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ÉCONOMIQUES



FORUM ON TAX ADMINISTRATION

Executive Overview: Working Smarter

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

and

**Working smarter in revenue administration—
Using demand management strategies to meet service
delivery goals**

January 2012

Context and background

1. At the January 2011 meeting in Washington D.C., Forum on Tax Administration (FTA) Bureau members approved two proposals for new FTA projects on the subjects of “demand management” and “managing tax administrations in a climate of constrained budgets” as a combined new priority project under the working title “Working Smarter”. Mr. Peter Veld, Commissioner of the Netherlands Tax and Customs Administration, and Mrs. Linda Lizotte-MacPherson, Commissioner of the Canada Revenue Agency, agreed to co-sponsor this project.
2. Working Smarter examines measures taken by tax administrators to reduce costs or increase efficiency and effectiveness in four key areas: administration, compliance, legislation, and service delivery (demand management) as outlined below:
 - **Working smarter in structuring the administration:** Evaluate, from an organisational perspective, how structuring processes contribute to improved allocation of resources and reduced expenses;
 - **Working smarter in compliance:** Evaluate, from a compliance perspective, how processes can be optimised and executed with fewer mistakes and disputes and how other parties, inside and outside of government, can contribute;
 - **Working smarter through legislation:** Evaluate, from a revenue body and taxpayer perspective, how changes in legislation contribute to cost-effective and simplified procedures for levying, auditing and collecting of taxes; and
 - **Working smarter in service delivery (demand management):** Identify methodologies and technologies that will assist in determining why, from a whole of enterprise perspective, taxpayers initiate contact with revenue administrations, and identify strategies currently being deployed (e.g. channel convergence, channel shifting) to manage demand, in both revenue bodies and the private sector.

Approach to the study

3. To carry out the work, the project was managed on two separate tracks. Canada assumed responsibility for the Demand Management component, which was carried out under the auspices of the Forum’s Taxpayer Services Sub-group (TSG), and the Netherlands managed the administration, compliance and legislation components, with the assistance of a task group comprised of nine countries.
4. Both project teams conducted surveys to obtain input from FTA countries and, in the case of the demand management component, conducted research to gain a better understanding of the demand management approaches used in the private sector.
5. Responses were analysed and draft reports were distributed to TSG and task group members for comment in September and October 2011 respectively.

About the information notes

6. The results of the Working Smarter project have been compiled in the form of two information notes:
 - *Working smarter in structuring the administration, in compliance, and through legislation*
 - *Working smarter in revenue administration—using demand management strategies to meet service delivery goals*

7. The notes examine their respective components in greater detail, and provide examples from participating revenue bodies to illustrate actions and initiatives that they have taken in these areas to reduce costs and/or improve efficiency and effectiveness. This Executive Overview provides a summary of the overall project, including the context in which it was proposed, and concludes with a number of summary recommendations.

Challenges Facing Revenue Bodies

8. Government demands and expectations since the onset of the global financial crisis in 2008-2009 have heightened public sector awareness of the need for improved cost-effectiveness in their operations. As governments in many OECD countries have set challenging cost reduction targets for their public sector, revenue bodies have had to streamline their operations while maintaining, and preferably improving, their standards of service delivery without increasing the compliance burden on the taxpayer. In addition, taxpayers expect short(er) turn-around time in their contacts with revenue bodies, for example for assessments or tax positions.

"Working Smarter is no longer just an option for tax administrators, it is now a necessity if we are to do more with less, to meet rising community expectations, and to promote an environment conducive to high levels of willing and proper participation in our respective tax systems."

Michael D'Ascenzo, Commissioner of Taxation, Australian Taxation Office

9. Working Smarter examines measures taken by revenue bodies to reduce costs and increase the effectiveness of compliance and service activities, including changes to the structure of the administration and underlying legislation. Some strategies to achieve these goals include:
 - Concentration of tasks
 - Process optimisation
 - Standardisation
 - Co-operative approaches; and
 - Provision of electronic services.
10. A common feature of these measures is that large-scale, labour-intensive compliance and service activities of revenue bodies are re-designed with the goal to reduce costs and/or optimise the use of resources and enhance service. Such measures should present a win-win situation for the revenue body and the taxpayers and not an increase in taxpayers' burden.

Key findings

11. Details regarding the findings can be found in the two accompanying information notes. Some general observations are set out below.

Working smarter in structuring the administration

12. Revenue bodies consider structuring the administration as the area demonstrating the most potential for advancements in working smarter, together with facilitating compliance.
13. It is clear from the examples presented that revenue bodies are redesigning their organisation along more centralised lines. Centralisation takes many forms in revenue bodies, ranging from merging different organisations to decreasing the amount of offices. Many revenue bodies have created nation-

wide business lines under one central management. These business lines are based on taxpayer segments or on tax type or process (audit and taxpayer information for example).

