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**“A MODERN VISION OF THE TAX ADMINISTRATION”**

**INAUGURAL CONFERENCE**

**A MODERN VISION OF THE TAX ADMINISTRATION IN  
THE CURRENT ECONOMIC AND SOCIAL CONTEXT**

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# A Modern Vision of Tax Administration in the Current Economic and Social Context

## Contents

<b>Chapter</b>	<b>Page Number</b>
Executive Summary	2
1. Introduction	2
2. Information and Communication Technology	3
2.1 Adoption of ICT Systems	3
2.2 Case Studies – Adoption of ICT Systems	5
2.3 Analytical capability	9
2.4 Case studies – analytical capability	9
3. Customer Focus	11
3.1 Case studies focus	14
4. Management and Structure	19
4.1 Case studies – management and structure	20
5. Tax Administration in the Current Economic and Social Environment	23
5.1 Changes in revenue	24
5.2 Changes in operational workload	24
5.3 Changes in compliance	24
6. Concluding Remarks	25

## ***Executive Summary***

I am delighted to have been invited by CIAT to deliver the keynote speech in this august Assembly among many friends. Many years back, I gave a similar talk at a CIAT General Assembly in Montego Bay on trends and future directions in tax policy in Latin America. Today, in Santo Domingo, I have been asked to talk about a modern vision of tax administration. This I find to be fully complementary, a full circle completed after some 15 years!

I have taken CIAT's well written guidance paper as my starting point, emphasising my own findings and observations, while using examples from selected tax administrations in countries in different stages of economic development, and different phases of growth dynamism. Within such a framework, my paper encapsulates some of the central issues currently facing modern tax administrations. The key points are as follows:

- Up to date Information and Communication Technology (ICT) must form a central part of any modern tax administration. It offers an important opportunity to reduce processing costs; enables the effective use of data and information; and, allows the tax administration to reflect the changes in communication adopted in many parts of society.
- An expansion in analytical capability should form a central role in taking advantage of ICT. It allows the transformation of data and information made accessible through ICT systems to *knowledge* – a resource that can be used for another purpose. This will help to improve policy development as well as internal management decision making.
- There are risks posed by the use of ICT by tax administrators. This includes data security risks and problems with large scale public procurement. However, these risks are being actively managed by many tax administrations and the diffusion of best practice will aid in this.
- A central focus for modern tax administration must be on the taxpayers themselves and the quality of service provided to them. This is fundamentally about moving to a more open and trusting relationship between tax administrations and their “customers” that should engender more voluntary compliance.

## **1.0 Introduction**

1. This paper summarises some of the key issues facing modern tax administrations. Whilst a full review of any one of the issues could take significantly more space than is available here, it tries to highlight the most salient points with potential value for all tax administrations to consider. To further expand upon the points made, illustrations are drawn selectively from tax administrations in three representative economies – Brazil (middle income, medium growth), India (developing, high growth) and the United Kingdom (advanced, low growth). They reflect my own experiences and should not of course be attributed to any government, institution or individual unless mentioned.<sup>1</sup>
2. The paper is divided into four central sections as follows:
  - Information and Communication Technology
  - Customer Focus
  - Management and Structure
  - Current Economic and Social Environment
3. These are followed by brief concluding remarks. It should be noted that the views expressed are those of the author and do not necessarily represent the views of HMRC or any other organisation or individual unless specifically mentioned.

## **2.0 Information and Communication Technology**

4. This section is divided into two parts. The first reflects on the adoption of ICT systems, in particular the benefits and risks associated with this. The second looks at the benefits of adopting an analytical capability within the tax administration.

### **2.1 Adoption of ICT Systems**

5. ICT offers two direct benefits to modern tax administrations:
  - **Increased operational productivity**

The benefits of ICT and modern technology have been self-evident in the global economy. In the same way, modern tax administrations must take advantage of the benefits offered.

For example, the ability to store vast amounts of data in a single electronic database reduces storage costs, the processing of electronic returns is faster and cheaper, modern call-centres can take advantage of automated services reducing costs further whilst the geographical mobility of information enables more effective coordination between offices.
  - **More efficient ways of communicating with taxpayers**

Technological development also opens up new routes of communication between a tax administration and its taxpayers. This can take a variety of forms including online guidance, e-filing or automated telephony systems. It is essential that a modern tax administration takes advantage of these opportunities – not only as it offers productivity benefits but to provide a greater range of access to taxpayers.

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<sup>1</sup> Comments are welcome at [partho.shome@hmrc.gsi.gov.uk](mailto:partho.shome@hmrc.gsi.gov.uk)

It is also essential that a modern tax administration continues to look forwards, the pace of development in communications technologies means that new opportunities are consistently arising – could better guidance be written collaboratively with taxpayers in a similar fashion to Wikipedia<sup>2</sup> or could information be spread more effectively using pod-casts?

6. However some large risks are also generated with the use and, in particular, the procurement of ICT systems. These need to be actively managed to avoid disruption to the tax administration service.
7. A key difficulty is procuring the services in the first place. There are first the onerous requirements of the public sector tendering system. Often there is a lack of competition amongst ICT companies that are large enough to fulfil a government contract of the size needed by many tax administrators. On top of this, there is an element of non-transferable risk whereby governments are always held responsible for the failure of a private company to fulfil the IT contract. Adding these factors to the need for flexibility in contracts to enable future innovations in the rapidly moving ICT market creates a situation whereby high prices and poor service are not necessarily punished by market forces.
8. Another risk is that of data and information security. Tax administrations receive a vast array of information about individuals from bank details to addresses. Modern ICT enables this information to be held for a vast number of people in a single database. If somebody should gain wrongful access to this kind of information then it opens up the possibility of fraudulent activity. Additionally, should systems fail, are they suitably backed-up to ensure there is no loss of data? Are there Business Continuity and data recovery arrangements in place?
9. Finally, a heavy reliance on ICT and modernisation could leave sectors of society excluded such as the small business sector or senior citizens. Actions must be taken to provide support for those segments of society that feel less comfortable with the use of modern technology.
10. Nevertheless, despite the risks that have been highlighted, it would be hard to argue that the costs outweigh the benefits. The practical case studies provided below demonstrate how benefits of adopting modern ICT are numerous whilst the risks can be managed. It is clear that a modern tax administration must embrace ICT and take full advantage of its benefits. Needless to say, these illustrations reflect my own visits, analysis, experiences and conclusions therefrom, over the last two decades. However, if there remain misperceptions on my part, I shall of course be glad to be made aware of them by those who are presently closer to these systems.

