

Transparency and Performance Measurement in Tax Administration: Reflections and Brainstorming Session

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Many Reasons Transparency, Performance Measurement are Crucial

- 1. Building confidence in integrity and effectiveness of revenue administration, governance generally
- 2. Detection and rectification of unexpected leakages in revenue
- 3. Ability to assess performance of administrative organizational units and individual personnel against objectively set criteria
- 4. Ensuring reliability of revenue data needed to identify, evaluate potential legislative and administrative initiatives in taxation

Central Challenge of Performance Measurement: Inherent Complexity of Tax Administration

- Contemporary tax administration is a complicated endeavor requiring high-level expertise in, among others, IT, accounting, legal analysis, law enforcement and large-organization HR management
- IMF-based TADAT protocol for assessment of revenue agencies identifies nine primary Performance Outcome Areas (POAs):
 - Integrity of the registered taxpayer base
 - Effective risk management
 - Supporting voluntary compliance
 - Timely filing of tax declarations
 - Timely payment of taxes
 - Accurate reporting in declarations
 - Effective tax dispute resolution
 - Efficient revenue management
 - Accountability and transparency

Forces Working Against Transparency

- Sheer complexity of tax administration
- Reluctance of all organizations (which are, after all, collections of human beings) to submit themselves to evaluation
- Possibility of integrity problems that some may wish to hide
- Bona fide requirements of taxpayer confidentiality can at times serve as excuse for reluctance to share even aggregated data
- Resource constraints that might inhibit even the best-motivated revenue agencies from maintenance of data and systems needed for performance measurement

Importance of Comprehensive Central Taxpayer Database

- Consistent and comprehensive maintenance of taxpayer data, under internal controls, is essential to maintaining integrity and accountability of *all* elements of revenue administration and tax policy, including for example --
 - Monitoring the effectiveness and integrity of taxpayer contacts in audits, collection actions
 - Controlling the integrity of the tax refund process, in both VAT and income taxation
 - Assessing the productivity of different departments within the revenue administration
 - Estimating the distributional effects and fairness of both the tax statutes and administrative enforcement practices
- The design and implementation of the revenue agency's central data function, and the agency's different operational functions, need to be coordinated. Data are the "food" that nourishes accountable and effective revenue operations.

Danger of Excessive Reliance on “Soft” Indicators of Performance

- Performance assessments can focus on two different questions:
 1. Whether a revenue administration has in place the various administrative units and functions, and published rules, necessary for efficient revenue agencies
 2. How those units are performing, as measured against quantitative criteria
- Qualitative verification of organizational presence and staffing of key functional areas (*e.g.*, taxpayer service units, refund-processing units, LTUs, etc.) is a necessary step in performance assessment, but qualitative verification alone can provide only very partial information. It is necessary as well to assess the results of the different functions, and this requires access to a reliable central database of taxpayer information.

Crucial Role of Central and Comprehensive Repositories of Taxpayer Data

- Central and comprehensive databases, organized by type of tax, and containing highly detailed input from taxpayer declarations/returns and from information maintained in other taxpayer contacts like audits/examinations, are essential to all aspects of modern revenue administration, including:
 - Verifying compliance at the taxpayer level (including the matching of tax declarations with information returns)
 - Verifying timeliness of agency/taxpayer interactions – *e.g.*, timeliness and accuracy of processing VAT refunds
 - Monitoring effectiveness of audits/examinations and other compliance activities, including monitoring distribution of examination contacts among taxpayers at different income levels
 - Assessing the performance of different parts of the tax system in terms of revenue, administrative cost, and distributional consequences
 - Generating and assembling data needed for reliable revenue estimates of legislative and administrative proposals

Questions for Discussion

- To what extent are developing countries today maintaining operational central taxpayer databases?
- Have tax administrations in some cases put in place taxpayer-facing operations, like LTUs and taxpayer service centers, before first having in place the necessary central databases to support these operations?
- To what extent have the high costs of central taxpayer databases and related IT needs inhibited their implementation in developing countries? How might database development be funded?
- Should the development of central data repositories be given greater emphasis in technical assistance efforts?
- Is there a need for focused research on the optimal design of central databases for developing-country revenue administrations? If so, who should conduct this research and how should it be funded?

Transparency at the I R S

- Long history of transparency
 - Reading Rooms
 - Freedom of Information Laws
 - Disclosure Laws
- Shared Data
 - Internal Revenue Manual
 - Training Material
 - Returns filed, returns examined, meta data
- <https://www.irs.gov/uac/SOI-Tax-Stats-IRS-Data-Book>