

FORUM ON TAX ADMINISTRATION

SME Compliance Sub-group

Improving tax compliance by adopting an “end to end” perspective

Scoping document

September 2013



Forum on Tax Administration: SME Compliance Sub-group

Scoping Document: End to end perspective

Context and Background

At the March 2013 meeting of the FTA Small/Medium Enterprise (SME) Compliance Sub-group, following the survey of members and the discussions that took place at the meeting, the Sub-group proposed that it should undertake a study of how compliance in the SME segment can be improved if compliance is understood as a single process. That process that starts with the initial recording of business transactions by taxpayers, leads on to the completion of accounts and tax returns, and concludes with the submission of those returns to the revenue body and its processing of those returns and any payment (including any necessary verification actions). Examining the process “end-to-end”, the study would identify opportunities for revenue bodies to influence its design and practical operation. This would include consideration of how technology (accounting/ business software products) can play a role in this and how intermediaries (both traditional tax advisers/return preparers and newer types of intermediaries such as cloud service providers) can assist.

Following discussions at the FTA Bureau meeting in May 2013, the Sub-group’s proposal was endorsed. In line with the Bureau’s working arrangements a sponsoring commissioner has been appointed and the SME Compliance Sub-group is asked to complete this study within the timeframe of one year. The sponsoring commissioner for this project is Mr Ingemar Hansson, Commissioner of the Swedish Tax Agency.

Purpose and Objective

The purpose of this project is to collect and share knowledge about strategies to improve compliance by seeing the taxpayer’s process and the revenue body’s processes “end to end”. This includes efforts to simplify process design and to build in quality right from the start. The project should also explore possibilities and ideas about how improved end to end processes could be further developed in the future.

As explained in the background, “end to end” in this context means a perspective that combines the taxpayer’s process and the revenue body’s process into one holistic process that starts with the taxpayer (after establishing a business) carrying out transactions and ends with the final correct tax being paid. Some intermediate steps are bookkeeping, filing of tax returns and verification. Revenue bodies have traditionally focused on the later stages of this process (i.e. from the filing of tax returns onwards) but increased attention is now paid to the taxpayer’s part of the process. The basic underlying idea is that taking action “upstream” can be more cost effective in delivering good compliance outcomes than actions that correct errors after returns have been received by a revenue body.

The main objective of this project is to use an end to end perspective on the combined process in order to identify current practices and suggest new practices that can improve tax compliance and reduce the administrative burden for businesses in the SME segment and administrative costs of revenue bodies. This includes looking into possibilities for enhanced cooperation between tax administrations and taxpayers and stakeholders. Tax intermediaries and software developers are of special interest but other parties could also be highly relevant.

More efficient and streamlined processes can provide better opportunities for handling evasion/problems outside the scope of the visible parts of the processes such as bookkeeping and tax returns. Reducing costs for both revenue bodies and taxpayers are therefore important.

The outcome of the study should be practical help and guidance that enables revenue bodies to better understand how an end to end perspective can be applied to influence compliance strategies positively and improve cost effectiveness. The purpose is to provide strategies, knowledge and ideas that can be of practical use, not to prescribe how things should be done.

A draft report should be completed by April 2014, for discussion at the next meeting of the SME Compliance Sub-group in Spring 2014, and subsequent presentation to the FTA Bureau in July 2014.

Participating Countries

The following countries have expressed interest in participating as task group members: Australia, Canada, Denmark, the Netherlands, New Zealand, Singapore, South Africa, Sweden and United Kingdom.

Roles of Task Group Participating Countries

Task group participating countries will be required to provide on-going feedback as the work progresses and to contribute with knowledge, examples and ideas. Participating countries will also have the opportunity to participate in a workshop.

Sweden will coordinate the project work and draft a report on the findings.

Scoping Proposals and Approach to the Study

The work will encompass the collection of research, examples and ideas from member countries as well as highlights and examples from research carried out by academics.