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<sup>2</sup> This is a free online encyclopaedia written collaboratively by volunteers and specialists from all over the world using a form of software known as a “wiki”. See: <http://en.wikipedia.org>

## 2.2 Case Studies - Adoption of ICT Systems

11. The case studies in this section focus primarily on tax administrations in Brazil and India due to the former's use of state-of-the-art technology and the dynamism with which the latter is embracing ICT systems.

### Brazil

12. Perhaps the most observable aspect of Brazil<sup>3</sup> in terms of the function of transactions in its economy is that it has transformed itself into what could be called an IT, as opposed to a cash, economy. A credit-cum-debit card is utilized for all intents and purposes, providing speed, security, and an information trail. The use of cash is minimal. A single identifier is used for individuals - not only for tax purposes but also as a general identification tool for most transactions.
13. This use of ICT is reflected in tax administration too. More than 98 percent of 52 million individual annual tax returns are filed electronically, (though less than a quarter of periodic payments are electronic). In Brasilia the Federal Revenue Secretariat (SRF) has paperless offices. A Division Chief sits in the same office with the staff of his Division at their respective computers, where all information and analyses are maintained. SRF offices throughout Brazil are internet connected. Each officer can log on not only from his office computer, but also from his department-issued cell phone, into the data base including individual taxpayer information, with strict access codes and penalty provisions for misuse.
14. Brazil has developed a strong relationship between SRF and its IT service provider SERPRO. SRF's main interface with SERPRO is COTEC, the Coordination (Department) in charge of Systems. In effect, SERPRO has to consult COTEC on most major matters. For example, SERPRO's annual budget is negotiated between the two. The availability of funds from COTEC determines the possible expenditure and, therefore, the nature of hardware that SERPRO could provide. However, there is no staff member directly from COTEC in the SERPRO Board (though there is representation from the Ministry of Finance).
15. While there is close linkage between SERPRO and COTEC, other departments of SRF such as those in charge of tax forms, collection or audit/scrutiny also regularly utilize SERPRO for software design and development. In turn, SUNAT is SERPRO's department that mainly interfaces with SRF's COTEC. SUNAT maintains 750 systems for tax declarations, collection, and audit. One SUNAT section, for example, focuses on integration of processes; and investigation of misuse of processes.
16. COTEC has several units that interact with SERPRO units in one way or another. COTEC hires officers as "business analysts" who have passed examinations based on project management, information technology, and COTEC policy. There is no maximum period of

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<sup>3</sup> Acronyms used widely in Brazil include:

- SRF is the Federal Revenue Secretariat, comprising both direct and indirect taxes; and soon to include the social security administration;
- COTEC is the "co-ordination" (director general) at SRF, that is responsible for information technology (IT) matters.
- SERPRO is the public sector SPV that is the primary IT service provider to SRF.
- SUNAT is the department at SERPRO that interfaces closely with COTEC.

stay at COTEC or in any particular units of COTEC. COTEC undergoes, from time to time, a specific selection process for IT-oriented recruitment, for example, in 2006, for 300 new staff. Thereby, IT staff at COTEC headquarters increased from 100 to 150. The others were placed by COTEC in the 10 regional centers that, in turn, supervise 700 smaller units across the country. These overall interconnected arrangements manifest the extensive reach of ICT in the Brazilian tax administration.

COTEC units include:

- administration of norms and patterns: develops methodology and guidelines;
- organization process model: develops systems, checks how systems are responding to demands, and develops work-flow charts for the federal government;
- technology prospectus and new technology: has been responsible for the new Systems Integrator initiative and cell phone/voice access to the SRF network by officers;
- infrastructure: in charge of maintenance of network connectivity of 700 SRF offices and accommodates 30,000 end-users (including SRF officers and outsourced persons); uses corporate management software (TIVOLI) enabling connectivity to any part of the country within 10 minutes;

Of course, as may be expected in any such large operation, one challenge is to minimize any duplication of functions or operations between COTEC and SERPRO.

- contracts and agreements: in charge of technical contracts; oversees data exchange agreements among units that use fiscal information, using also external legal advice. Instructs SERPRO to send data.

88 percent comprise routine transfer of daily/weekly/monthly information; 9 percent are on-line requests; and 3 percent are specific queries requiring detailed reports. In 2006, there were 64 agreements (7% private sector; 93% public sector, of which 55% municipal, 26% state, and 19% federal). As a result, some 600 government and private entities receive data.

17. A major advancement in SRF and SERPRO policy is the tendering process for public sector projects. Tendering, bidding and selection are all electronic, without any interface between government officers and the private sector. This has reduced procedural costs by 20 percent. Time taken for the completion of the tendering process is 3-5 months, with further ambitions to reduce this.

## India

18. A visible repackaging of overall tax administration, reflective of rapid introduction of ICT, has ensued in India. Comprehensive computerisation/hardware and use of integrated software are the main components of this strategy. Nevertheless, challenges remain. For example, unlike in Brazil or the U.K., it is not customary to employ IT specialists directly from the private sector in the tax administration. The IT directorates for both direct and indirect taxes have to place internal revenue officers to man the offices. Of course those with an engineering bent of mind may be selected but this limits the challenges faced by officers to the external IT profession as well as the distance that can be travelled in rapid policy formulation or implementation.
19. Within the overall limitations, a great deal has been achieved through ICT. On the income tax side, the number of individual taxpayers has jumped from 15 million in the mid-1990's to 35 million currently. Indeed, given the size of the administration, a higher number would not be easy to handle though a broad estimate of a potential 50 million taxpayers is realistic. While self-assessment is in vogue, a downloadable SARAL (Easy) form has been introduced. Electronic filing is now compulsory for corporations and firms; and high income individuals are encouraged to file electronically. E-filing of TDS returns has also been made compulsory. SUVIDHA (Convenience) is the form for bulk filing of salary returns by employers. SAMPARK (Interface) is an easy return preparation software. Computerised processing of returns and issue of refunds is stipulated within 4 months based on an electronic clearance system (ECS) for issue of refunds.
20. Audit is based on computer assisted selection of scrutiny cases, based on annual information returns (AIR) from six major third party sources such as bank accounts, mutual funds, property transactions, credit card usage and others. These transactions all have to use the tax identification number i.e. personal account number (PAN). Special software has been developed to weed out duplicate PAN's and the judiciary has been involved for PAN misuse. The exact formula for scrutiny selection has not been made available to even senior officers who are not in the direct line of business.
21. What is being achieved is an integrated IT framework: a Systems Integrator, together with a National Data Centre in Delhi; a software enabled Business Continuity Site in Mumbai, supported by a Disaster Recovery (data repository) Site in Chennai. The outcome is a Tax Information Network (TIN), enabling 12,000 offices nationwide, even in the far reaches of India, to get connected; and 4,500 officers can simultaneously access TIN. Obviously a programme has been introduced to get the officers trained at a rapid speed.
22. Mention must be made of indirect taxes where also a comparable Systems Integrator strategy is being pursued based on the knowledge base derived from the income tax side. In Customs, an electronic data interchange (EDI) system to file customs documents electronically and assessment of these documents through computers has been introduced in 25 major customs stations. In the Excise department, ICT has enabled simplification of excise registration procedures, dispensing with the filing and approval classification and price list, introduction of a self-assessment procedure, abolition of statutory hard copy records and acceptance of an assessee's own private records, thus reducing compliance costs. In turn, the number of Central Excise Rules has been drastically reduced from more than 200 rules to about 30. Thus, overall, the benefits from ICT cannot be minimised even in developing country tax administrations.



