who are also frequently their customers.

The bank tax collection systems that operate very effectively, show several important characteristics:

1. Entering into contracts with the banks. The hiring of banks is a private law act, freely negotiated and should, therefore, result in benefits for the Administration as well as for the banks. If this obligation is imposed by legal norm and the banks perceive that they are not obtaining the benefit expected, obviously the system will not work satisfactorily. Therefore, it is necessary that payment made for this service be reasonable for the Administration and reasonable for the banks. It is essential that an agreement is formalized between the Administration and the banks which, as a minimum, should cover the following aspects:
  - the forms to be used for the receipt of returns and payments and for turning over the collected funds;
  - the procedures to be used; new designs of the forms for filing and paying should be produced in the future;



- the controls to be made by the bank prior to receiving the returns and payments at the teller's window;
- the obligatory use of financial terminals. This renders almost impossible the undue appropriation of funds collected by individuals that act as bank cashiers, since the payment receipt given to the taxpayer must be stamped by the aforementioned terminals, thus ensuring that the data is transferred to a central computer;
- the procedure to turn over the collection and to automatically co-share the taxes collected with the beneficiary entities;
- the computer programs which must be obligatorily used for recording information;
- the way in which information should be recorded ;
- the terms for:
  - turning over the collected funds;
  - delivering to the Administration the rejected checks;
  - delivering to the Administration the documentation received and the magnetic files with the recorded information; .
- the unitary value of the compensation to be paid for the service rendered and the method and term for paying it;
- the banks' obligation of:
  - additionally receiving income tax return forms on which no payment is due;
  - collecting taxes in all the branches;
- the sanctions to be applied for non-compliance with contractual obligations, fundamentally for:
  - transfer of funds after the established terms;
  - late delivery of magnetic files containing information on the returns and payments;
  - delivery of unreadable magnetic files (which the electronic reading devices cannot interpret);
  - errors made when recording the information in numbers exceeding those admitted, or failure to record the information included in the returns and payments;
  - late delivery of documentation corresponding to returns and payments;
- the Administration's power to remove taxpayers from the system at its own discretion. This avoids future negotiations, in case the Administration decides to remove main taxpayers from the system in order to place them under special control;

- the determination that the hired banks will have the same obligations and responsibilities as the Administration with respect to tax secrecy (in some countries a law is required to undertake this type of hiring).
2. Forms to be used for the returns and payments. It is very useful that the forms to be used are of the 'return-payment' type, in order that the information and money can be processed jointly. If they are processed separately, additional reconciliation tasks have to be carried out to determine who paid and who did not pay. Since these are systems that handle large amounts of information, separate processing would lead to discrepancies that are very difficult to solve.
  3. Recording of information at the banks. It is useful to reach agreement with the banks concerning the information recording service to ensure that there will only be one party responsible for:
    - the collection of taxes;
    - turning over the monies collected;
    - the recording of information;
    - the delivery of magnetic files;
    - the delivery of documentation corresponding to returns and payments, which it will support the information included in the magnetic files.

Since all these elements are interrelated, the party responsible is undoubtedly the collecting bank in case there are differences or missing amounts. It is essential to have this certainty when managing massive information systems.

It is best to record information in two stages. In stage one the necessary data for the transfer and delivery of funds to the Administration (primary data) is recorded. In stage two the remaining data in the return (complementary data) is recorded.

4. Computer program to be used by the banks. To ensure that the information is recorded, it is essential that the computer program is provided to the banks by the Administration. In this way, when the magnetic files are received at the Administration, the codes (encryption) produced by the program can be controlled, thus ensuring that the data will have been recorded in accordance with all the steps indicated by the Administration.

5. Crediting of funds. The bank should be obliged to daily credit the collected funds to the Administration's accounts, and the system must ensure that such funds are automatically distributed to the accounts of the Public Treasury and those of the corresponding co-participating entities (states, departments, provinces, mayor's offices, municipalities, universities, etc.).

The amounts collected should be credited on the basis of the information resulting from the recording of the main data in the return (primary data), and to determine the term, one must bear in mind the time required by the collecting bank to dispose of the funds, according to the manner in which the taxpayer has paid (cash money or checks).

6. Bank reconciliation. A fundamental daily operation is the 'bank reconciliation', which consists of cross checking the information with reference to the funds credited to the Administration's accounts with the amounts originating from the information on the returns and payments recorded by the banks.

This will make it possible to detect whether there are credited funds for which the information from the returns and payments is lacking, or whether there is information from the returns and payments with reference to funds that have not yet been credited by the collecting banks. If so, immediate claims should be made to the banks.

When the system operates well, there are very little discrepancies so that, following the bank reconciliation, one only has to deal with accounting-type details (returns and payments), since the certainty exists that the final destination of the funds is the Public Treasury or co-participating entities.

This is extremely important and affords security to all subsequent uses of the information, in particular to the allocation of the returns and payments to the taxpayers' accounts. In addition, it allows for incorporating, with total security, the information on revenues to the financial administration process handled by the national treasuries.

7. Payment of bank services. The fee agreed with the bank must be paid through the use of automated procedures. In most of the Latin American countries, banks are skeptical that the invoices for these services will be paid in time. They will therefore only offer their services if payment is made automatically. It is best to agree on two fees, one for the transfer of funds and

the other for the registration of the information. When the bank performs each of these tasks, the contract should state that the services will be rendered automatically. The system must control the correction of the amounts charged.

8. Returns without payment received by the banks. The banks must be obliged to receive returns without payment for the following reasons:
  - because the taxpayer may want to assess his taxes even without paying them so as not to incur a charge of tax evasion;
  - because the series of on account payments may exceed the assessed tax and cause a balance in favor of the taxpayer;
  - because if there is a tax of the value-added type, the amount of tax included in the purchases may exceed the tax corresponding to sales, thus causing a technical balance in favor of the taxpayer.
  
9. Payments without returns received by the banks. The system should also allow the payment of taxes without the corresponding tax return, since the following cases must be taken into consideration:
  - on-account payments required by the Administration for specific economic activities (such as on-account payments of VAT to be made by bars, restaurants, hotels, etc.);
  - on-account payments required by the Administration for failure to file tax returns;
  - installments due to split-up of debt;
  - assessments for adjustments as a result of tax audit;
  - enforced collections;
  
10. Control of compliance of the contract with the banks. It is essential that every system is controlled with respect to quality and timelines. A system that monitors the activity performed by the banks should be set up in order to determine:
  - whether they are using the computer program provided by the Administration;
  - whether they are complying with the terms and the forms established for the transfer of funds and for the delivery of the information registered and the corresponding documentation;
  - whether the information is being filed with an acceptable quality level.

It would be very convenient if the Administration periodically (annually or bi-annually) sends taxpayers the so-called 'tax excerpt', which is a list of all the returns and payments filed at the banks and received by the Administration. If the taxpayer notices that any of the operations is not detailed in the excerpt, he should notify the Administration so that the latter can investigate and clarify the matter.

If non-compliance is detected, the sanctions provided in the contracts signed with the banks should, of course, actually be applied. Generally, the most drastic sanction agreed is to eliminate the bank that seriously violates the contract from the tax collection system.

11. Delivery of documentation by the banks. The banks must deliver the documentation grouped by transfer order (name of the batch containing all the returns and payments that have been processed jointly) and it must be physically filed on the basis of such grouping.

Since the number of the transfer order is in the database, all the information contained therein is recorded in the database.

12. Number of banks to be used. The banks which should be incorporated into the system are those that can ensure an effective geographical coverage in each country to facilitate taxpayer compliance with the obligations. This means that whatever the procedure used for hiring the banks (bid, direct awarding, etc.), it is not necessary that all banks participate, but rather only those whose service can be employed to ensure the effectiveness of the system.

There are other collection systems that function effectively, some of them without the need to collect taxes through the banks, such as in the United States. However, there are two fundamental systems with great prestige and effectiveness, but which are not always very reliable in Latin America, i.e. the check and the mail system.

#### **3.1.4. Supervision and fraud detection**

Voluntary tax compliance is the most efficient and cost effective way to obtain tax revenues. One way to make sure that tax payers voluntarily comply with their obligations is to provide good service. Good service diminishes the need for

correction at a later stage and is therefore the best remedy in the fight against fraud. The aim of good service is to make clear to taxpayers what their legal obligations are (the Tax Administration explains what tax laws exactly mean for the taxpayer). Service also enables taxpayers to fulfill their obligations in several ways.

Besides service, supervision is another way to ensure that the taxpayer deals with his or her tax matters correctly and in time and that no relevant information is missing. Examples of supervision are visits to starting entrepreneurs, on-site monitoring, audits of the books based on the annual reports compiled by companies, and electronic declaration procedures.

Service and supervision forms the preventative side of fighting fraud. If this is not sufficient, there has to be a repressive method: investigation and criminal prosecution. This has to function as a last resort, only to be used on taxpayers who do not fulfill their obligations.

### ***The Dutch experience***

Besides a large number of means for optimizing service to make sure taxpayers are able to meet their fiscal obligations, the Dutch Tax and Customs Administration (DTCA) also has an extensive supervision policy.

For one thing, in supervising the DTCA aim to let the moment that the fiscal fact occurs link up with the fiscal conclusion of the fact. The risk of non-compliance is limited this way. Key notions in the policy of supervision are the fiscal interest and the fiscal risk of taxpayers. The bigger the fiscal interest of a certain taxpayer and the bigger the risk of non-compliance, the more the Administration focus attention on that taxpayer. This requires specific knowledge about the sectors, target groups and goods which are checked by the Administration (in the Netherlands the Customs are integrated in the Tax Administration). The exchange of information with other government bodies is an (increasingly) important part of the supervision.

Automation is an important help in supervising compliance. Automation does not only play a role in the processing of tax declarations and the use of so called counter information to check the correctness of the declarations, but also in determining which matters need to be checked. For instance, transport

movements in the Netherlands are checked in a special program so that calculations can be made to define which consignments need to be checked when entering the country.

### **Auditing**

The auditing function consists in examining the accuracy of the information declared by taxpayers. A Tax Administration has a legal right to obtain information on taxable revenues from third parties (employers, customers, banks, social security agency, etc.). It must clearly inform the taxpayers about this legal possibility and about the fact that the tax departments can use this information to control their situation.

As has been said, this is the other side of the tax-return system, which can legitimately fulfill its role only if taxpayers know that their returns are, or may be, audited and that they cannot avoid paying tax by not providing a return.

The Tax Administration has auditing powers which may also be exercised in the field: the accounts, and more generally all documents used in drawing up tax returns, may be examined on a firm's or individual's premises.

#### *1. Documentary auditing*

This type of auditing is carried out in the Administration's offices on the basis of all the information contained in the taxpayers' records. This is known as a 'documentary audit'.

First, it consists in checking that the various items of the return are consistent with each other and that the return itself is consistent with the various cross-checks available (level of turnover with number of employees, VAT rates with nature of business activity, etc.).

But, the inspection of documents in the tax office will be far more efficient if the tax returns submitted by taxpayers is cross-checked information legally provided by third parties. For instance, income declared by natural persons can be easily compared with the wages declared by employers or with the social benefits paid under a social security program; financial revenues declared by taxpayers can be compared with the corresponding amounts declared and paid by the banking system. In the intra-European VAT system, imports from a member state

declared by a given company are compared with the exports declared by this company's supplier.

As far as it is possible in any given country, the legal framework should give the Tax Administration the right to get that kind of information. This right will be easier to obtain, if the Tax Administration can demonstrate that the necessary data can be acquired at a low cost from third parties by using computerized links. It must be emphasized however, that these legal possibilities are worthwhile only if the Tax Administration is really able to handle the additional documentation and provide the relevant tax offices with useful information. Here again, it is clear that the possibilities offered by information technology are essential and that the formulation of the information technology strategy is a key priority for a modern Tax Administration.

Inconsistencies and anomalies revealed through the inspection of documents in the tax office result in requests to taxpayers for further information. If no satisfactory explanation is forthcoming, the return's inadequacies give rise to adjustment notices.

## *2. Field auditing*

If the inspection of the records and explanations which the taxpayer has provided by post do not enable the documentary auditing department to clarify a firm's tax position, the Tax Administration may undertake an audit on the firm's premises.

The field audit must be regarded as an ordinary form of action by the Tax Administration but, because of its inquisitorial nature, it is usually strictly regulated (taxpayers' safeguards, extent of tax auditor's powers, time limits, etc.). The field audit tends to be a time-consuming process, so that it is generally not applied to the least important taxpayers, unless serious tax fraud is suspected. Procedures have to ensure that the selection of taxpayers for the audit takes place in an objective and neutral way.

The field audit investigates all documents used in drawing up the tax returns. Furthermore, by allowing the auditor to become acquainted with the way in which a company actually works, the field audit constitutes a valuable tool for an assessment of the taxable amount that is more closely geared to the actual situation.



The field (or documentary) audit can be performed only within a period which is limited by law. Beyond this time, the taxpayer may plead the limitation period, after which the Administration may no longer initiate proceedings

***Supervision of the execution of non-fiscal legislation (Customs)***

The supervision of the execution of non-fiscal legislation consists of the following constituent processes:

- collecting, registering, managing and making available information: the (active) collecting and processing, registering and managing of information which is relevant to the supervision of the execution of non-fiscal legislation. This relates to both the target groups of this legislation (subjects of the law) and the goods that are affected by this legislation (objects of the law). Also, making available information to the other constituent processes is part of this process;
- establishing the treatment strategy: evaluating, assigning and selecting the type of treatment;
- executing the supervision: executing the supervision of compliance with non-fiscal legislation on the basis of the treatment strategy chosen, in the following ways:
  - administrative treatment of the official customs documents;
  - treatment on the basis of documents submitted with the declaration;
  - treatment on the basis of physical handling (the actual control of the goods) at the moment of declaration;
  - surveillance;
- providing information: providing information about the results of supervision to the appropriate authorities and the subject of the law;
- concluding: concluding the supervision of compliance with non-fiscal legislation by means of:
  - execution and conclusion of the treatment process;
  - transfer to another main process (in particular to 'fraud detection', in the event of any identified offense).

***The Chilean experience***

*Measurement of Evasion*

It is important to have estimations available on the amounts of evasion for several reasons. First, it is important because it allows for determining the extent

of the problem. Being aware of the magnitude of tax evasion may result in the allocation of additional resources to the Tax Administration, the determination of verification policies or the modification of tax legislation.

Secondly, tax evasion is in a certain way a measurement of the Tax Administration's efficiency, and knowledge of its evolution through time allows for evaluating it. Thirdly, it allows for measuring the effect of verification policies and for adopting corrective actions. Ideally, if the Tax Administration has estimations available on evasion by tax and economic sector, it could focus the examination resources on those taxpayer groups which evade most, thus improving its efficiency and effectiveness.

*Alternative methods for measuring evasion and their advantages and disadvantages*

There are two methods used to measure tax evasion:

1. Sampling method: this method estimates the percentage of evasion on the basis of a sample of taxpayers. In general, measurement is made by comparing the tax declared by the taxpayers with the results of the audited returns. The difference between the tax before and after audits - extended to the taxpayer universe - accounts for the level of evasion. The reliability of measurement is mainly determined by the quality and depth of the audits and the representativity of the sample.
2. Theoretical potential via the National Accounts: this method consists of calculating the theoretical base through an independent source. In general, this source is the National Accounts system. Theoretical collection is estimated by applying the legal tax rate to the theoretical base structured with the NA and then comparing it with real collection, that which actually enters the treasury and thus the difference accounts for aggregated tax non-compliance.

For an adequate application, method 1 requires that the sample be statistically representative. The statistics on cases detected, which are generally available in the verification department, cannot be used, since they have a selection bias. In addition, the quality of the results of this method depends on the depth and quality of the audits, since they can only reveal a part of total evasion. The foregoing will depend, among other things, on the experience of the examiners performing the audits.

The relative advantage of method 1 is that if it is properly performed, it allows for applying all the statistical techniques for determining the levels of reliability and accuracy of the results, classify them according to categories, validate specific hypotheses, etc. A relative disadvantage is that one can only obtain measures on the variable for the year (or month) in which they are performed.

With respect to method 2 its main limitation is that accuracy of its results is conditioned by the very reliability of the NA-system. If, for example, tax information is used in structuring it, the theoretical potential loses independence and evasion is underestimated. Another source of error associated with this method is found in the assumptions that may be necessary for determining the theoretical base. This type of errors fundamentally depends on the proximity of the tax base to some of the components measured through NA.

Method 2 affords greater advantages when applied on indirect taxes, because its base may be approximated on the basis of expenditure figures of the NA and, since generally these taxes consider proportional rates, passage from the theoretical base to theoretical collection does not involve greater problems. In addition, it allows for determining all at once evasion estimates for several periods, for evaluating, without serious inconveniences, what has been the temporary trend of this variable. In the case of direct taxes, which generally involve progressive rates, estimation through NA is less advantageous because of the number of assumptions that must be applied for arriving at a reasonable approximation of theoretical collection.

### **3.1.5. Service provision and communication**

The Tax Administration must pay special attention to the maintenance of fluid relationships with the taxpayers, based on the adequate operation of the information and assistance services, as part of a preventive policy of the tax fraud and as an indispensable element for improving voluntary compliance with the tax duties.

Furthermore, it must be taken into account the framework in which tax relationships are normally developed, conditioned by the complexity of the tax laws, the generalization in many countries of the self-assessment system and the existence of plentiful obligations for entrepreneurs and companies, such as

withholdings on their employees wages and relevant information supply to the Tax Administration.

Information and assistance constitute unavoidable duties for the Tax Administration, and represent the logical counterpart of the obligations imposed on citizens. In this context, each obligation assumed by the taxpayer corresponds with a performance of the Administration that tends to favor its compliance. Its purpose is to produce voluntary fulfillment spontaneously and to reduce the degree of controversy within the relationships between the taxpayers and the Tax Administration.

### ***Tax education and information***

The Tax Administration is compelled to deal with a complex matter: taxes. The desirable simplification of tax laws stumbles, always and inevitably, with the issue of equity. From these premises, immediately emerge the need for the Tax Administration procuring complete, personalized and adjusted information on taxpayers, while taking into account their particular situation.

#### *In-office Information: the taxpayers service*

The information, as a need of the citizen who goes personally to a tax office, must obey to the following ideas: clarity, rapidity, preciseness and accuracy. To obtain these aims, the Administration must develop adequate processes of training and permanent updating of the civil servants that attend the information service.

One aspect to point out is the type of personal assistance provided. In all the countries, personal consultations are free of charge and open to all taxpayers. However, because of the distinctive nature, complexity and volume of such consultations, some countries provide different services to individuals and businesses. In the Netherlands, for example, there are client managers who not only handle business consultations but also serve as a liaison with the Tax Administration. On the other hand, Dutch businesses, in contrast to individual taxpayers, must arrange in advance for an appointment for personal consulting services.

Personal assistance also depends on the time of year, as determined by various tax deadlines and the type of taxes involved. During annual income tax deadline periods, for example, the number of tax staff is increased and hours of service expanded considerably.

### *Taxline information*

The Taxline information service does not permit taxpayers to obtain the same level of personal attention as the information provided in local or regional offices, but offers an important advantage to this, because taxpayers do not have to leave their premises to resolve their doubts. With a simple phone call, the taxpayer can obtain the information from his home or working place.

Furthermore, the Taxline information service avoids a possible saturation risk of the local offices, because the Tax Administration does not always get an office net wide enough to attend to the information needs of the taxpayers.

Taxpayers want the phone-service available when it is convenient for them, including weekend and evening hours. Customers want to be able to get through and do not want to get busy signals or be put on hold. They want an easy-to-use-telephone menu and to be able to reach a representative. They want accurate answers to and fast resolutions of problems. A solution to this would be to offer telephone services 7 days a week, 24 hours a day. This should be combined with multiple strategies to reduce demand on the telephone lines, such as educating customers on when to expect refunds.

The nature and scope of tax assistance services by telephone and fax is related to the number of taxpayers in the system, technological factors, and the availability of alternative services. In countries such as Mexico, where telephone and other services allow for automatic calculation of annual returns and provisional payments, demand is considerably greater than in countries where this type of service is more restricted.

### *Publications*

The publications of a Tax Administration attend to a potential and generalized information demand and not to answer individual information needs. The diversity of publications offered as a part of the taxpayer information services is wide. These services range from the publication of periodic pamphlets and bulletins to the printing of special material during the annual filing of tax returns. The circulation of these publications vary significantly from country to country, as they are directly related to associated costs incurred by tax agencies, and the number and characteristic of their target users. For example, the circulation of publications geared to taxpayers participating in installment plans is far smaller than that of bulletins containing general information on income tax declaration.

Publications are generally offered in the dominant language of each country, although they do not necessarily cover all the official languages of each nation. However, some countries issue material destined to specific segments of the population with distinct linguistic roots.

*Utilization of the mass media*

In the framework of a general communication policy with citizens, the Tax Administration can use the media (press, radio, television or Internet) to approach them. This permits contact with millions of people who otherwise would not be fully conscious of the importance that the information has for each one of them. This takes into account the fact that many people refuse to read tax information.

The 'infomercials' on radio and television, and the publication of informational supplements and announcements in newspapers stand out as much for their scope and coverage as for their 'seasonality'.

This seasonality is intimately linked to the type of tax, which is the subject of the commercial, and usually associated with the income tax campaign, resulting in the use of advertising channels particularly relevant at the end of the fiscal year in the respective countries.

The season determining the choice of information channel, specifically television, is also determined by the high cost associated with this medium, assumed by the tax agencies. Due to the nature and reach of these mass media, the recipient of this service is invariably the general public, although again, depending on the topic, it may be geared to specific groups of taxpayers.

Another aspect that must be noted in the choice of media is the duality of objectives of the commercials or announcements. Although, generally, this form of tax assistance is essentially informative, it can also address the issue of voluntary compliance. Certain announcements, due to their content, are designed to support fiscal programs geared to preventing unlawful tax practices, principally related to income tax and VAT.

*Education in civic and social values*

A further step in the Tax Administration communication process is to educate taxpayers in civic and social values. The Administration must educate the citizens not only to help them in voluntary compliance, but must also transmit the importance of the Tax Administration's mission as commissioned organization

for collecting taxes, in which the whole population should participate as interested party.

Taxpayer education must start in the school, through adequate programs revealing the importance and the meaning of taxes in society. These programs should continue all along the levels of the national educational system, including the Universities.

*Simplify forms, notices and correspondence*

Unclear forms and notices lead to taxpayer mistakes and account for many telephone inquiries and visits to walk-in centers, resulting in costs for taxpayers. Furthermore, increasingly complex tax laws, hard-to-understand forms and instructions are certainly part of the reason that many taxpayers hire a professional to do their taxes.

It has been observed that many notices, forms, and publications are still difficult to understand and use technical language that does not make sense to the average taxpayer.

***Taxpayer assistance***

Assistance, as a concept, generally relates to the help offered to taxpayers to enable them to comply with their tax obligations, referring particularly to the filling-in of returns. Furthermore, this help can be extended to the use of computer systems.

*Assistance in filling in returns*

A basic point of the assistance function is the organization of campaigns to help the taxpayers to fill in their tax returns. The so called campaigns are based on the establishment of services provided by specialized personnel, as well as on the use of computer programs, and are primarily directed at helping those taxpayers that will presumably have more difficulties in completing the forms or those who need to hire accountants, which results in an excessive cost for them.

*Assistance via the telephone*

In order to facilitate assistance in the home or working place of the taxpayer, a telephone system can be used whereby taxpayers can request and obtain services from the Tax Administration, such as help to fill in their returns, mailing of forms, issuing of certificates or information on refunds.

*Written assistance*

Providing assistance through written replies is different in nature from other services. Although this service is always provided free of charge, it has particular characteristics in each country.

The swiftness and volume of responses by the Tax Administration generally depends on the number of staff, and this ultimately depends on budget issues. However, the factors that in the end define the scope of the service are the procedures of the Administration itself as well as issues of a legal nature. In the first case, and as a consequence of the functional duality observed in the provision of assistance services in various countries, inquiries are directed toward the Tax Administration's legal departments, which eventually determine the response time, which differs from the response time when the taxpayers assistance units respond directly to the inquiries. Various other legal aspects determine that not all taxpayers will have access to this service and not all written inquiries will get a response.

#### *Educational programs*

The development of educational activities and programs is directly related to public demand for specific tax assistance, and for the most part, directed at specific segments of the taxpaying population. The majority of countries follow specific short- and long-term objectives in the design and implementation of their programs.

A commonly-used procedure is to call on the services of professional associations (accountants, lawyers and economists) to host tax seminars. Revenue Canada relies on a senior advisory committee which meets periodically with senior representatives of the community to assess the performance of the Canadian Tax Administration.

#### ***The U.S. experience***

The IRS of the United States stands out for the effectiveness of its volunteer programs. Currently, the IRS offers the following programs:

The *Volunteer Income Tax Assistance Program* (VITA), is designed to aid taxpayers in the preparation of income tax returns. The program is directed at low income filers who cannot afford to pay tax-counseling fees, non-English speaking persons, people with physical disabilities, and senior citizens. Parallel



to the VITA program, the IRS offers special assistance to the hearing and visually impaired (publications in braille).

*Tax Counseling for the Elderly (TCE)*, designed for people aged 60 and over, specifically those confined to their homes or retirement communities. For those unable to personally visit TCE locations, home visits are provided by volunteers.

*The Community Outreach Tax Education Program* offers free public seminars specially prepared for groups with common tax interests.

The United States also offers the *Program for Problem Resolution*, aimed at examining delays in IRS assistance to taxpayers and any system failure.

#### *Previous agreements with taxpayers*

When the tax law permits it, to help taxpayers fulfill their obligations and to encourage voluntary compliance, the previous agreements system can be used. This system has been established in various countries.

The previous agreements system is a procedure which starts when the taxpayer applies for it. It implies Tax Administration conformity with the valuation proposal of transactions between related companies or, in general terms, with the valuation given to certain operations. It consists of a transactional and previous system to fix the valuation of the operations before their accomplishment, along with the guarantee that the valuation made by the taxpayer will be thereafter accepted by the Tax Administration.

#### **Customer service**

If the Tax Administration is to become customer-oriented, senior managers across the organization must send a clear message that change is required and remove the barriers to providing top-quality customer service.

A large part of the Tax Administration is organized around internally-defined functions, rather than the needs of customers. Furthermore, there has not been an internal champion for customers or for spreading the ideas and best practices that would improve customer services and products. It has been observed that customer satisfaction data have been rarely used in making operational decisions and historically have had only a limited impact on operations. For

example, without knowing how important the dedicated telephone service is to taxpayers, the IRS had planned to eliminate it as part of a budget-cutting exercise. In another example of the organization's internal focus, some countries often tested its notices for clarity on employees already familiar with the subject of the notice, rather than on customers.

The Tax Administration should begin to refine customers segments and key events for each of those segments as they relate to those customers' tax responsibilities. Any realignment of the Tax Administration should include an emphasis on excellent customer service.

The Tax Administration should create a long-term program to make its culture more customer-friendly. The program should engage the workforce at all levels, challenge long-held values and beliefs about how the organization works and carries out its mission, and hold the Tax Administration and its employees accountable for providing excellent customer service. To be successful, the program should use four fundamental strategies:

- establish and write out a clear mission statement to guide the bureau;
- engage all executives and managers in creating change;
- align the bureau's policies, procedures, systems, and structures to support employees as they work toward the accomplishment of the new aim;
- gain the commitment of the entire workforce.

According to John West, who built the measurement system at Federal Express (IRS) called customer service, employee satisfaction and business results, a balanced system of measures and a core management tool for successful companies: 'Think of the organization as a three-legged stool, with one leg as the employees, the second leg as customer service, and the third as profits. The length of each leg is determined by the amount of attention given to it. If you only look at profits, the stool will fall over. If you don't see that employee satisfaction equals customer satisfaction, that the everyday work of the front-line employee is how the customer experiences the organization then the stool will tip over. A balanced measurement system guarantees that you can easily see the status of your critical indicators and thus know how well the entire organization is functioning.'

### ***The use of computerized means in service provision***

Providing tax assistance through computerized means is determined by the scope of information technology available to each Administration. These tools can be classified on the basis of their use as internal (utilized by the Administration only) or shared (used both by the Administration and the taxpayers).

The first type of usage is linked directly to the informational tools available to personnel of the Tax Administrations' taxpayers assistance units. Along with the available supply of existing software and hardware, the effectiveness and scope of these tools is determined by the on-line access that assistance unit staff have to the taxpayer master file, the current account system, various databases such as legislation and VAT, debt calculation programs, etc.

The second group of informational tools is directly related to taxpayers, and includes all means accessible to them to consult and interact with the Administration. This group in turn presents a duality: on one hand, it permits access to information, and, on the other hand, the possibility of carrying out consultations. In terms of the first, the Internet currently is the principal accessible medium for taxpayers to obtain information. Many Tax Administrations have their own home page, through which taxpayers can access various menus, including 'frequently asked questions' and can even print forms. In terms of facilitating consultations, this is done primarily through electronic mail.

The use of information technology also assists taxpayers in other ways not necessarily limited to accessing information and fielding and resolving inquiries. Developments in this area in several countries have helped to streamline the entire process of filing tax returns, as well as to improve relations between taxpayers and the Tax Administration. This point will be further dealt with later.

### ***The Dutch experience***

Some examples of electronic services of the Dutch Tax and Customs Administration:

- Declarations by means of floppy disk and the Internet will be stimulated in the years to come. In 1999 approximately 7, million income tax declarations were processed, 720,000 by means of a floppy disk and 580,000 via the Internet. Through an annual information campaign the Dutch Tax and

Customs Administration tries to increase the declaration by means of floppy disk each year. Because of an increase in computers and Internet connections in the Netherlands and habituation to electronic developments in general, the Dutch Tax Administration also expects a rise in declarations via the Internet.

- At the moment the Dutch Tax and Customs Administration has an Internet site where general information is available to private individuals, businesses and customs clients. The site also contains a subsite for the young where information can be found that is specific intended for this target group. Currently the Dutch Tax Administration is examining possibilities to use the Internet not only as a communication medium but also as transaction medium (e.g. to pay taxes via the Internet).

### **3.2. The supporting processes**

The supporting processes are essential to the proper execution of the main processes. This section will consider the following supporting processes in the order given: human resources, finance, accommodation, information and automation and research and development. Some of these processes are further detailed in separate chapters.

#### **3.2.1. Human resources**

The supporting process human resources involves the organizational structure, the organization of the personnel structure (classification according to positions), formation management (management of the personnel structure within a specific segment of the service) and the coordination of personnel formation/employment and personnel policy (instruments for appraisal and remuneration, enforcing regulations, etc.).

This subject is further detailed in the chapter "Staff and support processes".

#### **3.2.2. Finance**

An important supporting condition is the efficient financing of the main processes.

The most important aspects of this are:

- budget management: this includes the annual preparation of the budget and the multi-annual estimates; processing the changes made to the Tax Administration budget (e.g. executive costs in connection with changed regulations or new tasks); establishing the distribution of the budget and the monthly monitoring of and reporting on the execution of the budget, in terms of both income and expenditure.
- financial reevaluations: these are investigations aimed at a specific element of the budget. They are executed annually in order to assess whether and how costs might be saved without limiting policy effectiveness too much.
- purchase policy: the purchase policy aims to achieve financial and efficiency benefits through purchase concentration and the standardization of contracts to be concluded at local office or division level.

### **3.2.3. Accommodation and equipment**

In general, staff at every level must have the best possible accommodation and equipment that the Administration can provide to enable them to carry out their work. Because staff costs are usually the largest cost item, investment in the necessary accommodation and equipment for realizing the best possible work is a healthy expenditure. Poor, outdated or broken material ordinarily requires numerous adaptations. This leads to delays, and consequently a standstill in production, which is ultimately more expensive than new and reliable material. A poor chair, weak or flickering light can lead to physical fatigue, and this reduces individual production.

An important point for attention is the organization of the working area. In general, staff with which one speaks the most must have their desks or offices nearby. Physical proximity is a very essential factor in determining the regularity of contact. Working in another part of the building or on another floor results in a significant restriction on contact.

Office furniture companies have conducted studies on the most functional office situations. Diagrams of 'work flows' have indicated how walking routes, work rooms, record rooms and desks can be designed in the most strategic manner. It is worth the effort when designing an office to take into account functionality, as this benefits production.

#### **3.2.4. Information and automation**

To a data-processing organization such as a Tax Administration, computerization and automation are very important in supporting the main processes. The point of departure in this respect is that the requirements made of automation should result from the structure of the working processes and positions chosen.

