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ANNEX A: INTERNATIONAL COMPARISONS

A.1 This Annex sets out international evidence examined by the review. This evidence, and the cases of best practice that have been identified, have been a key underpinning of the review's analysis and recommendations. Countries were selected for study because of recent experiences that were relevant to the issues raised in the review, and included the USA, France, Canada, New Zealand, Australia and the Netherlands. These were visited by Sir Nick Montagu or by the review team. The review also benefited from visits to and input from the OECD and IMF.

A.2 When considering international experiences, it is always important to take into account that success or failure in one country does not necessarily mean that same experience could be repeated elsewhere. Performance is a complex result of factors, including administrative history and existing arrangements, culture, and legal structure.

A.3 This Annex first provides an overview of the results of the work. It then comments on particular country experiences, highlighting where experiences are interesting from a delivery, policy or accountability point of view (information international comparisons are dealt with in Chapter 4).

OVERVIEW

Existing patterns... **A.4** There are a number of general patterns in the organisation of revenue administrations around the world:

- most administrations integrate the management of VAT with other taxes. This is because integration facilitates the creation of functional units across taxes e.g. a single registration system, reducing administration and compliance costs; VAT data can be used to cross check other taxes (notably corporation and income tax) and vice versa; and the collection and enforcement procedures used for VAT can help with the collection of other taxes. The UK structure, in which the customs authority also administers VAT, and a separate department administers direct taxes, is more a result of historical accident than conscious design;
- there is little integration between the activities of traditional customs and excise (i.e. frontier control, excise duties – not VAT) and other taxes, even where there is a top management structure that covers customs and other taxes. This is because the skills and processes relevant to frontier control and excise are different to those related to collecting most taxes, although there remain important links in terms of revenue gathering between the activities; and
- most but not all administrations sit below the finance ministry/treasury. Tax policy is usually led in the finance ministry/treasury, although in practice some policy is also done in the administrations. There is usually some management separation between at least high-level tax policy making and administration. This is because the skills required for each are different, and the separation helps to underpin taxpayer confidentiality.

...and trends A.5 In addition, a number of trends may be identified:

- the small number of countries that have separate administration of VAT and other taxes are tending to integrate the two over time (Denmark, Canada);
- there is a trend away from organising revenue administrations around tax type at the highest level, towards organising around functions, and, most recently, towards a greater customer focus. This is more a question of aligning processes around customers so that all of a customers' taxes can be dealt with in the round by the tax administration, as opposed to necessarily aligning organisational structures around customer type; and
- all administrations are seeking with varying degrees of success to exploit new technologies by, for example, improving internal systems and offering electronic services. The extent to which information is shared between government bodies and outside government varies according to technological constraints, as well as law and culture.

Changing focus: from tax type... A.6 The trend away from organising revenue administrations around tax types has been highlighted and supported by the IMF and the OECD.¹ This is a trend throughout the world, although particularly pronounced and accelerated in Eastern Europe, where transition countries have in the space of a decade gone from organising their tax administrations by tax type as basic expertise in what were new ways of raising revenue was built up, to organising by function, and most recently, to organising around customers (at least for large taxpayers).

A.7 Both the IMF and OECD advise against organising administration by tax type. The OECD considers that it causes problems including:

- loss of efficiency, through duplication of functions (e.g. registration, accounting, audit, collection, training, IT, human resources) and reduced flexibility in use of staff; and
- a greater burden on taxpayers and less customer orientation because customers have to deal with separate bodies on similar issues, and lack of coordination between administrative actions.

...to function... A.8 As countries shift towards a functional model, they are able to improve services, for example by providing:

- a single point of access for taxpayer inquiries;
- a common registration function and system;
- a single accounting framework, possibly integrated;
- enforced collection and audit across taxes;
- dedicated information processing operations; and
- common support functions (e.g. human resources, IT).

¹ The following section draws upon a presentation at the OECD Centre for Tax Policy and Administration on 14th November 2003 by Richard Highfield and David Holmes.

A.9 However, a pure functional focus also has its disadvantages:

- a tendency to treat all taxpayers with a one size fits all approach;
- management of the functions is complicated by the need to deal with different taxpayer segments, which present different compliance issues and have different behaviour, and which might require tailored approaches; and
- issues may fall through the cracks between the functions due to a lack of focus, and management complexity.

...and to customers **A.10** These issues have led in several countries to a shift towards a customer focus, either wholly or in part. For example:

- in 1994 Australia restructured national and local operations around large businesses, small businesses, and individuals;
- in 2000 the USA restructured national and local operations around large and medium sized businesses, small businesses, employees, and exempt organisations;
- between 1987 and 1992 the Dutch Tax and Custom Administration (DTCA) went from a functional organisational structure to a customer focussed structure. In 2003, the DTCA has reintroduced some functional elements in the internal organisation, retaining the customer focus in terms of systems, service and audit work, but run through one stop shops for all customers; and
- over 60 countries have developed dedicated large taxpayer operations.