23. At the level of Indian states, the role of ICT in VAT administration is also important. While each state has devised its own ICT system contracting different private sector providers, an issue remains about how inter-state trade will be monitored with the help of ICT. A system called TINXSYS is being developed for this purpose. The challenge is that a tax on interstate trade (CST) is to be phased out completely on April 1, 2010. While it is a cascading tax since it does not give input tax credit in the importing state for tax paid in the exporting state, CST does provide an administrative proxy for controlling fraud since it registers the quantity and value of interstate trade. When CST is removed, this benefit will become nonexistent. Therefore, the need for a fully functioning system such as TINXSYS cannot be overemphasised. Little time remains.
24. The central government undertook a VAT computerisation project as a turnkey project for a group of six states in the North-East of India. It has been quite successful in not only introducing computerisation for their VAT's, but also to put in place control mechanisms for their interstate trade. Its progress is being monitored. The overall environment is complex, providing an array of challenges to both the officers and the private sector provider.

### **United Kingdom**

25. HMRC has adopted a base of ICT usage including a selection of databases for different taxes. It is poised to make a further push to integrate the different systems it currently has and further improve its infrastructure while, as may be anticipated in an advanced system and high costs, financing massive changes has to be considered with due diligence.
26. One of the most interesting features of HMRC's data and information management strategy is the way it uses this information in an analytical way to inform the development of policy as well as internal administrative decisions. This is further expanded upon below.
27. To help handle the risks associated with ICT procurement, the Office of Government Commerce oversees procurement activity of government departments. Whilst not getting directly involved it audits past activity and spreads best practice with respect to tendering and contracting. This provides support to arranging large government contracts such as those required for HMRC's IT.
28. HMRC also takes a strong line on data security. Staff must all attend workshops highlighting their role in preventing data falling into the wrong hands whilst access to portable media (CDs and USB devices) is restricted. Any transfers of large amounts of data between directorates or to external agents are subject to a screening process led by a specialist in data security.

## 2.3 Analytical capability

29. The capture and storage of tax administration data using ICT creates a large and valuable analytical resource. Modern tax administrations should exploit this resource both directly by employing analytical specialists as well as, within the limits of respecting taxpayers' privacy and security, indirectly by providing data and information to external analytical groups. This is essentially about converting data or information into *knowledge* that can be used for another purpose.
30. The knowledge gleaned from the data can then help tax administrations in a wide range of ways, for example: informing policy development; helping to manage compliance risks; or, identifying ways of improving internal processes.
31. The effectiveness of this analytical capability will be strongly influenced by the structure of the underlying ICT systems. Is the data stored across several different systems? Is there a way of easily identifying taxpayers across tax boundaries? What demographic information is stored for each taxpayer? The better linked up a system is, the more complex analysis can be completed.

## 2.4 Case studies – Analytical Capability

### India

32. India's analytical capability is at a nascent stage at both central and state government levels. A small group of officers carries out top level analysis and, to a great extent, also the legislative formulation of both direct and indirect taxes at the central government level. Similar is the practice at state level. The use of simple econometric models for revenue projection has been initiated about four years back, though a specific structure to advance this does not yet exist. The bulk of officers are assigned to the administration function. Thus, in contrast to about 20 officers who carry out these tasks in India, the comparable size in the U.K. would be around 500.
33. However, some analytical capability also resides in a few offices. For example, increasingly, re-engineering of business processes through functional specialisation is being enhanced—an international taxation directorate that focuses on transfer pricing and arms length issues, a directorate for tax treaties, large taxpayer units in large cities, and so on.
34. This can be stepped up in the future only with the upgradation of skills of employees through revamping national training curricula for entering staff of both direct and indirect tax services, as well as continuing education for senior officers at the national training schools.
35. Another challenge has been the fostering of specialisation. While in advanced tax administrations, transfer pricing or tax treaties would be typically considered as specialised fields in which an officer would be allowed to specialise throughout an entire career, India's revenue services are considered to be national in which officers are transferred approximately every 3 years across a broad spectrum of cities at varying

levels of convenience or hardship. This is to maintain equity across employees but renders specialisation difficult. It has to be appreciated that, throughout India's modern history, her primary national strategy, goal and challenge have been to remain cognizant and alert to matters of equity, regional parity and redistribution. Specialisation as an objective has had to be considered in that overall context.

### **United Kingdom**

36. In the U.K., the development of policy is shared between HM Treasury (HMT) and HMRC by reference to a Policy Partnership arrangement, with the former responsible for strategic development of new policies and the latter responsible for maintaining the current tax regime.
37. At the heart of analysis of tax policy is an HMRC directorate called Knowledge, Analysis and Intelligence (KAI) where the Chief Economist resides. KAI has a team of around 500 analysts responsible for managing, developing and presenting data, analysis and evidence to support the formulation of tax policy as well as for internal HMRC administrative decisions. It employs a range of specialists including economists, statisticians, operations researchers and social researchers (with a Head of Profession for each stream) to complete, as well as commission from external sources, both quantitative and qualitative analytical work.
38. For every possible change to tax policy considered, an analyst will be involved to review effects including: revenue impacts, compliance costs, administrative burden, and effects on the wider economy. This evidence is then presented to Ministers to enable them to formally weigh up the costs and benefits of possible policy options. A summary of the cost-benefit analysis and supporting evidence is published following the initiation of a public consultation or the introduction of a new policy in what is known as a Regulatory Impact Assessment. As a result, every aspect of tax policy design is subject to minute analytical exercises, followed by discussion and debate between various policy directorates in HMRC and HMT. The process continues after a policy is announced in the Budget usually in March in order to track the wider ramifications of a Budget measure.
39. There is a specific focus on measuring the compliance cost and administrative burden for every tax – essentially the costs to businesses of complying with a tax. Each burden is modelled using a Standard Cost Model that was originally pioneered in the Netherlands and Denmark. It breaks down every tax return into individual pieces of information required and then assigns a population of businesses the need to produce that information and a length of time required to complete that specific obligation. Whilst populating the database is relatively costly and prone to some error, it offers a valuable way to capture and model changes in administrative burdens placed on businesses due to a tax change.
40. There is also a mini-Budget so to speak, called the Pre-Budget Review (PBR) in November-December that enables policy change in mid-year. For example, at PBR 2008, the Government announced plans to exempt foreign dividends received by large and medium companies. A central estimate of the impact of this on tax revenues is published in the main Pre-Budget Report<sup>4</sup>. This includes an assessment of the behavioural response expected from firms based on evidence from academic articles. In addition to