#### **3.2.5. Research and development**

Research and development as a supportive process is an important instrument for (the management of) the Tax Administration. It gives advice to the Director-General of the Tax Administration on the basis of policy information obtained from scientifically sound research. The central research themes here are: the executability of the legislation and the effectiveness of legislation or policy. In the 'translation' of research results into executive policy, a balance should be struck between political and social requirements and the options of the organization.

The chapter on planning and control further considers the subject of research and development.

### **3.3. The role of the Tax Administration in legislation**

The accounting, tax and social insurance obligations to be fulfilled by taxpayers are laid down by law. The Tax Administration, as such, is concerned with determining the implementing provisions to be applied in the departments.

However, in the preliminary phase of law-making, it is usually a specialist department of the Tax Administration that draws up the proposed legislation. The department responsible for legislation also prepares the decrees which supplement existing legislation and which are decided by the executive power.

One of the legislative function's most difficult tasks is to strike the right balance between the detail of legislation and its applicability by taxpayers and administrative departments. Tax legislation must also be sufficiently constant in its general rules to be familiar to all the taxpayers who have to apply it, while, at the same time, being able to evolve to match the economic environment. In addition to this, fiscal legislation must be made misuse-proof. This is necessary to allow for efficient and effective implementation of legislation, and it also encourages compliant behavior on the part of taxpayers.

In short, good legislation is legislation that is capable of being enforced and implemented. To guarantee this, the Tax Administration is involved with the legislation development process. In testing new legislation, the Tax Administration can use a number of standard test criteria. First, the enforcement aspects of a law are tested. To this end, the following criteria can be used.

#### *1. Social acceptance*

The more that legislation is in agreement with the notions generally accepted in a society (standards and values), the bigger the chance that it will be accepted and complied with. If legislation is at variance with the accepted notions of a society, enforcement risks can occur as a result. Social acceptance depends on, for example:

- the actions the taxpayer must perform in order to be eligible for a scheme. If these actions are not in proportion to the goal, the scheme is socially less acceptable;
- the social effects resulting from the regulation must be in reasonable proportion to the aim of the regulation. If, for example, all sorts of taxpayers must report on a weekly basis to the Tax Administration in order to be eligible for a scheme, the social acceptance will be low;
- the taxpayer's burden of proof. Imposing an unnecessarily heavy, one-sided burden on taxpayers will meet with a low degree of acceptance;
- the extent to which a regulation is regarded by the taxpayer as justified;
- the legal protection afforded the taxpayer. A regulation without adequate legal protection can reduce the chance of social acceptance;
- simultaneous implementation of a large number of regulations which have an effect on the same target groups. Particularly the concurrent implementation of regulations resulting in a drastic increase in the (administrative) burden on taxpayers may lead to social resistance;
- the preparation time available for implementation of a regulation. Socially less desirable is the implementation of complex legislation, all aspects of which can only be published at a late stage, for example, as a result of late decision-making;
- the handling of similar cases. It must be prevented that cases which are similar in common parlance are treated differently. This would be at variance with the general principles of good management.

#### *2. Recognizability of the regulation (simplicity, clarity and comprehensibility)*

A regulation that is not clearly recognizable or cannot be made clearly recognizable for the target group will not (cannot) be complied with. The extent

of recognizability can be increased by means of information provision. As well as recognizability, the degree of simplicity, clarity and comprehensibility are important factors for acceptance or compliance.

The concrete elements that increase the recognizability, simplicity and comprehensibility of a regulation include:

- good and well-defined target groups;
- use of unequivocal and clear concepts and definitions;
- use of clear criteria;
- avoiding unnecessary, hard-to-implement 'threshold amounts' and borders or complicated calculations;
- restricting to a minimum exceptions to the cardinal rule;
- avoiding regulations which give the taxpayer different options.

### *3. Sphere of action of the legislation*

Sphere of action means the aspects surrounding the coming into force of legislation. This includes the commencing date, transitory law and possible retroactive effect of a regulation. It also includes relevant effects on fields not covered by the legislation, such as effects of precedence on similar existing cases.

### *4. Sensitivity to misuse and improper use*

Every legislative proposal must be tested for sensitivity to misuse and improper use.

Elements that affect sensitivity to misuse are:

- the efforts a taxpayer must make to misuse the legislation. A regulation which makes misuse possible through passivity on the part of the taxpayer is more sensitive to misuse than a regulation that can only be misused through active efforts;
- the size of the advantage to be gained from misuse. The greater the advantage gained, the greater the extent of misuse;
- the assumed chance that the taxpayer is detected. If the chance of detection is held to be small, the regulation's sensitivity to misuse will grow;
- the possibility to gain an advantage through personal action. The tendency to misuse the regulation will be smaller if advantages can be gained solely through collusion;
- the expected consequences if misuse or improper use is discovered. To prevent misuse, detection must lead to an adequate sanction. Adequate in



this context means a sanction that from a social standpoint bear a proper proportion to misuse or improper use;

- share in the burden of proof. The heavier the taxpayer's burden of proof, the less easier it will be for him to misuse the regulation.

#### *5. Inspection possibilities*

Good enforceability requires that the proposed regulation offers sufficient inspection possibilities, such as administrative inspections beforehand or afterwards, on-site monitoring and auditing of the books. Account should also be taken of future inspection possibilities, for instance, as a result of new technological developments.

Points that can play a role in the auditability of legislation include:

- clear and simple testing possibilities;
- clear recognizability and definition of the target group;
- adequate burden of proof for the taxpayer;
- desired extra record keeping by the taxpayer himself or by third parties (e.g. the employer);
- desired information collection at the desired times and in the desired form and frequency;
- desired granting of extra powers to the implementing body or bodies;
- possible working relationships with other organizations;
- inspection possibilities by third parties (e.g. accountants or technical specialists);
- sufficient and clear identification of inspection tasks and responsibilities of the various implementing bodies.

#### *6. Sanction possibilities*

The possibility to impose a sanction for non-compliance increases enforceability.

In assessing a sanction / the choice of a sanction, the following factors are of importance:

- the nature and size of the target group, the number of expected sanctions to be applied and the nature of the offences;
- the tie-in with an existing sanction;
- social and political acceptance of the sanction;
- the sanction's practical applicability and implementability;
- the sanction to be applied must be in reasonable proportion to the goal;
- a heavier penalty must not be applied if a lighter penalty suffices.

Not only must the enforcement aspects be tested, but also the implementation aspects. The testing of implementation aspects involves the more process-related features of a regulation

*1. Fiscal aspects*

The testing of the fiscal consequences includes an assessment of the consistency and logic of legislation and law systematics. The test also consists of an assessment of the description of the concepts used. Furthermore, the test must provide an insight into the expected bottlenecks in relation to existing jurisprudence and other legislation.

*2. Commencing date*

It must be assessed whether the regulation can be implemented on the fixed commencing date. This test must not only consist of implementation with reference to the Tax Administration itself, but also the necessary preparation time for taxpayers and persons subject to deductions from salary.

*3. Consequences for the Tax Administration*

It must be assessed what the consequences will be for the organization and working processes of the Tax Administration, including the capacity to integrate changes within the automation systems.

*4. Effects on the business community and taxpayers*

It must be assessed what the effects of new legislation will be for the business community and the taxpayers. This often relates to the administrative burden associated with a proposal and imposed on the business community and the taxpayers. A description is given of the activities or working processes that the business community and the taxpayers will face as a result, or the changes that must be introduced. The point of departure must be to limit the existing administrative burden for the business community and to restrict as much as possible the burden resulting from new legislation.

*5. Information provision*

An information campaign will be required to acquaint taxpayers with new legislation. Points for attention will be the target group on which the campaign must focus, how the target group can be reached, the time when the information is supplied, etc.

Finally the costs of implementation of each change in fiscal legislation will be computed, both the incidental costs (e.g. the costs of information provision) and the structural costs.

### **3.4. Electronic commerce**

As mentioned in the first chapter, e-commerce is one of the technological factors that will profoundly affect Tax Administrations in the years to come. The role of Tax Administrations with respect to e-commerce is twofold. On the one hand they have a role to play in realizing the full potential of electronic commerce by means of providing a fiscal environment within which electronic commerce can flourish. On the other hand they must ensure that electronic commerce does not undermine the ability of governments to raise the revenues required.

There are many challenges raised by e-commerce that Tax Administrations have to face. Some examples:

- in the conventional commercial environment Tax Administrations rely on being able to identify the taxpayer, obtain access to verifiable information about the taxation affairs of the taxpayers and have efficient mechanisms to collect the tax due. In the e-commerce environment it is not possible to accurately identify taxpayers. A business engaged in electronic commerce on the Internet may be identifiable only by its domain name, yet the correspondence between a domain name and the location of where the activity is undertaken, is tenuous;
- in addition to issues of identification, electronic commerce raises questions on the ability of the tax authorities to collect information. (Encrypted) electronic books and records of e-commerce businesses may be easily stored in a foreign jurisdiction;
- a very large part of tax revenue is collected by intermediaries. In some cases, electronic commerce may remove these intermediaries (when, for example, a producer deals directly with the consumer rather than via a retailer), so that tax authorities will be required to collect small amounts from a large number of taxpayers. This may place an unacceptably high compliance cost on taxpayers and a high administrative cost on tax authorities;
- tax havens and offshore banking facilities may be used more readily in the 'wired-world'. The average taxpayer may find it increasingly easy to use offshore financial centers. Internet banking will offer simple access, low transaction costs, a degree of anonymity and an immediacy of transferability

of funds, all attributes that are not widely available today. If these attributes can be combined with well-run offshore institutions within a secure environment, it is likely that a much wider clientele would be attracted to these services than those using them today;

- the concept of the place of supply is important in consumption tax systems such as Value Added Tax systems and General Services Taxes. Since electronic commerce makes much more opaque the links between the place of supply, the place where the enterprise is located and where the service is used or consumed, the Internet raises new compliance issues for VAT authorities;
- the Internet will cause tricky problems of interpretation for the negotiators of tax treaties. For example: can existing concepts such as that of permanent establishment and royalties be adapted to cover activities on the Internet, or should tax authorities be undertaking a more fundamental review?;
- electronic commerce may increase the complexity of transfer pricing analysis.

Of course tax authorities cannot remain passive in the face of such developments. The challenge facing tax authorities in this new global environment is how to reconcile national fiscal boundaries with the borderless world of electronic commerce. One initiative comes from the OECD, which believes that it is necessary to develop a truly global dialogue among tax authorities. To initiate this process, the OECD has launched a working partnership with economies in Latin America, Asia and the newly independent states of the former Soviet Union. It also has invited CIAT, CREDAF, IOTA and CATA to participate. At the same time, the organization has established a network of inter-governmental electronic commerce discussion groups within each of the areas referred to above, as well as a public electronic discussion forum.

Electronic commerce technologies open up new ways for tax authorities to undertake the business of administering tax laws and collecting tax revenues and new ways to interact with a wider community. For example:

- communication between tax authorities and taxpayers can be revolutionized and access to information can be enhanced to help taxpayers in complying with their tax obligations;
- tax registration and filing requirements can be simplified;
- electronic assessment and collection of tax can become the norm rather than the exception;

- easier, quicker, more secure ways of paying taxes and of obtaining tax refunds will be facilitated.

Governments must seize the opportunities offered by the new communication technologies to improve the services they provide to taxpayers, to reduce the cost of complying with tax rules and to use more effectively the resources devoted to the collection of taxes.

Although a lot of taxpayers receive tax refunds through electronic deposits to their bank accounts, there are no provisions for taxpayers to use automatic withdrawals, debit cards or credit cards to pay their taxes.

For the first time, beginning in 1999, taxpayers in the United States who file their refunds electronically will be able to pay their taxes with a direct withdrawal from their bank accounts in much the same way consumers now pay their mortgages or utility bills. The IRS is also seeking credit industry partners to pilot-test credit cards for taxpayers who file electronically in 1999. The idea is popular with taxpayers, and a number of state and local jurisdictions have already successfully allowed the use of both debit and credit cards for tax payments.

The Tax Administrations of countries, large and small, face many of the same challenges in administering their tax laws effectively. The new technologies are available at greatly reduced costs compared with the older technologies. In fact, those Tax Administrations that have lagged behind in modernization efforts may be able to make a quantum leap into the 21st Century by employing the new technologies.

### **3.5. International cooperation**

The internationalization of trade is a major economic phenomenon of our time. That is to say that states have gradually moved from plain protective systems to open door policies, fostering the international exchange of goods, services and capital.

Accordingly, most states have set up economic and legal systems which are open to free trade, international investment and globalization of enterprises. Therefore, it was necessary to establish a legal system enabling the laws and regulations of each state to be enforced beyond territorial boundaries, even with possible overlaps.

The world-wide trading system requires enterprises to abide by not only their own domestic laws but also other states' rules and regulations. This problem is particularly felt in the tax field. The movement of goods, services, capital and persons, and consequently income, has brought about double or multiple taxations as well as cases of non-taxation.

In fact, the internationalization of trade may give rise to cases of double taxation since a taxpayer producing income in his own country and abroad may be taxed in both the state of source and the state of residence. Moreover, the point at issue can be extended to involve taxation under the fiscal laws of those states through which the income transits before reaching the taxpayer. These are cases of either juridical or economic double taxation, depending on whether the income is taxed on one or more persons.

However, cases of 'non-taxation' may occur whenever an income is tax-exempt thanks to transfers to tax-privileged states (tax havens).

Partly for purposes of preventing the above-mentioned problems, Tax Administrations must cooperate at the international level. Since it concerns the relations among state Administrations, such cooperation is regulated by international law provisions.

Despite its growing importance and the increased attention paid to it, there is still a long way to go before optimal cooperation among Tax Administrations is achieved. Especially discrepancies between legal systems, insufficient coordination among Tax Administrations and their sometimes inadequate organization, and the lack of clarity and timelines of the exchange procedures are the reasons why optimal cooperation is still a long way off.

At first, the exchange of information was and in most cases still is envisaged by bilateral treaties. Such a form of information exchange is however limited. A limit is due to the very nature of the bilateral treaties which are binding only on the two contracting states: the international transactions are often extended to other states and the bilateral exchange of information therefore proves insufficient. Another limit is a result of the fact that the OECD and the United Nations Model Conventions do not regulate the exchange of information in detail: they only lay down a set of rules on the subject that can be accepted by the highest number of states. These states have simply reproduced in their treaties the rules included in the OECD and United Nations Model Conventions with no additions. Some

problems have thus arisen in their application, caused by the lack of exhaustive regulations concerning, for instance, the actual implementation of the information exchange procedure.

In addition to bilateral contracts there are several Tax Administration forums in existence today. They vary in the size of their membership, their status either as a forum or as an international organization, their level of activity, their operating language, and culture and history as an organization. These forums offer a wealth of experience in dealing with Tax Administration issues. The combined membership of organizations/forums like CIAT, CATA, IOTA, CREDAF, APEC and the OECD-FSM reaches an estimated 130 countries.

Acronym	Name	Approx. no. members	Language(s)
CIAT (Panama)	Inter-American Center of Tax Administrations	32	English, French, Portuguese, French, Spanish
CATA (London)	Commonwealth Association of Tax Administrators	46	English
CRÉDAF (Paris)	Centre de rencontres et d'études des administrations fiscales	26	French
IOTA (Budapest)	Inter-European Organization of Tax Administrations	13	English
APEC (Singapore)	Asia-Pacific Economic Cooperation	21	English
FSM-OECD (Paris)	Forum on Strategic Management	29	French, English

*Model 3.1 Tax Administration Forums*

Developing strong relationships with Tax Administration forums could offer some key benefits to Tax Administrations:

- a quick, efficient and low cost avenue for exchange of information;
- greater awareness of each others' role and work;
- a medium for building consensus on issues of strategic importance to Tax Administrations globally;
- opportunities to work in complementary ways on areas of mutual interest, thereby exploiting synergies and minimizing duplication of effort, e.g. better coordination of outreach activities.

### ***The Italian experience***

To date, the Italian Tax Administration has concluded treaties on simultaneous audits with the United States, France and Austria. The treaties for the execution of this type of control consist of nine points and lay down precise criteria for the identification of taxpayers, enterprises and groups of enterprises liable to simultaneous audit, independently selected by the competent authorities of the contracting states. They also detail the implementation of audits by regulating their planning and course.

The treaty with the United States was worked out in two phases and includes different schemes.

At first the treaty, in effect from 1 July 1983, provided for simultaneous audits of enterprises carrying on business in both contracting states, or even in other states, and dealt with the pure fiscal aspect.

Subsequently, within the framework of the measures adopted to improve international administrative cooperation, another treaty was concluded with the US Internal Revenue Service, in effect from 1 January 1985, to carry out simultaneous audits in the cases of tax fraud in connection with criminal offences.

In 1985 and 1988 Italy concluded specific treaties, with France and Austria respectively, in application of the conventions for the avoidance of double taxation and the prevention of tax evasion in the field of income taxes signed by the two states. These treaties entered into force in 1985 (France) and 1988 (Austria). Both treaties regulate the implementation of simultaneous auditing



programs concerning enterprises or groups of enterprises carrying on business in the contracting states as well as in others.

In 1995 the Italian Tax Administration started two simultaneous audits. The first audit was carried out in cooperation with the Internal Revenue Service in the United States, where the parent company was registered. It concerned a taxpayer operating in the industrial sector of medicinal preparations.

The grounds for the request submitted to the competent authorities of the United States can be summed up as follows: the resident company has two plants with different locations; it holds shares in seven other companies with head offices in the state territory; it utilized considerable funds granted by the European Union.

Preliminary investigations by the Italian '*Guardia di Finanza*' aroused legitimate suspicions that the Italian company had kept up business relations with its foreign parent company, both directly and via a number of foreign joint-stock companies. Such business relations might have been established in order to benefit from 'tax savings' by over-invoicing imports and under-invoicing exports. On these grounds, the above procedure was in line with the criteria for selecting the cases included in the administrative treaty dealing with simultaneous audits, which are:

- the relevance of operations carried on by taxpayers on a worldwide basis;
- the volume of transactions within the group.

Since the American Tax Administration was willing to make the audit, two preliminary meetings were held between the 'representatives designated' of the two states, which exchanged all available information on the taxpayers to be audited. On the occasion, the Italian authorities emphasized the need for discretion during the first stage of the audit that should be marked by the initial 'surprise'. On the other hand, the American representative pointed out that in the United States there is a problem of completely different nature since the legitimacy of the audit is guaranteed only by a prior notification to the taxpayer. It was therefore agreed that the simultaneity would be granted by the beginning of the audit in Italy and by the contemporary notification, allowing for different time zones, of the forthcoming inspection visit to the taxpayer in the United States.

During the meetings, the two states explained the methods adopted to determine the 'transfer prices' and identified the main 'fiscal haven' under domestic laws in force in the United States and Italy.

In 1995, the simultaneous audit of a multinational company was started in collaboration with the French Tax Administration. The audit began even without any preliminary meeting between the competent authorities owing to the possible extinctive prescription in France of the fiscal years to be verified. Italy and France undertook to exchange the first results of the investigations by the end of the year.

## **4. Staff and support processes**

The most valuable asset of any large organization is its staff. This also holds true for the Tax Administration. Staff management must be an important point for attention in an organization that wishes to remain healthy. Increasing attention is therefore being given to different styles of leadership.

### **4.1. Human resources**

#### **4.1.1. Introduction**

Human resources development is one of the key aspects in every organization. To promote an environment wherein the staff may be willing to enthusiastically contribute to achieve the institutional objectives is a fundamental task for ensuring the success of the organization's strategic mission.

These are not new principles and have always been recognized. However, never before has the need for establishing adequate frameworks to govern the development of human resources been as evident as at present.

The human resources management policies, procedures and techniques must be in keeping with the needs, motivations, ambitions and desire for recognition that are certainly present in all those who are part of an organization. This is so, regardless of its nature: whether it is a productive or service enterprise, public sector entity, intermediate organization, international organization, multinational corporation, etc.

In every large public or private organization, the dynamic management of human resources is one of the key elements for the optimum functioning and adequate compliance of the assigned missions. Tax Administrations do not escape this rule. More than the improvement of procedures or of the computerized tools it is the quality of the tax officials which allows the Tax Administration at the same time to respond to the increasing complexity of tax rules and to increase the achievements of public authority.

First of all, this quality focuses on the attention that should be given to the administrative career of the agents throughout their activity within the tax

services. This is the very subject of the discussions of this chapter. It justifies the demand for professional qualifications, responsibility, irreproachable deontological behaviour and reactivity, which characterize the Tax Administration. In compensation, it is worthwhile to offer attractive jobs and interesting career perspectives.

The environment and trends to which we have previously referred have also had an impact on the Tax Administrations at the international level, since they are organizations of great social importance, with a significant number and quality of staff, which naturally call for a modern, dynamic and professional staff management.

It is clear that Tax Administration organizations cannot ignore the progress and changes which the latter entails if they are to fulfil with great efficiency the principles of discipline, honesty and moral integrity which are ever more required by society.

Within this context, one cannot ignore that, although the government hires large numbers of staff, to attract and retain well-prepared staff with talent and with possibilities for growing is a need that is equally important for the government as well as for private initiative. If the government, and more specifically the Tax Administration organizations, ignore the market trends, they run the risk of only being able to attract and retain 'second category' staff and this is a risk that no one can afford to take .

#### **4.1.2. Values in human resources management**

Like the vision that is needed for primary processes, human resources management is based on a certain philosophy that consists of several values. A short list of the main values follows:

- Priority for the citizen: guide all procedures for customer-citizen assistance and subordinate the internal interests to the interest of the user of the services rendered;
- De-bureaucratization: eliminate procedures to reduce the time frame between initiation of an activity and the results it should produce;
- Decentralization: decentralize between the different hierarchical levels of the same area of the government, decentralize from one sphere of government to another and decentralize from the public sector to organizations of society;

- Associations: pursue the establishment of associations with the private sector and social organizations to expand the participation and resources as a means for achieving results;
- Transparency: produce, organize, systematize and disseminate in a routine fashion the acts and use of resources and results of government actions;
- Accountability: create mechanisms of evaluation and accountability of results according to patterns of productivity and quality;
- Professionalism: adapt the profile of the officials through training oriented at achieving goals of productivity and quality in the development of programs;
- Motivation: create awareness and stimulate officials to become active agents for the transformation of State management;
- Competitiveness: create mechanisms that allow the use of market criteria and the concept of internal customer-supplier in the management of programs as a means to improve the quality of expenditure and direct the hiring of external services.

#### **4.1.3. Recruitment and selection**

In order to better develop the staff, the task of attracting the best prepared candidates with potential for further development has become more complex and has given way to competition for determining the requirements to be covered. Likewise, the selection process becomes ever more the obligation of the operating official, while the task of the human resources area is one of counseling and support. On the other hand, the detailed analysis of the competencies to be covered, also calls for taking very much into account personal aspects and characteristics, as well as the theoretical and practical knowledge acquired in school and through experience.

The human resources management function continues to be responsible for the recruitment of staff, although it must now determine strategies aimed at attracting individuals who, in addition to fulfilling the requirements of the position, have the potential for continuing to develop and produce every day with greater effectiveness.

Its purpose is to count on staff with the knowledge, experience, abilities and attitudes required for carrying out the functions assigned to each of the positions.

On the basis of the request for filling the vacancy, one proceeds to elaborate open announcements, essentially indicating:

- the title of the vacant position;
- the general requirements to fill it;
- the specific requirements of the position;
- the areas of knowledge;
- the documents which the candidate must provide;
- the procedure to introduce himself;
- the procedure for completing the application for employment.

As candidates apply, it is verified if they comply with the requirements indicated in the announcements so that they may proceed to the process of pre-selection.

In this stage, different evaluation instruments are applied:

- a general knowledge examination in order to pre-select candidates interested in the study and knowledge of what is happening in the Tax Administration and society;
- psychometric test to measure the intellectual possibilities of the candidates;
- assessment centers to measure the behaviour of candidates in situations similar to the working field;
- psychometric test to ensure that candidates have the ability to become tax career officials, have the emotional maturity and sufficient control of impulses to adequately adapt to the working environment of the Tax Administration service;
- interviews with candidates.

#### **4.1.4. Promotion systems**

In order to achieve a more efficient human resources management, promotion procedures have been developed. They identify the different 'career positions' that help each individual to plan and schedule his own progress within the organization, develop individual training agendas and influence his professional future within the organization.

Now the worker must be aware of the possible promotions at which he can aim, so that, with the institution's help, he may prepare himself and become the architect of his own destiny within the organization.

The maintenance of a dynamic human resources policy calls for offering the perspectives for career evolution. The general rules of the public function statute practice allow for describing this principle at three levels:

- Evolution within each category due to promotion within the scale. Promotion is more or less fast, according to the evaluation notes. It ensures a progression in time of the salary of the interested parties up to a terminal index. Such index should not be achieved long before the end of the career, due to the motivation problems that could arise;
- Change of category through internal competition. Facilities could be afforded during the service's working hours for the preparation of this competition;
- Change of category through selection. This procedure, which is not subject to competition, only concerns the best candidates complying with the conditions of age, seniority and very positive evaluation of their job performance.

The career path of a civil servant depends on several factors. Not only the professional background of the employee (education and experiences) or his achievements during working hours contribute to his career path, but other factors as well. These are:

- Achievements: could be the productivity above the average level of quality impulses in the added value of the organization;
- Seniority: most cultures have a higher opinion of older employees (and we believe wiser);
- Political background: for some posts membership of the right political party or movement is essential. These kinds of posts are not always based on a subculture or favouritism but sometimes it is necessary that the politician (for example the Minister of Finance) has the same political background as the top-manager of the Tax Administration. Such a relationship could be the necessary condition to create change in an organization with sufficient political support;
- Professional background: some organizations want professionally educated persons to fill the posts available, such as lawyers and masters in business administration;
- Social background: we do not always recruit people from a certain social background or class. Sometimes we prefer persons with a typical social background;
- Internal or external appointments: some organizations prefer it that a candidate for a new position comes from the outside. In other organizations only internal candidates benefit from a vacant position. All this depends on whether the organization is open or closed.
- Mobility: some organizations expect their employee's to be mobile, to switch position every four or five years. This policy applies mostly only to a small group of higher employees.

To summarise, we could argue that these are the ingredients and conditions of the career path of a civil servant. Because recruitment, selection, introduction and socialization are the vehicles to influence the mental condition of members in an organization.

#### **4.1.5. Compensation and recognition**

In most countries the policy of remunerations for the Tax Administration is an element of the general policy of the public administration of the country as a whole.

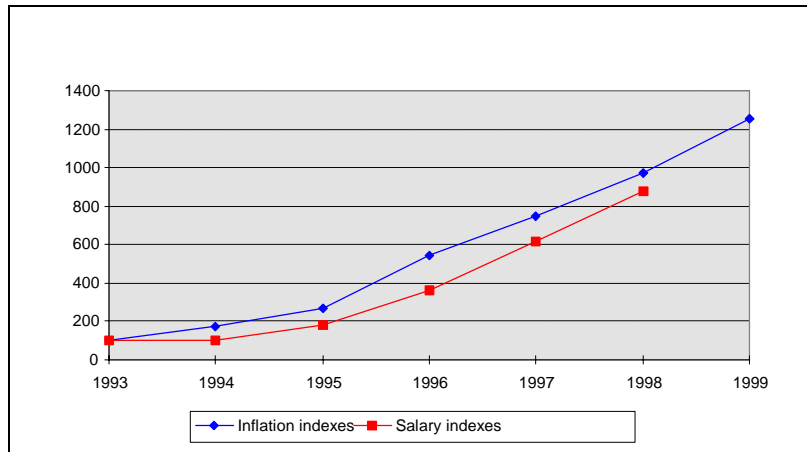
The remuneration, salary or wage in general, is the essence of the exchange relations between individuals and organizations. All individuals within organizations offer their time and effort, and in exchange, receive money and other benefits which represent the exchange of an equivalence of reciprocal rights and responsibilities between the employee and the employer.

In this way remuneration or salary may be defined as a compensation in money or its equivalent, paid by the employer (or sponsor) to the employee, according to the position he holds and the services he renders.

The nominal salary represents the amount of money allocated in an individual contract for the position held, The real salary represents the amount of goods which the employee may acquire with that amount of money and corresponds to the purchasing power. That is, the power to buy or the amount of goods that can be acquired with that salary.

In an inflationary economy, such as that of many countries in Latin America, the nominal salary must be periodically updated since, otherwise, the real salary undergoes constant erosion and this undoubtedly affects the workers' purchasing power. However, the sole replacement of the real value does not imply a salary increase: the nominal salary is only altered to provide a real equivalent salary in the previous period. From there follows the distinction between salary readjustment (or replacement of real salary) and the real salary increase (or growth of real salary).





Model 4.1 Relation inflation and salaries in Venezuele (index=100)

For this reason, due to its complexity, the salary may be considered in many different manners:

- it reflects a specific job or service;
- it constitutes a measure of the value of an individual in the organization;
- locates an individual in a hierarchical position within the organization.

For the workers, the salary is the *source of income* that defines the life style of each of them according to their *purchasing power*. For organizations, salaries are at the same time a *cost and an investment*. Cost, because the salaries are reflected in the price of the final service and investment, because it represents an allocation of money in production (labour) in an attempt to achieve higher returns.

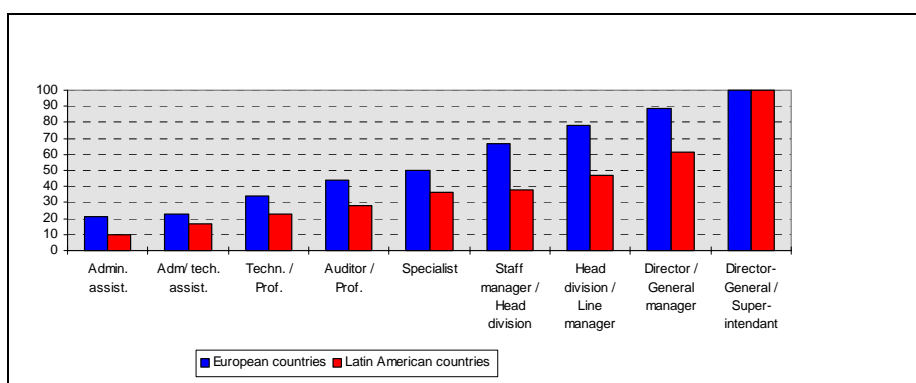
On the other hand, there are a large number of factors, internal (organizational) as well as external (environmental), that condition the salaries and determine their values. This series of internal and external factors is commonly known as a wage mix. These factors are generally the following:

- types of positions in the organization;
- salary policy of the organization (a autonomous part of the organization can differ from the central organization);
- financial capacity and general performance of the company;
- individual performance, specialism and responsibility;
- state of the labour market;

- economic situation (inflation, recession, cost of living etc.);
- unions and collective bargaining agreements in force;
- labour legislation.

From this it can be inferred that the determination of salaries is a highly complex activity, inasmuch as many variables and interrelated factors exercise varying effects thereon. These factors act independently or in conjunction to increase or lower salaries. Furthermore, when they are opposing forces, these factors may serve to neutralize each other and stabilize salaries.

Below we give two examples of the salary scale in Latin American countries and a European country. In the first country, the salary structure is very progressive and in the last more proportional. It is a matter of avoiding great differences in the Tax Administration.



Model 4.2 Salary scale Latin America and European countries (index=100)

In every organization, every function or position has its value. The candidates for a position can only be remunerated fairly and equitably if one knows the value of the latter with respect to the others and also their relationship with the market situation. The management of salaries is an issue that covers the entire organization and affects all its levels and sectors. Accordingly, the management of salaries could be defined as a series of rules and procedures intended to establish and maintain equitable and fair salary structures within the organization.

These salary structures should be equitable and fair in relation to:

- the salaries with respect to other positions in the same organization, thus seeking the internal balance of these salaries;
- the salaries with respect to the same positions in similar businesses and organizations that act in the labour market, thus seeking the external balance of the salaries.

The internal balance (or internal consistency of the salaries) is determined through information obtained by means of the evaluation and classification of the positions, following a description and analysis thereof. While the external balance (or external consistency of salaries) is achieved through information obtained by means of the investigation of salaries in the labour market. With these internal and external investigations the organization may determine its salary policy, normalizing its procedures with respect to the remuneration of the staff. This salary policy always constitutes a particular and specific aspect of the general policies of the organization.

With the establishment and/or maintenance of balanced salary structures, salary management endeavours to achieve the following objectives:

- remunerate each employee according to the position he holds;
- adequately compensate him for his performance and dedication;
- attract and retain the best candidates for the positions, according to the requisites for adequately filling such position;
- expand the flexibility of the organization, by offering it adequate means for staff mobility, by rationalizing the possibilities for development and career;
- obtain the employees' acceptance of the remuneration systems adopted by the organization;
- maintain a balance between the financial interests of the organization and its staff policy;
- facilitate the payroll process.

