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This document provides an overview of the tax administration reform process. It first describes the tax administration's tasks and operating environment and then discusses a reform strategy, highlighting areas frequently in need of reform and providing case illustrations of successful reform. This document is not intended to be exhaustive, but rather provides USAID Field Officers with a foundational understanding of tax administration reform. Suggestions for further readings are provided at the end of this document.

**Key Tasks of the Tax Administration**

The overriding goal of the tax administration is to effectively collect the revenue needed to provide government services, while imposing minimal costs on taxpayers and distortions on private business activity. To ensure effectiveness with limited resources, modern tax administrations focus on three key tasks.

- **Facilitating Voluntary Compliance** – providing clear forms, instructions, education, and assistance to permit taxpayers to comply voluntarily with their tax obligations.
- **Monitoring Compliance** – establishing and maintaining information systems to monitor taxpayer accounts and an appropriate audit strategy to detect non-compliance; and
- **Enforcing Compliance** – effectively applying a penalty regime to deter non-compliance and devising procedures that ensure timely detection and follow-up with identified areas of noncompliance (e.g. stop-filers, delinquent payers, etc.).

**Main Tax Administration Functions**

The modern tax collection process includes the following functions.

- **Registration** – recording basic taxpayer identifying information to facilitate routine functions, such as the issue of notices and the pursuit of enforcement actions, and to permit an understanding of the taxpayer base for better planning;
- **Return / payment processing** – relying on self-assessment and filing, but storing tax return, payment, and refund information for use during audit, collection, and appeals;
- **Taxpayer services** – providing information, support, and education to taxpayers to facilitate voluntary compliance and reduce the need for extensive enforcement, given limited resources;
- **Collections** – enforcing compliance by identifying and notifying delinquent taxpayers and obtaining or negotiating outstanding amounts, thus instituting fairness in the application of the law and contributing to an adequate level of revenues;
- **Audit** – monitoring compliance by examining return and supporting information and issuing assessments to initiate collection actions;
- **Objections and appeals** – instituting a system of checks and balances to ensure that the tax administration follows the established legal and procedural framework uniformly across taxpayers and to strengthen tax administration integrity.

Since activities under each of these functions generate and, with the exception of registration, rely on information from the taxpayers' accounts with the tax administration, the maintenance of proper taxpayer accounts is important.
Organization
When tasked with administering several taxes, some tax administrations are organized by type of tax. These tax-type organizations may have a VAT section and an income tax section. Modern tax administrations, however, recognize the similarity of functions across taxes and are organized by function, gaining efficiency with principal activities across functions and allowing for the integrated treatment of taxpayers across taxes. Tax administrations organized by function have sections responsible for – across all taxes combined – registration, taxpayer services, return and payment processing, collections, audit, and objections and appeals, in addition to support units responsible for human resources, information technology, legal services, planning, budgeting, performance monitoring and evaluation, and internal audit.

Taxpayer Segmentation
Many tax administrations also recognize that the paying population is complex and vary taxpayer treatment by the taxpayers' size. They usually define 'large taxpayers' as those taxpayers that account for a large percent of total tax collections, assets, or turnover, around 80-90 percent, since these taxpayers pose the highest risk to tax revenues. Evidence suggests these are 10-20 percent of taxpayers. Large taxpayers are few in number but are often involved in complex international transactions, may wield influence within business and government circles, and usually maintain proper books and records.

Although definitions may vary, medium-size taxpayers are roughly those taxpayers that are not large, but are above the threshold, over which registration and payment of VAT is required. In contrast with large taxpayers, medium taxpayers often have less formal structures, such as sole proprietorships or partnerships; have moderate levels of activity that are often cash based; and possibly use less diligent bookkeeping resulting in opportunities to under-record income and evade taxes.

A potentially much larger segment of small or micro-businesses, including self-employed professionals, poses difficulties to identify, regulate, and ensure that their tax contributions are commensurate with their size and capacity to pay. A large share of this group may be in the informal sector. Proper record-keeping is often non-existent, and the whereabouts of taxpayers may be difficult to determine.