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<sup>4</sup> [http://www.hm-treasury.gov.uk/prebud\\_pbr08\\_index.htm](http://www.hm-treasury.gov.uk/prebud_pbr08_index.htm) Table B5

this, the Regulatory Impact Assessment<sup>5</sup> explains the methodology for quantifying the changes in administrative burdens and compliance costs for businesses and summarises this alongside qualitative assessments of other costs and benefits. Further, as a part of a fiscal stimulus package, the VAT rate was reduced from 17.5% to 15% for 13 months beginning December 2008. This too was preceded by detailed analysis and calculations by HMRC and HMT teams, and post-implementation analysis is ongoing.

41. Research from external analytical units is also commissioned to broaden the knowledge base available for policy development. To further encourage external inputs, HMRC is developing a “datalab”. This is a secure database which academicians and research institutions will be able to apply for access to pre-specified, policy-relevant analytical projects using a full set of HMRC data (albeit, anonymised).
42. This emphasis on evidence based policy, and publication of details relating to it, provides credibility to policy commitments, improve transparency and generate a bench-mark from which the policy could be evaluated in the future. Fundamentally, it is about ensuring that Government decisions are as well informed as possible.

### **3.0 Customer Focus**

43. A key element of the strategy for any Modern Tax Administration has to be “Customer Focus”. Here, “customer” refers to any individual, business or agent that has a relationship with the revenue authority, whilst “focus” captures a wide range of activities designed to improve experiences of the tax service.
44. Elements of such a strategy should include:
  - **Simplify tax structure for small taxpayers**

To begin, customer focus should have a two-pronged strategy, covering both tax structure and administration. Typically most countries tend to have a simplified structure for small and medium taxpayers. Thus a VAT tends to have a threshold below which a business does not need to register; and, above that there is another threshold below which a taxpayer would need to register but would pay VAT on a “compounded” or turnover basis i.e. not on the basis of detailed accounts using the debit-credit mechanisms. Other simplification structures also exist in most countries for administrative convenience, though tax policy analysts tend not to be fond of them since they tend to modify the objective of the original tax structure in terms of efficiency of the country’s resource allocation among economic sectors..
  - **Understanding taxpayer motivations**

Tax administrations need to move beyond the premise that everyone is naturally inclined to avoid paying taxes. A recognition is required that individuals and businesses have a complex set of motivations that are strongly affected by the actions of the tax administrations, legal framework, as well as societal norms and economic incentives.

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<sup>5</sup> [http://www.hm-treasury.gov.uk/d/foreignprofits\\_impactassessment111208.pdf](http://www.hm-treasury.gov.uk/d/foreignprofits_impactassessment111208.pdf)

Amongst these motivations is often a social duty to “do the right thing” – effectively to pay taxes legitimately, albeit with the occasional accidental error. Tax administrations need a legal and applied framework to act to reward these positive behaviours and differentiate between honest mistakes and aggressive avoidance or evasion activity. This will have the benefit of encouraging more voluntary compliance – reducing costs to the administration.

- **Improving the service provided to taxpayers**

Lowering the effective cost for people to comply with taxes make it more likely they will do so. The areas considered should include: reducing the costs of submitting tax returns by using online filing; making it easier to find information about obligations through better website design or a more cooperative approach from call-centres; reducing costs of uncertainty by providing clarity of tax obligations in advance of large, complex transactions; or, decreasing the costs of understanding the tax system by simplifying tax codes.

- **Engaging with customers**

This is about opening up two-way communication between the tax administration and customers. This helps to improve perceptions of the tax authority as well as playing a key role in identifying problems with the tax system and finding effective solutions. This could take the form of industry forums, meeting account managers for major tax payers, public consultation for proposed changes or independent reviews of the tax system.

45. These actions help to improve value for administrative resources and instil fairness into the tax system. However, a difficulty still remains in drawing the line through the hazy barriers between tax planning (activities that reduce the tax liability but remain within the intent of law) and avoidance (activities that reduce tax liability but that are against the spirit of the law) or evasion (illegal).
46. **A functioning “risk-based” approach** to tax returns can play an important role in identifying avoidance and evasion schemes quickly, providing certainty as rapidly as possible to the taxpayer and reinforcing positive customer behaviours. Essentially this is an approach whereby a skilled tax professional quickly reviews returns, e.g. for a business, and rates them according to how much risk they pose to revenue, based on the structure of the business’s tax affairs. A business with a low risk score then receives fewer requests for information, audits and a generally more positive approach to the relationship. A business with a risk score draws more attention to detail and receives more invasive demands for information. This helps to incentivise voluntary compliance and tax transparency whilst warning those businesses that push the boundaries between tax planning and aggressive avoidance or evasion.
47. However there likely will remain some individuals and businesses that are inclined or keen to exploit the tax system – actively looking to avoid or evade the tax they owe. In particular there has been a rapid expansion of the use of **aggressive avoidance schemes**, devised and vigorously marketed by tax consultancies/ advisers to large businesses or high-income individuals. Attempts to combat these schemes by identifying and legislating against particular legal loop-holes have resulted in increasingly long and complex tax codes. This additional complexity provides further opportunity to find new loop-holes and generates new schemes, resulting in a spiral of increasingly complex and difficult to understand tax codes. It is naturally a waste of a tax administration’s scarce resources, while making it harder for those taxpayers that want to understand the law and comply with it.

48. **“Principle based legislation”** offers one possible method of resolving this situation. This is law that embodies a principle of taxation, probably accompanied by a statement of how legislation intends to operate by reference to that principle. This results in a broader interpretation of the laws that could help to prevent “to the letter” interpretations and avoidance schemes. The challenge is to design such laws to work in those judicial systems that are not used to a principle-based approach in such a way that provides certainty to taxpayers about what is required of them<sup>6</sup>.
49. Overall, customer focus cannot be neatly defined – in practice it captures a wide range of different activities for tax administrators. It is effectively about a change in attitude and an attempt to “see things from the other side”. However, not only does it offer benefits from the point of view of tax administrators providing value for money for society but, from the tax administrations view point, it offers cost savings by encouraging voluntary compliance, reducing mistakes as well as quick identification and resolution of problems. Any modern tax administration should start by building its strategy around its customers.