14. In redesigning the organisation, functions are not only centralised under one management, but also concentrated in fewer locations. This is a notable tendency for functions ranging from back-office and administrative processes to audit, appeals and collection. These initiatives lead to increased efficiency, improved processes, optimum use of often scarce competencies and economies of scale for processes that demand significant investments.
15. Of importance for many revenue bodies, working smarter also means redesigning and optimising key business processes. To this end, a number are using 'Lean' principles and similar strategies to analyse their business processes and identify ways to improve them. For some, this approach is being pursued on an ongoing basis.

“At Inland Revenue (New Zealand) we have always looked for ways to provide smarter and improved services for our customers, while at the same time providing improved organisational efficiencies. However, the current fiscal environment and the cost of recovery from the Christchurch earthquake have made it vital that we deliver even greater value for money.

Key to our approach to improving organisational efficiency and effectiveness is progressively moving our customers to more cost-effective electronic service channels, while creating an environment to make it easy for customers to self manage their tax obligations and social policy entitlements. This, together with a sustained focus on streamlining existing business processes through utilising "Lean Six Sigma" methodologies to make continual improvements to our internal systems, processes, and structures, has delivered significant benefits to customers, the organisation, and the New Zealand Government.”

Robert Russell, Chief Executive and Commissioner of Inland Revenue, New Zealand

16. The automation of workflows within revenue bodies is another area with potential for working smarter. Investing in the automation of work appears to be one of the more successful strategies to reduce process costs, as it facilitates faster and easier data processing and management across work areas. Survey responses suggest, however, that not all revenue bodies have yet achieved the same level of automation in this regard and for many significant potential remains.
17. There were also interesting but limited examples of knowledge management and the use of outsourcing of work. Databases are used successfully by some revenue bodies to share information within their staff and to capture the knowledge/experiences of departing employees. Outsourcing, while not reported widely in survey responses, may also offer potential for savings drawing on private sector practice.

Working smarter in compliance

18. The survey revealed that there is considerable potential for working smarter in compliance. The most potential is seen in the facilitating compliance category, followed by audit strategies, collection measures and dispute resolution.
19. To facilitate voluntary compliance, revenue bodies are increasingly adopting modern compliance risk management strategies, involving for example risk-orientation and differentiated responses based on intelligence. For some, this development is complemented by a tendency to shift activities upstream—addressing risks earlier in the sequence of events potentially leading to compliance failures— or to seek more systemic solutions.

“In addition to promoting tax compliance and implementing auditing actions, the strategy of the Servicio de Impuestos Internos (SII) aims at minimizing non-compliance, hence

making it easier to comply and more difficult not to comply. In order to reduce the chances of non-compliance, the SII has improved its information capture processes, its storage and processing of information and provides taxpayers with pre-filled tax returns, which can be accepted, modified and, when required, completed by taxpayers. As a result, 98,8% of the annual income tax returns filed in 2011 were filed online using prefilled tax returns; most income tax returns filed by individuals were fully prefilled by the SII. Regarding audits, the trend is also towards the automation of processes. Information on detected tax evasion schemes triggers the creation of new or improved requirements for information and new validation algorithms to be incorporated into comprehensive audit processes.

We are confident that these measures have helped us to improve efficiency, effectiveness and to work smarter, but the work must continue and the experience of other countries can be of great assistance to our future efforts. Moreover, we believe that matters of international cooperation such as the exchange of information could benefit from further coordinated work, especially considering the global environment and the growing number of Tax Information Exchange Agreements that are being signed.”

Julio Pereira, Commissioner of Internal Revenue, Chile

20. The survey revealed a consensus around the importance of electronic services as a means of facilitating compliance, including pre-filing returns, online information, online filing and payment facilities, and digital communication. The benefits of electronic services also include efficiency gains on the side of the business and the taxpayer. The potential is by no means exhausted. In addition, many revenue bodies invest in co-operative arrangements involving taxpayers and other stakeholders. The benefits include smoother processes, early certainty and a healthier business climate.

“The Inland Revenue Authority of Singapore (IRAS) delivers excellent service to our taxpayers and Government in a cost-effective manner. Over the years, we have invested heavily in Information Technology and streamlined our operations and businesses processes, which have enabled us to provide quality and innovative services while keeping our cost per dollar collected low.

We believe that the Best Service we can provide to taxpayers is to eliminate their need for service altogether. This philosophy underpins initiatives such as the No-Filing Service, where we are able to obtain income data of taxpayers directly from employers, and do not require these taxpayers to file a return if their reliefs and deductions do not change over previous years. This reduces compliance costs and requirements for both taxpayers and tax administration significantly.