The demarcation between the large, medium, and small taxpayer segments can sometimes be ambiguous. In many countries, the dividing lines are based on turnover. The cutoff between segments and any related special measures are determined by balancing the desire of the tax administration to closely monitor the larger amount of revenue from larger taxpayers and the limited ability of the tax administration to closely administer (process, audit, etc.) the larger number of smaller taxpayers.

Key Reform Objectives
The typical rationale for tax administration reform is to mobilize revenue and to create an enabling economic environment. Tax administration reform should aim at establishing an effective and efficient administration that enables and ensures taxpayer compliance through modern and reliable taxpayer services and risk-driven targeted audit and enforcement activities. Specific goals include:

- Fully automated business processes, such as the computerized checks of tax return
computations that automatically identify erroneous returns and forward those electronically to the responsible officials;

- Risk-based compliance programs, such as identifying for audit those returns that pose highest risks to revenues; and
- Skilled and professional staff, all contributing to an environment characterized by fairness, honesty, and transparency.

Benefits of reform include:

- Higher revenues;
- Consistency and fairness for business and individuals;
- Enhanced service to taxpayers;
- Reduced administrative and compliance costs for the government and for the taxpayers;
- Reduced evasion and fraud; and
- Greater transparency and integrity within the administration.

Defining the Strategy for Reform

A clear reform strategy begins with an understanding of the current state of the tax administration. The tax administration must focus on existing business shortcomings and challenges, identify potential barriers to change, and discuss why change is imperative.

Only when a clear picture of the organization’s strengths, weaknesses, opportunities, and threats is established can the discussion begin on the desired future state for the tax administration and the outcomes of reform. After clearly articulating the desired future state, the tax administration should identify the business initiatives that will provide the most value and help the organization achieve its strategic objectives. This is where dialogue with donors and improved host-country knowledge of leading global practices can make a major contribution to the reform strategy.

 Delivering the Strategy

Reforming the tax administration demands a holistic approach, with attention towards all components shown on Figure 1. If any of these components breaks down, the overall effectiveness of the tax administration reform process is put in jeopardy.

 Figure 1. Holistic Strategy for Reform

**Organization and taxpayer segmentation**

Tax administrations should adopt a functional organization, rather than an organization by tax-type. First, since sections in functional organizations have specific (principal) functions and related activities, section staff can develop the focused expertise to perform these activities efficiently. Second, functional organizations enable control and accountability, if the same tax administration employees are not responsible for all administrative elements related to a single taxpayer. Third, major changes to the legal framework, such as the introduction of a new tax, can be accommodated with minimal changes to the
organization. Fourth, functional organizations allow for an integrated look at the taxpayer base during registration, the revenue stream during payment processing, and the net outstanding debt during collections. They also allow for the integrated collections and audit of single taxpayers.

In addition to employing a functional organization, tax administrations should assign separate roles to two distinct components: (1) headquarters, which should develop and maintain policies and procedures, design and monitor plans, and conduct regular monitoring and reporting on operational performance; and (2) operations, which should directly administer taxes. For proper accountability, to separate the design and monitoring of policies and plans from their implementation, headquarters should not be involved in operations and headquarter personnel must not be involved in tax cases. To allow for the aforementioned specialization by principal activity, the efficient adoption of major reform, and the integration of taxpayers across taxes, and for effective communication between headquarters and operations, both headquarter and operations should be organized along functions.

While a functional and integrated organization leads to better utilization and deployment of resources, there is also a need to recognize the different risks, requirements, and contribution to overall revenue of the various segments of the taxpayer population: large, medium, and small. The advantages of the taxpayer segmentation approach include: (1) allocation of resources based on risk to revenue; and (2) better matching of enforcement, service, and educational programs to specific types of taxpayers. The importance of large taxpayers to revenue is clear. In cases where a critical mass of large taxpayers allows the segmentation of staff and facilities, the administration may want establish a Large Taxpayer Center or Unit – a self-contained tax administration office, which performs all tax administration functions for large taxpayers, perhaps with additional emphasis on facilitating the transfer of credit from one taxpayer premise to another and usually with specific emphasis on audit. Although a large taxpayer center will create a duplication of functions, it may allow the tax administration to quickly gain control over revenues. Successful procedural, technological, and human capacity advances from large taxpayer centers should be rolled out to the offices responsible for medium and small taxpayers to ensure the uniform application of the law.