### 3.1 Case studies - customer focus

#### Brazil

50. Perhaps the most direct example to address customer interests in the Brazilian tax structure is SIMPLES, its system for taxing small and medium enterprises. It is cast in the background of Brazil’s regional disparities: the 3 wealthiest states account for 53% of GDP, while the 3 poorest for 0.55% of GDP. In the backdrop of a total population of 180 million, there are 3 million companies. All three stages of government—federal, state, local—have the power to tax them either through profit, turnover, value added or some variant of value added.
51. The complex and confusing interplay between a range of taxes, a range of tax bases with payments required for a range of administrative entities resulted, in 1997, in the creation of SIMPLES. It is not a tax *per se* but a unified system of tax payment. Its features include:
- A unified tax base of a maximum turnover of US\$ 1.1 million (and US\$ 60,000 for micro enterprises) p.a. are included in SIMPLES;
  - it has a progressive tax rate structure; as a result, different turnover thresholds for different groups should not be needed;
  - the rates differ according to economic sectors;
  - it includes social security payments—employer pays 20% of payroll; employee pays 7—11 % subject to a limit<sup>7</sup>;
  - exports are partially exempt from SIMPLES.

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<sup>6</sup> Freedman, J., Loomer, G. & Vella, J. (2008) “Alternative Approaches to Tax Risk and Tax Avoidance: Analysis of a Face-to-Face Corporate Survey” Oxford University Centre for Business Taxation, Working Paper 08/14.

<sup>7</sup> 11% is approximately equivalent to 10 minimum wages.

52. The system is purported to smoothen the transition to the normal tax system for smaller taxpayers. SIMPLES allows a wide range of taxes to be made through one single payment, the base being the same, the rate varying between 4—18% depending on the turnover.
53. From the business's perspective, SIMPLES:
- reduces the overall tax burden;
  - reduces compliance cost;
  - stimulates them to operate legally;
  - encourages them to employ from the formal sector since social security payment is not on payroll basis, but is based on overall turnover;
  - simplifies their interface with tax administration since, instead of three levels of government, they encounter one consolidated level.
54. From the perspective of tax administration, SIMPLES:
- reduces processing cost;
  - reduces cost of controlling the SME sector;
  - fosters exchange of information among the three levels of government;
  - encourages spontaneous compliance by reducing the tax burden, i.e. reduces tax evasion and, thus, expands the tax base.
55. Further refinements have been made in 2006 to try to maintain consistency in treatment across geographic regions with the prevailing view being that the simplifications brought about by SIMPLES have resulted in more small businesses moving from the informal to the formal sector.
56. While using SIMPLES as an example for customer focus, it has to be mentioned that SIMPLES is generally considered to be a complex overall structure to administer. It perhaps provides an interesting example of a toss-up between customer facilitation and administrative facility.

## **India**

57. The advent of ICT has enabled various new services for both large and small taxpayers, for example, improving taxpayer services through Large Taxpayer Units (LTUs) in 4 cities, and numerous small taxpayer returns preparation centres with download facility for return forms. Recent undergraduate students have been selected and trained as participants to help fill returns for small taxpayers.
58. Taxpayer assistance services through taxpayer assistance brochures, an informative website, and an interactive voice response system in selected cities have been introduced albeit with teething problems.
59. While a list of such measures may be cited on an ongoing attempt to provide customer service, a more intrinsic effort, based on structural pillars, may be needed to move the concept of customer focus into centre stage as has been achieved in the U.K. For this, first, recognition of the issue and, second, adequate allocation of funds are essential, as in the case of introduction of ICT in India's tax administration.

## United Kingdom

60. The “Review of Links with Large Business”<sup>8</sup> provided a starting point for better engaging customers. It concluded that businesses wanted a more open and trusting relationship with HMRC.
61. HMRC responded by introducing Customer Relationship Managers (CRMs) for each of the 700 largest businesses that pay tax in the UK. Each business is allocated a CRM who becomes their first point of contact, developing an in-depth understanding of their tax affairs at a working level and playing a key role in identifying any areas of tax uncertainty and risk. The Large Business Service directorates are categorised by sectors such as IT & Telecom, Banking, Insurance, Oil & Gas, Local Authorities, Charities, and others to further engender development of specialist skills and knowledge.<sup>9</sup>
62. Additional channels of communication have been opened in the form of a series of Industry Sector Leaders as a point of contact for senior managers, forums for industry representatives, discussions with trade representative bodies and customer surveys.
63. This has helped to identify and implement improvements in 5 key areas:
  - **Providing greater certainty of tax liability**  
HMRC has introduced a team of specialists known as the Advance Agreement Unit that work in real time with businesses to give tax certainty in advance of large inward investments (greater than £250 million).

The process for providing tax certainty (known as clearance) on areas of material uncertainty has been expanded, provided the issue raised is “relevant and focused”, has a “great impact” on the business and concerns legislation from within the last 4 years for Indirect Taxes. This can now normally be completed within 28 days.

- **Introducing a more efficient “risk based approach”**  
CRMs conduct a risk review of large businesses’ returns. This involves rating companies for different features of their businesses according to the tax risk that they pose. This is then summarised into an overall “risk rating” of either high or low. Those companies that attain a low risk rating would tend to receive a lower volume of HMRC interventions such as tax audits and requests for information as well as a more positive approach to the relationship. This explicit definition of the benefits of being “low risk” acts to recognise and then reward positive behaviours by firms<sup>10</sup>.

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<sup>8</sup> HMRC (2006) “Review of links with large business” available at: <http://www.hmrc.gov.uk/large-business/review-report.pdf>

<sup>9</sup> HMRC (2006) “Working with large business” available at: <http://www.hmrc.gov.uk/lbo/operating-model.pdf>

<sup>10</sup> HMRC (2007) “HMRC approach to compliance risk management for large businesses” available at: <http://www.hmrc.gov.uk/budget2007/large-business-riskman.pdf>



Additional expertise, resources and guidelines have also been allocated to improve the service provided to high risk corporate entities. This includes specific project managers for resolution of discrete areas of high uncertainty and disclosed avoidance schemes.

This is a similar system to the US's "Compliance Assurance Programme" (that has received mixed results due to an unwillingness to fully reveal the nature of transactions), Australia's "Annual Compliance Arrangements" process for the 50 largest firms and the Netherlands' "horizontal monitoring". It could be beneficial to discover best practice from this range of schemes to help inform future developments.

- **Quicker resolution of tax issues**

Customer Relationship Managers (CRMs) interface with customers, bringing to the same table, corporate tax, VAT and accounting issues together with all concerned officers. They thus take a leading role in engaging companies on open cases. They help to draw up and implement an action plan for case resolution.