A.11 These changes are driven by an emphasis on risk management, with improved targeting of compliance risks, and use of market segmentation. It has also allowed the possibility of managing taxpayers' compliance (particularly for businesses) and interactions on a 'whole taxpayer' basis, through:

- unified business registration, with a common number and database (e.g. Australia);
- integrated taxpayer accounts for payments to and from government (e.g. Sweden);
- integrated reporting of liabilities (e.g. Australia);
- audits covering multiple taxes (e.g. Canada); and
- debt collection across taxes (most countries, but not the UK).

A.12 Further advantages include:

- the possibility of creating easier access to tax services (e.g. single points of inquiry for small businesses, key account managers for large businesses, form/brochures/Internet access that have a common look and feel across taxes);
- economy of operations – integration across taxes (including social contributions), of service delivery, basic administrative operations and support (e.g. accommodation, human resources and IT); and

- potentially improved national statistics.

Administration of VAT **A.13** In almost all countries with VAT, the customs department (the body enforcing customs laws at the frontier) undertakes collection of VAT at frontiers. However, there is no necessary connection between collection and administration. In countries that have VAT,² it is administered by:

- the customs department (3 out of 106 countries surveyed by the IMF – the UK, Malawi and Israel – Israel is planning to integrate its customs and revenue departments);
- a separate VAT department (13 out of 106 countries surveyed by the IMF);
- the department responsible for domestic tax operations, particularly personal and corporate income taxes (90 out of 106 countries surveyed by the IMF).

A.14 The IMF and OECD view the creation of a separate VAT department - for example in Ghana and Uganda - as leading to duplication of resources and fragmentation of information, reducing effectiveness and efficiency.

A.15 The advantage of administering VAT in the customs department derives from the link between collection and administration. This is more significant when the proportion of VAT collected at frontiers (as opposed to VAT collected from domestic transactions) is high – this tends to decline as an economy develops. However, the IMF identifies disadvantages in an integrated customs and VAT body: the skills and systems relevant to border control and to excise duty collection are different from those required to collect VAT. The coordination of VAT and income tax administration is also impeded. The recent Canadian decision to break the link between customs and tax administrations is notable in this regard (see below).

A.16 The IMF identifies several advantages to administering VAT and direct taxes in the same department (naturally enough these are similar to the advantages of unifying administration of taxes across the board, and providing a customer focus as set out above):

- integration facilitates the creation of functional units across different taxes, allowing e.g. a single registration system and a single accounting system unit to process all returns and payments for all taxes, reducing compliance costs and tax administration costs; and a single debt collection unit, allowing better collection of arrears, as accounts tend to be in arrears for several taxes;
- VAT data can be used to cross-check data relevant to direct taxes;
- the modern collection and enforcement procedures designed for VAT can be used for personal and corporate taxes; and
- promotion of policies which use common definitions making life easier for the taxpayer and for data bases on compliance and statistics.

A.17 The main risk identified by the IMF in having VAT integrated with direct taxes is that there is insufficient focus on the different processes and skills required for VAT, which are based around transactions rather than assessment of income or profits (a

² Ebrill, L et al. *The Modern VAT*, IMF, 2001.

similar point applies to excise duties, which is based upon physical and transactional audit). In the IMF's view, ensuring that there are separate VAT specialists within the organisation, as well as mixing VAT processes with other processes can mitigate this risk.

COUNTRY SUMMARIES

Australia

A.18 The Australian Taxation Office (ATO) is responsible for the collection of direct taxes, GST (Goods and Services Tax, equivalent of VAT) and, since 1998, excise duties. The ATO has a staff of 21,700.³ It also administers the government valuation function, some welfare benefits and the student higher education contribution scheme. Customs laws and collection of taxes at frontiers are administered by Australia Customs.

Australia: accountability

A.19 A Commissioner, who is a statutory officer, heads the ATO. The ATO itself has no statutory basis: it is simply the office that supports the Commissioner. The Commissioner is appointed by the Governor General (with the agreement of the Cabinet and Treasurer) for a period of seven years and can only be removed by the Treasurer on a motion of both Houses of Parliament. This gives the Commissioner considerable strength and independence. In particular, the Commissioner has significant autonomy in relation to the Treasurer. There is no performance appraisal, and the Commissioner does not have to clear plans or speeches with Ministers: he will inform them if they are likely to attract media attention. The ATO spells out publicly its performance standards and compliance policy – though it does not publish actual performance against standards or targets. There is, however parliamentary scrutiny through committees.