Important background notes are "[Right from the Start: Influencing the Compliance Environment for Small and Medium Enterprises](#)" from 2012 and "[Together for Better Outcomes: Engaging and Involving SME Taxpayers and Stakeholders](#)" from 2013.

The study should, by being innovative, identify structures, stakeholders and methods that affect the end to end process. The following is a non-exhaustive list of components that should be considered in the course of the study:

- **Technology.** New technical possibilities create new opportunities to address tax compliance more from an 'embedded' approach. For instance more automated services and better integrated systems (meaning that the systems of all parties, e.g. taxpayer – intermediary – revenue body, are communicating with each other).
- **Co-operation with tax intermediaries and other stakeholders.** Specific attention will be given to the important role of tax intermediaries, including tax return preparers. Service providers, particularly those that assist SMEs by providing systems and software that help with the day to day management of their businesses, are another important group of intermediaries. But other stakeholders such as industry organisations may also be relevant partners in this field. The work should also include the role of other government bodies in

order to assure a whole of government approach when suitable.

- **Quality assurance.** Standardization, technical solutions and cooperative arrangements and other mechanisms can be utilised to build in quality right from the start.
- **Feedback.** Working on an end-to-end basis requires mechanisms to properly monitor quality and create feedback mechanisms. Errors or evasion detected should form knowledge that can serve as input to earlier steps in the process in order to create improvements by continuous learning.
- **Process design.** How processes are designed may be important. This could encompass collaborative approaches and changes of regulations and legislation.
- **Certainty and transparency.** This could include how to provide taxpayers with certainty about their tax position and support taxpayers in creating efficient procedures.

The different components should ideally be put into a context of a coherent and consistent framework based on some general principles.

For planning and executing the study, the following proposals are made:

- The task group will provide suggestions, examples and ideas through a survey questionnaire.
- The study will identify revenue bodies' strategies and ideas on how compliance can be improved by using an end to end perspective.
- The work should include examples of relevant developments in private and public sector as well as academia. This includes some level of environmental scanning and ideally input from external parties.
- The task group will communicate via e-mail and conference calls, for the purpose of developing the survey, analysis of the responses and drafting of the report.
- Tentatively, one workshop for the task group is planned.
- The report produced from this study will be in the nature of an information note.

Indicative Timetable

In order to finish the work before the SME Compliance Sub-group meeting in spring 2014 the project must be performed within a tight timeframe.

| Key Milestones | Timetable |
|---|---------------|
| <ul style="list-style-type: none">• Draft scoping document agreed to with participating countries and FTA secretariat | July 2013 |
| <ul style="list-style-type: none">• Scoping document approved by the sponsoring Commissioner | July 2013 |
| <ul style="list-style-type: none">• Survey sent to all task group members | August 2013 |
| <ul style="list-style-type: none">• Survey responses completed and returned | October 2013 |
| <ul style="list-style-type: none">• Collect relevant research from other sources | December 2013 |
| <ul style="list-style-type: none">• Workshop for task group | January 2014 |
| <ul style="list-style-type: none">• First draft of report reviewed by task group members | February 2014 |
| <ul style="list-style-type: none">• Second draft report sent to all SME Compliance Sub-group member countries for comment | March 2014 |
| <ul style="list-style-type: none">• Final draft report sent to all delegates prior to the next SME Compliance Sub-group meeting | April 2014 |
| <ul style="list-style-type: none">• Discussion at the SME Compliance Sub-group meeting | May 2014 |
| <ul style="list-style-type: none">• Final edits to the draft report | June 2014 |
| <ul style="list-style-type: none">• Final draft referred for consideration by FTA Bureau and normal approvals process | July 2014 |

Expected Deliverables and Anticipated Content of Output(s)

Based on the input from member countries and academic literature the deliverable from this study will be a report that is informative and easy to read. This information note will:

- Provide an overview on the concept of using an “end to end” perspective with guiding principles and implications for compliance strategies.
- Identify examples, possibilities and ideas on how compliance and cost effectiveness can be improved by adopting an “end to end” perspective.