In addition to this, new guidelines have been drawn up and new resources committed to resolving large, complex transfer pricing enquiries within 18 or 36 months – depending on their complexity.

- **Improved clarity through effective consultation**

Steps have been taken to increase the number of public consultations and publish the cost-benefit analysis associated with policy decisions. This has been supported by a Consultation Framework outlining best practice such as consulting early in the policy development process, regularly throughout the process and ensuring that stakeholders have sufficient time to provide responses.

In addition to this a stronger emphasis has been placed on consultative forums with businesses and academia. For example, the Financial Secretary (Tax Minister) chairs a forum with multinational companies' Chief Finance Officers and selected HMRC and Treasury (Ministry of Finance) officials as members where developing tax policies are openly discussed prior to Budget action. Also, HMRC has set up a committee with senior academics from the U.K. Australia, the United States and European countries and selected HMRC officials as members in which they discuss ways to apply in practice recent developments in the field of tax analysis and jurisprudence.

- **More skilled tax professionals within HMRC**

New training and qualifications have been created for HMRC staff as well as improved engagement with the private sector to enable a greater transfer of information. A highly technical, Masters level seminar series with recognition as a post-graduate diploma has been set up for the tax analysis staff. It also includes a nascent secondment opportunities programme for staff between HMRC and the private sector.

64. Initial feedback from large businesses has been highly favourable, particularly in reference to the introduction of CRMs. As such, there are plans to extend the principles applied here to relationships with smaller businesses.

65. HMRC is also making an effort to understand individuals better. Research is being completed into differentiating between different types of individuals, identifying what their experiences are like and ways that this can be improved. One result has been a series of improvements to the HMRC website including: categorisation of the website according to taxes, testing of content to ensure it is appropriate for its users, addition of new articles and development of the search facility. This kind of improvement cannot be achieved without appropriate resource allocation that HMRC has indeed allocated.
66. Individuals with complex personal tax affairs also receive specialist support under a separate directorate. The teams provide dedicated customer relations managers and telephone support for a “cradle to grave” service. Segmentation of customers (e.g. separating footballers and entertainers) to encourage further specialisation and increased understanding of tax affairs is hoped to further improve the service.
67. Aligned with this has been HMRC’s approach towards Corporate and Social Responsibility. A key aspect of this is helping HMRC to be more inclusive, understanding customer needs and providing more flexibility in response. For example, following floods in 2007, HMRC offered businesses in the affected areas a more relaxed regime with greater time to submit returns and make payments. Similar considerations exist during the prevailing recessionary economic outlook.
68. In order to foster voluntary compliance, the HMRC Review of Powers has provided an opportunity to assess the principles applied through tax authority interventions. It is a programme to unify and align the differing powers inherited for different taxes.
69. The review has provided some clear principles by which the powers given to a tax administration should follow<sup>11</sup>. These include:
- Setting the powers in a clear statutory framework.
  - Making this easily understood by taxpayers, their agents and HMRC staff.
  - Ensuring they are straightforward to comply with.
  - Using powers consistently across taxes and customers.
  - Making powers effective in providing the information HMRC needs to identify non-compliance and assess tax risks.
  - Developing powers that are proportionate to the original offence and what HMRC needs to discharge its responsibilities or protect tax revenue.
70. The review of penalty regimes for incorrect returns provides an example of how these principles can be applied in practice. It concluded that: the penalties charged fell within a very narrow range, so didn’t offer the opportunity to differentiate between different types of taxpayer behaviour; some of the terms used in the guidance were not understood by HMRC customers; and that the differing regimes across taxes added to confusion<sup>12</sup>.

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<sup>11</sup> HMRC (2007) “Payments, repayments and debt: the developing programme of work” accessible from: [http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?\\_nfpb=true&\\_pageLabel=pageLibrary\\_ConsultationDocuments&propertyType=document&columns=1&id=HMCE\\_PROD1\\_027614](http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ConsultationDocuments&propertyType=document&columns=1&id=HMCE_PROD1_027614)

<sup>12</sup> <http://www.hmrc.gov.uk/about/powers-appeal.htm#b2>

71. As a result a new regime has been put in place that is consistent across taxes and only punishes those that have not taken “reasonable care”. It differentiates between mistakes and active evasion whilst it also offers the novel use of suspended penalties – a new form of power now being tested by HMRC.
72. The U.K. Government is also now reviewing the potential for use of Principle Based Legislation. The first application of a principle based approach (tackling avoidance using financial products) is currently being consulted with a view to legislating in May 2009<sup>13</sup>. An important role of the consultation is to help strike the correct balance between adhering to demands from businesses to provide clarity to where the principle will be applied whilst not being too prescriptive. For instance, it may be possible for HMRC to facilitate the transition by providing pre-transaction clearance services for businesses to help identify where and when the new rules apply. The impacts of the new approach will offer an interesting and informative example of a consistent customer oriented approach<sup>14</sup>.

#### ***4.0 Management and Structure***

73. With a changing operating environment and shifts in technology it is essential that the management structure of modern tax administrations continues to evolve; reflecting best practice in the private sector whilst accepting the inherent differences in public versus private sector situations.
74. **A definition of the objectives or targets for a tax administration** seems like a good starting point. At the highest level these may be broad statements about what it is trying to be achieved such as increasing productivity, reducing errors or improving perceptions. However, beneath this there needs to be an interpretation that has practical meaning for those working within the organisation. A network of specific, measurable objectives needs to be in place for each sub-directorate – reflecting their day-to-day work and needs.
75. **Functional directorates** are a key feature of a modern tax administration that places taxpayer customers at the centre of what it does. This is when the department is structured according to the functions, or end customers of its services. For example, taxes affecting businesses could be grouped separately from those affecting individuals and, within these categories, the focus is on “Large Businesses” or “Local Compliance” for small and medium enterprises, or “High Income Individuals”, rather than Corporate Tax being separate from VAT, or Capital Gains Taxes being separate from Income Taxes.
76. This encourages complimentary information and knowledge to flow across tax or geographic boundaries; enabling the tax administration to take full advantage of its extensive sources of data. In turn, it supports the development of strategic objectives with end customers in mind.