Simplified procedures and, perhaps, tax provisions are often considered for small taxpayers as possible means to:
- Improve compliance among ‘hard-to-tax’ subgroups; and
- Reduce costs and burdens of administering their taxes.

For example, many countries withhold tax on wages at source and do not require that wage earners file a declaration. Some countries institute presumptive tax regimes, where tax liability is computed using indirect means and not the usual taxpayer accounting rules, such as levying income tax as a fixed percent of estimated gross receipts or net worth. Although presumptive regimes may bring about significant simplification, they may also result in inequalities of tax burdens. It is recommended that presumptive regimes are applied only where it is expected that taxpayers do not have the records to support the computation of tax liability using usual accounting rules.
Reorganization and Taxpayer Segmentation in Egypt

USAID’s Corporate Tax Project in Egypt assisted the Ministry of Finance during 1999-2004 with the establishment of a Model Customs and Tax Center (MCTC). Historically, the three main revenue departments (Customs, Income Tax, and Sales Tax) of the Ministry of Finance were separate entities, each with its own Commissioner, organizational culture, and physical infrastructure. To consolidate taxpayer services and operations for income taxes, sales taxes, and import duties, the MCTC was open to taxpayers above a certain size, located in Cairo, and classified as importers. The MCTC streamlined internal processes, including the use of enhanced automation, and provided a ‘one-stop shop’ for taxpayers allowing them to complete their dealings with all three revenue departments in a single visit. A separate website that included the provision of e-services through a web portal also significantly reduced the need for face-to-face interaction. Although participation in the MCTC was voluntary, the number of participating taxpayers grew quickly from 300 in 2003 to 2,000 in 2005. Improvements in taxpayer services, such as the shortening the time for customs clearance from seven days to one day, were quoted as the main reason for the interest.

In 2005, when MCTC was converted into a Large Taxpayer Center (LTC) according to IMF recommendations, the center handled roughly 70% of total Egyptian tax revenue. USAID’s Technical Assistance for Policy Reform II (2005-2010) assisted the government of Egypt with the merger of its previously separate sales, income, and real estate tax departments into a single Egyptian Tax Authority (2006). This enabled the Tax Authority and the USAID Project Team to establish a single facility for a taxpayer to register for all tax obligations and receive a single identification number for all tax administration purposes. Taxpayer identification details were recorded in a single registration system with a common database that gave the revenue administration a single view of the taxpayer and that facilitated compliance through the introduction and expansion of the self-assessment system.

During 2006-07 – as a result of the merger, the establishment of a single registration database, and a significant public outreach campaign (with over 2 million phone inquiry responses to taxpayers and over 200 seminars for taxpayers and business organizations) – the tax administration added more than 1.6 million active self-assessing taxpayers to the tax rolls in 2006 and more than 600,000 in 2007. The main impact of these efforts and of the major policy changes to the tax law in 2005 was on Egypt’s income tax collections, which grew from 5.9 percent of GDP in 2005 to 7.8 percent of GDP in 2006.

Staffing

The number and allocation of staff should be based on the size of the active taxpayer population and the corresponding tax operation workloads. In addition, when defining staffing levels, the tax administration should also ensure that sufficient and dedicated staff is provided to headquarters. Lack of headquarter staff will result in poor policy guidance to operational staff and improper planning, with potentially significant negative impacts. Finally, with simplification and automation of processing intensive functions – registration, return and payment processing – the tax administration should ensure the maximum allocation of staff to taxpayer service and compliance activities.

Facilities

Facilities should be planned and rationalized, taking into account current and future staff as well as the numbers and geographic locations of the taxpayer population. The increasing use of technology and e-services tend to dictate a reduction in the office footprint with remaining
offices being upgraded to focus on the provision of enhanced taxpayer services. Specific attention should be given to the security and confidentiality of taxpayer files and data and to facilities for taxpayer services (e.g., reception counter, call center).