A.20 The ATO has adopted a conscious policy of making itself transparent and accountable to the public. It publishes large amounts of well-targeted material and the Commissioner enjoys a high personal profile. Because of its open style, the ATO has earned a reputation for being genuinely consultative and inclusive. In particular, the National Tax Liaison Committee, which meets the Commissioner quarterly, is seen as an effective way of giving the tax professions a real input into ATO thinking.

A.21 Australia Customs, whose Chief Executive and Controller is also a Statutory Officer, was put under the Minister of Justice in 1998. Before then it had been responsible to various Ministers, but never to the Treasurer. Australia Customs has a strong emphasis on border security, and a close relationship with the Agriculture Department. The relationship with the ATO is the subject of a formal Memorandum of Understanding. Customs do the assessment of GST liability on imported goods, and collection is then swept into the ATO system. Of a total A\$28 billion (£12 billion) in GST, Customs assess A\$12 billion (£5 billion); they also collect A\$2 billion (£800m), mainly from businesses too small to require an Australian Business Number.

A.22 Following the introduction of the GST in 2000, the Government created an advisory Board of Taxation. The Board has seven taxpayer and tax expert members, and three (the Secretary to the Treasury, the Commissioner and Parliamentary Counsel) *ex-officio*. It cannot make policy recommendations, though it can flag up issues that crop up in consultations.

³ Source: ATO Annual Report 2002-03, available at www.ato.gov.au

A.23 Following some criticisms in the media and Parliament, an Inspector General of Taxation was appointed to review “systemic administration issues”. The Inspector General, as a Statutory Officer with a remit in law to investigate systemic problems in tax administration, has more power than the Board of Taxation. The impact of the creation of this office is not yet clear.

**Australia:
delivery**

A.24 The ATO is structured around three customer divisions:

- salary and wage-earners;
- small business, withholding, and indirect taxes; and
- large business.

A.25 These customer divisions broadly reflect revenue products. For each division, accountability flows from the top down to the point of delivery, but with cross working in the field, so that GST experts are expected to have some competence in income tax. The use of IT has allowed the costs of duplication that might otherwise have occurred across the business to be minimised, and while the primary focus is on the customer, there are some functional divisions e.g. collection enforcement.

**Australia:
policy**

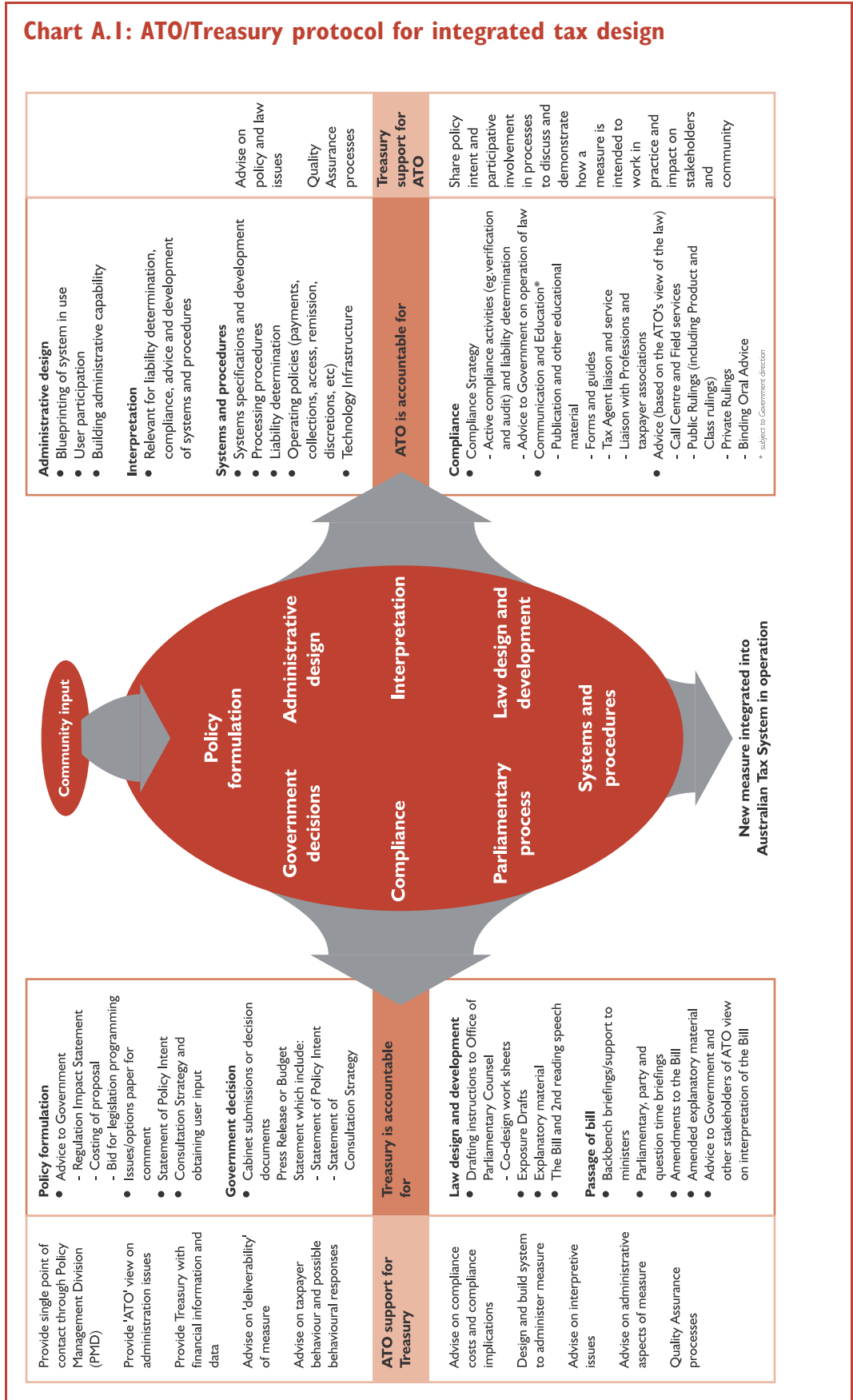
A.26 While the Treasury was always responsible for ‘pure’ policy, the ATO had a major responsibility for tax policy in the form of ‘legislative design.’ This function was transferred to the Treasury in 2002, following a Board of Taxation report that identified a perception that the ATO’s “dual responsibility for instructing on the drafting of tax legislation and for administering that legislation results in legislation that is overly biased towards meeting the compliance and administrative objectives of the ATO. This is seen as producing unnecessary complexity and compliance cost burdens on taxpayers.”⁴ The transfer roughly doubled the numbers working on tax policy in the Treasury.