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<sup>13</sup> “Principle Based Approach to Financial Products Avoidance” (2008), HM Treasury:  
[http://www.hm-treasury.gov.uk/d/pbr08\\_financialproducts\\_802.pdf](http://www.hm-treasury.gov.uk/d/pbr08_financialproducts_802.pdf)

<sup>14</sup> HM Treasury (2008) “Principle Based Approach to Financial Products Avoidance” accessed at:  
[http://www.hm-treasury.gov.uk/d/pbr08\\_financialproducts\\_802.pdf](http://www.hm-treasury.gov.uk/d/pbr08_financialproducts_802.pdf)

77. **A modern recruitment system** is another key requirement in maintaining a dynamic management structure. Open competition and decentralised recruitment should encourage free movement between the public and private sector at all levels of the organisation. In addition, it can be beneficial to allow specialist professions to develop recruitment systems appropriate to their specific needs – for instance, for analytical professions, technical tax professionals, or management specialists.
78. However, amongst all this it is important to maintain and support links between the different professions to foster understanding across all areas of the administrations and at all levels. In particular senior leaders and decision makers must maintain a strong knowledge of the working tax system to understand the full dimensions of any action they take.

## 4.1 Case studies – management & structure

### Brazil

79. SRF appears to run in close parallel to an autonomous public sector agency or even a private sector firm. Though operating within the confines of overall government hiring policy, there is considerable independence and discretion in the policy itself. SRF as well as SERPRO (the IT service provider) devise their own examinations, reflecting specialization in tax audit/accounting, IT, and related fields, enabling them to directly hire specialised professionals in their own fields early or midstream in their careers. The head of SRF is directly hired by the Minister of Finance, usually from the private sector or similar background, and has the rank of vice minister.
80. A particular style needs to be mentioned, if not emphasised, here. Except for the Directors of the SRF departments, all offices are open. Thus Division Chiefs share large open spaces with their entire division and work in close proximity with all staff members. Indeed, as will be indicated for the U.K., even the Permanent Secretary for Tax shares an open space with colleagues. Meetings are organised through a reservation system in a number of offices designated for them. India's style of management remains traditional.

### India

81. The structure of management of the revenue services in India has essentially remained similar over the years. There are two Boards—Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC)<sup>15</sup>—that are overseen by a Revenue Secretary (RS) and his/her office for administrative purposes. While CBDT and CBEC comprise career tax officers, the RS comes from the elite Indian Administrative Service often with little experience in taxation matters. While the RS is a Secretary to the Government of India, the Chairmen of the Boards remain only Special Secretaries, a matter of frustration for career tax officers. National tax commissions have commented on and questioned this curious arrangement. Another matter that stands out is the continuing separation of the two Boards and their respective direct and indirect tax departments, in contrast to Brazil and the U.K. as well as to most advanced tax administrations globally.

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<sup>15</sup> Separate Customs and Excise departments were combined many years back.

82. The tax departments reflect mainly along geographical demarcations rather than functional ones. Thus taxpayer filing, assessment and audit/scrutiny all accrue to one office and, most remarkably, to one officer. Thus, when a taxpayer moves from one part of the country to another, a major preoccupation for him or her becomes how to move the “file”. The Systems Integrator, together with the Tax Information Network will hopefully enable such movement seamlessly in the future. Otherwise, a major objective of ICT improvement to facilitate customer focus will remain unachieved.
83. Indeed, the Indian tax administration—in fact the entire government administration—moves on the basis of a hard copy file system.
84. India has an excellent training programme for entering tax officers that covers a span of two years. In the past, officers emerging from the programme have tended to take their future as a life long service, taking rightful pride in career advancement and place in society. That situation has changed slightly. First, the differentials in salaries between the private and government sectors has expanded as the multinational accountancy firms have established offices in India and an observable number of quality officers move out to them. Indeed, it is not just the alary structure—the central government has just implemented an upward shift in the salary structure and there are also many non-pecuniary benefits such as highly subsidised living quarters in congenial locations and liberally provided transport facilities—but also the overall traditional managerial style and structure that act as disincentives for the more dynamic officers to stay in public sector employment.
85. Promotions are based on the year (“batch”) of entrance to the Indian revenue services. While the best officers tend to get good postings in a balancing effort, this possibility is circumscribed by the need to fulfill equity and regional balance objectives. This stands out somewhat from other cases. For example, in the U.K., jobs are usually advertised. First, internal candidates at the same grade (as in the advertised position) apply; in the next round, a job is thrown open to potentially promotional candidates; and, in the third, to external candidates. The process can be rather long but is more targeted and carries with it the likelihood of strong candidates being selected. India has some distance to travel her recruitment policy and enhancement of competitive structures to promote functional specialisation.
86. Another aspect of training is the training module. While the syllabus is extremely comprehensive, being both wide and deep, it has so far not incorporated latest management tools and techniques. This pertains in particular to top management, for example, oral language usage, written communication (for example, the advantage of using active versus passive voice, “people” rather than HRD, customer or stakeholder rather than taxpayer), leadership attributes, meeting the challenge or vision function successfully, and many others. Incorporation of such features even belatedly would go a long way for management to move from tradition towards a more dynamic view to reshape the administrative structure.

## United Kingdom

87. HM Revenue & Customs was formed in 2005 from the merger of separate direct and indirect tax departments - Inland Revenue and Customs and Excise<sup>16</sup>. This followed from the recommendations of the "Review of the Revenue Departments" (HMT, 2004). The review suggested that the new structure could generate large efficiency savings, create additional flexibility in the allocation of resources and enable the improved use of information and data – helping to improve the value for money provided to the UK's taxpayers.
88. The department currently has three publicly stated Departmental Strategic Objectives (DSO's): to ensure the correct amount of tax is paid, improve customer perceptions, and to ensure the security of the UK's borders. These have subsequently been interpreted into a set of quantitative, measurable Performance Indicators for each functional area of HMRC in order to monitor progress over time.
89. Functional directorates are a key feature of the new department. At the management level, operational directorates are grouped under Personal Taxes, Business Taxes, and Customs & Excise. Below this, directorates are not based on specific tax or geographic characteristics but under titles such as Charities, Assets and Residence, Large Business Service, Business Tax (Corporation Tax & VAT-- both of which are interestingly considered as taxes on businesses), Local Compliance (for small and medium taxpayers), Complex Individuals, and so on, all reflecting groups of ultimate customers. Other functional departments include Debt, Central Compliance, Risk and Intelligence, KAI and others with specific functional or analytical focus.
90. One interesting aspect of HMRC people policy is the hiring of management from the private sector both in the tax and non-tax areas. Such a structure, in order to be successful, must have the wherewithal to recognise at which intervention points there are the points there are benefits, and where not. On the one hand, management hiring from the private sector tends to bring in state-of-the-art management approaches. A challenge of course does remain regarding the right configuration for managerial versus taxation expertise, their respective treatments, and the assignation of their roles, responsibilities and accountabilities. The point here is that recognition is given to the need for pure management emanating from the management sector rather than managing the department on the basis of managerial abilities and experience of tax officials, however senior, alone. The concomitant challenge is attempted to be addressed by arriving at the right balance between the two.
91. In terms of tax expertise itself, there is no limitation on external hiring so that internal and external tax experience—with the latter's knowledge of the latest taxation and advisory strategies practised in the private sector—mesh intelligently. This allows specialist risk management, debt management and detection skills to be fostered in an intrinsic manner. It, therefore, remains vital that, where this is the case, communication links between the different directorates and across operational groupings are well developed and successfully maintained.