A key focus to work even smarter lies in our Compliance IT Blueprint project, which is a holistic framework to leverage on technology to drive compliance. We believe a combination of excellent service and strong compliance capabilities will engender a strong culture of voluntary compliance, which is probably the smartest way to work.”

Moses Lee, Commissioner of Inland Revenue, Singapore

21. Audit and similar one-on-one verifications are costly. Revenue bodies are therefore developing strategies to improve risk identification for the selection of cases and to improve the allocation and processing of individual cases. Besides improving traditional audits, revenue bodies are also looking for measures to enhance the reach of audit activities by strengthening the control chain, for instance for the underground economy.
22. Having appropriate collection strategies is particularly pressing in the present climate of financial crisis. Revenue bodies provided few but promising examples of innovative ways to collect debts, ranging from preventive measures and automated collection processes, to enforced debt collection.

23. There are opportunities for efficiency gains by revisiting and adapting some of the processes around dispute resolution. An efficient dispute resolution strategy might include early intervention, efficient workload management, and a formalised feedback mechanism. The tendency among revenue bodies to adopt co-operative approaches also plays a role in the resolution of disputes.

Working smarter through legislation

24. Research has shown that revenue bodies have different levels of involvement in new legislative initiatives, ranging from advising on feasibility and the effects of proposals to the actual drafting of legislative texts.
25. Revenue bodies consider legislation to be an important source of opportunities for working smarter. Many formal procedures for levying, auditing and collecting taxes are laid down in legislation and thus this area provides important opportunities for simplifying tax processes. An example of the latter are thresholds (e.g. for VAT registration and advance payments of tax) that can influence workload volumes. Also, legislation may support revenue bodies in introducing e-communications or obliging certain groups of taxpayers to file their tax returns online.
26. It is as legitimate to examine the contribution legislation makes to the overall efficiency of a process, as it is of any other aspect. The examples reported give a flavour of how legislation can become outdated and impose requirements, or mandate steps in a process that do not contribute to the desired outcome.
27. Legislative reform can be complex and will not always be easy to achieve. Legislative changes need to conform to the overall policy direction of governments. Recognising these constraints, it is clear that working smarter through legislation can contribute to improving the efficiency and effectiveness of tax administration.

Working smarter using demand management strategies

28. Most revenue bodies are challenged with determining how their resources can best be allocated to meet taxpayer service expectations and reduce the compliance burden. The focus of the Demand Management research was to identify the approaches being used by revenue bodies to improve their service delivery by understanding the causes and drivers of demand with a view to systemically reducing them or addressing them in a more cost effective manner.
29. All revenue bodies that participated in the study have implemented a multi-channel service delivery model and set service objectives for migrating taxpayers to self- service and on-line channels to reduce costs and increase accessibility. However, the more expensive in-person and in-bound call channel continue to be the preferred channels of taxpayers.
30. Most revenue bodies reported that they are measuring demand through a variety of methodologies and technologies that are providing useful information for developing strategies to more efficiently and effectively manage demand once received. However, these methodologies and technologies are generally costly, time-consuming, and are not providing the information necessary to understand why taxpayers are seeking the services of revenue bodies. Information regarding the “why” or causes of demand is essential for developing approaches to eliminate or shift demand to the more cost effective channels. However, it is worth noting that two revenue bodies are at the early stages of implementing voice analytics technology, and another is planning an opportunity analysis pilot to determine the potential costs and benefits of using this technology. This technology has been effective in the private sector for identifying the root causes of demand and the experiences of these revenue bodies will provide valuable insights for others.
31. Private sector advice obtained through the research suggests that while understanding the causes of demand is important, effecting change with this information requires an action plan and a governance structure. In general, revenue bodies reported having some oversight regarding demand management,

but private sector experiences suggest that more rigorous, enterprise-wide, dedicated governance may be required to effect the changes needed to reduce or shift demand.

32. The Demand Management report provides a number of strategies and tactics being used to better manage demand by simplifying the tax system to reduce the compliance burden, implementing self-serve and on-line options, and eliminating avoidable and unnecessary repeat contacts. These have been effective in better managing the existing service demand and improving the service experience for taxpayers but have not significantly reduced or eliminated demand.
33. Although revenue bodies differ from the private sector, taxpayers nevertheless expect us to provide the same types and standards of services and “do more with less”. The research found that many private sector organisations have engrained demand management methodologies within their service delivery models and are using these approaches effectively to identify the areas or issues that are problematic for customers and costly for the organisation to manage. Some key themes prevalent in private sector demand management practices include: using the voice of the client to understand their needs, driving the information gathered regarding the causes of demand throughout the organisation to make changes in non-value processes; engaging other parts of the organisation to address issues, maximise efficiencies and improve the customer experience; and using emerging technology to both analyse and better manage demand.