Total or global remuneration, as we know it at present, tends to consist of a large variety of partial remunerations which, according to several authors, may be groups as primary and indirect benefits:

*Primary:*

- salaries or wages;
- profits or Christmas bonus;
- differential payments;

- bonuses (seniority, hierarchy, productivity);
- vacation bonus, etc.

*Indirect (or compensations):*

- subsidies;
- absence with payment;
- holidays;
- rest period;
- social security;
- special retirement and/or pension plans;
- housing and/or car plan;
- savings fund;
- life insurance, hospitalization, surgery and maternity plans.

The common remuneration of most employees of Tax Administrations consists of just a few of the above elements: salaries, holiday bonus, social security and pension plans.

The remunerative function should always be a part of the primary or essential function of every organization wishing to be modern and intelligent, whether of a public or private nature. However, the purpose as well as the objectives of the management of salaries, is always logically derived from the philosophical position (conceptual approach) adopted by the organization or by human resource management.

At the national office of a Tax Administration, the purpose of salary management is to determine a fair and satisfactory reward due to the official for the performance of his activities, tasks and functions, required by the position assigned to him and the contractual provisions (collective bargaining agreement), formally established, in order to gain the loyalty of the workers and their identification with the interests of the organization, which are also theirs, and achieve (or surpass) the established levels of productivity.

However, it is not an easy task to determine that fair compensation, for which reason it should, to the extent possible, apply objective (scientific) criteria with respect to the valuation of the intrinsic contents of the position, as well as the quality of performance thereof. That is, the achievements of the official, without disregarding the socio-economic, political-legal and cultural context wherein the institution acts.

Likewise, the staff management function tends to be seen at present as a large system that takes care of all relations with the organization's staff. The system is broken down into a series of closely interrelated subsystems.

Various experts on the subject agree in pointing out three main areas or spheres of activity that group under the criterion of homogeneity, the main functions and subfunctions that comprise the global activity of the industrial relations in an organization, which are:

*1. The area of personal relations.*

- subsystem of integration or employment (recruitment, selection and hiring).
- subsystem of staff development (training, development, learning and evaluation of potential);
- subsystem of remuneration and compensation (plans and benefits, incentives, merits);
- subsystem of hygiene, industrial security and ecology;
- subsystem of information and communication.

*2. The area of labour relations:*

- subsystem of quality circles;
- subsystem of the negotiation and management of the collective contract.

*3. The area of institutional relations:*

- subsystem of relations with public organizations;
- subsystem of relations with private enterprises.

They must all be closely interrelated (be interdependent) and conditioned by the immediate organizational context and the global context of society, with its economic, technical, political-social and legal subsystems.

To efficiently connect and assemble all these subsystems, one can use an integrative strategic planning approach, which allows for establishing the staff management function as a systematic and totalizing process, without eliminating the dynamics and autonomy thereof.

#### **4.1.6. Training and development**

Is aimed at implementing training and development for purposes of making Tax Administration staff more professional by means of a continuous and systematic

training process that may increase their knowledge and abilities in order to contribute to the rendering of efficient services and guaranteeing the achievement of the goals of the Tax Administration.

The purpose of organizations is that less individuals may perform more functions and that they have high levels of training. The need for a person to master several fields and even several positions requires better staff training programs. To achieve this, the traditional forms of training must be changed. One must focus on preparing, training and developing the staff in a more effective and efficient manner, by individualizing programs and using electronic means, such as remote training systems and even telecommunication systems, which some years ago were reserved for other uses.

Training is ever more a permanent process of support, not only for learning better practices, but also for sustaining development, the administrative career, full exercise of competencies of positions and a change of attitudes.

Three stages of training can be distinguished:

- initial training given at the time of recruitment and whose contents depends on the modes of selection: very open recruitment of non-specialized generalists and internal promotion;
- training during the course of the career, intended to adapt them to their various missions which change permanently;
- training for adaptation to a new employment, related to geographical and functional mobility and promotions.

The training activities should be geared toward the objectives of the organization. As a clear example, the School of Finance Administration of Brazil (ESAF) undertakes its training actions on the basis of educational values, some of which we highlight here:

- belief in the human potential;
- free educational programs;
- reflection;
- creativity;
- respect for individual differences;
- citizenship;
- permanent learning;
- transformation (learning as an instrument for changing paradigms).

The conceptual basis of training courses will be the ethical and philosophical aspects of public management, to be developed according to the critical awareness of the professional values that will guide the public official's new way of acting.

In this way, the theoretical, practical and methodological aspects of training courses will be expanded, with emphasis on three dimensions. These are:

*1. human dimension*

This will deal with the essential elements of individual development and the quality of relations between the individual and his group of action, the individual and the organization, individual and society.

It is understood that the success or failure of human activities, interest and professional development; interpersonal and intergroup relations, always in every work or life situation depend on the level of perceptive capability of the individuals and their level of awareness.

In the human dimension, emphasis will be placed on the motivation of the official, the issues of ethics, citizenship and functional behaviour, the work with persons and groups.

*2. Organizational dimension*

This will cover understanding of organizational culture, of the dynamics of changes and of the relations with the environment as an essential practice for improving the quality of the managerial and administrative actions.

In that dimension, public service and the modernization of the State will be considered by the group. From the organizational standpoint, an analysis will be made of the structure of the entity to which the candidates are related.

At that time, they will be informed of the policies and strategies of the organization, of the relations with the environment as well as of the practices of quality improvement of Administration actions.

The study, learning and changes of the policies, the structures and of the strategies themselves will be important in this study.

### *3. Technical-professional dimension*

This will cover the topics that are common to the career.

This new approach, centered on three dimensions, will be systematically developed to arrive at an organic conception of the process of training by preparing the professional, in a way the professional profile of the public official and the public institution may be perceived. The official will also be taught to develop a critical awareness, allowing him to reflect about his role within the context of change.

#### ***The Brazilian experience***

Brazil is incorporating in the medium and long-term a tax education module, with all the contents of citizenship, in order to make clear the conception of service which the Tax Administration officials must provide to society.

With that intention, and identification was made of the functional values that should guide the daily training and practice of the finance official for improving his relationship with the citizen (taxpayer) and guiding his functional behaviour:

- every public official must render a public service with efficiency and courtesy;
- when entering public service, the official implicitly signed a contract to be a State agent in the search for the welfare of all society and must always remain committed to that mission;
- the State only exists to promote social welfare;
- the State is an initiator of social changes and the official is the agent of those changes;
- the only customer of the State is the citizen, who must be the final beneficiary of every action;
- every citizen is a taxpayer since, whether he files a return or not, he pays the taxes incorporated in the final prices of the goods and services he purchases or uses;
- the citizen is co-owner of all public properties, because he contributes to their acquisition by means of taxes;
- the public official must ensure the preservation of all public patrimony;
- the State is obliged to be efficient and endeavour to seek the maximum social return from every cent invested;
- the official must value every cent of State income, since it belongs to society and must be used for its benefit;



- the official must act with total transparency, and ensure that the State's action will also be transparent;.
- the State must account for its action before Society, although the latter may not explicitly demand it;
- the State-citizen relationship must be harmonious and productive, since the objective of both is the social welfare;
- the interaction between the citizen and the State must be marked by social conscience, respect and responsibility;
- the State should not be generator and consumer of information, but rather it should be made available to the public;
- the citizen has the right to demand explanations for the actions and decisions of the State, and the latter is obliged to provide them;
- every official has a double role; as State agent in promoting welfare and as citizen benefiting from the action of the State;
- the official must fully exercise the rights and duties of a citizen;
- the official must perform with zeal and dedication the functions of his position and be loyal to the institutions he serves;
- the official must be concerned about the image of public service by means of showing exemplary conduct;
- there is no honest or dishonest State. But in fact, there are honest or dishonest officials and leaders;
- the official must every day show dignity, ethics, respect, responsibility, honesty, productivity and loyalty to the Federal Constitution;
- the official should not provide differentiated treatment that may grant privileges to organizations and individuals, regardless of their conditions;
- the official's performance must be impartial and for the benefit of society, regardless of the political differences between him, the citizen or the ruler;
- the employee must be fully aware of his role as State agent and of his potential as promoter of social changes;
- the public official must be aware that he must train and update himself permanently in order to make the State more efficient and to further his personal development.

### ***The Mexican experience***

Mexican law stipulates five governing principles under which the Tax Career Service should be organized and governed. These are:

- equal opportunities for entering and being promoted in the service, based on experience, performance, aptitudes, knowledge and capabilities;
- specialization and professionalization for all career positions;
- compensation and benefits related to productivity which may be sufficient for attracting and retaining the best tax officials;
- permanent, obligatory and integral training and development, related to the substantive activity, promotion and improvement of institutional efficiency;
- integrity, responsibility and adequate behaviour to be observed by the tax officials in complying with their functions.

The development of this model takes into consideration two main areas which, even though aimed at the same goal, follow different paths: a technical path and an integration path.

In the technical area, a staff management and development system is being designed which should promote a public career service in taxation that may ensure equal opportunities for entry and promotion, stability and personal development, based on merit, equity and political neutrality.

The staff management and development system of the tax career service consists of the subsystems of recruitment and selection, compensation and recognition, career planning, evaluation and training and development which are defined below:

#### *1. Recruitment and Selection*

The taking on of qualified staff for fulfilling the functions of the different positions is ensured through the application of psychometric, sociological and technical capability evaluation techniques and procedures.

#### *2. Compensation and Recognition*

Determines on the basis of the process of descriptions, profiles and evaluation of positions, the corresponding remunerations of the functions and responsibilities of each job. It also structures a scheme of services and benefits that may stimulate tax officials to achieve quality, timeliness and productivity. The knowledge, capabilities and abilities required by the tax officials for carrying out the functions and responsibilities of each position are determined in accordance with the requirement profiles of the position. This is a fundamental aspect for joining and being promoted within the organization.

### *3. Training and Development*

This very important task in our organization, will acquire priority and relevance upon the establishment of the tax career service. For this reason, we are interested in designing the integral training system that will re-direct current actions, determine the ones required to consolidate a continuous, systematic and high quality process that may support professionalization, the acquisition of greater knowledge and development of abilities required by the organization.

### *4. Career Planning*

This system should be structured to support the orderly and planned development of tax officials during their career in the Tax Administration service, in such a way that they may be promoted within the organization.

It will comprise the processes for detecting knowledge and abilities, promotions and career plans based on the specialized promotional line maps.

### *5. Evaluation*

Instruments have been developed for systematically and periodically identifying the level of efficient performance by the tax officials, as well as their potential for development in order to be assigned positions of greater responsibility.

### *6. Individual labour curriculum*

Includes the information which constitutes the staff's working background, in order that the processes of the subsystems may obtain the required data and that the managers, on the basis of standards and statistics, may count on the elements for contributing to decision-making.

It must be mentioned that an integral computerized system is being developed to facilitate and promote the efficiency and productivity of the operation of the technical aspect of the tax career service.

With respect to the area of integration of the tax career service, it was decided to consider, propose and develop it, for the purpose of directing and co-ordinating the efforts of the new organization toward promoting and strengthening a new organizational culture that will improve the working environment, as well as promote the active participation of all the staff in the changes being implemented.

Thus, the staff is being encouraged to identify themselves with the aims and philosophy of the new organization, as well to integrate themselves in the organization and develop a sense of team work. The purpose behind this is to minimize competition and lack of collaboration resulting from a natural resistance to change, mistrust and the behaviour guidelines arising from the various sources within the Tax Administration.

To this end, the integration and awareness of change program was implemented in 1997. The entire staff participated in this program, which consisted of the following: diagnosis of the organizational environment, definition by high level authorities of an adequate organizational culture model, communicating the new culture model to the staff and raising their awareness of the model, initial training in the new leadership model for middle and top management levels and currently, development of the strengthening and follow-up process through the gradual training of high performance teams at TAS. The aim is to consolidate within the medium term the change of culture on all levels and in all areas of the Tax Administration Service.

The implementation of the changes is not an easy task. Although reality calls for updating and modernizing human resources management at an ever greater speed, we should not disregard the natural limitations of the environment or resistance to change which many individuals and groups of persons are very likely to show.

Their establishment within the Tax Administration undoubtedly requires time and maturing, especially to generate trust and understanding within and outside the Tax Administrations.

It is essential that the top institutional level be aware of the benefit of establishing better systems for staff management and, in addition, that it direct and promote their implementation. A resolute and committed authority is required, which can act to facilitate changes, open doors and reach consensus among the different interests and positions of the organizational groups. Someone must be there to set the course firmly when the traditional forces that are against innovation and transformation make themselves felt. Someone must be the defense counsel vis-à-vis the doubts, fears and resistance of those who ensure that changes will bring greater harm than good in the long term and that someone is the head of the organization.

In this same sense, the staff itself must be the first ally of the new systems. There will undoubtedly be someone who will feel that he is being attacked and there will be those who interpret the reasons for developing these techniques in a manner different from the usual one. Therefore, one of the main challenges for those in charge of human resources management will be adequate communication of the objectives, changes expected and reasons for doing so.

Communication efforts should be aimed at not creating false expectations among the tax officials, since it is easy to be confused and expect benefits that will not be achieved, simply because they were not part of the established objectives.

Communication efforts must necessarily begin simultaneously when starting to work on these ambitious projects and it must also be admitted that the communication and education work must be continued at all levels.

It is likewise necessary to gain supporters of these programs outside the Tax Administration. Taxpayers have a right to know what is happening and that such changes will act in their favour, that they will receive better treatment, that there will be greater efficiency and fairness in assistance and services because the staff will be better prepared, motivated and managed.

The high level authorities of the Ministry of Finance and other government areas, the legislative bodies, unions, professional and tax associations and even parties other than the governing one must know, understand and be aware of the changes that may take place within the treasury, since they are the best qualified to support or veto any initiative.

Finally, there has to be an awareness that the actions undertaken to professionalize human resources management involve significant costs, especially in the short and medium term. These costs will be reflected in computer equipment, programs, external consulting services and very frequently in increase of staff salaries and services and benefits.

Therefore, before undertaking any effort in this area, it is necessary to ensure the sources of sufficient and timely financing. This implies that a major effort must be made in the field of planning, cost-benefit evaluation, and in convincing the budgetary and financial authorities and, on many occasions, the international

financial organizations. Before initiating any such project, it is essential to ensure the feasibility and total continuity of the project in the long term.

Human resources development is not merely a way of achieving greater productivity. It is the institution's obligation to ensure the implementation of modern techniques and the professionalization of the tax officials treatment. In addition, it must contribute to strengthening the government's image of being a fair, professional and objective employer.

### ***The Dutch experience***

#### *Developments in the labour market*

Important developments are expected to occur in the labour market. In a number of fields there is a growing shortage in highly qualified/expert staff. Competition with regard to staff supply in this market segment will become fierce. Furthermore, the composition of the working population is changing. In all kinds of respects, it is becoming increasingly diverse: more multicultural, older and more individual. People who offer themselves on the labour market will have more and more differentiated requirements with regard to terms of employment and working conditions.

#### *Policy in the next few years*

Over the next few years, the personnel policy will be aimed at the following:

1. *Obtaining and maintaining a competitive position in the labour market*

This will be achieved by means of active labour market communication, familiarization with new market segments and offering differentiated terms of employment. Striving for a work force which reflects the diversity in society also plays a role.

2. *Having a flexible work force*

Employees will be encouraged to look beyond the boundaries of their current position and to think in terms of fields of expertise (competencies) and developing these. Another aim will be the promotion of a dynamic work force. Various instruments will be used for this purpose, e.g. the incomers/leavers policy, mobility programs, different types of working pool, working in a project-based manner, job changes and interim jobs.

3. *Achieving the efficient use of personnel*

This will be achieved by providing insight into and focusing on time use and results achieved, reducing absenteeism, quickly filling vacancies and stimulating the mutual contracting out of personnel, or the flexible use of personnel.

4. *Continually promoting staff quality*

This is done by structurally paying attention to staff appraisals (including evaluations of potential/career options) and encouraging permanent education/staff development, e.g. by offering study facilities.

5. *Promoting staff motivation*

Establishing good working conditions and a tailor-made package of terms of employment should contribute to this. In order to acquire insight into the extent to which the staff are satisfied, and, if not, what the reasons for this are, a staff satisfaction monitor is developed.

*Mobility*

By changing jobs regularly, concentration of experience, compartmentalization and a strong inward-looking focus within the different parts of the organization can be prevented.

The principle used is that the Dutch Tax and Customs Administration personnel change to a different position once every five years on average. Mobility takes place as much as possible on a voluntary basis, but compulsory mobility is also an option.

*Management Development*

In a situation which involves the integration of decentralized executive responsibility, high-quality management becomes very important. For the organization as a whole, management development is one of the most important instruments to guarantee the unity necessary within the organization.

Managerial staff are expected to be able to deal with diversity, and to be aware of the importance of creating bonds and motivating and optimizing the use of personnel. The changing requirements imposed on staff, such as broader employability, a professional attitude and the ability to operate independently are reflected in the management style required. The task of the management will shift increasingly towards process control, providing frameworks and coaching staff. However, the manager obviously remains result-responsible for the primary process, in terms of both progress and concrete results.

#### *Technical Development*

Given the increasing complexity of fiscal and customs problems, specific quality of law enforcement should be a spearhead for the development of the service. A network of specialists with expert knowledge will have to support the practice of execution. Technical development aims to check continually whether or not sufficient expertise is available, and is developed where necessary. In addition, the Dutch Tax and Customs Administration offers its staff the opportunity to develop a career in fiscal matters or customs technology.

#### *Appraisal*

At the Dutch Tax and Customs Administration, individual staff appraisals take place annually. The DTCA has developed an appraisal instrument for this purpose. This is the result-oriented management method, under which the contribution criteria can be marked as competencies at individual level. In order to use staff capacities in an optimum way within an organization, both the current manner of job execution and the competencies desirable for the future are considered in the appraisal. Appraisals are geared more and more toward growth and development. Continually, the emphasis will be on the constant availability of all the necessary competencies within a team, taking into consideration the fact that knowledge and skills become out of date.

The DTCA's point of departure is the employee's own responsibility for his career, in combination with the responsibilities of the line manager as a coach. The result-oriented management method provides sufficient clues for both types of responsibility.

#### *Job Evaluation*

As mentioned before all of our employees are being given feedback on their performance annually, by means of a personnel assessment/job evaluation. The method we use is called Performance Management.

For this assessment the employee and his manager discuss, in advance, the contributions this employee personally is going to deliver towards the organization. Also his development and the facilities which will be offered are part of this discussion.

The job evaluation that annually follows has different goals:

- Judgement on functioning/performance.
- Next step in the job scale or other incentives.



- Personal development plan for the future.
- Future contributions.

Key points for our organization are: continuous good performance and employability (keep yourself fit for the job). Employability can be reached by giving employees other tasks and by transferring them.

Training which is necessary to cope with future demands in your position is being given within working hours and free of cost.

The major issue of the personnel policy of the Dutch Tax and Customs Administration is to build your own career. Naturally our managers need to coach and advise. Though the employee himself is responsible for his own career. Thus a big part of the motivation of our employees is being achieved hereby.

With the management development program and the technical development program, so called 'high potentials' are being spotted, scouted and coached from the beginning of their career.

For these groups there are instruments in use such as development centers, assessment centers, project activities and job rotation.

#### **4.2. Managing organizational change**

Change in today's organizations, whether in the public or private sector, is a common and often imperative phenomenon. Whether driven by external pressures, such as market adjustment in the case of the private sector, or the need to implement political and public direction to effect better and more efficient government in the case of the public sector, it is a difficult process to manage. In general the process contains four major elements:

It is critical to analyze and understand the factors, both internal and external, that influence the organization and are driving the need to change. In government organizations the external factors include elements such as the political direction, the view of the public on the nature, scope and performance of the organization, and the government's fiscal and economic situation. Internal factors include elements such as the mandate of the organization, the skills of

the staff, the rules, processes and procedures that are followed and, more fundamentally, the attributes of the organization's culture.

A second element is to develop a master strategy and overall approach to the change that needs to be effected in the organization. It is also important to understand all the players who will have a part to play in effecting the change.

An action plan can then be developed identifying the:

- objectives;
- plans and actions for each objective;
- responsibilities for each action;
- costs and benefits;
- schedule and milestones;
- mechanisms for co-ordination and follow-up.

Finally, once the elements of the change have been identified and planned and the process is underway, the transition to the new state of the organization needs to be monitored and assessed. Corrective actions may be necessary throughout the process and it will be important to identify the employee implications and reactions and deal with these as they occur<sup>7</sup>.

#### *Human Response to change*

The reaction to any change by the staff of an organization will vary but in many cases the initial reaction will be negative, many will resist the change. Familiarity with the current state and fear of what will happen in the changed state will lead employees to be critical of the anticipated change.

People will be more receptive to change if they understand that the status quo is unacceptable, if they feel that there is personally something to be gained by the change or if they can identify with the natural leaders in the organization that support the change. The element of trust plays a significant role and needs to be developed throughout the change process.

Continual two-way communication and involving those affected by the change in the design of the final outcomes go along way to dealing with the natural reaction to change by employees. Beginning with clear and repeated messages on the need, objective and desired end-result for the change, followed by dialogue on

---

<sup>7</sup> See Appendix V: French experience of change.

the views and concerns of staff, will help manage the human reaction. Employees want to hear what will happen and they want to hear it from their supervisors, they want to have the opportunity to talk about it, and they need to understand how the change affects them. The messages need to be repeated often. The maxim “You cannot over-communicate” is clearly true.

#### *Programs and services*

The development of a new organization brings together similar activities and creates an environment that is conducive to a fundamental review and re-engineering of departmental programs and services. The merger of the two departments provides the opportunity to integrate programs and provides a ‘single window approach’ for services. This holds the promise of substantial benefits for both clients and the government in reduced costs and increased compliance.

#### *Managing transitions*

The move to a new integrated organization with a revised organizational structure (which in some cases vastly changed the previous structure) has a significant impact on employees. In order to successfully manage a transition, the Department must make a commitment to supporting its employees, a commitment that can be carried out in a number of ways.

First of all, it has to be clear to all staff that integration of the two organizations is not being done as a way to lay-off people. While reducing overlap and duplication in work and creating efficiencies is an objective, they are premised on long term efficiency and internal staff re-assignment. The organization must make a commitment to staff to use a human resources placement approach for the transition that regulates the position of staff as fast and as easy as possible. As this was not an exercise in staff reductions (‘downsizing’) in itself, placement policies that sought to exit staff were not required. Instead the Department:

- used existing job descriptions as much as possible;
- confirmed employees in existing positions as much as possible;
- used lateral movement or deployment for placement whenever possible;
- used the government work force adjustment policy only as a last resort.

Secondly, it is important to recognize the different organizational cultures of the two merging organizations. Recognition of the different cultures helps managers understand the reactions of staff and helps them in dealing with these reactions.

Another element of a successful transition is the organization's commitment to inform staff of progress and proposed changes and to involve them in the design of the systems and structure of the new organization.

Finally there are a number of support systems to help both the organization and its people through the change process. These include:

- training in the management of change for many leaders throughout the Department;
- continual information and discussion meetings with employee unions;
- organizational interventions and team building sessions;
- creation of a network of regional facilitators who particularly assisted in the steady flow of information;
- putting in place a network of counselors who staff could call upon to help them, especially if they were facing significant job changes.

### ***The Canadian experience***

Revenue Canada has experienced a series of organizational changes over the past few years, however the most significant and recent change has been the merger of the former separate departments of Revenue Canada, Customs and Excise and Revenue Canada, Taxation.

There is no doubt that the merger of two very large and deep-rooted organizations is a challenging and often daunting process. The road traveled was often bumpy and, looking back, there were many things that greatly assisted the organization and many things that could have been done better. We learned that:

- clear and repeated rationale, shared and articulated values and principles are valuable tools. We developed these early in the process and often referred to them as we went along;
- the responsibility for change management rests with those who live the results. We knew that for the change to be effective and long-lasting it had to come from within the organization;
- clear accountabilities, deliverables and timeframes with specific target dates and expectations are required. When everyone knows who is doing what and when, the process is much smoother;
- restructuring is only a beginning, it can lead to more fundamental changes and improvements. The redesign of programs and services and finding new

ways of doing business could not happen until people performing similar jobs but in different programs came together into a common organization with common goals.

### **4.3. Leadership**

#### **4.3.1. Introduction**

In a manual that will deal with the management framework of an organization some theory has to be considered on the different issues of leadership.

There is a difference between management and leadership. The first is the whole package of how to organize, maintain and develop an organization. Leadership is one of the aspects of management and could be the soil of a sound construction.

For the real meaning of management there are different theories. Management is a manual job, real handwork. Another explanation is that management is derived from the French word "menager" (= housekeeping). Any way it is the task of keeping the organization in order. The roles of managers could be very different. But they generally have three things in common. Good managers depend on three qualities:

- entrepreneurship, the need for a clear vision;
- organizing capacity, the ability to plan, control, evaluate, divide the workload, etc. (the hardware of the managerial issues);
- convincing and motivating capacity, the drive to inspire employees, to create the right atmosphere in the organization.

Most managers have one of these qualities specific. He or she is the person with the ideas and the strategy, or he or she is strong in maintaining and creating a solid organization, or he or she is the inspiring coach of the team. But always he or she has also a low performance on another quality. That is the reason why total or integrated management exists only in a team of different types of managers. Of course this is only possible in an organization where more managers on the same level are accepted by the members of the operational level.

### 4.3.2. Concept of leadership

Traditionally, leadership was perceived as a powerful instrument for influencing individuals and preserving power per se and would correspond to innate conductors that would influence the behaviour of others, from whom they would receive admiration, recognition and loyalty. Such a conception of leadership, based on common sense, helped to create the mysteries, myths and attractions associated with the idea of leadership .

It is currently believed that most individuals can become leaders, and actual leadership has nothing to do with the mastery of rare abilities, but rather, the leadership capability can be learned through training and life experiences.

Leadership, since it essentially involves personal interaction, may be seen as a managerial function, without this implying that it is exclusive to management, since other individuals from the same organization may exercise it regardless of their managerial positions. However, since leadership is a means which facilitates personal and group interaction, even for achieving common objectives, it should be considered an essential function of management.

The leadership capability of conductors is enriched by listening and paying attention to the opinions and experiences of others, by expanding their mental perspectives, by participating, reading and discussing not only about job-related matters, all these as ways to allow new ideas to enter and develop in their minds.

LEADERSHIP IS NOT	LEADERSHIP IS
<ul style="list-style-type: none"> <li>• Magic or mystery</li> <li>• The property of an eminent individual</li> <li>• The result of innate qualities</li> <li>• A panacea for solving every problem</li> <li>• Personal power to gain followers or achieve personal goals</li> </ul>	<ul style="list-style-type: none"> <li>• Human and managerial ability</li> <li>• Achievable by common individuals</li> <li>• The result of learned abilities</li> <li>• A form of communication and expression of a mission and alternate futures</li> <li>• The power to guide the behaviour of other individuals for achieving common goals</li> </ul>

*Model 4.3 Myths and realities about leadership*

### 4.3.3. Theories on leadership as a managerial function

If leadership is an essential managerial function, effective management depends on effective exercise of leadership.

The characteristics of a leader are shown as basic opposing perspectives: whether they are innate or learned and whether they are universal or depend on specific organizational conditions.

<b>CHARACTERISTICS</b>	<b>UNIVERSAL</b>	<b>SITUATIONAL</b>
<b>INNATE</b>	Election of conductor only among individuals with innate capability to be a leader  BASIC ADMINISTRATIVE FUNCTION: SELECTION	Election of conductor only among individuals with innate capability to be a leader in specific situations  BASIC ADMINISTRATIVE FUNCTION: ASSIGNMENT OF POSITIONS
<b>LEARNED</b>	Training of individuals in the necessary abilities and behaviours to be a leader  BASIC ADMINISTRATIVE FUNCTION: TRAINING	Training of individuals in the necessary abilities and behaviours to be a leader in specific situations  BASIC ADMINISTRATIVE FUNCTION: DIFFERENTIATED TRAINING

*Model 4.4 Characteristics of the effective managerial leadership*

The modern view of leadership admits that while there are innate characteristics in individuals that may help them to better adjust themselves to a specific function than to others, this is not so exclusively with respect to leadership, but also in relation to all functions and professions. It is thus stated as a principle that leadership may be taught and learned as any other managerial function.

As was done previously, it does not radically set up the universalist against the situational types. Although there is a trend which favours situational leadership, it

is also accepted that there are some universal characteristics that must be learned for effective leadership.

#### 4.3.4. Contemporary perspective: the negotiation of power

It is currently admitted that leadership is a group phenomenon involving a process of influence of an individual over the others to commit them in the search for common objectives.

The vision of legitimacy of leadership, based on the acceptance of the leader by the group, implies that a significant part of the leader's power lies in the group itself. Therefore leader invests, as a matter of priority, in the power existing in those that are to be led, by rearticulating such power in keeping with the power of his position, in order to attain a group alliance for the achievement of the common objectives. It is more a job of negotiation between existing powers than making traditional use of the authority of the position.

<b>BASE OF INFLUENCE</b>	<b>AUTHORITY</b>	<b>BENEVOLENCE</b>	<b>NEGOTIATION OF POWER</b>
<b>Typical behaviour</b>			
Use of power	Functions of the position	Persuasion / kindness	Power of those being led
Way of influencing	Issuance of orders	Use of previously achieved consensus	Consensus and commitment through constant negotiation
Way of maintaining influence	Reinforcement of power	Reinforcement of attention and possibility to reward	Reinforcement of commitment with common ideals
Way of maintaining status	Keeping a distance	Partial integration (involvement without commitment)	Integration as constant objective
Attitude expected from the subordinate	Submission	Sympathy and consent	Alliance

*Model 4.5 Perspectives on leadership according to bases of influence*



#### 4.3.5. Abilities and qualities of the leader

An ideal typical leader needs the following abilities and qualities, as they are described in three dimensions.

##### 1. *Organizational dimension*

Abilities dealing with the context (situational nature of leadership).

- understanding the mission of the organization so that it may be communicated, internally and externally, in a realistic and attractive manner;
- be familiar with the organizational objectives and the environment, at the social, economic and political levels outside the organization to adapt his new ideas and projects to the surrounding reality;
- seek new solutions and discover new problems, not merely concentrating on experimented solutions and problems already known;
- continuously articulate and process alternatives for redefining the system of authority and responsibility, based on shared values and the profile of those being led, to generate in them self-confidence and capability for carrying out the tasks, by creating opportunities for self-development and improvement of their abilities;
- be continuously oriented toward the future to have a vision and an explicit alternative for that future (element of greatest importance in the theories).

##### 2. *Interpersonal dimension*

Abilities that are the very essence of leadership, since the interaction with individuals determines the capability of influence, commitment and mutual trust among them.

- recognize the individuals' worth, by highlighting their positive characteristics as a way of obtaining, in exchange, their respect and consideration;
- accept individuals as they are, be realistic in the sense of recognizing the little possibilities existing for changing them;
- value close personal relationships in the working environment, by making them as continuous as possible and affording them the same attention and courtesy given to distinguished visitors and to individuals occasionally encountered;
- trust individuals by allowing subordinates to develop their own working methods and cultivate contacts and interpersonal relationships they consider important, in exchange for confidence;
- communicate with individuals, seeking to arrive at and maintain a collective meaning of the values, beliefs and habits that comprise the organizational

culture, by sharing information for achieving increased confidence and commitment toward the organization;

- practice 'mobile' management by geographically approaching the subordinates, supporting and listening to them.

### *3. Individual characteristics*

Among the qualities of the leader, self-knowledge, initiative, courage, persistence and integrity have many times prevailed over intelligence, common sense, aptitude and experience, not because the latter are irrelevant, but rather because the former ones have served to determine the differences between individuals with regard to their leadership capability.

- self-knowledge, allows him to be aware of his strong and weak points and to use his positive conditions to compensate or improve the negative ones, as well as to act with a comfortable and admitted authenticity;
- initiative, allows him to express and implement new ideas and assume with conviction the possibilities of success;
- courage, allows him the capability to change, to make decisions for adapting to the future, by anticipating favourable or unfavourable factors, and interfering in the environment to promote the necessary and desirable changes;
- persistence, allows him to act by projecting a positive and optimistic image with respect to the results pursued and to continue to work following the initial enthusiasm;
- integrity, affords patterns of behaviour based on facts, real possibilities of the individuals and the organization, as well as on the prevailing values, by guaranteeing that the key decisions for determining priorities and allocating resources may count on the support and commitment of the officials and of society.