**Tax Operations**

Tax operations should be aligned with global leading practices. The tax administration should, first, build and maintain a clean and accurate database of taxpayers with unique taxpayer identification numbers. In addition, the tax administration should:

- Develop step-by-step operational procedures with a view to making processes as simple and transparent as possible;
- Standardize and simplify forms;
- Ensure that taxpayer data is captured electronically as soon as practicable;
- Evaluate options for and introduce e-services – electronic registration, filing, and payment as appropriate;
- Ensure the timely and systematic follow up with delinquent taxpayers;
- Introduce risk-based audit; and

- Formulate and implement an information management strategy that allows, in the first instance, for proper management reporting.

**Registration**

Comprehensive systems of taxpayer registration support all tax administration functions. The tax administration must record accurate basic taxpayer identifying information to permit routine functions. Taxpayers should be furnished with unique taxpayer identification numbers to facilitate the exchange of information between government agencies and the matching of information reports with tax records to detect non-compliance. Registration should be integrated across taxes to allow for a comprehensive look at taxpayers during audit. Taxpayers should be provided with a single facility to register for all current tax obligations and to receive a single identification number for all tax administration purposes to simplify taxpayer compliance and to ease compliance monitoring.

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**Taxpayer Registration in Bosnia**

USAID’s Tax Administration Modernization Project (TAMP) in Bosnia and Herzegovina (2001-2006), with assistance from the U.S. Treasury, focused in 2002-2003 on setting up of new taxpayer registration systems. Prior to this, taxpayer registries were out of date and inconsistent, and contained many entries for defunct taxpayers and “ghost” taxpayers to whom real traders would book transactions in order to avoid tax liability. The project developed automated taxpayer registries with harmonized administrative procedures, forms, manuals for registration, and a standardized database across the three independent political entities of Bosnia and Herzegovina – the Federation, Republika Srpska, and the financially autonomous District of Brčko.

The systems enabled data sharing between the entities for the first time, providing an effective tool for fraud abatement. The tax administrations in the three entities simultaneously launched campaigns to clean up taxpayer registries and to assign unique taxpayer identification numbers. In Republika Srpska, the number of registered businesses increased by 35% during 2002-2004. In the Federation, registered businesses almost tripled for the same period.
Return and payment processing

Handling returns, payments, and refunds involve high levels of processing effort. These should be simplified and automated to allow the tax administration to direct its limited resources to taxpayer services and compliance activities. Single payment, return, and refund processing arrangements for all types of taxpayers and taxes should be used to simplify compliance. Expedited payment and refund processing procedures should be established to provide a level of stability and certainty to the flow of revenues to the government and to improve the perception of fairness amongst taxpayers. In addition, through efficiencies in processing payroll withholding, the tax administration can also assist the operations of government institutions that collect pension, health, or welfare contributions.

Most countries in Eastern Europe and the former Soviet Union had separate, legacy institutions that collected social contributions. Many faced difficulties in record-keeping (Georgia) and enforcement (Bosnia and Herzegovina). After the introduction, with the assistance of USAID’s Enabling Labor Mobility Project (2008-2012), of unified registration and collection of social contributions by the tax administration in Bosnia’s Republika Srpska, for example, social contribution collections increased by approximately 7 percent.

Taxpayer services

To facilitate voluntary compliance, tax administrations must provide all necessary information, support, and taxpayer education across all tax administration functions. These must be tailored according to taxpayer segment and / or type of tax, and must include answers to frequently asked questions, easily accessible instructions, generalist officers responding to routine issues, expert advice for complex queries, and multiple service channels (e.g., web information, paper brochures, and telephone inquiries).

Taxpayer Services in Georgia

In addition to unifying and significantly simplifying tax and business registration, USAID’s Business Climate Reform project assisted the government of Georgia during 2005-2009 with amending the tax code and drafting an order from the Ministry of Finance to provide a legal basis for electronic information sharing between the tax administration, taxpayers, banks, and other authorities. These were followed by aggressive implementation of IT improvements, including:

- a one-stop Web portal for the public that enabled easy access to information on tax and customs legislation, procedures, forms, and other revenue related issues;
- electronic registration, tax / trader card issuance, property tax calculation; and
- e-filing for all tax obligations.