A.27 Under the new arrangements, the ATO would not be involved in proposals such as rate changes, but can initiate policy proposals on the basis of what e.g. their audits and court cases throw up. The transfer has improved synergies within the Treasury on e.g. forecasting, and some outsiders see the move as having enabled the ATO to concentrate (successfully) on improving the administration of the tax system.

A.28 Both departments recognise the importance of maintaining close relations and ensuring that there is operational input into legislative design. A formal protocol between them sets out the accountabilities on either side (see Chart A.1 for a diagram illustrating the protocol). The protocol is judged by the ATO and the Treasury to have worked well and is reviewed at the regular monthly meetings between the Treasury and the ATO at Second Commissioner level.

⁴ *Government Consultation with the Community on the Development of Taxation Legislation*, Board of Taxation (Australia), March 2002, available at www.taxboard.gov.au

Chart A.I: ATO/Treasury protocol for integrated tax design



France

A.29 In France, tax policy, collection and administration are organised under the Finance Ministry (social contributions are collected and administered separately). However, within the Finance Ministry, there are significant organisational divisions between the different tax functions. Administering customs laws and collecting taxes at frontiers is the responsibility of a separate Direction Generale within the Finance Ministry. VAT, first introduced by France in 1948, and extended to cover all consumption in 1954, is integrated into the Direction Generale des Impots (DGI).

A.30 In addition, there is a functional division not seen in most other tax administrations, between tax collection (mostly by the Direction Generale de la comptabilite publique – DGCP) and tax assessment (mostly by the DGI). This division is reflected from the top to the bottom of the tax administration (with DGCP running a separate network of offices of the Tresor public). In 1999 an unsuccessful attempt was made to integrate the collection and assessment functions. This separation is one of the reasons for the considerably greater number of staff involved in tax administration in France as compared to the UK (another is that the local office network is much more extensive than in the UK). France has roughly 140,000 people involved in tax administration, compared to roughly 100,000 in the UK, with roughly the same amount of tax collected (there is no exact match of functions – for example, the French administration does not pay tax credits, and does not collect social contributions. Including these would make the disparity wider).

France: closer working

A.31 Since 1999, the French government has attempted to promote the integration of DGI and DGCP through something analogous to the UK's closer working (although the separation in France is between collection and assessment, rather than direct and indirect taxes). This has been driven in part by joint targets (for example to improve the recovery of debts, which depends in part upon the DGI and in part upon the DGCP).⁵

A.32 But the main means of promoting gradual closer working is COPERNIC, a programme of IT renewal and e-services, which is being jointly managed by the DGI and the DGCP. COPERNIC promises benefits such as pre-completed tax returns, and unique identifiers for businesses and individuals (which will not be a cross-government identifier as a result of a privacy ruling). In the longer term, it offers the prospect of moving customer tax accounts (returns, assessment, payment record) on-line, with management as well as viewing of the account by the taxpayer.

A.33 Other reforms recently introduced include the creation of a large business office in the DGI (which has brought together collection and assessment of VAT – with e-filing for VAT introduced as part of COPERNIC). This is the beginning of a process of moving towards a customer focus.