#### **4.3.6. Managers versus leaders**

Being a good manager and a good leader are not necessarily synonymous. Much has been written on the differences between managers and leaders. Leaders create a vision, managers plan and budget. Leaders focus on imaginative ideas and managers focus on systems and processes. Leaders spend time and effort developing people so that they understand and accept their vision and strategies, managers focus on organizing and staffing. Leaders motivate and inspire others, managers take a control and problem-solving approach. As a result, leaders tend to produce change, while managers tend to produce order

and predictability. Leaders take the organization into the future, managers maintain the status quo.

Leadership and management are both important. Leaders cannot get so caught up in the future that they ignore the present. On the other hand, managers cannot ignore the future and expect the organization to go forward on its own.

LEADER	MANAGER
DEFINITION: One who influences, guides , accomplishes course, action opinion.	DEFINITION: One who brings about, is responsible for the conduct of others.
<ul style="list-style-type: none"> <li>• Activities of vision and judgement. Basic purpose and general direction (effectiveness)</li> <li>• Power in the pull (of vision)</li> </ul>	<ul style="list-style-type: none"> <li>• Activities of systems and routines. Concerned with “how to”. More and better (efficiency)</li> <li>• Power in the push (of control)</li> </ul>
Creates new directions	Operates within given paradigms
<ul style="list-style-type: none"> <li>• Paradigm shifts (new)</li> <li>• Problem-finders: questions not asked before creative existing and provocative</li> </ul>	<ul style="list-style-type: none"> <li>• Incremental change (more, different, better)</li> <li>• Problem-solvers: better answers to questions</li> </ul>
Know-why	Know-how
<ul style="list-style-type: none"> <li>• Operates on the emotional and spiritual resources of the organization:               <ul style="list-style-type: none"> <li>- values</li> <li>- aspiration</li> <li>- commitment</li> </ul> </li> <li>• Empowers:               <ul style="list-style-type: none"> <li>- to find pride and satisfaction in work;</li> <li>- to find meaning in life.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Operates on the physical resources of the organization:               <ul style="list-style-type: none"> <li>- capital</li> <li>- raw material</li> <li>- human skills</li> <li>- technology</li> </ul> </li> <li>• Enables:               <ul style="list-style-type: none"> <li>- to work productively and efficiently;</li> <li>- to earn a living.</li> </ul> </li> </ul>

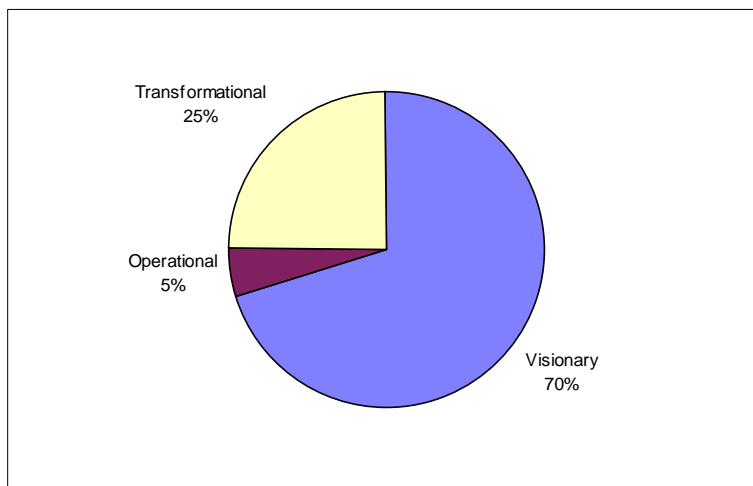
<ul style="list-style-type: none"> <li>• Innovative learning (for self and organization)</li> <li>• Creates a state of mind: values and goals that lift above petty conflicts</li>   <li>• Gets the message across</li>   <li>• Is causative, morally purposive and elevating, moves followers to higher levels of consciousness:             <ul style="list-style-type: none"> <li>- self-actualizing</li> <li>- liberty</li> <li>- compassion</li> </ul> </li> <li>• Generator: translates intention into reality.</li> <li>• Focus from:             <ul style="list-style-type: none"> <li>- basic purpose</li> <li>- value system</li> <li>- general direction</li> <li>- priorities</li> <li>- significance/Meaning</li> <li>- direction ("Angle into the wind")</li> </ul> </li> <li>• Sees self as leader</li> <li>• Contributes what they ARE.</li>   <li>• Victories over self. Battleground of the mind.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance Learning (vs. problems in and threats to the existing system). Accepts existing mind-sets</li> <li>• Resolves conflicts as justly and fairly as possible.</li> <li>• Does what ought to get the message across</li> <li>• Establishes contracts: do this to get that (money, job, security)             <ul style="list-style-type: none"> <li>- compliance</li> <li>- obedience</li> <li>- by the book</li> <li>- quid pro quo</li> </ul> </li> <li>• Transmitter: maintains and expands. (vs. energizes and empowers)</li> <li>• Manager accepts these as givens, goes on from there.</li>   <li>• Wants to see self as leader.</li> <li>• Contributes what they DO.</li>   <li>• Victories over things and over others: Battleground is without.</li> </ul>
---	---

*Model 4.6 Leaders and managers*

#### **4.3.7. Leadership on different levels**

What does it take to be an effective leader in today's environment? In a well developed organization, the executive leader spends most of the time looking forward. He or she is focused on the long-term health and growth of the organization. The executive leader is also concerned with the place of the

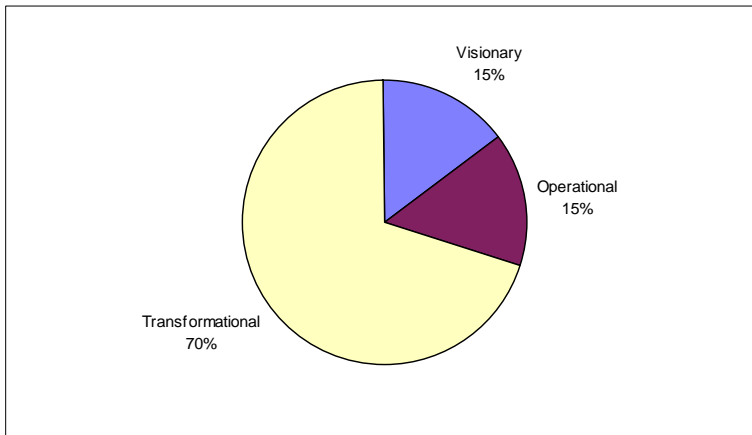
organization in the larger community, local, national, and world. Once the vision is set, he or she also has a major portion of the responsibility for transformation of the organization. He or she is open in addressing the concerns of the work force. He or she leads the efforts to adjust the organization's systems to the vision. He or she is the principle role model of the new ways. When an executive is involved in operational issues, the involvement is appropriate to his or her position. The executive does not rush in to solve problems that are the responsibilities of others. Rather, he or she provides assistance and resources needed by the responsible unit to maintain effective operations.



*Model 4.7 Executive*

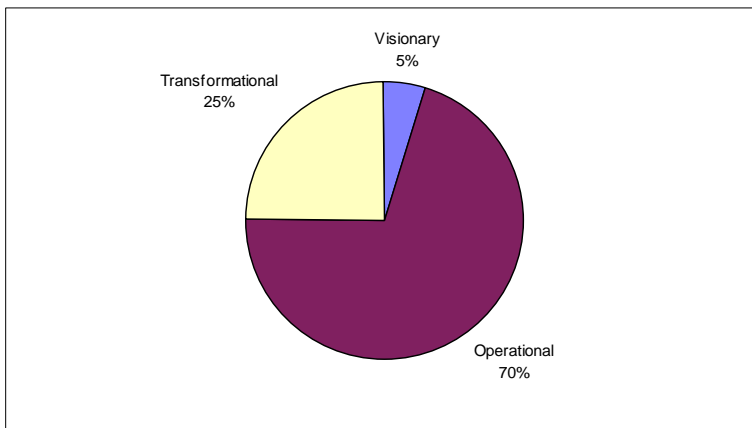
In a well developed organization, the middle managers play a major role in transforming the organization for the future. No longer required to spend large amounts of time on operational compliance issues, he or she is free to coach and facilitate. Often the greatest resistance to change comes from the middle managers. Because their jobs have traditionally been ones that insured compliance, they appear to have the most to lose in an empowered organization where operational issues are handled at the lowest level possible. On the continuum of leadership, middle managers take on a high proportion of responsibility for the transformation. Rather than spending energy on compliance and conformity, they spend energy on facilitation and training. They use their experience to help prepare the organization for change. They role-model behaviours wanted in the new organization. Like the executive leader, the middle

manager's involvement in operational matters is appropriate to his or her position. As an expert resource, he or she can be a valuable asset in the problem solving process.



*Model 4.8 Middle manager*

In a well developed organization, first-line supervisors or team leaders have primary responsibility for the day-to-day operations of the organization. They see to it that the products and services get 'out the door'. They are the primary problem solvers and decision makers on the shop floor. When empowerment has been fully institutionalized, they too are much less concerned with worker compliance and greatly concerned with systems of production and service of control.



*Model 4.9 First line*

#### **4.3.8. Team management**

Within organizations there are several kinds of teams with different projects. These teams are staffed with several persons who each has his own characteristics. The main idea of Belbin<sup>8</sup> is that people are valuable for a team when they have relevant personalities and they are not duplicates of the other members. Balance is required within a team. Therefore, a team needs individuals who are each other's counterparts. In this way, they can compensate each other weakness and strengthen their qualities.

On the basis of research on characteristics Belbin has developed nine types. These types have different characteristics in playing a suitable role and avoiding behaviour.

According to Belbin, the difference in the performance is a result of the way of selecting team members. Belbin says that in selecting team member the emphasis must be on behaviour and personalities. This in contrast to Fux, who emphasizes the activities.

The nine types of characteristics are<sup>9</sup>:

- the businessman;
- the researcher;
- the planner;
- the monitor;
- the builder;
- the chairman;
- the caretaker;
- the teamworker;
- the specialist.

This theory can function as a tool for the selection of team members. For example when a Businessmen leaves a team, he has to be replaced by a new Businessman.

Finally one can say that the skills for teamwork are required to play a team role. Those who are called by others as 'good to have in our team' are able to choose

---

<sup>8</sup> Belbin, R.,M., *Management Teams, Why they succeed and fail*, Butterworth-Heinemann, 1998

<sup>9</sup> See Appendix III: Leadership and management roles.

the right moment to deliver their contribution, to change their team-role, to limit their contribution, to create roles for others, and to take care of jobs which are left by others. It is to be considered whether these qualities are inborn characteristics.

It is obvious that someone whose nature is a team-player (although he does not possess the proper certificates or experiences) will be fast accepted, because he is regarded as someone who is willing to do his share and will not devalue the contributions of the others.

It is to be recommended that people who are responsible for composing teams should give the same attention to co-operative skills as to other special talents.

The Dutch Tax and Customs Administration has developed its own management and development system on the basis of the theory of Belbin. In addition to this, the DTCA has added some new principles of its own. Each member has control of his knowledge, communicative skills and is able to cooperate within a team.

### ***The Dutch experience***

The Dutch Tax and Customs Administration has created a system for management development based on three principles:

1. profiles for competence;
2. contribution criteria;
3. core results.

The DTCA has experienced that the complete manager do not exist. The 21<sup>st</sup> century manager is a person that has some strong characteristics in managing ideas, organizations and persons.

Recently the DTCA developed five profiles of ideal managers. Each type of manager can make strong contributions to the total concept of management.

The five profiles are<sup>10</sup>:

- *The organizer*  
based on the role to develop ideas, targets, issues, etc. and how to

---

<sup>10</sup> See Appendix IV, for more profiles.



implement this at the operational level. The organizer is responsible for business plans, management-contracts and the policy-making process;

- *The producer*  
based on the role to achieve the targets of the organization. The producer is really the internal head of the unit. He is interested in output, efficiency, workflow management, performance risks, financial management and internal control;
- *The quality manager*  
based on the role to measure achievements and the necessary investments in money, capacity and attention. He is interested in improvements of management information and the monitoring of throughput and results. He is responsible for the implementation of quality procedures. Also he is responsible for the follow up of audits, evaluations and internal and external surveys;
- *The conductor*  
this role is based on the ability to be an ambassador of the organization. The leading figure may be the involved father, but in any event, the person who connects people. He stimulates the team spirit. He continues the external relations and resolves conflicts. It is absolutely essential that the conductor has a vision of the future of the organization and is able to communicate with all stakeholders concerning this strategy;
- *The human resources manager*  
this role is based on the ability to manage the input of human resources. He is responsible for quality and quantity of staff. Also processes as recruitment, selection, introduction, technical and management development, and coaching are part of his working environment. The cultural and working climate is his main interest.

The different types of managers must make their contributions to the total management concept of the organization. Each manager has his strong points (and of course his weak points in other roles). In this field he delivers his contributions. In the list below the different criteria for contributions are shown.

- 1 = organizer
- 2 = producer
- 3 = quality manager
- 4 = conductor
- 5 = human resource manager

	1	2	3	4	5
to be able to give opinion	X		X		
to be creative	X				
to have organization sensitivity	X		X		
to negotiate	X				
to have environment awareness	X			X	X
to show initiative	X				X
to be decisive	X				
to act strategically	X			X	
to steer an organization		X		X	
to steer groups/teams		X		X	
able to have control on processing		X	X		
to plan and organize		X			
to stimulate and motivate		X			X
to delegate		X			
to be persuasive		X			
to be independent			X	X	X
to have nerves			X		X
to be customer oriented			X		
product orientation (quality)			X		
to have vision				X	X
to have awareness or responsibility				X	
to develop employees					X

*Model 4.10 Contributions of a manager*

With the above contribution criteria in mind, each manager is responsible for some core results of his organization. The core results are measurable products.

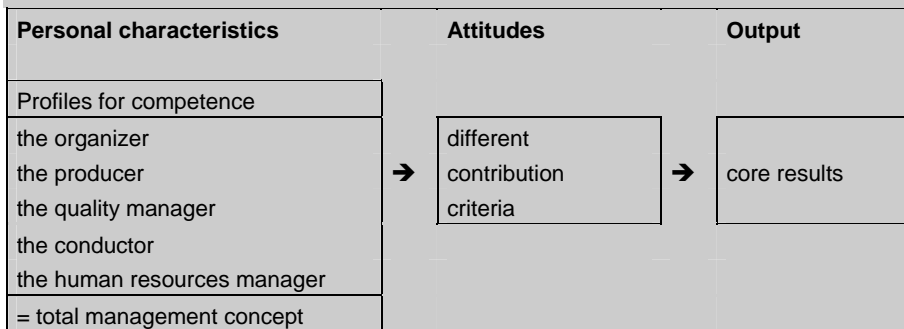
To give some examples:

Profiles for competence	Core results
<ul style="list-style-type: none"> <li>the organizer</li> </ul>	<ul style="list-style-type: none"> <li>business plan</li> <li>management-contract</li> <li>policy papers</li> </ul>
<ul style="list-style-type: none"> <li>the producer</li> </ul>	<ul style="list-style-type: none"> <li>results of the management-contract</li> </ul>

<ul style="list-style-type: none"> <li>the quality manager</li> </ul>	<ul style="list-style-type: none"> <li>surveys</li> <li>audits/evaluations</li> <li>annual report</li> </ul>
<ul style="list-style-type: none"> <li>the conductor</li> </ul>	<ul style="list-style-type: none"> <li>public relation</li> <li>image</li> </ul>
<ul style="list-style-type: none"> <li>the human resources manager</li> </ul>	<ul style="list-style-type: none"> <li>educational programs</li> <li>recruitment programs</li> </ul>

Model 4.11 Examples of core results

The total concept is also based on the following principles:



Model 4.12 Principles

#### 4.3.9. The manager as coach

Coaching is teaching. As the organization's members attempt to act in accordance with the perception of the vision, the leader must reinforce the positive behaviour and correct the behaviour which does not support the vision. Coaching is positive. It assumes that everyone wants to do a good job. It lets them know when they are, and when they are not. It has been said that coaching is the method that best guarantees staff productivity improvement.

Coaching is one-on-one, focusing on the performance of one individual. More important, goals are set and performance is monitored.

Coaching is used to:

- improve performance;
- solve problems that occur during performance;
- delegate responsibilities and develop staff.

The ideal coaching situation is one in which a team member completes a delegated task, while at the same time strengthening his or her skills.

Reviewing your staff's performance every six months or year is not enough. Do you know your 'players' the way a coach knows the team? Are you consciously aware of which employees do specific tasks best, or who is working on what project, or who is bogged down and could use some encouragement or guidance?

#### *Why coaching is growing in importance*

There are several reasons why coaching is growing in importance:

##### *1. Total quality management*

These efforts require employees to take more initiative on their jobs. The first-line manager's role is to be a coach rather than an overseer.

##### *2. Structure of organization*

The flattening of organizations has increased spans of control. So that the manager has become more of a coach than a director of work activities.

##### *3. Staff motivation*

People in the workplace-demand an opportunity to be involved and participate in a meaningful way. They are less tolerant of an authoritative, controlling management style.

This is particularly true in today's climate of economic belt-tightening and increased competition. When faced with the prospect of doing more with less, it is critical to be able to keep workers enthusiastic and productive.

##### *4. Motivation*

The leader wants a maximum contribution from every member of his work group. The contribution that each member is capable of making may not fit the leader's preconceived notions. The leader has to be open to finding the best in each member and then supporting the contribution each member makes.

#### *5. Participation*

Vision starts with a strong leader, but getting there requires the members to share and support the vision. While the vision may belong to the leader, the details should belong to the organization's members. Each member is an 'expert' in his or her job and is best qualified to create what is needed in that area of expertise.

#### *6. System thinking*

A quality environment requires a system view rather than looking for scapegoats. When the organization's members see that the leadership is *truly* looking at how things work rather than fault finding, they will add their expertise willingly to the effort.

#### *7. Teamwork*

In a quality culture, there is an emphasis on working together toward the vision. Well-managed teams produce synergy, the sum is greater than the parts. Synergy is its own reward. The satisfaction that comes from a team effort well done is self-perpetuating.

### **4.3.10. The technical influence**

#### *The technical influence in the managerial function*

The belief in this sense is that whenever a specialized technical function is exercised, the individuals acquire the necessary knowledge and abilities for performing managerial or administrative functions. Many times it is even presumed that, the more technical the training, the greater the possibilities of a good managerial performance.

In most large organizations, the election of head officials and directors is carried out through career criteria and is highly influenced by the patterns of individual technical competition. Thus, the persons who for many years excelled due to their ability and capability to carry out their technical functions are promoted to managerial positions.

Many times, in that passage from technician to boss, the organization may lose a great technician and gain a reasonable or even a deficient administrator. This is due to the fact that in the promotion from the technical to the managerial function, the individual, due to lack of understanding of the managerial function, cannot redefine

the series of responsibilities toward the institution and remains in the executive function with the same previous conception.

To say something positive in relation to all this, it may be said that the first thing a person must learn when he comes to hold a managerial position is that the nature of his job has changed. Before he was a technician, now he is a manager. His previous job was based on the rational execution of a process, now it is based, mainly, on rational decision-making. Before he had to know the *how*, now he must know the *what*. He previously had to be a specialist in techniques, now he must be a specialist in objectives. He must know how to distinguish between doing things right and doing the right things.

PERSPECTIVE OF THE TECHNICAL FUNCTIONS	MANAGEMENT PERSPECTIVE
Obtaining results through one's own effort.	Obtaining results through others.
Priority orientation to the profession and working techniques.	Priority orientation to objectives and results of collective work.
Access to information through internal process.	Access to information through analysis of external relations.
Control of tasks through a perspective of rational execution.	Control of tasks through a perspective of decision and option.
Short term pressures for foreseeable tasks.	Pressures for medium and long term perspectives.
Normally routine and rationally foreseeable work.	Fragmented, intermittent and unforeseeable work.
Tendency to acquire a limited and sectorial perspective of the organization.	Tendency to acquire a perspective of the organization based on external factors.
Internal human relations highly centered on specific reference groups.	Varied human relations with internal and external persons and groups.

PERSPECTIVE OF THE TECHNICAL FUNCTIONS	MANAGEMENT PERSPECTIVE
Interpersonal communication normally restricted to a small number of interlocutors.	Intense, diverse interpersonal communication with a large number of interlocutors.
Work potentially evaluated through specific, visible and short-term categories.	Work potentially evaluated through ambiguous categories and with medium and long-term impact.

*Model 4.13 Management perspective as compared to technical functions*





## 5. Planning and control

The proper functioning of the management of a Tax Administration requires access to a sound information system which indicates where the execution of the assigned statutory tasks is exposed to risks and which directive measures are required to counteract or minimize these risks.

Generally speaking, the management has several options for discovering these risks, such as:

- the administrative information;
- the management control system;
- an internal control system;
- the evaluation methodology;
- the monitoring process.

### 5.1. Administrative information

The above enumeration suggests that there are five separate sub sectors. However, it must be said that these five options all concern the provision of administrative information. What do we mean by the word 'information'? Information supports the members of the organization in taking decisions, starting activities, controlling processes and observing actuality.

Generally speaking, information is also understood to mean data that we receive asked and unasked, data that are recorded electronically or on paper during the execution of activities, data from various perspectives for all kinds of purposes that can be retrieved from computer-based files. In that case, the definition of administrative information is: all activities regarding the systematic collection, recording and processing of data, aimed at the provision of information on behalf of the management, functioning and controlling of a household and on behalf of the account that has to be allocated to it.

So, the area at which the administrative information aims is very broad. Nevertheless, this paragraph draws a further distinction to introduce differentiations with regard to the specialization.

One of these differentiations is that administrative information is often only seen to mean information that is regularly presented to the management in a structured way. This so-called management information is provided in a well-defined way through monthly, quarterly and annual reports and can concern:

1. Information on behalf of the operational execution;
2. Information on behalf of the tactical management;
3. Information on behalf of the strategic management.

#### *1. Operational execution*

For a Tax Administration, this type of management information gives insight into those indicators that are important for the results on the operational level, for instance:

- process information such as data about the time needed to deal with tax returns and letters of objection, data about productivity and stockpiling;
- product information with data about sustained letters of objection, maintained corrections and treatment in accordance with the regulations.

Characteristic of a Tax Administration is that this type of information is regularly available and often of a reliable quality.

#### *2. Tactical management*

Within the existing legislation there often is a margin for interpreting the regulations. Furthermore, it is important for the management to know how these margins are used and how taxpayers react to this.

This type of management information gives insight into (for instance):

- the correction policy used with regard to certain categories of taxpayer;
- the control policy to be used in the different branches of industry;
- the payment record of the different categories of taxpayer.

Tactical management information gives a manager the insight he needs to obtain an optimal result with a certain amount of resources (workforce and financial means).

#### *3. Strategic management*

Management information for strategic management is always intended for the top management level of a Tax Administration. For this group, the information essential to the tactical and operational level is not always relevant.

A Tax Administration's top management level requires information only of interest to this group. This is usually information that gives an indication of the functioning of the Tax Administration in relation to the social sphere of influence within which it operates.

This so-called stakeholder approach requires information on the opinion of the different stakeholders of the Tax Administration. Stakeholders can be:

- Minister of Finance;
- other Ministries;
- Parliament;
- the judiciary;
- the independent ombudsman;
- supervisory bodies such as the National Auditor's Office;
- Trade unions;
- the taxpayer;
- organizations of tax consultants;
- the media.

Each stakeholder will judge a different aspect of performance. The Minister of Finance is interested in the timely receipt of estimated tax revenues, the magistrate will judge the Tax Administration on the legitimacy of the enforcement of tax laws, and the taxpayer is interested in equality before the law and due care.

This stakeholder approach requires the management information on the strategic level to reflect all these relations on the basis of critical success factors and the corresponding target figure.

## **5.2. The need for management control**

An essential part of modernizing operations and improving the effectiveness and efficiency of Tax Administration is the design and establishment of management control and information systems. Such systems, once fully implemented, will enable tax administrators to:

- function more effectively as managers;
- measure the implementation of the strategic plan or special initiatives more accurately;
- evaluate the productivity of resources more quickly;
- make quicker adjustments when remedial action is warranted;

- compare the results of the Administration with similar data processing organizations in the country of origin or with foreign Tax Administrations;
- render account to the responsible members of government for the performance delivered by a given budget;
- control of results / achievement of goals (= management control);
- control of procedures (are they appropriate);
- control of personnel (skills, behavior).

The information produced by this system should also allow managers to answer key questions, including whether they are minimizing costs in doing their job.

Some examples of necessary questions are:

- as an organization, where do we want to be ten years from now?;
- what lines of action should be developed to influence the behavior of taxpayers, so as to increase voluntary compliance with tax obligations significantly and enduringly?;
- which internal or external associations should be established to strengthen our action and improve results?;
- what abilities should we develop now and in the future to better fulfill our mission?;
- which new functions or services should we establish to better assist the taxpayer?

### **The French experience**

The French Directorate General des Impôts (DGI) has a similar experience with management control. It was necessary to clearly redefine the components of the DGI's performance for all services and, in a parallel way, to render them the management basis of the French Tax Administration's services.

Specifically, they endeavored to provide precise and homogeneous answers to four types of questions:

- are we effective in the management of filing procedures?;
- are we effective in the control of the filing system?;
- are we effective in the collection of taxes?;
- are we effective in the relationship with taxpayers?.

### 5.3. Limitations of management control

The Tax Administration is facing limitations that are peculiar to them and that end up indicating the need to proceed to a conceptual review of the planning models proposed by the literature. Such limitations may be summarized as follows:

- Low strategic autonomy. Public Administrations directly related to the government's direct Administration structure frequently have little freedom to redefine goals, diversify the lines of main tasks, merge with other Administrations, discontinue activities, etc. due to statutory and legal limitations;
- High ambiguity of goals. The second greatest consequence of the government's high dependency seems to be how to negotiate objectives and strategies vis-a-vis a great variety of external pressures of an economic, political or social nature;
- Not for profit. The Tax Administration is performing tasks without a clear scope for profit. The consequence is that activities are based on a non-cost benefit principle. Of course the total budget of a Tax Administration could be divided into categories of costs and linked to the different processes and functions. It is even possible to allocate this budget to the different output indicators (appeals, corrections, audits, investigations, etc.) But these calculated cost positions are quite theoretical. Because a real price is denied in society. The need for the product or service is not estimated. Without a real price and production relation a desired cost-benefit analysis will be doubtful;
- Politicization of issues. Another important consequence of the governments dependency is external interference in strategic decision making processes, as a result of the unavoidable interference, direct or indirect, of legislators and politicians;
- Short term orientation. There is a natural trend to limit government decisions to short and medium terms (mostly 1 to 2 years), in view of certain predominant values in the government culture, pressures for immediate results and the unavoidable administrative discontinuity. The appointment of the commissioner of the Internal Revenue Services in the United States is for a period of five years in order to gain greater independence from the four-year presidential election cycle;
- Predominance of bureaucracy. Another distinct characteristic in governmental activities is a behavior that values bureaucracy, characterized by the

supremacy of the formal over the final product or service rendered, a certain spacing out of the vision of results and little use of creative behavior, reinforced with centralized, vertical and highly departmentalized structures.

#### **5.4. Information systems**

The topic of this paragraph is information in the Tax Administration. First we will outline the essence of the information systems, before finally describing the consequences for the organization.

##### **5.4.1. The essence of information systems**

*Tax Administrations are essentially organizations that process and generate information*

Their inputs are information and their products are information. Therefore a necessary, although insufficient condition of the factors for achieving success in the management of a modern Tax Administration, is to use state-of-the-art computerized technology and effective information systems.

*Information technology is a necessary although not sufficient condition*

The computer, software, communications, data bases, procedures and expert systems are a necessary although not sufficient condition for rendering Tax Administration management more efficient, since these efforts must be carried out simultaneously with other actions of great relevance such as: resolute political support, actual willingness to manage taxes, effective commitment and participation of all officials of the institution.

*Information technology and information systems are a means and not an end in tax management*

In this sense, the clear and precise identification and definition of information requirements of each and every one of the functional areas, processes and cycles derived from the Treasury-taxpayer relationship are a key factor for the design and development of information systems.

*Management of modernization projects are real engineering projects*

A project for modernizing a Tax Administration that comprises the design and development of information systems, must be managed as a great engineering project. That is, the project should be organized under a responsible leader; conceptual and detailed designs of the systems should be made and the latter

should be carried out with the participation of the institution's tax experts and approved by the authorities; the execution of activities should be planned, organized and supervised, programs and systems must be tested before being implemented; users and operators must be trained; systems must be documented and formally delivered; therefore, a strict and proven methodology must be applied for complying with the anticipated plan.

*Use of Prototypes: a key success factor*

The similarity of functions/processes of the tax activity and the facilities provided by information technology, currently allow for considering computerized solutions or models of a general nature (prototypes) that may be easily adapted to any Tax Administration. Through such models or solutions, a Tax Administration may adapt the experience developed in other countries with an excellent cost/benefit ratio.

A tax information system may be defined as the hardware, software, databases, communication equipment, manual and automated processes and expert knowledge necessary to convert input data into the desired information products and outputs.

The information systems consists of data bases and a series of systems involving operations, control, decisions, security, communications, production, inquiries and relations with other public institutions and collaborating entities.

The operation of a Tax Information System is directly related to its environment and its successful operation, among other things, will be determined within the tax context, by the tax system and its legal rules, the organizational structure and the human resources of the Administration, the political support of the authorities to tax management, external and internal customers (taxpayers and officials) and external agents (banks, collaborating agencies, informants, etc.) and other public institutions that interact with the information system.

All of the Tax information systems and data bases should be integrated and have available the tools required to combat tax non-compliance; facilitate tax compliance and satisfy information requirements at the operational, managerial and internal control levels for the effective management of a modern Tax Administration.

Finally the effectiveness of the Tax Administrations depends, to a great extent, on the availability of effective information systems. It is also an undisputed fact that the new world realities and increasing needs and expectations of society impose complex challenges on the Administrations. These are obliged to favor fair competition between the different economic agents by effectively reducing the tax non-compliance gaps and substantially increasing their productivity in terms of tax collection and improving their services and image in the eyes of society. These factors force the Tax Administrations to undertake in-depth, radical changes regarding the way in which taxes are managed, within brief time spans.

The solution lies in tackling the problem from a global perspective, considering not only the structuring of effective information systems, but such fundamental aspects as:

- sufficient political support and the formal willingness to generate change;
- maximum revision and simplification of the country's tax system;
- a well-structured and adequate tax code;
- a clear, precise and detailed tax legislation;
- a Tax Administration with technical, administrative and financial autonomy and resources for its efficient management;
- an adequate organizational structure that may promote effective management through the delegation of responsibilities, effective management processes and an adequate treasury-taxpayer relationship;
- a short- and long-term planned strategy for the modular and gradual implementation of information systems that may imply a new form of tax management and that may be accompanied by staff training programs and in-depth changes in the organizational culture of the Tax Administration;
- development and professionalization of human resources and assurance that their continuity and permanence is totally independent from political changes.

#### **5.4.2. Consequences of database for the organization**

A tax information system should allow the Tax Administration to:

- identify all its taxpayers;
- have a permanently updated taxpayer file available;
- have sufficient procedures and means available for broad and effective taxpayer information and assistance;



- guarantee the reliability and quality of the tax and accounting information stored;
- integrate all of the taxpayers' tax information to be precisely aware of all the data affecting their tax status, including information on foreign trade taxes;
- control compliance by the taxpayers with their tax obligations, that is, be aware of their tax behavior;
- promptly detect and take action in relation to non-filing and delinquent taxpayers;
- cross-check data declared by the taxpayers with other data of information from third parties, to determine the reliability of returns filed and perform as many information cross-checks as may be necessary for carrying out in-depth verifications or massive controls, as appropriate;
- detect and take action against evading taxpayers;
- promptly notify and summon the taxpayers when detecting differences arising from their tax behavior;
- guarantee the application of the sanctions regime provided by the law;
- introduce and formalize collection procedures through voluntary and enforced collection;
- follow up and control each and every one of the different administrative actions;
- guarantee management control (internal auditing) of the different areas comprising the Tax Administration and provide information.

Below is a table with the critical success factors of a good information system plus an outline of the risks involved.

<b><i>Critical success factor</i></b>	<b><i>Risk</i></b>
Accessibility	Exercise due caution and guarantee safety rules by data transmission.
Understandability	Not every user has the same background be aware not to patronize experiment users and don't over estimate the knowledge of beginners.
Use of technology	Is the market dictating the organization. Find the balance between over-reacting to new technologies or being too late, which means that the customers are far ahead in their developments.