The taxpayer service initiatives in Georgia led to a dramatic rise in registration and tax compliance by the public. The number of registered taxpayers increased by 121 percent between 2005 and 2008. Inland VAT revenues rose from 8.5 percent of GDP in 2005 to 11.3 percent of GDP in 2009.
Collections

Reforming the collection process should focus on two distinct activities:

- The identification of delinquent taxpayers, including stop-filers, non-filers, and late / non-payers; and
- The establishment of a consistent process for following up and obtaining outstanding amounts.

Where possible, the process should be automated. Collection and debt management should be integrated, where the taxpayer is treated as a single entity for debts, stop-filing, and offsetting of liabilities, to reduce the workload on the tax administration and to simplify interactions between the taxpayer and the tax administration. A cost-benefit based approach to collection should be used, where the administration considers collection potential before pursuing actions, to yield a more adequate revenue stream.

Audit

To encourage voluntary compliance, tax administrations audit taxpayers selectively, focusing on taxpayers that represent the highest risk to revenues, subjecting compliant taxpayers to rare audits, while making non-compliant taxpayers aware of the costs of not complying. Since an appropriate audit plan concentrates on the largest ‘quantified risk’ to the revenue stream, tax administrations tend to audit all of the largest taxpayers, even though noncompliance may be higher for small taxpayers. An audit program cannot operate in isolation and must be a part of a well-balanced risk-driven compliance strategy, which includes reliance on self-assessment to encourage compliance and a rigorous system of compliance interventions, such as enforced collections and penalties, and which increases compliance interventions for taxpayers that represent higher risk to the revenue stream as in Figure 2.

Figure 2. Compliance and Interventions

Tax Collection in El Salvador

USAID’s Tax Policy and Administration Reform (TPAR) Project in El Salvador improved collection efforts by creating a Fiscal Compliance Division to follow up on pending cases and assist taxpayers to become compliant and by introducing a Fiscal Compliance Call Center to call absent and delinquent taxpayers to remind them of their obligations. In 2009, $215,000 was saved monthly in operational calls. The new approach of automated "robo-calls" of the Fiscal Compliance Call Center brought 2,685 stop-filers into compliance in the first half of 2009, compared to 917 who had responded to mailed reminder notices in the first half of 2008. The call center was able to deliver 34,721 robo-calls in 2009 as opposed to 3,495 letter notices in 2008 and corresponding tax collections from stop-filers rose from $1.57 million to $3.12 million.
Risk-based Tax Audits in El Salvador
A case selection and management system introduced in El Salvador during 2009-2010 by USAID’s TPAR project selects cases for audit automatically based on the quantified risk to revenue of each taxpayer and distributes these cases automatically to specific auditors, rather than leaving such decisions to the discretion of tax officials. The case management software also allows for the monitoring of progress along audit cases and effectively standardizes audit procedures and workflow. The introduction of the system yielded an increase of audit-based assessments equivalent to an estimated 6 percent of national tax revenue in 2010, up from 1.8 percent of tax revenue in 2009.

Appeals
The tax administration should establish an internal (administrative) review process and a formal external (e.g., through the court system) appeal process, which together:

- are separate from the audit and collection function;
- institute a system of checks and balances, ensuring that the tax administration follows the established legal and procedural framework uniformly across taxpayers; and
- strengthen tax administration integrity.

Technology
Proper sequencing of Information Technology (IT) interventions requires that the tax administration use IT, first, to establish a comprehensive and integrated registration system and database with unique taxpayer identification numbers, which will enable the use of IT for all other tax administration functions. Then, IT should be used to assist the tax administration with functions that require heavy manipulation of forms and amounts – such as return, payment, and refund processing – to decrease the workload on the administration and to allow the administration to direct resources to taxpayer services and compliance management.

The World Bank's Doing Business 2012 website notes in its Paying Taxes report that, for taxpayers, electronic filing – such as provided with USAID assistance in Moldova, Georgia, and Albania – is particularly noteworthy as an IT application that saves time and makes it easier for most taxpayers to prepare, file and pay their taxes. By 2010, 66 of 183 economies worldwide had fully implemented electronic filing and payment of taxes.