Overall planning and management of cost reduction programmes

34. Although not studied in depth, Chapter II of the note ‘*Working smarter in structuring the administration, in compliance, and through legislation*’ outlines the approaches of a few revenue bodies to planning and managing their cost reduction programs. An example is advice provided by the UK National Audit Office (NAO) to UK public sector bodies for successfully managing large cost reduction programmes. In its advice, the NAO makes the following observations:
 - Organisations should have a well-defined vision or operating model of “how” their organisation will look and go about business in the future, given their mandate and objectives. Comparing the costs and value of future and existing states can point to the areas of administration most likely to deliver the greatest level of savings.
 - Organisations require comprehensive and reliable information on where costs are being incurred (e.g. by tax, process, location, etc.), the factors driving those costs and how they contribute to organisational goals. Complementing this, there should be processes in place to regularly review key processes from end-to-end to examine the root causes of any inefficiency. All of this activity enables decisions to be made on priorities for cost reduction and the reforms to be made.
 - Organisations should have a reform programme allowing for properly sequenced implementation of individual initiatives, drawing on the involvement of key stakeholders (e.g. frontline staff and line managers), taking full account of technological opportunities, supported by a communications strategy explaining the reform rationale and expected impacts, and a measurement effort to monitor progress and evaluate impacts.
 - Most importantly, organisations require effective governance arrangements to oversee and take responsibility for all elements of the reform effort. Key elements of this include overseeing the assignment of responsibilities for reform initiatives to relevant managers, ensuring there is good communication with staff and comprehensive management information for all aspects of the reform effort, and effective monitoring.

Recommendations and important considerations in going forward

35. The two associated Working Smarter notes provide revenue bodies with new and inspiring insights into initiatives undertaken by revenue bodies to address the challenge of ‘working smarter’ in a climate of fiscal restraint. The notes present measures that have been developed with success but also some

promising ideas that have recently emerged. Of course, not all strategies are new and as revenue bodies operate in varied environments, not every example will be of benefit to all. However, much can be learned by considering what others have done, and how the lessons learned can be applied to benefit their own administration.

36. Each of the two information notes makes a number of explicit recommendations concerning the areas examined, which revenue bodies are encouraged to study closely and act on as they deem appropriate. Some key themes from these recommendations are set out below:
 - Keeping abreast of technological developments in revenue administration generally is critical to success. This implies considering both opportunities for further automation of workflows and processes but also continuously improving electronic services to taxpayers and increasing their take-up. Investing in these technological developments will not only bring benefits to the revenue body, but also to taxpayers, as they frequently help them to more easily manage their tax obligations.
 - There should be a strong commitment to understanding the impacts/ outcomes of initiatives, implying a systematic approach to evaluation; few of the examples presented by participating countries included evaluation of the gains.
 - Commissioners should encourage their staff to look broadly beyond their own internal administration and avoid the “not invented here” trap. Initiatives and ideas being explored in other revenue bodies, government departments and the private sector will, in all likelihood, present inspiring opportunities for gains (for example, the Lean-related approaches).
37. Commissioners are encouraged to review the notes and cascade them throughout their organisations for consideration by managers and front-line staff alike. Sharing this information may not only provide benefit to the reader, but may also generate new ideas for potential future discussion and study by the FTA.
38. Working smarter requires looking at an issue from a holistic perspective, taking all aspects of an organisation’s activities into consideration, including the legislative aspect, and not viewing issues and solutions in isolation. As part of this approach, revenue bodies are encouraged to dedicate time to analysing the processes and backgrounds of “problems” or “not smart enough” areas. This approach helps ensure that changes made to address a specific issue or challenge in one part of the organisation does not create unintended consequences in another.
39. While decisions regarding initiatives and changes aimed at working smarter are typically made at the senior levels of a revenue administration, implementation of these decisions is an important issue that needs specific attention. Mid-level managers are central to implementation. They will be a key interlocutor between senior management and the operational level of the organisation, playing a leadership role in implementing initiatives, as well as feeding ideas for change initiatives back to senior management. As such, it will be critical for Commissioners to ensure that mid-level managers have the information, tools and support that they need to manage these change initiatives.
40. Finally, it is noteworthy that the trends and examples identified generally require revenue bodies to invest resources and efforts to harvest benefit. It seems that achieving significant increases in efficiency requires a whole range of different measures and simple hard work. While the examples presented show little potential for short term gains, the report shows that there is still considerable potential for working smarter initiatives that frequently can bring benefits not only to revenue bodies, but also to taxpayers, individuals and businesses.