France: policy

A.34 Policy responsibility, under the Direction de la Legislation Fiscale (DLF), moved into the DGI in 1998 from elsewhere in the Ministry. Liaison between the DLF and the DGI was already functioning well and these arrangements have continued, though it is recognised that further improvements could be made. The DLF is a separate Direction within the DGI, and is physically in the same building as the Ministry of Finance. Policy proposals can have their origin in the DGI, the DLF or from Ministers. The DLF conducts an evaluation of proposals, and then discusses them with Ministers' offices. The DLF is responsible for steering legislation through Parliament.

⁵ MINEFI, *Contrat pluriannuel de performance du Tresor public 2003-2005*, p.52, indicator number 14, available at www.finances.gouv.fr

New Zealand

A.35 The New Zealand Inland Revenue Department (IRD) has some 4,800 staff covering a population of 4 million people (3 million taxpayers). 25% of the staff is engaged in non-tax responsibilities – child support, collection of student loans, and income support for working families. IRD is responsible for direct taxes and GST (the VAT equivalent), but not excise, which is with Customs.

New Zealand: accountability

A.36 The accountability of the Commissioner who heads the IRD is stronger to the State Services Commissioner⁶ (SSC) than to the Minister. The Commissioner is appointed by the SSC through an open competition. The SSC recommends the Commissioner's appointment to the Government: if the Government rejects the SSC's recommendation, they must gazette the fact to Parliament (this has never happened). The SSC can only fire the Commissioner with the agreement of the Governor General in Council, and this has also never happened.

A.37 The Commissioner's relationship with the Minister is less clearly defined. The main instrument of the Commissioner's accountability is the published annual Statement of Intent. As the Commissioner's employer, the SSC will conduct his appraisal and determine his pay in the light of his success in giving it effect.

A.38 Parliamentary attention to the IRD is less than in the UK. The Auditor General has only recently published his first-ever performance audit on a specific function, and it is unclear whether there will be a hearing on it – and hearings on the Report on the Accounts are extremely unusual.

New Zealand: delivery

A.39 Until 1988, the IRD was organised by tax type. It then adopted a functional focus until 1996, when a customer focus was introduced at regional and local level, while the functional focus was retained at national level. The senior management team consists of the Commissioner and five General Managers responsible for:

- policy;
- service delivery (which includes a technical advice function);
- strategic design;
- business development and systems; and
- adjudications and rulings.

A.40 The rationale for this arrangement is that there should be centralisation where it is possible to achieve efficiencies, better consistency and higher quality in the services delivered, and otherwise, decentralisation to customer focussed offices located as close as possible to customers.⁷

A.41 A formal Memorandum of Understanding governs relations between IRD and Customs. Customs' role is seen as part of border protection, with particularly strong links to Agriculture and Fisheries (as in Australia). Customs act as IRD's agent in collecting GST on imported goods (40% of the total), overwhelmingly through direct debit.

⁶ The State Services Commissioner is responsible for managing the performance of Public Service Chief Executives, and provides advice to the Government about the structural, governance and accountability arrangements within the State sector as a whole. See www.ssc.govt.nz.

⁷ Vehorn, C.L., and Brondolo, J., *Organizational Options for Tax Administration*, International Bureau of Fiscal Documentation November 1999.

A.42 Customs come under a separate Minister for Customs, whose function is strictly a policy one, typically on drugs issues, at Cabinet level. The Minister is not able to direct the Customs Chief Executive. The typical approach is for Customs and other agencies to get a remit (and the resources) to work to achieve a particular outcome; how they do so is left to them. There is a direct relationship over tax policy with the Treasury, who are in the lead but must involve Customs in providing operational input. (It is a formal requirement that no Cabinet paper can go up without the relevant Ministers and officials having been consulted).

New Zealand: policy **A.43** Policy responsibility has shifted between IRD and the Treasury a number of times in the last 20 to 30 years but reverted back to IRD in the mid-1990s in a bid to improve customer focus. The IRD have 70-80 people dealing with policy, compared with around a dozen in the Treasury. They have evolved the Generic Tax Policy Process (GTPP), working to a clear template for each proposal. About 40 people do policy strategy and development, with the rest handling legislation (including drafting), Ministerial correspondence, and forecasting. The Treasury has the prime role in forecasting, with IRD checking the distributional and revenue effects. Sometimes the two Departments differ, in which case both forecasts are published.

A.44 IRD chairs the weekly Policy Intelligence Group, which the Treasury attend and which identifies issues that have come up during the previous week. A two-year policy programme is agreed with the Minister and published on the website.