In addition, the tax administration should use IT to open interactive channels with taxpayers and the business communities, including electronic (Internet) portals to enable taxpayers to view their tax accounts, file returns, and make payments and to give taxpayers extended service hours and greater convenience, while further reducing the workload for the administration. As IT evolves, exchange of data with other government institutions, such as business registries and social security administrations, will ease compliance monitoring and enforcement.

The establishment of a formal organizational structure and the documentation of the
Information Technology System Reform in El Salvador

El Salvador reformed its information technology for tax administration over a number of years with the assistance of several USAID projects. USAID's Modernization of Salvadoran Taxation project (1991-1995) replaced the legacy mainframe system with a custom-built FoxPro system for VAT and income tax registration, return and payment processing, and basic audit selection. In parallel, the Inter-American Development Bank supported the establishment of the Large Taxpayer Unit, including an Information Technology Department in charge of the design, development, and deployment of a custom-built tax system for large taxpayers. In 1998-2000 the two systems were unified into a single Informix / PowerBuilder platform to allow for the increased taxpayer population size. USAID's Tax Administration Project (TAP, 2002-2004) provided new hardware platforms for the system, consolidated customs, tax, and treasury information, and focused on collecting and providing information for field audits. As a result of the IT improvements, the processing time for income tax returns fell from 4 hours to 40 minutes, entry of returns was 50 percent faster, and the tax authority estimated that faster data loading speeds had resulted in 30 to 40 percent savings in database maintenance operations. USAID's subsequent Tax Policy and Administration Reform project (TPAR, 2005-2010) focused on: (i) providing further increases in data and processing capacity with Oracle and Java to enable the introduction of a Case Selection Management System for audit, and (ii) web based taxpayer services.

The success of El Salvador’s information technology reform efforts were due primarily to proper prioritization and planning, with focus on, first, registration and return and payment processing with sufficient hardware and software capacity; second, risk-driven compliance through risk-based audit; and, third, taxpayer services. In addition, a number of tax policy reforms preceded or accompanied IT reform, such the elimination of VAT and income tax loopholes and streamlining penalties in 2004. These policy reforms validated the business need for IT reform.

The following measurable impacts on tax revenue and customer service can be attributed to the more recent IT improvements:

- Between January and June of 2010, during the first six months of full application of the Case Selection Management System, El Salvador’s tax administration completed more than 300 audits, detecting more than $100 million in additional revenues, in comparison with $50 million from audits in all of 2009.
- Prior to the creation of a Taxpayer Assistance Call Center by TPAR, only 200 taxpayers per day were served by an underequipped staff of four. Later, the tax administration assisted an average of 5,000 taxpayers per day during peak times and 1,300 per day during low season.

functions and business processes of different sections and units must precede IT, as IT implementation may prove costly otherwise.

Human and Institutional Capacity

A number of components should be addressed, including the development of human resources (position descriptions, competencies, qualifications, development plans, and performance measurement processes), human capital (training programs, curriculums, courses), processes (procedures for day-to-day operations), and strategies (vision, mission, goal objectives, plans, and benchmarks).

A clear vision for the administration with articulated strategies and detailed plans should be put forward and should identify areas of needed intervention. Subsequently, the tax administration should establish clear step-by-step procedures for day-to-day operations and should assign clear responsibilities to positions.
only then can the tax administration develop human capacity via a training plan, which is shaped by a rigorous analysis of immediate needs that emerge from the vision and mission, and which address procedural, as well as managerial and technology capacity needs. Finally, continuous monitoring will provide management with early indication of progress towards the achievement of results or lack thereof, and in-depth evaluation assessments will provide periodic analysis of outputs and outcomes of interventions. During monitoring and evaluation of progress, tax administrations should aim to achieve a balanced perspective, addressing financial metrics, customer service metrics, internal processes, and human and technological capacity.

**Tax Administration Integrity**
Revenue collection administrations (tax and/or customs) around the world are often regarded as lightning rods for corruption. Widespread publicity on this issue drives public perception, and it is incumbent on the revenue administrations to take proactive steps to change public perception.