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<sup>16</sup> Broadly speaking, the Inland Revenue had previously administered direct taxes such as Income Tax and Corporation Tax whilst Customs and Excise had managed indirect taxes such as VAT and excise duties.

92. Management officials are often recruited from the private sector or public autonomous agencies, facilitating the direct incorporation of state-of-the-arts techniques for strategy and management into HMRC. However, maintaining specialised skills amongst senior decision makers has been an important challenge. Throughout the restructuring process it was essential to ensure that specialised tax skills were maintained and further developed at the most senior levels in order to prevent distancing of HMRC's operational front-line from the senior decision making process.
93. In the U.K. as in Brazil, offices could be said to be basically paperless. And they are physically open. Thus, the Permanent Secretary for Tax as well as the bulk of HMRC Directors sit in widely open offices with their professional teams and support staff. Both these features together enable "hot-desking" i.e. there is an 80% physical infrastructure need for 100% staff with direct positive outcomes for cost containment.
94. In sum, HMRC's overall management and structure is based on many modern management principles. Indeed, it could set an example of how to organise a modern tax administration. Its challenge remains in maintaining the optimal combination of pure management and taxation specialist skills, as well as between external private sector and internal department skills.

## ***5.0 Tax Administration in the Current Economic and Social Environment***

95. The global economic slowdown comprises the most pressing factor affecting tax administrations all over the world. This is likely to impact on tax administrations in three ways: changes in revenue raised (together with increased arrears), changes in officers' operational workloads, and changes in taxpayer compliance behaviour. This section of the paper reviews each of these in turn.

### **5.1 Changes in revenue**

96. It can be fairly unambiguously argued that a downturn in global economic activity will cause a reduction in tax revenues raised from just about every source. This is being currently experienced by most tax administrations. Alongside this, there is likely to be increases in the level of debt owed to tax administrations, with greater delays in payments. However, a more pertinent question maybe, what impact might this ultimately have on tax administrations.
97. Could more pressure be placed to close tax gaps to increase revenue available to expenditure departments? Could the declines in government revenue have strong ramifications for ministry/departmental budgets – restricting large capital investment projects, in particular for ICT in the case of tax departments? At the present time it is clear that more questions are likely to be raised than answers.

### **5.2 Changes in operational workloads**

98. The impact on total workload for a tax administration is not clear. However, it is likely that shifts between different types of processes can be identified at a fairly early stage.

99. Falling numbers of new registrations from potential business taxpayers, reduced numbers of employees requiring income tax processing and a marginal improvement in ability to recruit new staff could act to reduce workloads. Meanwhile, changing employment details, rising numbers of company closures and increasing complications with debt settlements would act to increase workloads.
100. With this in mind, it might be possible for tax administrations to identify areas that are likely to come under increased pressure and be prepared to switch resources as required.

### **5.3 Changes in Compliance**

101. A weakening economy implies falling profits, incomes and bonuses for individuals and businesses. This results in reduced opportunities for taxpayers to engage in non-compliance. This would tend to reduce the total value of tax revenue at risk from non-compliance.
102. However, the weakening economy will also present tax administrations with some additional compliance risks. For example, small businesses may find cash flow problems exacerbated by the delay between assessment and payment of corporate income tax. This delay means that small businesses, in having to pay taxes on historic profits at a time when the weakening economy is squeezing their cash flow, may feel obliged to operate in the grey areas of compliance. The economic slowdown may exacerbate existing risks to compliance also by large businesses as they seek to increase levels of avoidance in order to preserve their post-tax profitability.
103. Additionally, to the extent that unemployment increases, and individuals fall out of formal employment, there will be more potential taxpayers outside the relatively secure compliance environment of employment income and with greater control over their tax affairs. This may increase amounts of simple errors as well as deliberate non-compliance. Meanwhile, illicit markets for excise goods are likely to grow as the economy slows. During a recession, consumers may react to falling incomes by switching to cheaper illicit products. Small companies and large retailers may also be more willing to stock such products if demand for legal goods declines.
104. Therefore, the net implications of a weakening economy for compliance are not clear cut, and would depend on the taxpayer segment and type of non-compliance. Yield from compliance activities can be expected to hold up over the next few years as compliance yield is determined by historic profit levels. However, tax collection itself from both small and large businesses should become more difficult, posing challenges for tax administrations.
105. To add to the complexity, aspects of revenue reduction reflecting low economic growth and the rise in arrears reflecting the reduced status of businesses appear in combination with unpredictable changes in compliance behaviour. It is therefore a challenge for tax administrations to allocate appropriate resources among these competing, yet intertwined, aspects of tax administration. Essentially, though they are intertwined aspects, in the final analysis, the challenge is that they have to be separated for budgetary allocation purposes. Careful background analysis needs to be carried out internally in order to achieve this right balance.



106. Overall, there are significant risks regarding the effects that changes in global economic growth will have for tax administrations. The larger the fluctuations in economic activity, the greater are the wider uncertainties that afflict tax administrations. Whilst some impacts do seem relatively predictable and can be prepared for, others cannot. Specific challenges for tax administrations have also appeared through decisions in many countries to use temporary fiscal stimuli—such as a temporary (or uncertain) reduction in tax rates as a policy tool—as in all three countries that I have used for my illustrations—. While providing economic stimulus, they tend to generate complexities to tax calculations that administrations need to be ready to deal with. Fundamentally, tax administrations have to be prepared for an increased spread of risk, taking this into account when making budgetary decisions, in particular with respect to large capital investments.

## ***6.0 Concluding Remarks***

107. A clear path forwards for developing a modern tax administration comprises, first, taking advantage of new developments in technology and, second, state-of-the-art management techniques to produce quality customer service. Third, such management keeps the taxpayer as the primary focus, in the same manner as a customer for a private firm.
108. Fourth, developing and making available to tax administrations an analytical base for policy making, based on an IT enabled data warehouse, must be at the centre of this strategy. This will help drive changes in policy through analysis and evidence, provide analytically sound internal measures of performance, and enable a more sophisticated understanding of customers, their expectations and their compliance behaviour.
109. Last, but not least, it is also clear that the uncertainty surrounding current economic conditions and the associated pressures on government finances pose significant risks to the best laid out plans for the progress of a modern tax administration. Whilst these pressures will inevitably affect the short, or even medium term, functioning of tax systems, the longer term direction of modern tax administrations remains clear and that path should not be lost.