A.45 There is a culture of openness in the New Zealand government, backed by legislation. Policy and other advice to Ministers is published once a decision has been taken; and, for example, the briefing for incoming Ministers is published on the IRD website. Policy submissions to Ministers come jointly from the IRD and Treasury, with split recommendations where they do not agree. These are published without sanitisation (unless they involve an individual taxpayer or are commercially sensitive), and with the names of the officials putting up the submission.

Canada

A.46 The Canada Revenue Agency (CRA) is responsible for administering and collecting direct and indirect taxes (including excise duties), administering customs laws, collecting taxes at the frontier, and collecting social contributions. The CRA was created in December 2003, when the customs responsibilities of the then Canada Customs and Revenue Agency (CCRA) were transferred to the new Canada Border Services Agency (see Chapter 3).⁸

Canada: delivery **A.47** The CCRA had 40,600 permanent employees as at 1 April 2002. Until 1994, the then Department of National Revenue was divided into two separate entities, the Department of National Revenue, Customs and Excise, and the Department of National Revenue, Taxation. They were then integrated in 1994 (a process which finished in 1997). The new government department, Revenue Canada, was converted into the CCRA in 1999, before becoming the CRA in 2003. The CRA has features that other departments do not: it is a separate employer, with its own pay bargaining, and its own corporate business planning.

A.48 Since 2001 tax administration has been primarily organised on functional lines, with five headquarters branches (policy and legislation, assessment and collection, compliance, appeals, and customs). There are six support services underpinning these

⁸ Further information available at www.ccr-a-adrc.gc.ca and www.cbsa-asfc.gc.ca

functions (legal services, communications, finance and administration, human resources, information technology, and corporate affairs). The CRA is currently going through the process of detaching the frontiers element of its work, a process that only began in early 2004. All tax-related functions will, however, remain fully integrated in a single organisation.

A.49 The headquarters branches provide functional support to the regions, but have no line management control over them, reflecting the strong role of the Provinces (before the recent changes, Customs Border Services were a separate business stream, reporting directly to each regional Assistant Commissioner). Given that each of the heads of the functional branches is accountable for decisions and actions taken in their branch, this raises the question as to what levers are available to the functional branch heads to meet their accountability.

A.50 The process of merging the separate direct and indirect tax administrations in Canada is set out in Chapter 3.

**Canada:
integrated
audits**

A.51 The integration of GST (VAT equivalent) and direct taxes is seen as having brought real benefits, especially for small business. There is now a single audit for micro and small businesses, and to the extent they can, auditors will also deal with customs and provincial taxes. Where previously a number of auditors had visited a company on different schedules to conduct audits on the different taxes, post-integration there is one auditor assessing Corporate Income Tax (corporation tax equivalent), GST, and excise duties. The aim of this was to:

- minimise the level of intrusion to the taxpayer by examining books and records concurrently; and
- improve audit coverage for a given level of resources, collecting more tax either directly or through deterrence.

A.52 In practice, implementation of integrated audits was patchy at the beginning.⁹ The CRA attributes this to a lack of solid implementation, poor staff motivation, and inadequate central direction and accountability. There were also practical difficulties, such as grade levels and pay, staff turnover, training capacity, data quality and IT problems. Some key groups of staff opposed integrated audits (new members of staff were most willing to see the advantages of the new way of working). There were divergent processes behind the integrated audit (so, for example, technical advisors for the different taxes would provide conflicting advice to the auditors). There was an apparent fall in productivity between 1996-7 and 1998-9 for GST audits, although this might not have been linked to the introduction of integrated audits, and productivity growth has since resumed. Despite these difficulties, the CRA sees considerable benefits in integrated audits, and overall, judges that productivity has significantly increased.

A.53 Particular difficulties were experienced in seeking to incorporate excise and customs checks within the integrated audit process. Other than in very specific areas, such as checks on eligibility for inward processing relief, such checks required different skills and approaches and staff were understandably reluctant to do this. The CRA now take a more pragmatic approach and integrate work on the ground only where it makes sense to do so.

⁹ Source: Review Team Interviews

A.54 Medium and large business audit approaches have also been adapted to take advantage of opportunities presented by integration. Box A.1 examines how the CRA conducts audits on businesses of different sizes.

Box A.1: integrated audits in Canada

Micro and small businesses

The CRA believes that the corporate income tax and GST issues faced by micro and small businesses are broadly similar (under declaration of sales and/or inflation of purchases – see Chapter 3). Building on this, their small business service undertakes integrated audits, with one auditor covering both corporate income tax and GST and focussing on the years covered by the two most recent tax returns. The staff involved are given training in general audit techniques and in legislation governing tax declaration. They are encouraged to develop a good understanding of the businesses they audit and use indirect methods of verification rather than adopt a ‘tick and turn’ approach. Visit selection is on the basis of risk assessment, with approximately one percent of customers audited each year. Team leaders (one for every nine auditors) and technical advisors (one for every 20 auditors) provide back-up support should any auditor require assistance. The CRA believes this approach uses resources effectively and it plans to extend its scope to encompass other, slightly larger businesses.