Measures that agencies use to reduce the opportunities for corruption vary, but usually involve attempts to modernize through.

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**Human Resource Development in Kosovo**
USAID has been assisting the Tax Administration of Kosovo (TAK) to develop its human resource management policies and practices and to improve its training functions since its founding in 1999.

As Kosovo’s institutions became more self-governing in the early 2000s, one emerging defect at the TAK was a growing inclination to view personnel recruitment as an opportunity to look after family, friends, or political acquaintances, and to depart from the principle of appointments based on merit.

Once appointed, limited attention was given to staff development and performance appraisals were largely paper-based with little or no discussion. Pay and promotions were usually subjective and not linked to performance. Little or no action was taken with respect to poor performers and there was reluctance to take disciplinary action. TAK’s Training Department was simply making administrative arrangements for staff travelling outside of Kosovo, and each area of TAK headquarters organized its own training.

Since 2007, TAK has been able to make improvements in three HR management areas:

- **Initial appointment:** The use of objective screening tests and establishment of an increasingly professionalized “recruitment panel” of interviewers have now become the norm, with wide advertisement of positions, objective grading of a short list of candidates through a confidential written test, and thorough interviews to select new staff;
- **Performance evaluation:** USAID advisors have assisted in standardizing performance evaluations, helping TAK to develop revised pay scales that include performance bonuses and procedures for discipline, grievance, and termination of under-performers; and
- **Training:** A Training Commission has been re-established to replace disparate training efforts of departments. A fully staffed Training Department with 40 trainers now conducts comprehensive training needs assessments and acts to build institutional capacity across TAK’s 700 plus employees with a course curriculum of functional, management, technology, and language courses. Tests and participant assessments of recent trainings by TAK indicate that over 90% of training has been retained 3 months after the training.
Figure 3. Integrity Principles for Tax Administration

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<tr>
<th>Fundamental Reforms</th>
<th>Administrative / Legal</th>
<th>Transparency / Standards</th>
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<td>• Separate functional work areas under a functional organization structure;</td>
<td>• Simplify the tax system through policy reform and allow self-assessment wherever practical;</td>
<td>• Achieve transparency and certainty by providing the public with an understanding of tax laws and obligations;</td>
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<td>• Simplify processes and operational procedures, reducing staff/taxpayer face-to-face interaction as much as practicable;</td>
<td>• Adopt transparent employment, evaluation, and advancement HR policies;</td>
<td>• Adopt a goal of customer service in an atmosphere devoid of subjective or covert motivation and requiring the adherence to the highest integrity in operations;</td>
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<td>• Automate as many processes as possible thereby reducing staff discretion;</td>
<td>• Implement an Internal Audit Unit reporting directly to the Head of the Administration;</td>
<td>• Subject all decisions of the administration to complaint or appeal as appropriate; and</td>
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<tr>
<td>• Ensure necessary safeguards and security procedures to protect the information within the IT system from being abused or tampered with; and</td>
<td>• Adopt a Code of Conduct which has appropriate sanctions for violations; and</td>
<td>• Conduct regular public outreach activities and encourage the public to report any instances of inappropriate behavior by tax officials.</td>
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<tr>
<td>• Ensure all staff are trained for the duties they are expected to perform.</td>
<td>• Require annual disclosure of income/assets for senior management (or all professional/technical staff).</td>
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Information technology and functional restructuring that change the nature of work performed and the organizations themselves. Another prevalent mechanism is designing regulations, policies, procedures, and systems that minimize unnecessary interaction between the tax administration and the taxpayer. Still another prevalent mechanism is the introduction of a Code of Conduct or Ethics. Figure 3 provides an overview of key principles to keep in mind during the reform process.

Communications

During reform, the tax administration should maintain an ongoing dialogue internally and externally to garner support and achieve success and ensure the employees’ commitment to implement changes.

Strategic communication is a two way process and an effective communications strategy should provide the implementers of change with valuable support and feedback to aid this process. The public and employees should be engaged, enabling the delivery of organizational goals and ultimately of better service. Feedback is invaluable information and an indispensable tool for senior managers, often making the difference between the success and failure of a project.