<b>Critical success factor</b>	<b>Risk</b>
Reliability	One hundred percent reliability is impossible (or will involve a huge share of the budget). But data processing has to be based on standard definitions.
Training users	Don't be too slow or too perfectionist. Improvisation and on the job training are the key issues in training programs for users.
The scope of the managers (1)	The manager has to be clear in his expectations and give proper instructions. His interest must focus on the data, not the technology.
The scope of the managers (2)	The managers, not the IT-designers, take the decisions about the product or data specification.
Limitation	Keep it simple. Complicated management information systems (the giant data mainframes) are very costly and are valuable.

*Model 5.1 Critical success factors*

### **5.5. Framework on a management control system**

An effective management control system must be linked to an overall strategy with explicit objectives defined for a certain period. Depending on the Tax Administration's specific circumstances, these objectives may vary from expanding and updating the taxpayer register and ensuring more timely filing and payment by the largest taxpayers to reducing the cost of collection and improving the administration of staff and resources. If reform of the organization and procedures is underway, the management control system must be able to assist senior managers in determining how well the staff are implementing new procedures, as well as the quality of their work. The system must be sufficiently comprehensive and flexible to provide relevant information in a readily understood format and in a short time to managers at all levels of the Tax Administration. Finally, a management information system is only as good as the underlying data. Therefore, a complete and accurate taxpayer register, along

with timely data on filing and payment for registered taxpayers, are basic prerequisites for good management control.

Most modern Tax Administrations have a range of management information systems for different functional areas of the Tax Administration, and for various management levels within the organization.

#### *Identification of taxpayers*

The taxpayer register provides the basic data which is needed for the Tax Administration to answer many fundamental questions, including: who pays taxes? which taxpayers comply, and which do not comply, with their tax liabilities? Information which the taxpayer register should be able to provide for purposes of management and control includes: the taxpayer's first and last name (in the case of an individual), and business name (in the case of a corporation); TIN number; address (including the addresses of business branches); and the taxes for which the taxpayer is liable. In order for the taxpayer register to serve as a source of useful information for other areas within the Tax Administration, it is essential that the register be kept as complete and up-to-date as possible. In many Tax Administrations, there tend to be considerable changes in the number of taxpayers registered, their names and addresses, and their liabilities. A management control system based on constantly changing taxpayer registration data will only be useful if the Tax Administration is able to keep track of these changes and ensure the reliability of registration information.

#### *Filing and payment*

Information on taxpayers' filing and payment status for all tax liabilities, as well as how quickly and accurately the collection department is able to process taxpayer returns and post payment information, is an essential element of the Tax Administration's management information system. The timeliness and accuracy of filing and payment data will determine how quickly taxpayers who do not submit returns (stopfilers) or who underpay their liabilities (delinquent taxpayers) are detected. It will also determine the timing and type of follow-up of actions taken, including the mailing out of warning letters or the referral of cases for collection enforcement. The type of information that this system should be able to provide includes: the percentage of VAT, income tax and other returns processed within a given period; the percentage of electronically and non-electronically filed returns processed within a given period; the number of amendments made to returns within a given period; the time required to contact VAT and withholding tax stopfilers after the filing due date and the number of

outstanding VAT and income tax returns as a percentage of taxpayer registered for each tax.

*Collection enforcement*

This system should furnish indicators regarding the speed with which the Tax Administration is able to contact delinquent taxpayers once they have been identified, and the cost and effectiveness of collection enforcement efforts. The system should be able to provide indicators by type of tax and should have the capacity to rank tax debts by their importance in terms of revenue and how recently they have been incurred. In addition, the system should indicate the actions which have been taken by the Tax Administration, for example, whether a warning letter, a notice of lien, or notice of seizure has been issued, the date on which each action was taken, and the result of each enforcement action in terms of collection.

*Audit*

In order for tax administrators to evaluate the effectiveness of audit programs, they need to take account of basic information such as:

- the identification of the auditor or auditors;
- the type of audit, e.g. a desk audit, comprehensive audit or combined audit (specifying for which taxes);
- the starting and ending dates of the audit, including the length of time for which the audit may have been interrupted;
- the tax returns (for VAT, income, excise, property taxes, etc.) presented by the taxpayer upon the auditor's request, including the date in which the return was submitted, the tax period, and the amount of tax declared;
- the additional amount assessed as a result of the audit;
- additional payments made as a result of the audit, indicating the type of tax, the tax period, and the main reasons for the additional payment. Many audit information programs produce detailed information on the additional amounts assessed as a result of an audit, but fail to track the amount actually paid based on the additional assessment. This makes it difficult for managers to gauge the productivity of different audits in terms of revenue collected because auditors may inflate assessments to comply with collection and it may take the Tax Administration a long time to collect payment on the additional assessment.

*Personnel management and Administration of resources*

This part of the management information system should provide data on staff allocation based on their specialization as well as on the allocation and use of resources, including computers, vehicles, buildings and other materials to support the Tax Administration's work. It is important for managers to be able to gauge, for example, how many staff are performing administrative functions and how many are carrying out substantive duties. In one Tax Administration in the region which is carrying out a major administrative reform, an analysis of distribution of personnel by functions revealed that there was a surplus of administrative personnel, especially considering that the Tax Administration was highly computerized. Many Tax Administrations have a shortage of skilled audit staff; this affects the Tax Administration's capacity to detect and take prompt action against non complying taxpayers and also gives the signal to taxpayers that noncompliance may not have serious consequences.

#### **5.6. The balanced scorecard for Tax Administrations**

Kaplan and Norton<sup>11</sup> have developed the Balanced Scorecard (BSC) as a system for performance measurement and as a tool for strategic management. The BSC combines traditional (financial and non-financial indicators) with quality performance. This combination gives an indication for future success of their organization. The starting point for the BSC is the mission and strategic goals of the organization. These goals are translated in four connecting perspectives:

- financial perspective;
- client perspective;
- internal perspective;
- innovative perspective.

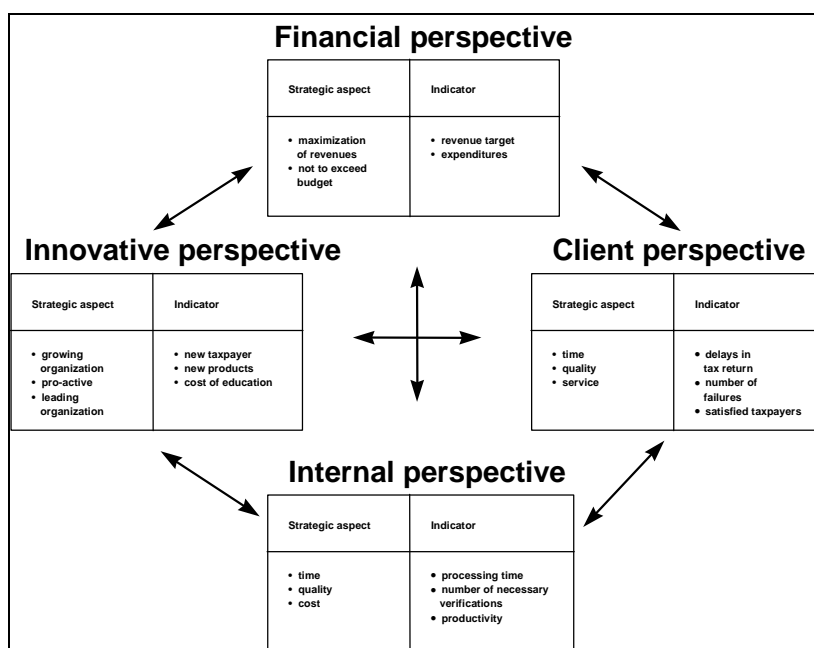
The BSC is created for the private (profit) sector in the economy. To implement the BSC in the field of the public sector (i.e. the Tax Administration) we have to make some adjustments. Because the public sector has two impediments in comparison with the private sector:

- vaguely defined goals;
- difficult measurable goals.

---

<sup>11</sup> Kaplan, R., S., Norton, D., P., The Balanced Scorecard Measures tat Drive Performance, Harvard Business Review, January- February 1992, pp. 71-79.  
Kaplan and Norton, Putting the Balanced Scorecard to Work Harvard Business Review September-October, 1993, pp. 134-142,

With the necessarily adjustments the Balanced Scorecard for a Tax Administration could be illustrated by the next model



Model 5.2 *Balanced scorecard*

To improve the BSC for the public sector, the model could be enlarged by two other perspectives:

- Public perspective: how society appreciated the performance of the Administration.
- Legal perspective: what is the legal context of the Administration, and what are the expectations and limitations to the Administration.

### 5.7. Critical success factors and performance indicators

In chapter 1 we have seen different examples of mission statements by Tax Administrations and some strategic goals. These goals are linked with critical success factors. The name already gives the signification: these factors decide whether the organization is successful or in danger.

The next table gives some examples of critical success factors.

<b>Critical Success Factor</b>	<b>Performance indicator</b>	<b>Stakeholder</b>
Collection maximization	<ul style="list-style-type: none"> <li>• Pay as you earn</li> <li>• Cash flow pace</li> </ul>	<ul style="list-style-type: none"> <li>• Minister of Finance (budget role)</li> </ul>
Productivity	<ul style="list-style-type: none"> <li>• The relationship between resources and realized production</li> </ul>	<ul style="list-style-type: none"> <li>• Minister of Finance (budget role)</li> </ul>
Carefulness	<ul style="list-style-type: none"> <li>• Number of objections in relationship to the number of tax assessments</li> <li>• Number of objections awarded to the taxpayer</li> </ul>	<ul style="list-style-type: none"> <li>• Taxpayers</li> </ul>
Completeness	<ul style="list-style-type: none"> <li>• Object completeness: the manner in which tax collection are covered by contra-information</li> <li>• Subject detection: number of new taxpayers detected as a result of activity by the tax authority</li> <li>• Taxpayers who voluntary fulfill their fiscal obligations</li> </ul>	<ul style="list-style-type: none"> <li>• Minister of Finance (budget and fiscal role)</li> </ul>
Satisfaction/acceptance	<ul style="list-style-type: none"> <li>• Number of taxpayers that accepted and appreciated the way the tax authority performs his tasks</li> </ul>	<ul style="list-style-type: none"> <li>• Minister of Finance</li> <li>• Taxpayers</li> </ul>
Justice	<ul style="list-style-type: none"> <li>• Number of cases when justice is contested</li> </ul>	<ul style="list-style-type: none"> <li>• Taxpayers</li> <li>• National Audit Committee</li> </ul>
Confidentially	<ul style="list-style-type: none"> <li>• Number of cases where confidentially is contested</li> </ul>	<ul style="list-style-type: none"> <li>• Taxpayers</li> <li>• Judicial authorities</li> </ul>

Equity	<ul style="list-style-type: none"> <li>• Number of cases where equity is contested</li> </ul>	<ul style="list-style-type: none"> <li>• Taxpayers</li> <li>• Judicial authorities</li> </ul>
Prevention of fraud	<ul style="list-style-type: none"> <li>• Number of tax audits</li> <li>• Number of fraud cases (submitted as well as suspected)</li> <li>• Number of assessments with a correction</li> <li>• The average amount of correction</li> </ul>	<ul style="list-style-type: none"> <li>• Minister of Finance (budget and fiscal role)</li> </ul>
Implementability of tax laws	<ul style="list-style-type: none"> <li>• Calculation gap: difference between probable future costs and after a certain period the real costs</li> </ul>	<ul style="list-style-type: none"> <li>• Minister of Finance</li> <li>• National Audit Committee</li> </ul>
Product quality	<ul style="list-style-type: none"> <li>• Accepted corrections and the number of court decisions that are favorable for the tax authority</li> </ul>	<ul style="list-style-type: none"> <li>• Minister of Finance</li> <li>• Taxpayers</li> </ul>
Processing quality	<ul style="list-style-type: none"> <li>• The average throughput time of tax assessments and appeals</li> <li>• Stocks: number of tax assessments to be made</li> </ul>	<ul style="list-style-type: none"> <li>• Minister of Finance (budget role)</li> </ul>
Expenditure costs	<ul style="list-style-type: none"> <li>• Relation between means (budget and staff ) and tax revenues</li> </ul>	<ul style="list-style-type: none"> <li>• Minister of Finance (budget role)</li> </ul>
Capable staff	<ul style="list-style-type: none"> <li>• Number of staff employees that performs above average</li> <li>• Quality: test results</li> </ul>	<ul style="list-style-type: none"> <li>• Employees</li> </ul>
Use of staff	<ul style="list-style-type: none"> <li>• Sickness percentage</li> </ul>	<ul style="list-style-type: none"> <li>• Employees</li> </ul>



	<ul style="list-style-type: none"> <li>• Mismatch</li> <li>• Staff satisfaction quota</li> </ul>	
--	--	--

*Model 5.3 Examples of critical success factors*

These Critical Success Factors are presented with performance indicators. Together they provide insight into progress and development of the tax- and customs authority (strategic) goals and thus provide essential information for the monitoring of economic and financial development.

Presenting the outcome of tax authorities' performance in this manner is a relative new development. More traditional accountability-reports provide stakeholders with a elaborate annual report on the main business processes (number of registrations, amount of tax levied, collected and number of tax investigations held). This type of annual report presents a clear picture on output, but fails to give a proper insight into the overall effect on society, which is of course necessary when monitoring the development of the economy and the Tax Administration.

*Benefits*

These CSF and performance indicators are quantifiable. By quantifying them it is possible to look at cross reference effect if new guidelines/ organization policies are to be implemented. The method to make cross referencing possible is by means of indexing the performance indicators outcome. Indexing makes it possible to compare relatively incomparable information and to monitor trends, and this is where performance indicators information is as its best. Not as much the actual outcome of the indicator, but the trend suggests it is essential. It is the trend that provides stakeholders and management of the tax and customs authority with strategic information about best organizational options and new policies to be implemented depending upon economic and financial development. It is the comparison of trends that provides the stakeholders and management of the tax and customs authorities with strategic information to influence their future options and policies.

### *Limitations*

The presented set of performance indicators is a balanced system. To focus on one of these items could create the risk of neglecting other issues of performance. The critical success factors and performance indicators have to be linked with the described strategy and core business. Otherwise the Tax Administration could be far away from his mission.

Another risk could be the use of the critical success factor *collection maximization*. A better description would be *optimum in collection*. Tax Administrations have a duty to execute tax laws and to deal with taxpayers. The Administration is responsible for an efficient logistic system and to render services to those who need it. Tax Administrations are not established to increase revenues. Of course the Treasury is interested in more revenues, but that is their responsibility. Because tax revenues are not only the outcome of an efficient tax organization but also based on economical developments, tax rates, sociological influences.

A last warning is the risk that there is only a one way attention (Tax Administration  $\Rightarrow$  taxpayer) on increasing revenues, this could conflict with a two way policy (Tax Administration  $\Leftrightarrow$  taxpayer), which means that every taxpayer is treated evenly and fairly, whether they are rich, middle class, poor, corporate, small, or large. A treatment that is even and fair could be based on a divided attention approach. The given attention by the Tax Administration is linked to differences in financial importance and fiscal risks of the different kinds of taxpayers (risk assessment philosophy).

## **5.8. The game of management control**

The name of this subtitle gives the impression that the field of management consist of boys with their tools. Unfortunately many managers are men and they see their serious jobs as part of a scheming game. On the other hand, many parts of the management profession have characteristics of many popular games: you have to guess, to make a plan, you have limited resources, there are risks, challenges and bad luck and competition exists.

In this paragraph we give some examples of the items of the game. The items are:

- input;
- output;

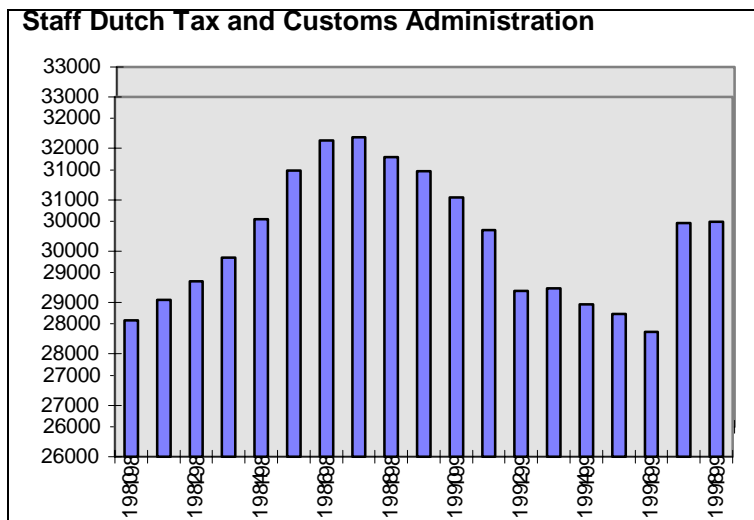
- throughput (or processes);
- outcome;
- relations.

*Input*

Input is the starting position of the organization. Input consists of resources and external independent supply. We have to think about:

- a given budget for material and personnel expenditures;
- the existing staff;
- the unfulfilled vacancies;
- the estimated numbers of taxpayers;
- the expecting numbers of tax return forms;
- the state of equipment (offices, inventory, automation, etc.);
- ambitions and strategic plans.

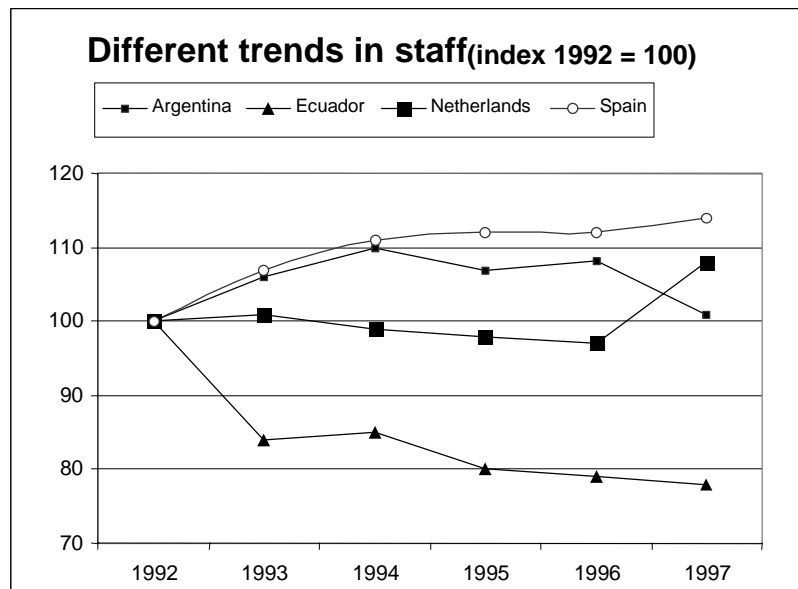
With these above-mentioned items, the management has to make some choices, because management has one major goal and that is, with certain limitations, to make the right choices. Below are some examples of input.



Model 5.4 Staff Dutch Tax and Customs Administration

In this graph, it can be seen that in the beginning of the nineties the staff was reduced based on efficiency reasons. In 1997 and 1998, the input is expanded

because the government has given more supplies (= input) for automation and to intensify the fight against tax evasion.



Model 5.5 Different trends in staff

Such a graph will provoke a manager to ask some serious questions. For example:

- what is the reason for the declining staff in Ecuador (more efficiency with cost reduction)?;
- what is the reason for the temporarily expansion of staff in Argentina?;
- what is the reason for a growth of 10% in staff for the year 1997 in The Netherlands?;
- why is the growth of staff in Spain stable and predictable?

The right answers are sometimes less important than management stimulated to ask the right questions in the decision-making process.

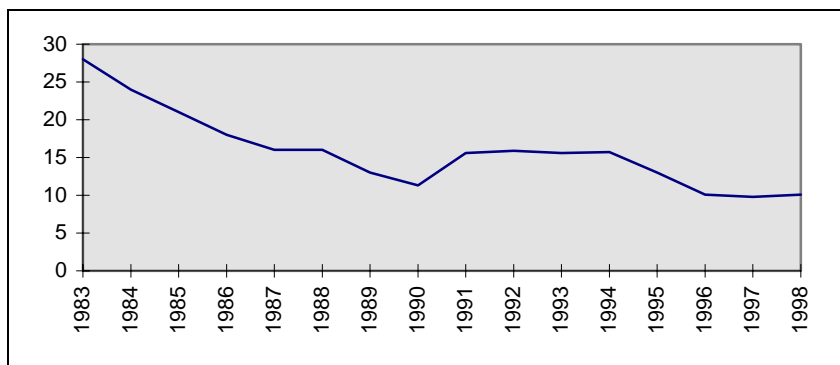
### Output

All the services and products that leave the Administration are considered as output. In profit organizations, a simple definition for output is 'all kind of

deliveries to customers who are willing to pay a price for it'. For Tax Administrations some examples for output are:

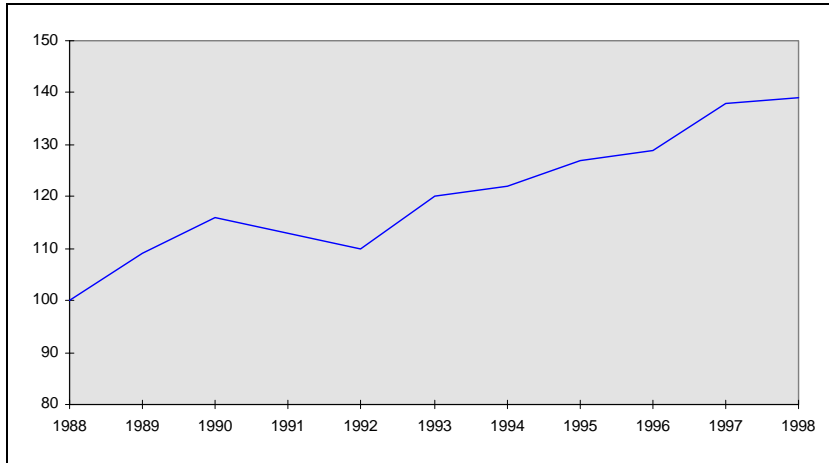
- assessments;
- settled tax return forms;
- audits;
- settled appeals;
- formal decisions;
- corrections.

These kind of products could be linked with merit ratings, this for the purpose of calculating a total production for the Tax Administration. First, a graph is shown with an example of how to measure the capability of the organization to make corrections. On the other hand, a decreasing level of corrections could also be a sign of an increasing mentality of compliance.



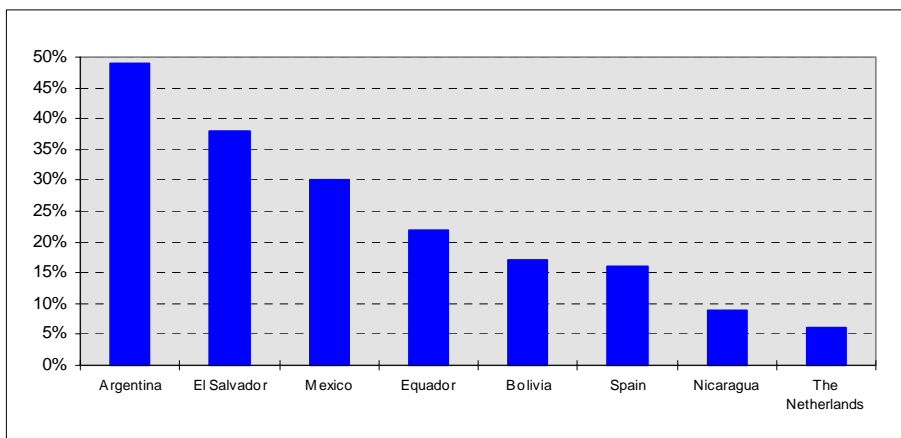
*Model 5.6 Number of final assessments with a correction (in %)*

The next graph gives an illustration of how the total production could be measured. The different output variables (assessments, corrections, audits, etc. for different important taxes, such as income tax, corporate tax, value added tax, wage tax and wealth tax) are put together with their own merit ratings. The total production is expressed in index marks.



Model 5.7 Total production DTCA (Index 1988 = 100)

Another possibility to measure output is to show how much time is involved with each process. For example, the following shows the time spent on collection for some countries:



Model 5.8 Collection time on primary process<sup>12</sup>

---

<sup>12</sup> Source: CIAT for the year 1997

*Throughput (or processes)*

Throughput consists of processes that are essential for the total quality concept of the organization. Katz and Kahn<sup>13</sup> give a good definition: 'To understand what the organization 'does', we look to the throughput. The throughput of an organization is its response to the objective task posed by the needs of the environment. One could argue therefore that the throughput embodies the primary goal, that the external environment has set for the organizational effectiveness, ought to be defined in terms of success in attaining that goal.'

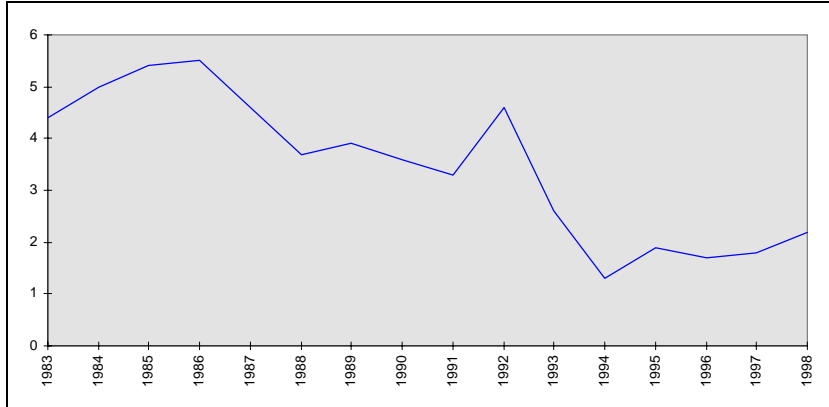
Some examples of essential throughput are:

- internal audits;
- education program;
- quality program;
- illness rate;
- experienced staff (years, training or education);
- attitude to change;
- personnel reviews;
- mobility rate (location or function).

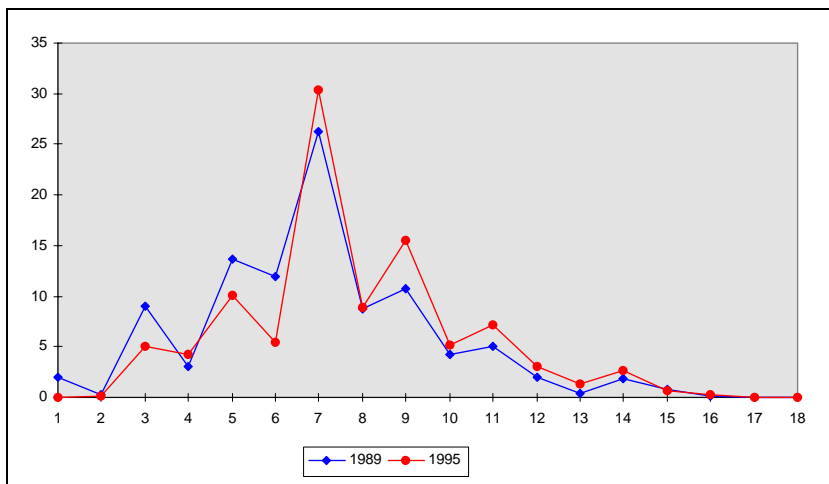
Two examples of some throughput measurements are given below. The first graph makes clear how many employees (as a percentage of the whole staff) leave the Administration every year. The results are extremely low for the DTCA. This means that the average experience is quite high and the employees are not eager to find another job. The second graph shows the development in scales in the functional architecture. In six years time (1995 versus 1989), most of the same employees have reached a higher scale. That means more experience (=throughput) but also higher salaries (=input).

---

<sup>13</sup> Katz, D., Kahn, R., L., *The Social Psychology of Organizations*, 1978, New York, pp. 245.



Model 5.9 Turnover of staff (in %)



Model 5.10 Functions in scale, difference between 1989 and 1995, DTCA (in %)

*Outcome*

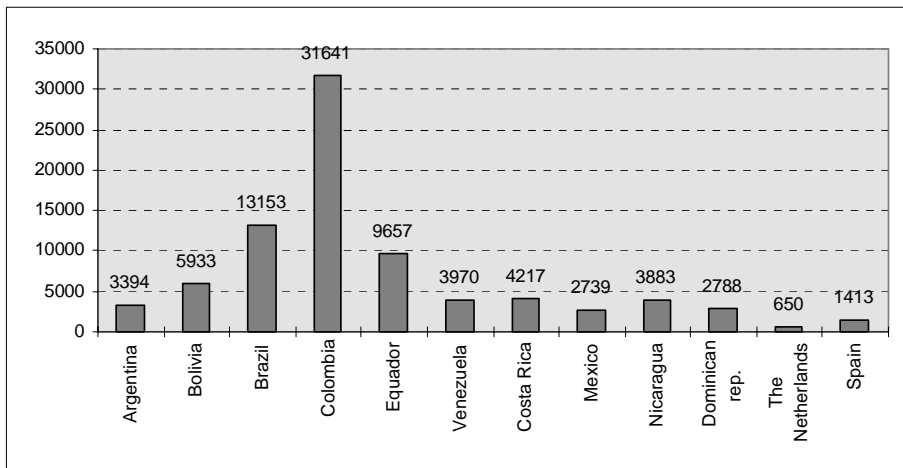
Effectiveness of the Administration could be measured by the outcome. In a certain way the outcome is always more important than the production (output).

The following examples make clear what we have to understand for outcome:

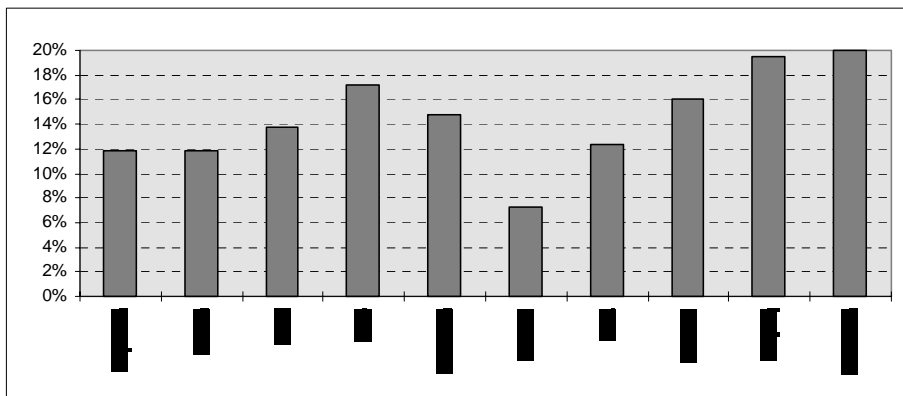
- compliance;



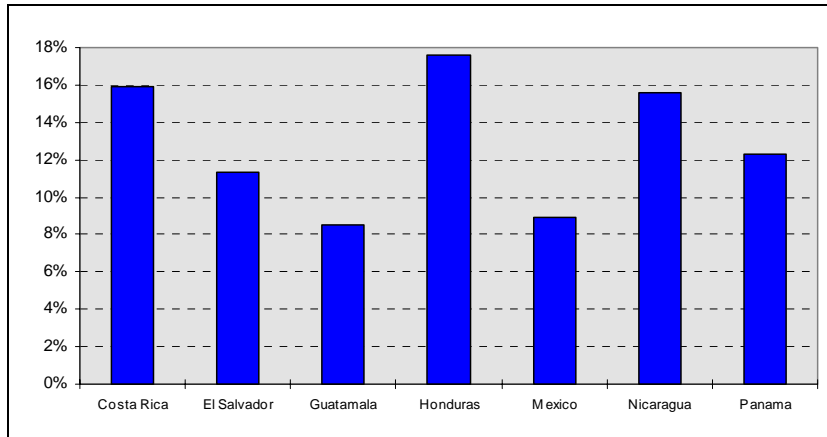
- client satisfaction;
- staff satisfaction;
- reduction of tax evasion;
- contribution to economic growth;
- tax pressure;
- image in the media;
- approving court decisions;
- accepted annual account;
- political satisfaction.



Model 5.11 Inhabitants per tax official



Model 5.12 Tax pressure in Latin America



Model 5.13 Tax pressure in Central America<sup>14</sup>

### Relations

The performance of the Administration is expressed in relations between the given items of input, output, throughput and outcome.