Medium-sized businesses

GST and corporate income tax audits are conducted separately for medium-sized businesses, again with resources allocated on the basis of risk assessment. Audits last for at least one week, one day of which is set aside for a ‘compliance review’ in relation to the tax not under direct examination (i.e. a compliance review of GST will be conducted during a full corporate income tax audit and vice versa). When conducting the compliance review, audit staff examine business records and other information to complete a standard questionnaire. If problems are uncovered the auditor is authorised to deal with it there and then (calling in a colleague with more technical expertise if necessary) or refer it on for examination at a later date.

Large businesses

The CRA allocates a ‘large file case manager’ to take responsibility for the tax and GST affairs of each large business customer. That individual is responsible for constructing the annual audit programme, and bringing in the right specialists to form the audit team. Team members may spend only a couple of days on the case in question or, at the other extreme, may be a full-time team member.

A.55 Despite the difficulties that the CRA identifies with some aspects of the integration process, the Inter-American Development Bank reported that the “complex merger of customs and inland revenue departments” involved “a seemingly low cost in terms of corporate performance, employee morale and client satisfaction.”¹⁰ A World Bank sponsored study¹¹ also judges the creation of an integrated tax administration to have been a success, attributing this to:

- strong leadership by the deputy minister;

¹⁰ Inter-American Development Bank, *Revenue Canada: Salient Aspects and Future Trends*, August 1998, available at www.iadb.org/int/fiscal

¹¹ World Bank, *Supporting Institutional Reforms in Tax and Customs: Integrating Tax and Customs Administrations*, PLS Ramboll on behalf of The World Bank Group, January 2003.

- use of management and specialist teams (e.g. auditors) to work out the details of implementation, involving staff at all levels;
- widespread consultation with clients; and
- the introduction of the business tax number (see Chapter 4) and the single window for business in 1996, demonstrating benefits from the merger to all concerned.

Canada: accountability **A.56** The CRA Commissioner is accountable to the Minister of Revenue and to the Board of Management for the implementation of programmes, and to the Prime Minister through the Secretary of the Privy Council (Cabinet Secretary equivalent) for delivering his ‘mandate.’ A Ministerial Advisory Committee was also established with the creation of the CRA to advise on the management of the CRA, in particular on issues such as IT – but this Committee now only holds annual meetings.

A.57 The Commissioner is not directly accountable to Parliament – it is the Minister who appears before the Public Accounts Committee. As well as accountability to the Minister for Revenue, the Commissioner is accountable to the Minister of Finance, and the Treasury Board (which acts as a financial controller for the whole of government).

The Netherlands

A.58 The Dutch Tax and Custom Administration (DTCA) is responsible for collecting and administering direct and indirect taxes, including excise duties, and administering customs laws. The DTCA has a staff of around 31,700.¹² The DTCA is part of the Finance Ministry.

The Netherlands: delivery **A.59** Between 1987 and 1992 the DTCA went from a functional to a customer focussed structure. Each local office was structured to be able to deal with all customer groups. Within each office, separate teams focussed on each customer group, so taxpayers only had to go to one team to deal with all of their tax affairs. The customer ‘target group’ structure was also reflected at divisional management level.

A.60 The customer groups are dealt with on what is known as a ‘total entity’ basis. For example, the private tax affairs of the owner of a small business would be dealt with using the principal categorisation as a small business. The responsibilities of the owner as an employer would also be dealt with under the heading of ‘small business owner’. The owner and the business are regarded as a single entity for risk analysis and customer service purposes.

A.61 The DCTA reports¹³ three broad motivations for this change:

- fear of the effect of increasing tax avoidance on revenues;
- inability of the DCTA to respond to changing circumstances e.g. responding to new demands from more complex legislation; and
- slow and bureaucratic behaviour.

¹² Source: DTCA Annual Report 2002.

¹³ Alink, M., and Van Kommer, V. *The Dutch Approach: Description of the Dutch Tax and Customs Administration*, International Bureau of Fiscal Documentation, 2003

A.62 A World Bank sponsored study¹⁴ noted that the customer group approach brought greater efficiency in revenue collection whilst staff numbers and activity did not change. However, over time, a number of disadvantages began to emerge including inefficiencies in local office support services (as each customer stream used its own services), a failure to exploit synergies, and lack of corporate culture and proper movement between streams.

A.63 This in part reflected the comprehensive nature of the customer focus. Between 1992 and 2003, there were limited central functions (organised into support offices, including IT and training centres, and a Fiscal Information and Investigation Service), and a large number of separate units responsible for the various customers: private individuals, businesses, large businesses and Customs.