In setting out how to achieve a balance between transmitting and receiving messages the tax administration should: 1) identify audiences, including internal (management, employees) and external (individual taxpayers, small business owners, medium and large businesses, business organizations academics, opinion formers and commentators, media); 2)
Control of Corruption in Georgia’s Revenue Services

Prior to the Rose Revolution of 2004, Georgia held one of the worst reputations for corruption across all public services – including in its tax and customs departments at the Ministry of Finance. For taxpayers and traders, bribery was a way of life. The complexity of the tax system, with numerous exemptions and loopholes and with intricate accounting rules, created ample room for evasion. Presidential decrees or the tax authorities themselves granted special treatment to selected companies.

In 2004, as part of a government-wide campaign against corruption, the government began the implementation of a multifaceted strategy for combating corruption in the tax administration. A zero tolerance policy for corruption was announced. Cameras were installed in tax offices and at customs checkpoints where solicitation of bribes in lieu of taxes had been rampant; corrupt tax and customs officers were prosecuted and given harsh sentences; and, for tax and customs officials retained, salaries were raised. Significant simplifications in the tax law were introduced in 2005. With assistance from USAID’s Business Climate Reform Project (2005-09), tax-related regulations, forms, and payment requirements were simplified and streamlined, making the system more ‘corruption-resistant’. To further reduce face-to-face contact between taxpayers and tax collectors, between 2007 and 2009, the government introduced e-filing and electronic registration and abolished hard copies of VAT returns.

The impact of such measures on the prevalence of corruption in the Georgia tax system can be seen in business surveys. In the first World Bank/EBRD Enterprise Survey of Georgian companies in 2002, 82.5 percent of the companies reported that they were expected to give "gifts" to tax officials. When a comparable enterprise survey was conducted in 2008, this number had been reduced to 8.4 percent.

define clear and consistent key messages for all audiences; 3) identify communication formats (e.g., press releases, articles, interviews, frequently asked questions) and vehicles (media, web); and 4) develop and pursue a communication plan.

Priority Measures to Enhance Revenue Mobilization

Tax administration reform is a serious undertaking involving considerable cost and a multi-year effort. In the short-run, with the aim of addressing the immediate revenue mobilization needs of the government, tax administration reform should focus on basic prerequisites and areas with large revenue potential in the following order.

- Establishing a clear and accurate taxpayer database with unique taxpayer identification numbers: the tax administration can only manage its taxpayers if it knows who they are, where they are located, and what their status is (active or inactive, taxable or exempt);
- Instituting systematic non-filer and stop-filer programs: taxpayers operating outside of the tax net should be brought in and, with timely processing of returns, late filers should be identified;
- Using internal and external data to analyze tax returns: taxpayer performance should be analyzed across taxes and compared with customs, business registry, licensing authority, and other data;
- Adopting an effective audit program: the tax administration should focus on audit
quality, rather than quantity, and should implement risk-based audit selection;
• Focusing on large taxpayers through large taxpayer offices or units; and
• Encouraging compliance by improving taxpayer services through technology and specifically through electronic or web-based services.

In the long-run, all components of the tax administration reform strategy are key to transforming a current tax administration into a dynamic and professional organization that is flexible enough to continue to develop in the future. A holistic approach to sustainable long-run reform is needed; partial approaches often disappoint.

Conditions for Successful Reform
Managing the change associated with reform is a challenging task. During the transitional period, operations must continue, services to taxpayers must not decline, revenues must be protected, and enforcement obligations must be met. Success will be contingent on many factors, including political commitment and strong leadership. The following describes some of the conditions for successful reform in tax administration, based on worldwide experience:

• Sustained political commitment and support;
• Well-articulated strategies and plans, with change initiatives set out in manageable “chunks”;
• High level of accountability, founded on sound governance and management structures and processes;
• Staff and external stakeholders’ involvement, and strong communications; and
• Adequate and appropriate resources and funding.
Suggested Readings

Key tasks, principles, and areas of reform


Organization, segmentation, and operations


Integrity


Benchmarking performance