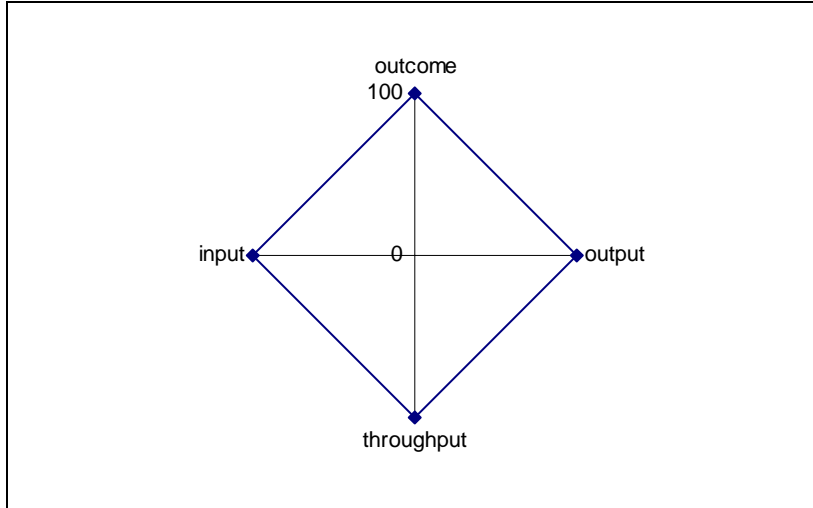
Some important relations are:

- input - output: staff and budget versus total production = productivity;
- throughput - outcome: quality program (customer service) versus client satisfaction = compliance;
- throughput - outcome: process quality (for example, the delay in collection enforcement) versus the national inflation rate = price for ineffectiveness;
- output - outcome: quantity and quality of audits versus the chance to be audited for a company = taxpayer awareness.

The shown diagram gives an impression how to show the relations. In this example, the axes are made in a index rate.

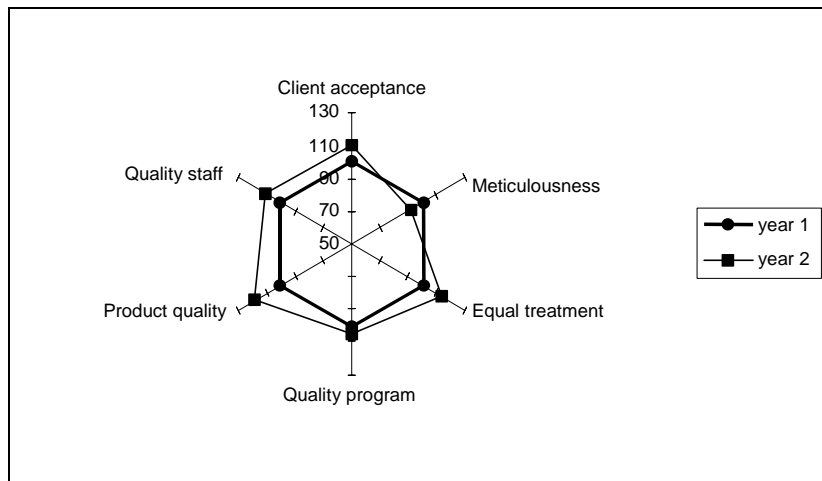
---

<sup>14</sup> Source: CIAT year 1997.



Model 5.14 Impression of index table

There is also another method to show relations. In a 'radar diagram', relations are put together in one view. Every axis represents a Critical Success Factor. In the first year, all factors are fixed at 100 (in the index). In the next year, you see the differences in development or performance clearly shown. Below is an example of a quality diagram.



Model 5.15 Quality diagram

Indicators and Critical Success Factors are only tools in the managerial process. In their use, the tools will get a purpose and also lay the limitations of the indicators. In the supporting process of planning and control, we see very often that a lot of data are collected. A part of the data are used to inform the management level about the performance of the operational units. Most of the time, it is only a minor part of the data that is used for the information process. From the operational units, there is always some resistance to deliver these data because they know from their own experiences that only a bit of these data are used. The challenge for controllers in an organization is to ask for a minimum of data and to try to exploit these data on a maximum scale.

An example of how to use indicators in the management process is given in the French situation.

#### ***The French example***

The device for measuring compliance with the main missions of the fiscal directorates consist in France of a series of indicators. In order to achieve a strictly quantitative approximation, the indicators were structured on the basis of three components:

- the activity;
- the quality;
- the efficiency.

The activity indicators measure the production of services by the positions determined in accordance with the tax structure (population, number of enterprises, etc.)

The quality indicators are determined in accordance with the nature of the mission and the criteria indicating adequate compliance (rates of error, terms for handling matters under dispute, exhaustiveness of files). The efficiency indicators report on the output of the services according to the resources available.

Elements of the socio-economic context complete the indicators. In order not to generate additional tasks for the services, the indicators, whenever possible, are a by-product of existing computerized processes. To assist the directorates in evaluating their level of performance, there is a classification for each indicator.

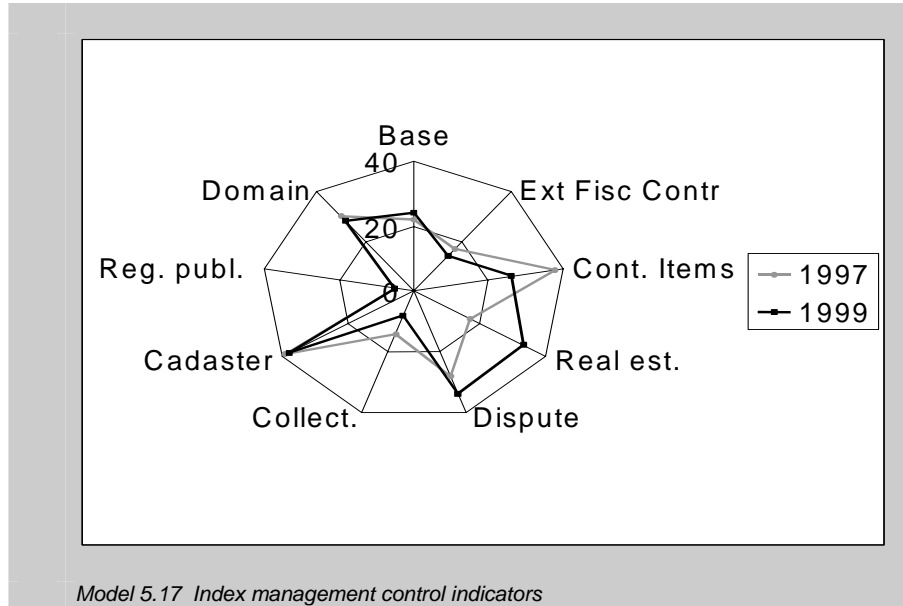
To this end, the 107 directorates of the fiscal services of DGI in France are divided into 5 homogeneous groups for comparison purposes (size and tax structure). The classification of each group is informed to each director of the network, thus allowing him to examine the relative level of performance of this directorate and comparing them with the department he considers similar or close to this. This comparative approximation is a powerful emulation factor.

The management control system of DGI consists of 9 groups of indicators. Each group is divided according to the given principles of activity, quality, and efficiency.

Sector	Activity	Quality	Efficiency
Base	<ul style="list-style-type: none"> <li>Pace of advancement of accelerated issuance number (income tax)</li> </ul>	<ul style="list-style-type: none"> <li>Pace of advancement of accelerated issuance in amount</li> <li>Rate of exemption in dispute</li> <li>Rate of late payers</li> </ul>	
External fiscal control	<ul style="list-style-type: none"> <li>Rate of compliance with theoretical program</li> </ul>	<ul style="list-style-type: none"> <li>Weighted rate of corrections</li> <li>Average rate of sanctions</li> </ul>	<ul style="list-style-type: none"> <li>Number of actions carried out following an investigation</li> <li>Average notice by verification agent</li> </ul>
Control on items	<ul style="list-style-type: none"> <li>Frequency of corrections</li> </ul>	<ul style="list-style-type: none"> <li>Average of notices</li> </ul>	<ul style="list-style-type: none"> <li>Average notice by agent</li> </ul>
Real estate verification control		<ul style="list-style-type: none"> <li>Average notices in registration fees</li> </ul>	<ul style="list-style-type: none"> <li>Average notice by agent of domicile verifications</li> </ul>
In dispute	<ul style="list-style-type: none"> <li>Coverage of burden of all business together</li> </ul>	<ul style="list-style-type: none"> <li>Rate of matters handled in certain period</li> <li>Rate of favorable</li> </ul>	

Sector	Activity	Quality	Efficiency
		or partially favorable judgments	
Collection	<ul style="list-style-type: none"> <li>• Coefficient of net collection over assignment</li> <li>• Evolution of proportion of debtor accounts</li> </ul>	<ul style="list-style-type: none"> <li>• Weighted average term of credit collection</li> <li>• Weighted average term of accounting of means of payment</li> </ul>	<ul style="list-style-type: none"> <li>• Amount of assigned collection by agent</li> </ul>
Cadaster	<ul style="list-style-type: none"> <li>• Coverage of the burden of extracts and returns on constructed properties</li> <li>• Coverage of the burden of constructed properties</li> </ul>		<ul style="list-style-type: none"> <li>• Weighted number of extracts and returns on constructed properties handled by agents</li> </ul>
Regional publicity	<ul style="list-style-type: none"> <li>• Term for updating the file</li> </ul>		<ul style="list-style-type: none"> <li>• Number of procedures handled by agent</li> </ul>
Domain	<ul style="list-style-type: none"> <li>• Coverage of the burden of evaluations</li> <li>• Coverage of the burden of management</li> </ul>		<ul style="list-style-type: none"> <li>• Weighted number of evaluations by agent</li> </ul>

*Model 5.16 Management control system indicators*



Model 5.17 Index management control indicators

*Comments on the French example*

Most of the indicators are dealing with the next Critical Success Factors:

- productivity (indicators as average notice by verification agent);
- processing quality (indicators as rate of matters handled in the month, and rate of late payers);
- product quality (indicators as rate of favorable or partially favorable judgements);
- completeness (indicators as rate of compliance with theoretical program);
- collection maximization (indicators as pace of advancement of accelerated insurance in amount of weighted rate of corrections);
- expenditure costs (indicators as amount of assigned collection by agent or number of procedures handled by agent).

The evaluation of the level of a directorate for a given mission, calls for aggregating the values of all the mission indicators. In addition, the results of the indicators appear under very varied forms (percentages, financial amounts, and terms). The transfer of the results of each indicator on a common grading scale is accordingly, essential prior to proceeding to this addition.

For each group of directorates, the system used thus establishes a correspondence between the zone of results and a grading scale. To the extent the

directorates closer to the center, the better will be its relative performance within the group, with respect to the activity considered.

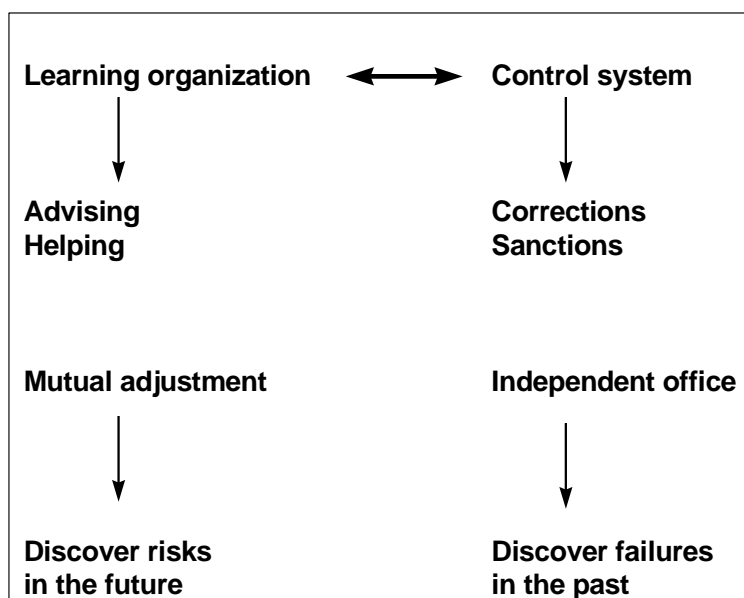
### 5.9. Internal control

The internal controls provide information to the management about deviations from the administrative organization as a result of which undesirable risks are created. In this sense, internal control is a form of administrative information that relates to the execution of the assigned tasks.

Who will carry out the internal control program:

- an independent unit (outside of the Tax Administration);
- an independent unit in the organization;
- mutual adjustment in the teams;

The benefit of an independent unit outside the Tax Administration is that their reports and advising are always neutral and are less linked with different interests of the Tax Administration. The advantage of mutual adjustment is that this system provides more challenges to become a learning organization. The risk is that certain risks and failures are hushed up.



Model 5.18 Internal control system



## 5.10. Evaluation

Periodic information about the risks within the administrative organization or the results achieved on the operational level can give a one-sided portrayal of the performance of the Tax Administration. Sometimes, it is advisable to look at the aspects of the performances from some distance.

This distance is all the more desirable as a lot of administrative information is marked by the pressure to report periodically about established quantities in a uniform way. For instance, an evaluation can show that a constant performance indicator for the relationship between corrections and letters of objection submitted against them can be caused by different reasons (more carefulness in the correction policy versus increased assertiveness of taxpayers). The average management information only indicates whether there is some risk in the implementation. However, evaluation is more than just a different analysis of available management information.

The concept of 'evaluation' is generally used if the effects of a policy must be demonstrated, but the evaluation of government policy can take place beforehand as well as afterwards. The distinction between the assessment of a policy beforehand and afterwards is known as evaluation *ex ante* (afterwards) and evaluation *ex post* (beforehand).

Evaluations are an essential part of the policy cycle. Within this context, policy is understood to mean a variety of courses of action, whether or not chosen deliberately. A policy cycle consists of six elements:

- Preparation of policy: the formulation of the policy problem, the collection and analysis of information, resulting in advice regarding the policy to be pursued;
- Determination of policy: taking decisions about the contents of a policy, leading to laws or rules;
- Making the policy operational: the translation of the formulated policy on behalf of its implementation;
- Implementation of policy: the application of the chosen means, resulting in policy performances (the output) and intended effects and side effects (the outcome). At this stage a distinction is made between the performance and its continued effects on the target group and other parties involved;
- Evaluation of policy afterwards: the assessment of the contents, the process, the performance and the effects of the policy;

- Feedback: the adjustment of the policy on the basis of information about the contents, the process, the performance and the effects of the policy.

### **5.11. The monitoring process**

Monitoring is a special methodology for the collection of administrative information. However, one can just as well claim that it is a policy evaluation methodology. Monitoring is the observation of movements. It is a concept that originates from the audio-visual world, the camera that registers movements. At the moment, there is no organization able to do without it. From this point of view, monitoring explains what the management wants to have visualized in the control of complex organizations. It is the continuous observation of the behavior of actors in relation to the performance of the organization. Some Tax Administrations have good results with an external monitor.

#### **The Netherlands example**

For the Dutch Tax and Customs Administration (DTCA) a fiscal monitor has been in use for some years now, that reports to the top management about the opinion of taxpayers about the performance of the organization.

#### ***Fiscal Monitor in the Dutch Tax and Customs Administration***

As mentioned before, it is important to know how the taxpayer perceives the DTCA's actions and, more generally, how he looks upon the DTCA. The Fiscal monitor is a measurement instrument, based on personal standardized interviews among the different client groups as defined earlier. It is used to gauge periodically what the taxpayer thinks about the DTCA, and how it could perform better.

As it is the DTCA's task to execute fiscal law, this is exactly what the Fiscal Monitor focuses on, and we wish to find out the taxpayers' views on our performance in this respect. Topics that are dealt with therefore include, for instance 'is the form clear?' and 'does the taxpayer receive his tax refund in time?'. But not the following: 'does the taxpayer agree with his tax burden?' or 'does the taxpayer agree with restrictions on reductions?'. Questions of the latter type concern issues on which the DTCA has no influence. The underlying goal,

then, is to check whether the ideas behind the compliance concept are supported by what we find when looking at the taxpayers' reactions to the DTCA.

*Positioning*

The evaluation of DTCA performance is not based exclusively on the Fiscal Monitor. The figure below shows that the Fiscal Monitor is only one instrument in a list of different aspects on the basis of which the quality of the DTCA must be evaluated. First of all, the DTCA figures are required: the *objective* data on taxes collected, the number of assessments, corrections, complaints, appeals and court cases, etc. In addition to this data, we also need to obtain insight into *subjective* aspects: experiences, attitudes, expectations, and knowledge. Information on both subjective and objective indicators can be gathered *within* and *outside* the DTCA. The subjective aspect of the quality of telephone contacts can be assessed at the taxpayer's side as well as at tax officer's side; the results can be measured objectively both within the office and through outside research. The figure below combines the objective/subjective dimensions and the inside/outside dimensions, giving some examples in each category:

	<b>Outside</b>	<b>Inside</b>
<b>Subjective</b>	<ul style="list-style-type: none"> <li>• valuation of brochures</li> <li>• valuation of subject knowledge</li> <li>• external image</li> <li>• valuation of accessibility</li> <li>• fiscal morality</li> <li>• <b>Fiscal Monitor</b></li> </ul>	<ul style="list-style-type: none"> <li>• perception of policy</li> <li>• job satisfaction</li> <li>• Internal Monitor</li> </ul>
<b>Objective</b>	<ul style="list-style-type: none"> <li>• complaints received by the Ombudsman</li> <li>• technological developments</li> </ul>	<ul style="list-style-type: none"> <li>• production figures</li> <li>• quality of field work by tax auditors</li> <li>• number of appeals lodged</li> </ul>

*Model 5.19 Positioning evaluation data*

The figure shows the importance of looking at the problem from different angles, which produces different results. It is quite conceivable, for instance, that tax officials and taxpayers rate accessibility differently. Optimum policy development depends on combining all these aspects. The Fiscal Monitor, however, is

intended for assessing taxpayers' views and opinions, and has therefore been categorized as a *subjective outside* form of assessment.

#### *Themes*

The Fiscal Monitor is concerned with the following elements:

- accessibility (access by telephone and physical access);
- personal, client-friendly treatment by tax officials;
- fulfillment of promises;
- time involved in completing assessments;
- comprehensibility of forms, instructions, brochures and correspondence;
- use of and satisfaction with the "Call-your-tax-official" service;
- treatment of appeals and complaints;
- the checking and challenging methods the tax officials use;
- integral client service;
- taxpayers' attitudes (mistrust, pugnacity);
- underlying characteristics and demographic data.

#### *Client groups*

The DTCA has various fairly autonomous divisions for handling the tax affairs of specific client groups. This means that the Fiscal Monitor must produce results at a divisional level as well as for the service as a whole. The research system facilitates subdivision into specific groups of taxpayers (e.g. based on the applicability of certain forms, company size, or location).

The Fiscal Monitor puts its questions not only to taxpayers, but also to tax practitioners, as they might be able to perceive changes at a very early stage due to their frequent contacts with the service.

The Fiscal Monitor distinguishes the following groups:

- large companies (divided into very large and other companies);
- business taxpayers
- private taxpayers (complex tax forms and simple tax forms);
- customs clients (frequent and less frequent clients);
- customs forwarding agents;
- tax practitioners (commercial or non-profit).

#### *Types of question and method*

Each client group is approached with a group-specific questionnaire, including a few questions that appear on all the questionnaires. The monitor predominantly

uses standardized, closed multiple-choice questions. Questions about attitudes are usually in a 5-choice Likert format, and are analyzed by means of reliable assessment scales. Three types of question are asked: fixed questions (appearing every year), intermittent questions (appearing every second, third or fourth year), and incidental (ad hoc) questions. The main method used in the Fiscal Monitor is that of asking people standardized questions in a face-to-face setting, entering the answers directly into a laptop (CAPI-survey). The more confidential questions are not dealt with orally; the respondents read the questions and type the answer directly into the computer. Each interview lasts for about an hour.

Some smaller client groups with a special characteristic are dealt with by means of a semi-structured, free (qualitative) interview. These groups include very large companies, forwarding agents, and non-profit practitioners. The monitor has a panel design with rotating panels: some of the respondents in a particular year will be approached again the following year; and the group of carried-over respondents in the second year is complemented with a newly drawn, random sample of taxpayers. No tax-payer is asked to partake more than twice. Using this system of rotation rules out the risks of selectivity and the same people being interviewed over and over again. Moreover, the panel structure makes it possible to spread out the different parts of a long questionnaire over two years. The panel is also useful for research into individual reasons for change.

#### *Enhancing response*

The response aimed for has been set at 60%, which is generally achieved. It turned out to be necessary to rely on a number of response-enhancing measures:

- (within the business client groups) pre-screening of companies by experienced direct-marketing interviewers to trace the right person in the firm, and persuade him or her to take part;
- sending balanced letters of announcement to prospective respondents on behalf of the DTCA and the field work agency;
- repeatedly approaching cases of half-hearted refusals;
- (in the private taxpayers client group) revisiting people who were not at home at different times on a particular day;
- extending the period of field work;
- using first-class interviewers.

In some client groups, the general questions (all-over judgement about the DTCA) have been used for respondents refusing to respond, in order to check the selectivity of failure to respond.

#### *Recommendations*

Critical success factors for research within the DTCA on client satisfaction appear to be:

- including the top management in the process by giving them a role in developing and implementing the research effort;
- striking a balance between the work of outside independent expert researchers and that of internal experts;
- developing and testing the instrument. Sufficient time should be reserved for this; periodic reevaluation is important;
- fieldwork gains from approaching respondents in an intensive and skillful manner; a smaller sample with a higher response rate is to be preferred over a larger but selective one;
- to force others to respond to and use the results, these should form part of the regular planning cycle;
- people will only be able to benefit from the Fiscal Monitor and help the DTCA to improve its performance if there is a good communication program in terms of both internal and external communications.

#### ***Internal Monitor in the Dutch Tax and Customs Administration***

Besides having a clear overview of the opinions of taxpayers about the performance of the Tax Administration, it is as important to monitor the opinions of the personnel. After all, the personnel is responsible for the actual implementation of fiscal laws and determines day-to-day contact with taxpayers and the public opinion about the Administration.

The Internal monitor consist of 130 questions which cover all relevant issues about working at the Dutch Tax and Customs Administration:

- job content;
- information provision;
- quality of management;
- organization of work;
- teamwork;
- conditions of employment;
- working conditions;
- development possibilities;

- mobility policy;
- general characteristics of working at the DTCA.

Furthermore there is a cluster of questions tuned with the Fiscal Monitor in order to monitor possible differences in perception between personnel and the public. In order to be able to make a comparison with other organizations in the Netherlands, 13 benchmark questions are embodied in the Internal Monitor.

### ***The U.S. experience***

The IRS has developed a set of balanced measures to help assess progress against the Service's qualitative goals. The Balanced Measures consist of three areas: customer satisfaction, employee satisfaction, and business results. Each area of the Balanced Measures is equally important.

The Employee satisfaction measure is made up of employee perceptions of the management practices, organizational barriers, and the overall work environment that affect their effort to do a good job.

### ***The Chilean experience***

#### *Studies for evaluating taxpayer assistance*

Taxpayer assistance is one of the issues of greatest concern to the Service, for which reason it has undertaken a series of actions aimed at substantially improving the relationship with the taxpayers and, accordingly, tax compliance.

Thus, as new procedures for massive taxpayer assistance have been implemented, the SII has performed the corresponding studies for evaluating perception by its users, which then becomes a routine periodic evaluation.

These evaluations began in 1994, with the Income Operation and in 1996, with the Taxpayer Life Cycle-- the two most important processes dealing with taxpayer assistance. The SII is planning to incorporate in this evaluation system in 1997, a third and important procedure: the Tax Court.

*Quality evaluation of assistance in the income operation (1994 - 1996)*

The general objective of this study is to evaluate the assistance given to the taxpayers that are summoned by the SII in the annual income return filing process ("Income Operation").

In particular, the study allows for measuring the level of satisfaction with the various stages of assistance (information received, officials, infrastructure, others) and how taxpayers who have been summoned on previous occasions, perceive changes at the SII.

*Problem*

Between 8 to 10% of taxpayers are verified annually in the annual income tax return filing process. It was assumed that this segment should have a negative opinion about the SII and even more so, those taxpayers that requested tax refunds.

On the other hand, a series of modifications had been made to the Income Operation process and we needed to know how those affected evaluated it.

*Result of the Evaluation of the 1994 Income Operation*

The taxpayers' answer was somewhat encouraging. The taxpayers' main satisfaction with respect to assistance was "satisfaction with the officials" which were assessed highly. As regards the information provided for filing the income return, the Tax Supplement published by the SII was well evaluated.

The major weaknesses were found concerning satisfaction with equal treatment, waiting time and strongly with respect to the date of the summons to go to the SII's office.

*Strategies, Actions and Results*

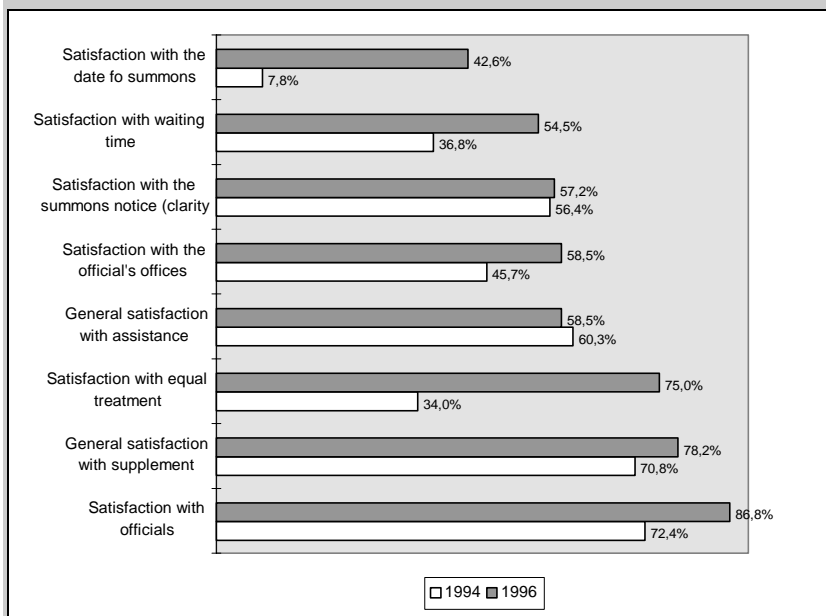
An exhaustive investigation was performed with respect to the perception of equality/inequality of treatment, after which a series of procedures were implemented to increase the perception of transparency: number of taxpayers assisted in the office and clear aleatory selection with respect to the examiner, among others.

As for the waiting time, it was decided to separate assistance to those taxpayers summoned for resolving complex matters, such as investments, in order to speed up assistance in general.



Lastly, efforts were made for significantly improving the term of summons, in order to improve further early assistance to objected taxpayers with refunds.

In 1996, a re-evaluation was made about the income operation and the graph shows a comparison of the effect of actions undertaken: equal treatment becomes an attribute of great satisfaction, while satisfaction with waiting time, as well as the date of summons improved considerably.



Model 5.20 Evaluation of Income operation satisfaction with the various stages of assistance

*Quality evaluation of assistance in the taxpayer life cycle (1996)*

The purpose of this survey is to determine assistance given to taxpayers in the processes for obtaining the TIN and Initiation of Activities (RIAC) as well as in the Stamping of Documents.

As in the study for evaluating the Income Operation, the purpose here is to determine the level of taxpayer satisfaction with the various stages of assistance such as, for example, waiting time, perception of change of the Service, and to evaluate the success or failure of management.

It is important to note that all those attributes that may be compared in the various assistance processes are measured identically, in order to determine the same standards within the Service, for example, in relation to all aspects dealing with the evaluation of officials.

*Problem*

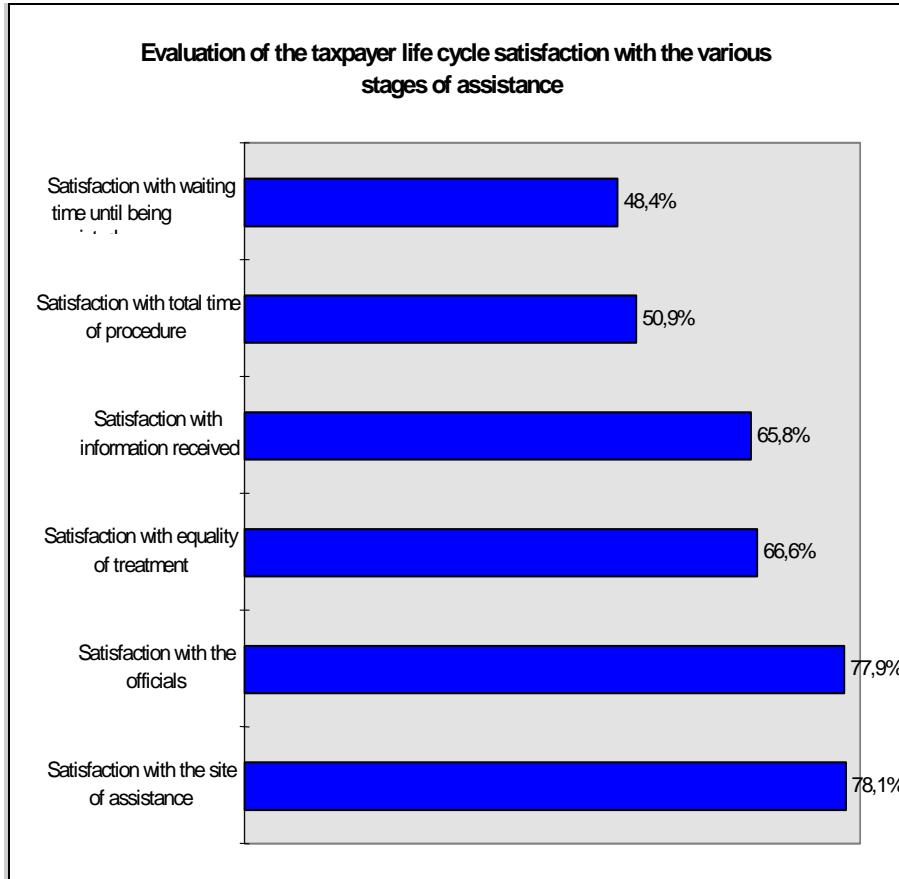
As in any new procedure for innovating a series of essential aspects, the implementation of the Taxpayer Life Cycle was not exempt from difficulties. Thereafter, it was of vital importance to evaluate the taxpayers' perception following its implementation and operation throughout the country.

*Result of Evaluation of the Taxpayer Life Cycle*

The global taxpayer evaluation of assistance received is good, since 66% said they were satisfied with the Service, while only 10% expressed clear dissatisfaction.

As with respect to the attributes, the level of satisfaction varies depending on the office evaluated, while the percentage of satisfied taxpayers also varies according to the type of procedure performed (highest in stamping) and the type of taxpayer (highest in individual taxpayers).

In the graph, we may observe one of the most important conclusions of the study, namely in general terms, taxpayers are very satisfied with the various stages of assistance. Exceeding the goal of 65% satisfaction in most stages, it has been noted that in the Income Operation, officials are highly evaluated. However, the greatest dissatisfaction deals with waiting time as well as with the total time of the procedure.



*Model 5.21 Evaluation of taxpayers life cycle satisfaction with the various stage of assistance*

**Strategies and Actions**

It may be inferred from above that in order to improve the level of general taxpayer satisfaction with the Service, efforts must be made for reducing waiting time.

The SII is currently implementing a new project, considered a true innovation in the way of facing public management, especially regarding assistance to citizens. It will guarantee taxpayers a maximum 30-minute waiting time before receiving assistance in the most frequent procedures undertaken before the

Service (Taxpayer Life Cycle), ensuring at the same time, conclusion of the aforementioned procedure in a single visit to the institution's offices.

If the SII fails to comply with this term, it will receive and process the background information and send the completed procedure to the interested party's domicile.

The Maximum Waiting Time project will be implemented this year, to be integrally applied in 1997, and thus fulfill the objective of providing speedy and expeditious assistance to taxpayers, especially those showing adequate taxpayer behavior, but without disregarding the necessary strictness in verification of the payment of taxes, which is the mission entrusted by law to the SII.

## 6. Cultural aspects of management

This book often returns to the fact that an organization such as a Tax Administration consists of the concerted efforts of individuals. The structure of the organization, its management philosophy and process definitions are simply expressions of this fact. Our behavior and expertise serve as the basis for cultural expressions, on which organizations elaborate. In designing organizational form and in selecting and training personnel, we are expressing our culture.

### 6.1. Cultural differences between societies

The different cultural criteria that influence the mental programming of individuals in society also provide important input for organizations in this context. Most values are disseminated and acquired during childhood. Parents, other members of the family group and primary school all exert enormous influence in passing these shared values on to children.

Later, while at secondary school and perhaps during further studies, these values are consolidated and exchanged. While this period may appear one of conflict, it is an essential time of finding a balance between individual and collective expectations. Naturally, the length and intensity of this period differs depending on the society and culture.

During our working life, the organizations for which we work again attempt to influence us. In the main, this is more successful when employees are young and at the start of their careers, when they are more susceptible to socialization. But we believe that organizations create their own culture - which is partly true. A society's social values are the fundament of any organization. A Latin American Tax Administration reflects the common values of that society and is more comparable with another Latin American public organization than a North American or European Tax Administration.