A.64 DTCA sought to address these issues by moving away from a management structure organised around customer group (though it remains its external focus) to a management structure organised around functions. In January 2003 the administration introduced a flatter management structure, with regional rationalisation, including a mass processing centre, and adopted a new collegiate management philosophy. Customs has retained its separate status within the DTCA.

USA

A.65 The Internal Revenue Service (IRS) collects national direct taxes and social contributions and excises (there is no national VAT, with retail sales taxes collected by most states). The IRS has around 100,000 staff, similar to the size of the UK's administration, reflecting the much higher level of self-filing in the US, and its federal structure. Since March 2003 the Department of Homeland Security administers customs.

A.66 The IRS operates under the direction of the Secretary of the Treasury. The Commissioner is appointed by the President and derives authority from the President through the Secretary, to whom he reports directly.

A.67 Tax law is written or amended in Congress, and may or may not reflect Administration policy. The Administration makes legislative proposals, and writes regulations that give effect to legislation passed by Congress. Formally the IRS drafts regulations for implementing legislation, but the Treasury has a big influence. There is always a Treasury attorney on an IRS drafting team and final approval of any regulation is Treasury responsibility.

USA: accountability **A.68** The Internal Revenue Restructuring and Reform Act of 1998 reorganised the IRS and aimed to improve its governance. An Oversight Board of nine members (including the Commissioner) appointed by the President was created with a range of involvement in the IRS. The Board meets quarterly. The Oversight Board is:

- responsible for approving and submitting the IRS' Budget and can submit to Congress an alternative budget to the President's;
- involved in senior appointments and remuneration; and

¹⁴ World Bank, *Supporting Institutional Reforms in Tax and Customs: Integrating Tax and Customs Administrations*, PLS Ramboll on behalf of The World Bank Group, January 2003.

- able to undertake reviews and make recommendations, but has no involvement in day-to-day operations or in individual cases.

A.69 There are a number of lines of accountability for the IRS: to the Treasury Secretary, to Congress and to the Oversight Board. The Treasury Assistant Secretary and the Commissioner are equals, but the Office of Tax Policy (OTP), which the former heads, must sign off all non-taxpayer-specific published materials, including forms and guidance, from the IRS.

A.70 In general the Treasury does not seek to intervene in IRS' operations. The Commissioner meets the Assistant Secretary at least fortnightly, but neither she nor the Treasury Secretary get involved in the detail.

A.71 The IRS has recently been criticised in Congress over the error rate in Earned Income Tax Credit (EITC) claims. This is around 30% and involves losses of some \$9 billion a year. The IRS tried to implement a proposal that should have reduced errors but involved a degree of intrusiveness. After criticism in Congress, IRS withdrew the proposal, although tackling the EITC error rate remains a priority.

USA: taxpayer advocate

A.72 The 1998 Act created a Taxpayer Advocate who submits two reports to Congress each year. The first, delivered in June, sets out the goals and activities planned by the Taxpayer Advocate for the coming year. The second report, delivered at the end of December, includes:

- a summary of the 20 most serious problems encountered by taxpayers;
- recommendations for solving those problems; and
- other IRS efforts to improve customer service and reduce taxpayer burden.

A.73 Each state has a local taxpayer advocate who reports directly to the National Taxpayer Advocate. The Taxpayer Advocacy Panel, also established in 1998, aims to improve IRS responsiveness to taxpayers. It acts as a two-way conduit – serving as a focus group for the IRS on strategic initiatives, as well as providing a venue for citizens to raise issues.

A.74 Customs had always been a separate agency in the United States, with a strong emphasis on its enforcement and border control work. Customs joined the new department of Homeland Security in March 2003, and the excise functions reverted to the Treasury after the change.

USA: delivery

A.75 Part of the restructuring of the IRS under the 1998 Act involved a greater focus on customer groups. The key business streams are:

- wages and investment (for the 122 million people filing a return – universal filing is the rule – whose affairs are uncomplicated and who are mainly dealt with by employer withholding);
- large and mid-sized business;
- small business and self-employed; and
- tax-exempt and government entities.

A.76 Responsibility and accountability are organised on customer lines so that, for example, a local agent dealing with a large business would be ultimately answerable to the Commissioner, Large and Mid-Sized Business, rather than to a local or regional

officer spanning the businesses. This is seen as having clarified accountabilities and also as having made possible more rigorous measures appropriate to the business. It also means that cases that cannot be dealt with at local level are referred up the same stream for detailed advice.

A.77 Customer satisfaction surveys reveal a consistently high degree of satisfaction with the change. On the other hand, the reorganisation risks a loss of coherence across the business streams. IRS recognise that this is a drawback and has established joint committees, but at working level there are still difficulties, especially when a number of businesses are involved in the same case. The tendency is for each to work on their aspect and then co-ordinate. The IRS is looking at the possibility of assigning a lead in each case to achieve a more integrated approach.