Here, a warning is in place: always be sure to implement a concept differently in different societies. In the United States the notion of leadership has an entirely different connotation than in Argentina. Both are based on the values of leadership in the different societies. Sometimes the values may seem the same but could mean completely different things in practice. For instance, responsi-

bility could be based on the performance of the task, but also on the principle of taking care of group participants. Taking responsible action has various interpretations, depending on the culture prevalent in that country. Estimating what is good or wrong is irrelevant, because, after hundred years of evolution, the basic values determine what best practice actually entails.

The previous chapters dealt with the hardware of organizations: the processes, the structure, the systems for planning and control, etc. But this is only one aspect of organizations. The software of the organization is everything that is involved with culture. Employers and employees are not formed by the organization. When they enter the organization, employees also bring part of society with them.

Culture is based on several expressions. Ranging from superficial to more in-depth aspects, we could mention the following:

- Symbols: words, images, items, etc. that could only be understood by the group member;
- Heroes: persons dead or alive, real or fictional, possessing characteristics valued by society;
- Rituals: collective activities that, technically speaking, are unnecessary but essential in the social context;
- Values: a collective approach that prefers one way of acting or course of action to another. Values always involve 'plus/minus' behavior.

In society, symbols, heroes and rituals are combined to form practices<sup>15</sup>.

Hofstede studied many organizations in more than fifty countries and discovered wide divergence in performance. He divided the countries according to different criteria such as:

- Power distance: the extent to which the less powerful members of society accept that power is distributed unequally.
- Individualism / collectivism:
  - individualism: people only look after themselves and their immediate family.
  - collectivism: people belong to in-groups (families, clans or organizations) who look after them in exchange for loyalty.

---

<sup>15</sup> Hofstede, G. : Cultures and Organizations, Software of the mind, London 1981.

- Masculinity / femininity:
  - masculinity: the dominant values in society are achievement and success.
  - femininity: the dominant values in society are caring for others and quality of life.
- Uncertainty avoidance: the extent to which people feel threatened by uncertainty and ambiguity to avoid these situations.

He also made a study of the implications of cultural diversity for managers. The table below summarizes this diversity<sup>16</sup>.

<b><i>Power distance High</i></b>	<b><i>Power distance Low</i></b>
<ul style="list-style-type: none"> <li>• High dependence need inequality accepted.</li> <li>• Hierarchy needed superiors often unacceptable.</li> <li>• Power holders have privileges.</li> <li>• Change by revolution.</li> </ul>	<ul style="list-style-type: none"> <li>• Low dependence need inequality minimized.</li> <li>• Hierarchy for convenience superiors accessible.</li> <li>• All have equal rights.</li> <li>• Change by evolution.</li> </ul>
<b><i>Collectivism</i></b>	<b><i>Individualism</i></b>
<ul style="list-style-type: none"> <li>• "We" conscious.</li> <li>• Relationships over tasks.</li> <li>• Fulfil obligation to group.</li> <li>• Loss of "face", shame.</li> </ul>	<ul style="list-style-type: none"> <li>• "I" conscious.</li> <li>• Private opinions</li> <li>• Fulfil obligation to self.</li> <li>• Loss of self-respect, guilt.</li> </ul>
<b><i>Masculinity</i></b>	<b><i>Femininity</i></b>
<ul style="list-style-type: none"> <li>• Ambitions and need to excel.</li> <li>• Tendency to polarize.</li> <li>• Live in order to work.</li> <li>• Big and fast are beautiful.</li> <li>• Admiration for the achiever.</li> <li>• Decisiveness.</li> </ul>	<ul style="list-style-type: none"> <li>• Quality of life, serving others.</li> <li>• Striving for consensus.</li> <li>• Work in order to live.</li> <li>• Small and slow are beautiful.</li> <li>• Sympathy for the unfortunate.</li> <li>• Intention.</li> </ul>

<sup>16</sup> See Appendix III : Extensive description of cultural differences.

<b>High uncertainty avoidance</b>	<b>Low uncertainty avoidance</b>
<ul style="list-style-type: none"> <li>• Anxiety, higher stress.</li> <li>• Inner urge to work hard.</li> <li>• Showing emotions accepted.</li> <li>• Conflict is threatening.</li> <li>• Need for agreement.</li> <li>• Need to avoid failure.</li> <li>• Need for law and rules</li> </ul>	<ul style="list-style-type: none"> <li>• Relaxed, lower stress.</li> <li>• Working hard not a virtue per se.</li> <li>• Emotions not shown.</li> <li>• Conflict and competition seen a stain play.</li> <li>• Acceptance of dissent.</li> <li>• Flexibility.</li> <li>• Three should be few rules</li> </ul>

*Model 6.1 Cultural diversity of managers*

A fifth dimension was discovered when several Chinese scientists contributed typical Asian values to the survey, which they called Confucian dynamism. This means: the extent to which a society exhibits a pragmatic future-oriented perspective as opposed to a conventional historic perspective seen from a short term perspective.

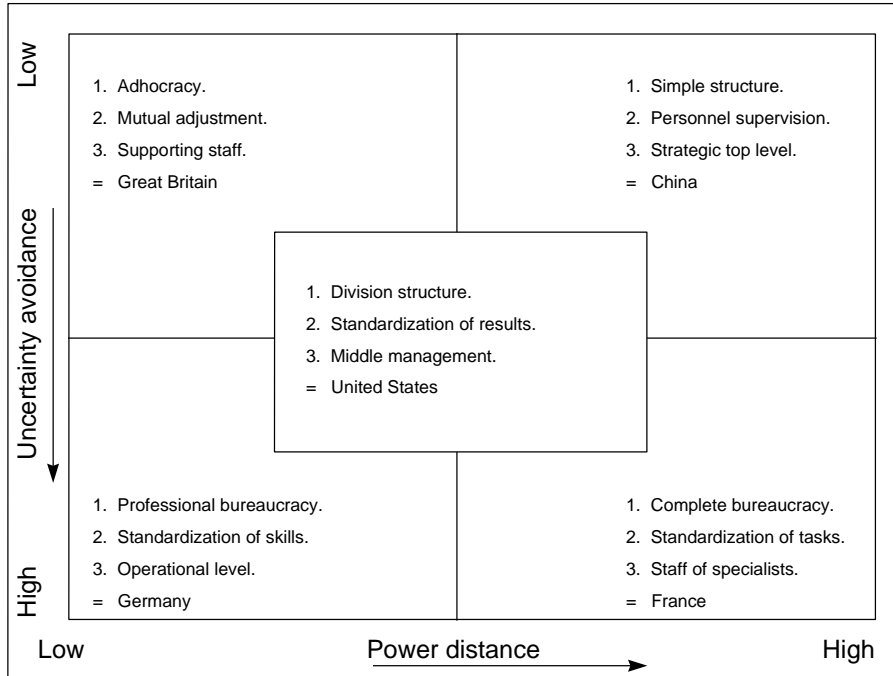
<b>High Confucian dynamism</b>	<b>Low Confucian dynamism</b>
<ul style="list-style-type: none"> <li>• Many truths (time, context).</li> <li>• Pragmatic.</li> <li>• Long term orientation.</li> <li>• Acceptance of change.</li> <li>• Perseverance.</li> <li>• Thrift for investment.</li> </ul>	<ul style="list-style-type: none"> <li>• Absolute truth.</li> <li>• Conventional / traditional.</li> <li>• Short term orientation.</li> <li>• Concern for stability.</li> <li>• Quick results expected.</li> <li>• Spending for today.</li> </ul>

*Model 6.2 Confucian dynamism*

Appendix II provides a table of cultural differences in indexes

A blend of these criteria and Mintzberg's theory for the five main organization types offers a total view. Of course, it is a model of reality. But the chief argument of this paragraph is that organizations are not only built on structure, tasks, responsibility, results etc. but also on a society's pivotal values.





1. Favorite organization type.
2. Favorite coordination principle.
3. Most important part of the organization.

Model 6.3 Organization types, Mintzberg

## 6.2. Cultural change within organizations

### 6.2.1. New tendencies within organizations

The increasing global changes represent the future that has already arrived, a future that has deeply modified our beliefs and ways of life. The work environment had been affected by these new tendencies. This implies serious threats to the stability in which we lived until recently.

Facing modified external circumstances, the way work is organized is also changing. The change not only implies the organizational structure, but also

highlights the beliefs, models, and values we have followed to date which also require total restructuring.

For example, savings and drastic reductions in the number of employees, a measure that has always been used when trying to increase productivity, have been insufficient. The measure is inadequate because even though certain elements have been downsized, the company retains the same pyramidal structure, remains hierarchical and functions according to a model still under development. In reality, the focus should be on a far-reaching transformation of organizational work.

The following table presents the primary changes that, in the need of a drastic restructuring of businesses, represent the future, the new model for organizational work.

<b>Current work model</b>	<b>Future work model</b>
Organization divided in functional departments	<i>Organization by processes and teams:</i> Discontinue serial work and divided departments, and the creation of multi-disciplinary groups formed by people with diverse functions in charge of completing a whole process.
Personnel in charge of the execution of simple tasks	<i>Multi-functional personnel (multi-skills):</i> As serial work is discontinued, teams require a basic knowledge of the whole process, all members participate and are trained to perform diverse tasks, even when certain tasks do not belong to his or her area.
Controlled personnel	<i>Empowered personnel:</i> As part of a team where everyone is responsible for the results of the whole process, the employee requires certain authority to make instant decisions and solve client problems. At hiring time, on top of evaluating their knowledge and skills, the restructured firm must consider the character, initiative and auto-discipline of the applicant.
Trained personnel	<i>Educated personnel:</i> For a process to be successful, the employee requires authority. Then, the employee needs quality training that

Current work model	Future work model
	ensures proper criteria to determine what need and need not be done. Proper training increases skills and gives the employee the know-how required for the job. Training enhances knowledge and comprehension.
Passive activities in certain times	<i>Productive activities - result oriented:</i> Even though certain tasks lack quantifiable value, they are part of a series of processes; the activities performed are integrated into a whole with a certain value. Then, even when specific tasks do not generate revenue, it is possible to remunerate and consider them as vital in a process that produced results.
Work for employer or director's satisfaction	<i>Work for client's satisfaction:</i> The aim is to change current events, where work is focused on the boss and not the client. The objective is to direct efforts to achieve complete client satisfaction, even when the manager is not responsible for the whole process.
Supervising directives	<i>Developer directives:</i> Within a restructured business, the boss must leave the reviewing function behind, to become a facilitator and supportive guide. His or her duty is to develop the personnel and their skills. The employees will have the skills to create valuable processes on their own to the advantage of the institution.
Hierarchical levels, pyramidal structure	<i>Flat and flexible structures:</i> When the whole team is responsible for the process, many levels of the organization are no longer needed. Then, as effective process integration teams are created, hierarchies that tend to delay the process can be eliminated. Flatten the organization
Directives little related with the operations	<i>Leader directives:</i> In a restructured environment, the results rely more on the activities and efforts of the employees than on projects

Current work model	Future work model
	elaborated from behind a desk. Therefore, facing a flat structure, the directive has more possibilities to reach his or her employees, to influence and reinforce their values in respect of the new organizational structure. Within this type of structure, the directive's task is to ensure that the employees can perform the required duties and that they are highly motivated by the institution's administrative systems.

*Model 6.4 Restructuring of businesses*

### **6.2.2. Organizational culture**

#### *Characteristics*

The characteristics that highlight the essence of the organization's culture include:

- Individual autonomy: degree of responsibility, independence, and personal opportunities;
- Structure: degree of norms and regulations, supervision intensity directed to personnel;
- Support: degree of help and co-operation of subordinates;
- Identity: degree to which members identify themselves with the organization as a whole;
- Performance-reward: degree to which rewards and incentives are distributed based on performance evaluations and systems consequences;
- Conflict tolerance: form in which conflicts are solved without creating remorse;
- Risk tolerance: degree to which the employee is encouraged to be aggressive, innovative, and willing to take risks.

#### *Functions*

At the heart of the organization, the culture serves a number of functions:

- Defines the limits: characteristics distinguishing one organization from another are established;
- Creates a sense of identity among personnel;
- Facilitates the creation of personal commitment with broader interests than those of the individual;

- Increases the stability of the social system.

*Traditional culture*

Traditional cultures are a disadvantage when shared values do not correspond with those that favor progress, change, and innovation. This often occurs when the environment within the organization is dynamic and fluid. Then, a deeply rooted traditional culture is no longer adequate and becomes a heavy burden that makes adaptation to environmental changes harsh and difficult.

*Creation and preservation*

The culture of an organization is not generated spontaneously, but is based on the organization's mission, vision, and values, even when circumstances mutate with time, configuring the history that deepens the procedures within the organization and its members. In big organizations, building a culture becomes even more complex, due to the presence of sub-cultures altered by functions, geography, or customs of the cultural entity.

### **6.2.3. Cultural change**

Cultural change is a precondition in realizing significant results.

Culture precedes all transcendental results, given that significant changes cannot be achieved in the long run focusing only on technical and strategic aspects.

Cultural change has at least four directions:

1. Consequential: change performed by people responding to their own acts and the consequences derived from them. This approach is based on ethics and responsibilities that eliminate excuses as a resource.
2. Precedent: change that supports certain action taken by compelling reasons, congruence with previous decisions is sustained, avoiding actions based on 'unconnected illuminations'.
3. Congruency: this change proscribes the concealment and cosmetic aspects that further and stimulate rectification. The recognition of an error increases the confidence of colleagues and collaborators, as the members know what to expect from their manager.
4. Transcendental: this change avoids myopia and allows a clear conscience for the reasoning behind the assignation and positioning of the directives, for the development and achievement of a mission, a purpose, and a destiny.

#### **6.2.4. Change process**

##### *Previous stage*

The initial diagnosis to detect the needs felt within the organization, is a fundamental requirement in implementing a professional cultural change process that, with technical severity, satisfies the allocation of the neuralgic points that optimize the efficiency and efficacy of the organization.

##### *Preparation stage*

Based on the results obtained with the diagnosis, the next step is to define the new culture to determine endogenous and exogenous needs, as well as a common mission, vision, and values. According to this new way of perceiving the cultural factor, the new roles must be described to meet the new dimensions demanded by the organization.

##### *Initial intervention stage*

The sensitization and communication of new values is vital to initiate this stage, to avoid building expectations that cannot be satisfied or that result in low-challenging goals for the personnel and the organization as a whole.

On the other hand, it is essential to start with an intensive process of education and training, leading to the modification of knowledge, skills, and attitudes of the entire personnel to create a new collective soul, that facilitates the interaction of the components, developing a synergetic concept.

##### *Later intervention stage*

A critical success factor of the program is the generation of work teams that share a common objective and the development of agents of change that monitor cultural change. The agents of change must be sufficiently motivated to irradiate the confidence and energy needed to secure the process of change.

Once the euphoria caused by the three initial stages is gone, it is necessary to develop reinforcing and maintenance actions that grant life, validity, and energy to the process.

### 6.2.5. Training within cultural change

#### *Conceptual framework*

Training must be a planned activity, based on real needs, and oriented towards an evaluative change of the knowledge, skills and attitudes of the whole personnel, that lead to modified conduct.

In this three-phase process, attitudes are especially important, as they represent a tendency of effective behavior, ruled by the perception of individual regarding facts, people, situations and institutions.

#### *Learning process*

Is the disposition to learn, confronting a new situation, that demands a new answer, and could comprise:

- External: increase of salary, promotion, recognition of the institution, etc.
- Internal: the satisfaction derived from mastering a technique or the acquisition of a manual skill.
  
- Motivation: is the force that produces, motivates, focuses and sustains behavior directed at achieving certain goals.
- Attention: is the ability to consistently receive all sorts of stimuli through the senses. It means actively participating in considering what is perceived by the senses. Successful training provided by the institution must capture the attention and stimulate the interest of its participants.
- Perception: is the first conscious grasp of an object, beginning with how it is perceived by the senses. Next, the individual creates his or her own image of the surroundings, ideas and stimuli. It is important to consider that the perception of cases or ideas differs for each person. To avoid multiple interpretations, the instructor must make sure that his or her communication is as effective as possible;
- Memorizing: an act with which the mind retains the data it receives, without necessarily relating them to other data. From this point, the individual will be capable of repeating what was seen or heard, but without clear understanding;
- Comprehension: consists of giving meaning to the information received during perception. An adequate comprehension requires processing the data perceived and translating it into information. The rational treatment of information through logical relations allows the proper formulation of judgements;

- Retention: consists of retaining information received and incorporating it into previous information. Retention differs from memorization, since the latter implies storage of fixed data, without proper comprehension, which is easily forgotten;
- Use of knowledge: This is the application of knowledge to the proper adaptation needed for each situation, comparing the results of the application of the concepts received, to prove, confirm and enrich what was learned.

#### *Training strategic planning*

- start with the organization's mission, vision and values;
- be familiar with the strategies for each product and service, as well as their particular business plan;
- analyze general problems within the organization and any particular problems of the functioning areas and groups of work;
- be familiar with the current and future human resources needs;
- study the competencies and skills needed by the most representative positions for each level of the organization.

### **6.2.6. Change as the only constant**

#### *High, yet attainable expectations*

The philosophy 'for everything to stay the same, everything must change' should be firmly imprinted so that processes of change are seen as a perfectly normal phenomenon to which we will be linked for the rest of our life.

The challenges that the future holds must be previously determined by the directives. The objectives must be attainable to avoid frustration and disappointment.

#### *Knowledge of the basic rules*

Every member should be familiarized with the 'rules of the game', since the cultural change will be based on them.

#### *Process administration*

A cultural change must include a basic attitude change, as people understand that the job must be a serial process - my work as an individual and as part of a group is important, but it is also important to understand the relationship that must exist with other areas that constitute unitary work.



*Learn to learn*

Knowledge must be a constant value that inspires behavioral action, considering that every member is a 'product in process' and that we will never be 'finished products'.

### **6.2.7. Learning organizations**

We have seen that the Tax Administrations often share the same core tasks and generally have a mission that attempts to realize an identical strategy. The structure of the organization and the management styles deployed can, however, differ. In other words the what of Tax Administrations is generally the same worldwide but the way or how things can be analyzed may differ. Every country has developed its own methods to reach the optimum between assigned task, the resources provided and the culture present.

This book is intended to present a clearer picture of the various methods. Many examples only serve to illustrate a point and are not presented as the sole possible solution.

The learning organization has a future. Learning instead of justification. Exchanging research and experiences rather than sticking to dominant patterns.

The learning organization acknowledges errors to learn from them. But also recognizes those responsibilities that must continue to be met. Changes are directed at opportunities where past errors are seen as failure factors.

Learning in organizations means constantly testing experiences and transforming these experiences into know-how that is accessible for the entire organization and relevant to the purpose of its existence<sup>17</sup>.

How can such a definition be used? Managers can deploy it to test their own learning process. The definition can serve as a sort of checklist:

- do you continually test your experiences?;
- are you prepared to put your sacred cows under the microscope and discuss them openly, not just in times of crisis but also when things are going smoothly? What structures have you set up for this testing? Do you 'shoot the messenger' when he highlights potentially negative information?;

---

<sup>17</sup> Senge, P, The fifth discipline fieldbook, New York, 1994, pp. 39-40.

- do you produce know-how? In this case, know-how means the capacity of taking effective action. Does your organization emphasize skills that were not previously present? Do you find that your know-how has added value compared to the data you received and retained?;
- is the know-how shared? Is the know-how accessible to all members of the organization? Or do you often hear such comments as: "I'd swear we wrote a report about this two years ago"?
- is the learning relevant? The label 'not relevant' shouldn't be used to filter out new ideas by definition. But you should wonder: is learning focused at the organization's core purpose? Can people use it? This also happens to be an excellent criterion for assessing training programs.

Although our organizations may differ, there is one given: we will need to learn continuously if we are to be able to direct the process of change ourselves.

# Glossary

## A

accountability .....38; 123  
 administrative expenses.....8  
 appeal .....82  
 appeal procedures .....83  
 Argentina.....48; 54; 262  
 assessing .....11  
 assessment.....79  
 assistance .....101  
 associations .....123  
 audit .....178  
 auditing .....11; 93  
 Australia .....11  
 autharchy regime .....261  
 authority .....42  
 autonomy .....5

## B

balanced scorecard.....180  
 bank reconciliation .....89  
 Belbin .....157  
 Bolivia .....52; 79  
 Brazil.....48; 54; 75; 134  
 budgetary autonomy .....27  
 bureaucracy .....45

## C

Canada ..... 11; 18; 22; 48; 54; 146  
 career path .....125  
 Chile.....23; 49; 95; 205  
 CIAT .....1  
 CIAT members .....67  
 classification of taxpayers .....78  
 client design.....62  
 client groups.....202  
 collecting .....11  
 collection .....178  
 collection system.....86  
 collectivism.....212  
 Colombia.....23; 54; 79; 263  
 Commissioner .....31  
 competitiveness .....123  
 compliance .....9; 25; 65; 97

computerized ..... 105  
 confidentiality ..... 18  
 confucian dynamism ..... 214  
 control..... 42; 43  
 coordination ..... 8; 42  
 corporate values ..... 37  
 cost-effectively..... 12  
 critical success factors  
 ..... 63; 176; 182; 204  
 culture..... 35; 212  
 customer service ..... 103  
 customs ..... 11; 53; 54; 95

## D

data integration..... 34  
 de-bureaucratization ..... 122  
 decentralization ..... 122  
 declaration ..... 82  
 Denmark ..... 54  
 documentary auditing ..... 93  
 Dominican Republic..... 23  
 Dutch Tax and Customs  
 Administration .....  
 ..... 16, 57, 85, 92, 105, 159  
 dynamic environment ..... 44

## E

economic integration ..... 7  
 Ecuador ..... 79; 263  
 education ..... 100  
 efficiently ..... 12  
 El Salvador ..... 79  
 electronic commerce ..... 3  
 electronic filing..... 73  
 empowerment..... 41  
 equator ..... 49  
 European Court of Justice ..... 82  
 European Union..... 54  
 excise duties..... 53  
 execution ..... 168

## F

fair taxation ..... 22  
 femininity ..... 213

- field auditing .....94  
 filing.....177  
 fiscal monitor .....200  
 flexibility .....30  
 France.....49; 170; 194  
 functional design .....62  
 functional integration .....34
- G*
- Hofstede, G. ....212  
 Morgan, G. ....44  
 globalization .....3  
 governments .....29  
 Guatemala .....264
- H*
- harmonization.....7  
 Honduras .....54; 264  
 horizontal division.....34
- I*
- ICT .....9  
 identification of taxpayers.....177  
 independence.....27  
 individualism.....212  
 information systems .....169  
 input .....184  
 internal control.....198  
 internal monitor .....204  
 Internal Revenue Service of the  
   United States .....6, 57  
 Ireland .....25  
 Italy .....19; 118
- J*
- job evaluation .....142
- K*
- Kaplan and Norton .....179  
 Katz and Kahn .....189
- L*
- large companies.....56  
 large taxpayers.....59  
 Latin America .....49; 59; 126  
 leadership .....38
- M*
- management control system  
   indicators ..... 196  
 management development ..... 141  
 management information system.... 13  
 management levels ..... 43  
 management of local taxes..... 55  
 management team..... 37  
 masculinity..... 213  
 mass media ..... 100  
 matrix organization ..... 45  
 medium-sized companies ..... 58  
 Mexico ..... 24; 48; 135; 264  
 middle managers ..... 38  
 Mintzberg, H. .... 33; 215  
 mobility ..... 141
- N*
- Netherlands, The  
   ..... 8; 11; 24; 54; 79; 200  
 New Zealand ..... 25  
 Nicaragua ..... 21; 49  
 non-physical contact ..... 62
- O*
- objectives ..... 29  
 OECD ..... 76; 114  
 operational..... 155  
 organic network ..... 45  
 organization types ..... 215  
 organizational improvement..... 36  
 organizational values ..... 39  
 outcome..... 190  
 output ..... 186
- P*
- Panama ..... 19; 49  
 performance indicators ..... 37  
 Peru..... 49; 265  
 planning ..... 42  
 Portugal ..... 49  
 privacy ..... 18  
 privatization ..... 5  
 processes ..... 189  
 professionalism..... 35; 42; 123  
 project-based organization ..... 45  
 prototypes..... 173  
 publications ..... 99

<i>R</i>	
resources management .....	28
responsibilities.....	11; 29
responsibility .....	36
restructuring .....	218
returns .....	82
risk assessment design .....	62
<i>S</i>	
salary .....	126
self-employed businesspersons .....	67
Senge, P. ....	223
service.....	35; 105
simplify .....	101
Singapore.....	25
social security.....	53
Social Security Number.....	31
Spain.....	21; 266
stakeholders.....	169
strategic goals .....	25
strenghts and weaknesses.....	63
<i>T</i>	
Tax Administration .....	49; 67
Tax Administration Forums .....	117
tax collection .....	55
tax education.....	98
tax evasion .....	51; 96
tax excerpt.....	91
tax identification number.....	77
tax information .....	98
tax information system.....	173
tax laws design.....	62
taxline .....	99
taxpayer assistance .....	205
taxpayer assistance.....	101
taxpayers identification .....	75
teamwork.....	35
technological evolution .....	4
The Netherlands Antilles .....	54
throughput .....	189
transformation .....	155
transparency.....	123
<i>U</i>	
United States of America	
6; 11; 15; 24; 30; 38; 83; 102; 205	
United-Kingdom.....	54
<i>V</i>	
values .....	35
VAT .....	55; 61
Venezuela .....	24; 54; 266
vertical job specialization .....	34
visionary .....	154



# Appendix I

## Step 1 - Risk Identification

Risk identification identifies the risk or series of risks which is/are to be managed.

The activities are as follows:

- describe the tax enforcement system. Use flow-charts;
- identify the participants, clients, and stakeholders in the system;
- describe the strengths in the current system;
- describe the weaknesses in the current system;
- identify *where*, *when* and *how* the risk for tax evasion is likely to be incurred and by *whom*;
- describe what is at stake if the enforcement is circumvented;
- why do the opportunities to circumvent arise?;
- identify the sources of reliable information the current system;
- describe in a flow chart who is accounting to who in the current system.

## Step 2 - Risk Assessment

Risk assessment undertakes a thorough analysis of the risks identified in the previous stage.

The activities are as follows:

- identify the procedures in the current system a person or a company might use to evade tax;
- identify under which circumstances the current system is vulnerable;
- identify possible changes in the system to minimize vulnerability;
- describe how a taxpayer could take advantage of the changes;
- identify the indicators that might show a procedure is used for tax evasion;
- describe the magnitude of each risk identified;
- prioritize the risks: very high, high, medium, low, very low.

### **Step 3 - Risk Assessment Decision**

Having identified the risks, it is necessary to make judgment on the best techniques available to counter the risks or at least ensure that is contained within acceptable tolerances. The risk assessment solution must address the level of risk identified in the analysis.

The activities are as follows:

- what processes are available or needed to cover the exposure to risk?;
- identify the options and the recommended decision(s);
- describe the resources (staff, funds and technical) needed for the implementation;
- work out the job design and the organization appropriate for the decision.

### **Step 4 - Evaluation and Audit**

Once risk assessment measures are in place, it is important to have an ongoing program of evaluation and audit of the effectiveness on the management decision.

The activities are as follows:

- evaluate if the decision is achieving what it was made to do;
- evaluate if the decision is effective in covering the risks identified;
- does the decision comply with legal requirements and organizational policies.

### **Step 5 - Performance Measurements**

This element in the cycle identifies the performance indicators to monitor the health of the system established. For computer based systems it is desirable that the performance data are integral to the design of the computer system.

The activities are as follows:

- identify the performance indicators and evaluate if they address the key success elements;
- evaluate if a random sampling program is needed to help monitor the system.



### **Step 6 - Review**

It is necessary to identify the requirements of the ongoing review process to determine whether the objectives of the risk assessment system are being achieved.

The activities are as follows:

- review the objectives of the system: are they still valid?;
- describe what has gone wrong with the system;
- consider in an ongoing process: How can the risk assessment system be improved?



## Appendix II

Cultural differences in index figures. The table is based on the studies by G. Hofstede.

	Power distance	Individualism	Masculinity	Uncertainty avoidance	Confucian dynamism
Arab World	80	38	52	68	
Argentina	49	46	56	86	
Australia	36	90	61	51	31
Austria	11	55	79	70	
Belgium	65	75	54	94	
Brazil	69	38	49	76	65
Canada	39	80	52	48	23
Chile	63	23	28	86	
Colombia	67	13	64	80	
Costa Rica	35	15	21	86	
Denmark	18	74	16	23	
Dominican Republic	65	30	65	45	
Ecuador	78	8	63	67	
El Salvador	66	19	40	94	
Finland	33	63	26	59	
France	68	71	43	86	
Germany	35	68	66	65	31
Great Britain	35	89	66	35	25
Greece	60	35	57	112	
Guatemala	95	6	37	101	
Hong Kong	68	25	57	29	96
India	77	48	56	40	61
Indonesia	78	14	46	48	
Italy	50	76	70	75	
Jamaica	45	39	68	13	
Japan	54	46	95	92	80
Mexico	81	30	69	82	
Netherlands	38	80	14	53	44
New Zealand	22	79	58	49	30
Norway	31	69	8	5	
Panama	95	11	44	86	
Peru	64	16	42	87	
Portugal	63	27	31	104	
Russia	95	47	40	75	
Spain	57	51	42	86	
Surinam	80	48	35	80	
Sweden	31	71	5	29	33
Switzerland	34	68	70	58	

	<b>Power distance</b>	<b>Individualism</b>	<b>Masculinity</b>	<b>Uncertainty avoidance</b>	<b>Confucian dynamism</b>
United States	40	91	62	46	29
Uruguay	61	36	38	100	
Venezuela	81	12	73	76	

## Appendix III

Table: the key differences between societies with greater and lesser power distance in general norms, family, school and work

<i>Lesser power distance</i>	<i>Greater power distance</i>
The inequalities between people must be reduced as far as possible	Inequality between people is both expected and desired
Mutual dependence of people with greater and lesser power is desired and, to a certain extent, attained	People with less power should be dependent on people with more power; in practice, those with less power are polarized between dependence and counter-dependence
Parents treat children as equals	Parents teach children to obey
Children treat parents as equals	Children treat parents with respect
At school, teachers expect pupils to launch initiatives	At school, the teacher takes all initiatives
Teachers are specialists who transfer impersonal values	Teachers are gurus who transmit personal wisdom
Pupils treat teachers as equals	Pupils treat teachers with respect
Highly qualified people have fewer authoritarian values than those who are less educated	Highly and more lower qualified people have roughly the same authoritarian values
Decentralization is popular	Centralization is popular
Relatively small differences in income between the top and bottom of an organization	Significant differences in income between the top and bottom of an organization

<b><i>Lesser power distance</i></b>	<b><i>Greater power distance</i></b>
Subordinates expect to be consulted	Subordinates expect to be told what to do
The ideal boss is a skilled democrat	The ideal boss is a well-meaning autocrat or benevolent patriarch
Privileges and status symbols are not desired	Privileges and status symbols for managers are both expected and applauded

Table: the key differences between societies with greater and lesser power distance: politics and ideas

<b><i>Lesser power distance</i></b>	<b><i>Greater power distance</i></b>
The use of power must be legitimate and is subject to norms of good and evil	Power has priority over law: he who has power is right and good
Talents, wealth, power and status don't essentially go together	Talents, riches, power and status should go together
There is a large middle class	The middle class is small
Everyone should have equal rights	Powerful people have privileges
Powerful people try to seem equally powerful	Powerful people try to make as great an impression as possible
Power is based on formal position, expertise and the ability to reward others	Power is based on family and friends, on charisma and the ability to exercise violence
A political system is changed by changing the rules (evolution)	A political system is changed by changing the leaders (revolution)
Violence in domestic politics is rare	Domestic political conflicts often lead to

<b><i>Lesser power distance</i></b>	<b><i>Greater power distance</i></b>
	violence
Pluralistic, composite governments on the basis of election results	Autocratic and oligarchic governments on the basis co-optation
The political spectrum exhibits a strong center and weaker left and right wings	The political spectrum, if present as such, exhibits a weak center and strong wings
Minor differences in income in society, reduced further by tax liabilities	Significant differences in income in society, further increased by the tax system
The prevailing religions and philosophies emphasize equality	The prevailing religions and philosophical systems emphasize hierarchy and class differences
The prevailing political ideologies emphasize and practice distribution of power	The prevailing political ideologies emphasize and practice power conflicts
Local management theories focus on the role of the employee	Local management theories focus on the role of the manager

In individualist societies, the prevailing norm is to treat people equally. In sociological jargon, this is referred to as 'universalism'. People consider giving both sides preferential treatment unethical and believe it a poor way of doing business.

In collectivist societies, the opposite holds true. Because the distinction between 'our group' and 'other groups' is deeply rooted in our consciousness, it is self-evident and ethically sound to treat your friends better than other people. It is a healthy way of doing business. Sociologists call this way of thinking - particularism.

To summarize: in the collective society, *personal relationships take precedence over the task*. First, the relationship must be developed. In the individualist society, *the task takes precedence over personal relationships*. The naïve western businessman who attempts to do business speedily in a collective society, condemns himself to the role of outsider and with this to becoming the object of discrimination.

Table: The key differences between Collectivist and Individualist societies: general norms, family, school and work.

<b>Collectivist</b>	<b>Individualist</b>
People are born into extended families or other we-groups that continue to protect them in exchange for loyalty	You grow up to look after yourself and perhaps your family
Your identity is derived from your social network	Your identity is derived from yourself
Children learn to think in terms of 'we'	Children learn to think in terms of 'me'
Harmony must always be maintained and direct confrontation must be avoided	An honest person always says what he or she thinks
Strong-context communication	Weak-context communication
An error leads to shame and loss of face for yourself and your group	An error leads to a sense of guilt and loss of self-respect
The goal of education is learning in order to do	The goal of education is learning in order to live
Qualifications give access to groups with a higher status	Qualifications increase your economic value and/or self-respect
The relationship employer-employee is seen as a moral tie, roughly similar to a family tie	The employer-employee relationship is seen as a contract based on reciprocal benefits



<b>Collectivist</b>	<b>Individualist</b>
Personnel selections and promotions are influenced by the group to which you belong	Personnel selection and promotions should solely be based on competency and regulations
Management means managing groups	Management means managing individuals
Personal relationships take precedence over the task	The task takes precedence over individual relationships

Table: The key differences between Collectivist and Individualist societies: politics and ideas.

<b>Collectivist</b>	<b>Individualist</b>
Collective interests take precedence over individual interests	Individual interests take precedence over collective interests
Private life is subordinate to the life of the group	Everyone has a right to privacy
Opinions are determined by belonging to the group	Everyone is considered to have an opinion of their own
Laws and rules differ per group	Laws and rights should be equal for all
Low GNP per population head	High GNP per population head
Dominant role of the state in the economy	Restricted role of the state in the economy
The economic system functions on the basis of group interests	The economic system is based on individual interests
Politics is dominated by pressure groups	Voters exercise political power
State-controlled media	Freedom of the press

<b>Collectivist</b>	<b>Individualist</b>
Imported economic theories largely irrelevant because they take no account of collectivism and particularistic interests	Economic theories generated by the national culture, based on the pursuit of individual interests
In ideologies, equality weighs heavier than freedom	In ideologies, individual freedom weighs more heavily than equality
Harmony and consensus in society are ideals	The ideal is the self-realization of each individual

Table: key differences between societies with weak and strong uncertainty avoidance: general values, family, school and work.

<b>Weak Uncertainty Avoidance</b>	<b>Strong Uncertainty Avoidance</b>
Uncertainty is a normal part of life and people live from day to day	The uncertainty inherent in existence is experienced as a continuous threat man must keep under control
Little stress; subjective sense of wellbeing	Great stress; subjective sense of fear
Aggression and emotions may not be expressed	Aggression and emotions should be ventilated at the right times and places
People feel at ease in unclear situations involving unknown risks	People accept known risks but are afraid of unclear situations and unknown risks
Flexible rules for children on what is dirty and taboo	Inflexible rules for children on what is dirty and taboo
That which is different is interesting	That which is different is dangerous
Students value unstructured educational	Students appreciate structured

<b><i>Weak Uncertainty Avoidance</i></b>	<b><i>Strong Uncertainty Avoidance</i></b>
situations and good discussions	educational situations and want to know the right answer
Teachers shouldn't claim to know everything	Teachers are expected to know all the answers
There shouldn't be more rules than are strictly necessary	There is an emotional need for rules even if these cannot be implemented
Time is an orientation framework	Time is money
Laziness is pleasant; you only work hard when it's needed	Emotional need for activity; inner compulsion to work hard
Precision and punctuality must be learned	Precision and punctuality are naturally present
Tolerance of different and innovative ideas and behavior	Different ideas and behavior are suppressed; resistance to innovation
Motivation through achievement plus appreciation of social needs	Motivation through security or certainty plus appreciation of social needs

Table: The key differences between Masculine and Feminine societies: general values, family, school and work.

<b><i>Feminine</i></b>	<b><i>Masculine</i></b>
Dominant values in society and caring for others and for the immediate surroundings	Dominant values in society are material success and progress
People and personal relations are important	Money and material things are important
Everyone should be modest	Men are expected to be assertive, ambitious

<b><i>Feminine</i></b>	<b><i>Masculine</i></b>
	and tough
Both men and women can be gentle and be concerned with inter-personal relations	Women are expected to be gentle and concerned with inter-personal relations
In the family, father and mother are concerned with both facts and feelings	In the family, the father focuses on facts and the mother on emotions
Boys and girls can cry but neither should fight	Girls cry, boys don't; boys should hit back when attacked, girls may not fight
Sympathy for the weak and for the loser	Sympathy for strength and the victor
The average pupil is the norm	The top student is the norm
Poor academic performance isn't a disaster	Poor academic performance is a disaster
Friendly teachers are the most valued	Brilliant tutors are most valued
Boys and girls choose the same disciplines and subjects	Boys and girls choose different disciplines and subjects
People work to live	People live to work
Managers use their intuition and strive towards consensus	Managers are expected to be decisive and assertive
Emphasis on equality, solidarity, and quality of life	Emphasis on income according to work, competition between colleagues and performance
Conflicts resolved by compromise and negotiations	Conflicts are resolved by fighting them out

Table: the key differences between Masculine and Feminine societies: politics and ideas.

<b><i>Feminine</i></b>	<b><i>Masculine</i></b>
The ideal of an affluent society	Ideal of an achieving society
Needs must be met	The strong should be given opportunities
Tolerant society	Repressive society
Keep it small; be gentle then contact won't be broken	Big is beautiful and quantity is applauded; the quicker the better
Conserving the environment deserves top priority	Preserving economic growth should be top priority
The government spends a relatively large share of the budget on development cooperation	The government spends a relatively small share of the budget on development co-operation
The government spends a relatively small share of the budget on weapons	The government spends a relatively large share of the budget on weapons
International conflicts should be resolved by negotiation and compromise	International conflicts must be resolved by displays of force or combat
A relatively large number of women in elected political posts	A relatively small number of women elected to political positions
The dominant religions emphasize the complementarity of the sexes	The dominant religions emphasize male dominance
Women's movements work towards an equal distribution of tasks between men	Women's movements work towards gaining more access for women to

<b><i>Feminine</i></b>	<b><i>Masculine</i></b>
and women both at home and in the workplace	positions that are traditionally a male preserve

Table: the key differences between societies with weak and strong uncertainty avoidance: politics and ideas.

<b><i>Weak Uncertainty Avoidance</i></b>	<b><i>Strong Uncertainty Avoidance</i></b>
Few laws and rules, which offer scope	Many laws and rules of an extremely precise nature
If the rules cannot be complied with, they must be changed	If the rules cannot be complied with, we have failed and should be punished
Citizens stand up for what they want, making it clear to the government	Citizens cannot stand up for what they want, making their wishes clear to the government
Citizens' protests are admissible	Citizens' protests must be suppressed
Citizens are positive towards government bodies	Citizens are negative towards the political process
Civil servants are positive towards the political process	Civil servants are negative towards the political process
Tolerance, moderation	Conservatism, extremism, call for law and order
Positive attitude to young people	Negative attitude to young people
Regionalism, internationalism, special status for minorities	National xenophobia, minorities are forced into line
Confidence in generalists and in common sense	Confidence in experts and in specialization
Many nursing staff, few doctors	Many doctors, few nursing staff

---

<b><i>Weak Uncertainty Avoidance</i></b>	<b><i>Strong Uncertainty Avoidance</i></b>
The truth of one group may not be imposed on others	Our Truth is the sole Truth
Human rights: nobody should be persecuted because of his or her convictions	Religious, political and ideological fundamentalism and intolerance
In philosophy and science, relativism and empiricism dominate	In philosophy and science, the search is for all-encompassing theories
Academic opponents can be friends in the private sphere	Academic opponents cannot be friends in the private sphere





## Appendix IV

### **Leadership**

Leadership is not a one dimensional performance of screening a group of employees. Every leader has his own characteristics. But a certain role is always dominant. The roles are:

- *Dreamer*: in this role the leader spends time thinking about the future and what might be. In this role there is no commitment to a direction. This is merely a mental exploration of the possibilities;
- *Visionary* : from this role the leader creates a possible future. The dreaming is over and the broad details of the future state of the organization start to take shape. While others may be involved in the detailed picture of the future, it starts with the leader's vision;
- *Philosopher*: all great organizations are values driven. These values are the beliefs held dear by the organization in the way it conducts its business. It is a role of the leader to articulate and clarify these values;
- *Strategic Planner*: while this might be defined as a management role, the leader must be able to convert the vision into action. A vision without a plan remains a mirage;
- *Communicator*: the effective leader must be a master of communication. The ability to present the vision in a form that can be understood by all is a key to successful leadership;
- *Cheerleader*: the executive leader is responsible for generating energy and enthusiasm for the efforts of the organization as it pursues its vision. In this role the leader role-models energy and enthusiasm as well as vigorously encouraging the positive efforts of others.
- *Facilitator*: in an environment that is team oriented, it is a role of the executive leader to assist teams in managing their efforts. This is not a directive role, but one of assistance.
- *Coach*: as in all human endeavors, people are, at times, successful in fulfilling their responsibilities; and, at times, falter in fuming those responsibilities. In the coaching role the leader reinforces successful efforts and corrects efforts that are not successful and/or vision oriented.
- *Resourcer*: like the strategic planning role, this may appear more a management role than a leadership role. In this role, the leader provides the resources needed by empowered teams. You cannot hold a team

responsible and accountable for reaching goals, if you have failed to supply them with the required resources.

### ***Teammanagement***

#### *The Businessman:*

The businessman is practical, the organizer and the one who's taking care for realization of decisions. He is a real go-getter. He looks at problems soberly and neat, he likes to work hard and setting out the business in a systematic and conscientious manner.

#### *The Researcher:*

The Researcher is an extroverted engaging person, warm, friendly, and always looking for some new information and interesting contacts. He is very creative and is focusing on brainstorming, research and development, and likes to improvise.

#### *The Plant:*

De Plant is the innovator. He is aiming for some space to fantasize, to design future strategies and scenarios, and to find new solutions for old problems.

#### *The Monitor:*

The Monitor is a deliberate considering man, who's contribution is an objective and conscious analysis. The Monitor is looking for some understanding and survey and likes to consider and to declare. Beside this he's clever and cautious, and likes to get thing explained.

#### *The Builder:*

The Builder is someone with a lot of spirit, he has a high degree of nervous energy and a strong tendency to perform. He's smooth, impulsive and impatient. The Builder is aiming for results, he is committed to it, and knows how to enforce others.

#### *The Chairman:*

The Chairman is looking for cohesion in a team. He's the natural co-ordinator, leaning on procedures, clearing up the meanings, list the outlooks and survey the desires of everyone. The Chairman is extrovert, positive and open- minded.

*The Caretaker:*

The Caretaker is one who's always about things that could go wrong. He's got a strong sense for danger and a great concern to people and business, resulting in a tendency towards perfection and detail.

*The Team-worker:*

The Team-worker is the most sensible and supporting member of a team. He's friendly in nature, docile and is aiming for a atmosphere and feeling of solidarity. He don't likes conflicts and has problems to decide at critical moments.

*The Specialist:*

De Specialist is a devoted expert, whose contribution is technical and specialised knowledge. He prefers to concentrate on one issue.



# Appendix V

## FINDINGS FROM A COMPARATIVE ANALYSIS OF TAX ADMINISTRATIONS

The French Tax Administration has embarked on an extensive reform process. To help the Administration decide on its development strategy, The General Inspectorate of Finance carried out a four-month study, which revealed major changes in the organization of nine Western Tax Administrations.

It found that all the tax organizations are moving in the same direction, albeit at different paces due to different historical contexts and environments.

These different paces aside, there are six factors in the recent changes that are common to all the Administrations.

### **I. CHANGES IN THE MANAGEMENT OF THE ADMINISTRATIONS**

Two elements have played a key role. These are:

#### *1. A new management method based on voluntary compliance*

The notion of voluntary compliance ("respect volontaire et spontané de la loi fiscale" in French and "cumplimiento" in Spanish) is used constantly by virtually all the Tax Administrations visited. This notion draws a very clear distinction, with all its implicit consequences, between taxpayers who comply with tax legislation and those who do not. This distinction is based on an economic and statistical analysis of taxpayer behaviour, which made it clear to the Tax Administrations that voluntary compliance by the majority of taxpayers is just as and maybe even more important than enforcement (mainly in the form of tax investigations) in ensuring appropriate tax revenues.

This new trend has also led many Tax Administrations to replace an old culture suspicious of all taxpayers with the search for a new balance between:

- the development of services to taxpayers, fostering voluntary compliance;
- and investigations, to be aimed only at taxpayers representing a risk.

## 2. Intensive use of information technologies

All the Tax Administrations visited consider information technologies to be among their strategic priorities. Huge resources are allocated to this function to:

- improve service quality (creation of various telephone and electronic services);
- gain more detailed knowledge of taxpayers and improve tax investigation quality (e.g. risk analysis);
- keep management costs down (massive automation of mass and low value-added processing).

In the most modern Administrations, this surge in information technologies comes hand in hand with the gradual replacement of mass data processing (total automation of the most straightforward tax procedures) with on-line data processing, both decision-making aid computing and network computing. The following table presents a brief description of the main changes associated with this technological development.

Previous situation	Target situation
<ul style="list-style-type: none"> <li>• Organized by taxes</li> <li>• Based on the Tax Administration's internal processes</li> <li>• A great deal of paper pushing</li> <li>• Batch processing</li> <li>• No selectivity in the processing</li> <li>• A large number of different procedures</li> <li>• Paper tax returns</li> </ul>	<ul style="list-style-type: none"> <li>• Organized by taxpayer target groups</li> <li>• Based on taxpayer characteristics and/or needs</li> <li>• Computerized management of the work process</li> <li>• Real-time processing</li> <li>• Risk analysis</li> <li>• Unified and integrated work flow</li> <li>• Electronic tax returns</li> </ul>

It is important to note that all the countries have both a single tax identifier (identification number common to all the Administrations in charge of managing tax revenues and social security contributions) and legislative or regulatory personal data protection provisions. This maintains the balance between the Administration's rights and its users' rights.

## **II – ORGANISATIONAL CHANGES**

Two important organizational phenomena have appeared. These are:

### *1. Increasingly aligned Tax Administration organisation*

The organization of the Tax Administrations in the countries visited is increasingly similar in five main areas.

- A relatively small number of organizations manage tax and social security contribution collection.
- The department drafting the legislation and the department applying it are often separate.
- The most common form of internal organization combines a mainly regional and local organization with a separate unit specialized in managing large companies.
- Two trends can be observed in the organization of the Administration's basic units:
  - A network of non-specialized local units;
  - Alongside centralized units handling an increasing number of tasks: management of means of payment and returns, call centres, management of large companies, services to taxpayers, and logistics.
- The last area in which the Administrations are becoming aligned concerns the gradual spread of a Tax Administration management method based on autonomy, making staff responsible for their actions and collegiate management. From an institutional point of view, this management method generally takes the form of an "agency" system, found in six of the nine countries. The characteristic features of this system are as follow:
  - The Tax Administration formed into an "agency" is separate from the Ministry of Finance, has a certain amount of management autonomy, and may implement different operational rules (human resources and financial management) to the way the Administration is run in general.
  - The independently managed agency is responsible for precise objectives, which are strictly audited afterwards;
  - Agency management is collegiate (board of directors) and is subject to strict external audits by the Ministry in charge of the Budget, Parliament and the auditing institution.

### *2. Faster changes in the Tax Administrations*

The above-described Tax Administration model was absent from most of the visited countries ten years ago. Nearly all the Administrations analyzed have changed enormously since the early 1990s, with mergers of Administrations and internal reorganization.

The pace of change is has been steady enough for some Administrations to consider that they now have two distinct components: teams in charge of tax matters and project teams in charge of managing what is now a permanent change.

## **III – CHANGES IN THE MANAGEMENT OF ASSIGNMENTS**

### *1. Collection*

The collection methods adopted by most of the Tax Administrations are highly similar.

The following observations can be made about collection (receipt and entry of taxpayers' payments):

- 'collection' in the countries visited is virtually built into monitoring compliance with declaration obligations;
- these initially small-scale activities have been industrialized and centralized in most of the countries in a process that started some twenty years ago. Either payment is entirely managed by the banking system (the dominant case) or the Tax Administration has a limited number of cheque processing centres.

The massive industrialization of certain processes has speeded up processing times across the board and brought about a transition to a system of:

- collection and management (simple and easily automated tasks);
- formal recovery and tax investigations (high value-added tasks).

Formal recovery is generally the responsibility of specialized departments reporting to the Tax Administrations. However, some countries have multipurpose departments handling this task. Formal recovery draws on innovative and similar methods, such as:

- a high level of computerization;
- global management of tax liability (all taxes and social security contributions);



- risk selectivity and analysis: the approach differs depending on the sum of the tax due and the extent of taxpayer risk;
- A more reactive approach: liabilities and defaults are identified as soon as possible and reminders, mainly by telephone, made promptly.

## 2. *Services to taxpayers*

The Tax Administrations are paying increasing attention to their services to taxpayers. Most of the Tax Administrations consider this to be a "customer service". Virtually everywhere, the Administrations' tax investigation culture is rounded out by a solid service culture.

Two major factors explain this development:

- the public's expectations: users expect from the Tax Administration a comparable level of service quality and availability to that provided by services provided in everyday life;
- awareness of a link between service quality and the level of compliance with tax obligations.

Given these circumstances, services to taxpayers often play a key role in strategy and organization in virtually all the Tax Administrations.

Some Tax Administrations have been reorganized to better serve the taxpayer (creation of divisions by "customer groups", general principle of a single point of contact for the taxpayer for all tax questions, etc.). Taxpayer charters (including rights and service quality commitments) firmly underpin the "services to the taxpayer" function. They are rounded out by performance standards: answering correspondence within 28 days, answering telephone calls in less than 30 seconds, receiving visitors in less than 15 minutes, taxpayer opinion poll, etc.).

Services to taxpayers are therefore increasingly rich and varied. They include an educational and preventive aspect. In some Administrations, for example, all new businesses are visited by a tax inspector, not for investigation purposes, but to help them with their tax obligations. In the main, although the direct reception of taxpayers has not disappeared, the main point of contact with taxpayers is now the telephone. The telephone is preferred as a method of direct contact transcending geographic bounds. Telephone services have appeared of a quality on a par with the private sector in most of the Administrations (use of automated voice servers and call centres, which can be accessible 24 hours a day, and the possibility of handling most tax matters over the telephone). The boom in

electronic services has furthered this development. In general, the efficient Tax Administrations now have a strategy to constantly adjust their services to public demand.

#### **IV – CHANGES IN INTERNAL MANAGEMENT**

##### *1. Steering and management control*

The development of the steering function can be explained by the gradual change in the management framework, both between Tax Administrations and their supervisory authority and between central departments and local units. The real budgetary constraint imposed on all the Administrations has been accompanied by the recognition of real management autonomy. Management objectives are consequently defined in advance and subsequently audited using various tools that form part of a comprehensive and increasingly sophisticated steering system.

The most important steering tool nearly everywhere is strategic planning, which is well suited to the generally stable environment of Tax Administrations. Nearly all the Administrations analyzed have a strategic plan, which is more often than not multi annual. These plans include a definition of the Administration's purpose, an analysis of its environment and a description of the main programs of action. The general multi annual plan is then detailed in terms of time (annual plans) and organization (formalization of local plans consistent with the general plan).

The strategic plan also includes the main management indicators, which form the second most important steering tool. The most efficient Administrations have gradually perfected their system of indicators, switching from simple activity indicators to productivity indicators and then to impact indicators (e.g. taxpayers' assessments of service quality). These are built into a consistent management chart system.

The Tax Administrations' budgetary systems have also been substantially changed: introduction of a multi annual policy, total fungibility of budget appropriations (including for staff payroll), and occasionally the possibility for the Tax Administrations to keep the surplus remaining from the initial appropriation. Last but not least, the Tax Administrations have highly accurate information on their costs provided by two distinct methods: the publication of total costs, in

principle certified by the auditing institution, and the more or less advanced development of cost accounting.

All of this management information is generally reported on in the Administration's annual report, which forms the basic document for understanding all the information (main activities over the financial year, financial statements and the main results from the management indicators). This work on transparency has become an essential management element.

### *2. Human resources management*

In most of the Administrations, human resources management combines downsizing (due to productivity gains from mass computerization) with the requalification of Tax Administration staff (highly ambitious training programs and new job descriptions).

A number of major trends can be observed in addition to this quantitative context:

- increasing importance placed by the best Administrations on vocational training and job engineering (e.g. information technologies mean that tax officers nearly everywhere now work on-screen);
- a change in labor relations due to much flatter hierarchies, more horizontal organizations and the spread of contract staff at all levels;
- and, in some countries, partial standardization of staff regulations. This is found mainly at recruitment level (sometimes aligned with competitive sector methods), in the management of promotions (e.g. appearance of an internal labor market) and partially in remuneration.

## **V – CHANGES IN MANAGEMENT COSTS**

Last but not least, a comparison was made of the Tax Administrations' costs and staff numbers.

The calculations made divide the countries into three groups. The most efficient Administrations' costs account for approximately 0.5% of revenues collected. Five countries spend around 1% and another three over 1.5%.

A dynamic analysis shows that some countries have put a great deal into substantially cutting their costs.

The productivity of the tax system and the type of taxes handled are the main reason for the disparity of costs. However, other factors also explain the difference in costs:

- Tax management methods (the pay-as-you-earn income tax system is relatively inexpensive);
- The number of Tax Administrations (which induces liaison costs) and network density;
- Differing cost breakdowns between payroll and investment in modernization (especially information technology and training).

## **VI – MANAGING CHANGE**

The majority of the Tax Administrations analyzed have changed or are changing extensively: internal and external reorganization, creation of new activities (services to the taxpayer), and a total overhaul of the information systems and human resources management methods. The survey set out to analyze the conditions for these sweeping changes.

### *1. Two major reform strategies*

There are two major families of reform strategies.

- The first is a sharp break with the old, inefficient organization. This implies intense and long-term high-level political involvement, which is reflected by ongoing support to the managers who conduct sometimes-difficult reforms. It entails more often than not heavy budgetary pressure on the organization (use of budget restriction as major leverage for change).
- The second is a more gradual reform implemented by the management team, which is given a great deal of management autonomy by the supervisory authority. The reform also requires an in-depth consultation and negotiation process involving all the relevant parties. Such an approach in no way rules out what are sometimes tough solutions to attain the set objectives, especially in terms of management costs, staff numbers and network organization.

### *2. Four keys to success*

It is first of all important to note that the Tax Administrations are not alone in changing. They are part of a general movement to restructure the public Administration and society as a whole: clear definition of tasks, service improvement, cost reduction, and management autonomy and responsibility.

It is also clear that the administrations with the best performances are those that have best interpreted the signals and messages sent out by their environment:

- cost curbing pressure from external control authorities;
- understanding of taxpayers' expectations in terms of service quality and focusing investigations on real risks;
- openness to the best management practices in both the national competitive sectors (information technology partnerships and outsourcing) and foreign public Administrations by means of the benchmarking approach (management technique that evaluates a body's performances in comparison with its partners and competitors).

The management reform is also often accompanied by substantial changes to the tax legislation: creation of a new tax and merging of different taxes. The introduction of these new tax provisions seems to have provided the opportunity to rethink the management of the Tax Administrations: reform of declaration obligations for taxpayers, development of a new information system, launch of an institutional communications campaign, and last but by no means least, mobilization of the officials for the new project.

Lastly, it is worth mentioning the importance of social dialogue in making the changes. Everywhere it is found, this ongoing social dialogue combines attaining a general consensus on the need for improved management; more central and local discussion forums; and the strict separation of political (definition of objectives), management (implementation and management of change) and union responsibilities (staff representation).



# Appendix VI

**CIAT-members Tax Administrations under the autharchy regime**

Country	Institution	Type of autonomy	Financing and budgetary system	Resources and distribution of the incentives fund
<b>ARGENTINA</b>	<ul style="list-style-type: none"> <li>• Federal Administration of Public Revenues AFIP.</li> <li>• Dependency of the Ministry of Economy and Public Works and Services.</li> </ul>	<ul style="list-style-type: none"> <li>• Administrative and functional autarchy regime under the general super-intendency and legality control of the Ministry of Economy and Public Works and Services</li> </ul>	<ul style="list-style-type: none"> <li>• Contributions from the National Treasury.</li> <li>• Resources of its own.</li> <li>• Income from services to third parties and sale of AFIP publications, forms and instructions.</li> <li>• Commissions for auction sales of goods.</li> <li>• Income from the sale of real estate to be applied exclusively to the purchase or construction of other real estate.</li> <li>• Other revenues in accordance with the Budget Law of the National Administration.</li> <li>• Up to 12 per thousand (12%) of collection of encumbrances made by AFIP, net of federal co-participation.</li> <li>• 4% of total collections by customs in 1997 of national taxes not governed by customs legislation.</li> </ul>	<ul style="list-style-type: none"> <li>• Hierarchization account. Is credited with up to 0.60% of total gross collection of encumbrances and social security resources.</li> <li>• The Hierarchization Account is distributed among the AFIP staff according to guidelines established by the National Executive Body through a System considering the inspection, performance and efficiency of the agents.</li> </ul>



Country	Institution	Type of autonomy	Financing and budgetary system	Resources and distribution of the incentives fund
<b>COLOMBIA</b>	<ul style="list-style-type: none"> <li>• National Directorate of Taxes and Customs.</li> <li>• Special Administrative Unit attached to the Ministry of Finance and Public Credit</li> </ul>	<ul style="list-style-type: none"> <li>• Special regime of staff management, nomenclature, classification, special administrative career, salaries and benefits.</li> </ul>	<ul style="list-style-type: none"> <li>• Allocation determined by the General Budget of the Nation.</li> <li>• Annual Anti-evasion Plan Fund for an amount not lower than 10% of collected amount.</li> <li>• Allocation by the Nation's General Budget tot the Management and Fiscal Prize Fund.</li> <li>• Resources and goods acquired or received.</li> <li>• Donations.</li> </ul>	<ul style="list-style-type: none"> <li>• Tax Management Fund: Budgetary allocations from the amount of sanctions and delinquent interests collected, compensated or imputed by DIAN; goods received; budgetary allocations provided by law.</li> <li>• The Fund is devoted to: <ul style="list-style-type: none"> <li>- Payment of productivity premium,</li> <li>- Investment, funding and operation of training and social welfare;</li> <li>- Surpluses are used for the modernization of the DIAN and management expenses.</li> </ul> </li> </ul>
<b>ECUADOR</b>	<ul style="list-style-type: none"> <li>• Internal Revenue Service</li> <li>• Technical entity attached to the Ministry of Finance and Public Credit.</li> </ul>	<ul style="list-style-type: none"> <li>• Administrative, financial and operational autonomy system.</li> <li>• Public law entity with juridical personality and its own net worth.</li> </ul>	<ul style="list-style-type: none"> <li>• Net worth and funds of its own.</li> <li>• The equivalent of up to 2% in 1998, up to 1.5% in 199 and up to 1% from the year 2000 on, of tax collection.</li> <li>• Non-reimbursable credits.</li> <li>• Donations.</li> </ul>	

Country	Institution	Type of autonomy	Financing and budgetary system	Resources and distribution of the incentives fund
<b>GUATEMALA</b>	<ul style="list-style-type: none"> <li>• Super-intendency of Tax Administration, decentralized state entity.</li> </ul>	<ul style="list-style-type: none"> <li>• Functional, economic, financial, technical and administrative autonomy.</li> <li>• With juridical personality.</li> </ul>	<ul style="list-style-type: none"> <li>• Net worth and resources of its own.</li> <li>• Own budget and exclusive funds approved by the Organic Law of the Budget.</li> <li>• 2% of total internal, foreign trade and accessory taxes; non-tax revenues; donations and other sources of financing originating from international co-operation.</li> <li>• Other transfers of public funds allocated from the State's general revenues and disbursements budget.</li> </ul>	
<b>HONDURAS</b>	<ul style="list-style-type: none"> <li>• Executive Directorate of Revenues.</li> <li>• Decentralized entity of the State Secretariat of Finance and Public Credit.</li> </ul>	<ul style="list-style-type: none"> <li>• Administrative, technical and financial autonomy.</li> </ul>	<ul style="list-style-type: none"> <li>• Its budget is included in that of the State Secretariat of Finance and Public Credit and is determined without exceeding 2½% of tax revenues administered and collected by the EDR in the immediately preceding year.</li> </ul>	
<b>MEXICO</b>	<ul style="list-style-type: none"> <li>• Tax Administration Service.</li> </ul>	<ul style="list-style-type: none"> <li>• Managerial, budgetary and</li> </ul>	<ul style="list-style-type: none"> <li>• Personal property and real</li> </ul>	

Country	Institution	Type of autonomy	Financing and budgetary system	Resources and distribution of the incentives fund
	<ul style="list-style-type: none"> <li>Decentralized entity of the Secretariat of Finance and Public Credit.</li> </ul>	<p>technical autonomy.</p>	<p>estate, material and financial resources.</p> <ul style="list-style-type: none"> <li>Funds and trusts wherein it may participate or which it may establish.</li> <li>Allocation provided by the Federation's Expenditures Budget.</li> <li>Additionally, for specific purposes resources based on the SAT's productivity and efficiency efforts will be allocated.</li> </ul>	
<p><b>PERU</b></p>	<ul style="list-style-type: none"> <li>National Super-intendency of Tax Administration – SUNAT.</li> <li>Decentralized Public Institution of the Economy and Finance Sector.</li> </ul>	<ul style="list-style-type: none"> <li>Functional, economic, technical, financial and administrative autonomy.</li> <li>Juridical Personality of Public Law.</li> </ul>	<ul style="list-style-type: none"> <li>2% of total collection of taxes administered by SUNAT.</li> <li>25% of proceeds of goods seized and / or confiscated by SUNAT.</li> <li>0.2% of collection of taxes whose Administration is entrusted to it, and which do not constitute Public Treasury income.</li> <li>Balances of previous fiscal</li> </ul>	<ul style="list-style-type: none"> <li>Employee Fund, originates from monthly contributions from the workers, (equivalent to 1% of total remuneration) and from SUNAT equivalent to 2% of monthly remuneration's.</li> <li>Special transfers and other revenues.</li> <li>The Fund supports the workers and their families by providing health benefits and loans for</li> </ul>

Country	Institution	Type of autonomy	Financing and budgetary system	Resources and distribution of the incentives fund
			period. <ul style="list-style-type: none"> <li>• Its own resources.</li> </ul>	basic needs.
<b>SPAIN</b>	<ul style="list-style-type: none"> <li>• State Agency of Tax Administration</li> </ul>	<ul style="list-style-type: none"> <li>• Net Worth of its own.</li> </ul>	<ul style="list-style-type: none"> <li>• Transfers from the State's General Budget. Percentage of gross collection resulting from assessments and collection efforts or other administrative acts agreed or determined by the agency within the sphere of its responsibility (18% according to the 1992 Budget Act).</li> </ul>	
<b>VENEZUELA</b>	<ul style="list-style-type: none"> <li>• National Integrated Service of Tax Administration, SENIAT.</li> <li>• Technical entity dependent on the Ministry of Finance.</li> </ul>	<ul style="list-style-type: none"> <li>• Autonomous service without juridical personality.</li> <li>• Functional and financial autonomy.</li> <li>• Its own Human Resources Professional System.</li> </ul>	<ul style="list-style-type: none"> <li>• A minimum of 3% and a maximum of 5% of revenues originating from taxes administered by SENIAT (excludes those originating from exploitation of hydrocarbons and related activities).</li> <li>• The Budget Act annually assigns the % determined by the National Executive Body for SENIAT.</li> <li>• Special resources granted by</li> </ul>	

Country	Institution	Type of autonomy	Financing and budgetary system	Resources and distribution of the incentives fund
			the Executive Body. Donations and revenues originating from international co-operation.	

