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USAID'S LEADERSHIP IN PUBLIC FINANCIAL MANAGEMENT

Detailed Guidelines for Improved Tax Administration in Latin America and the Caribbean

Chapter 15. Strategic Planning

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August 2013

Contract Number: EEM-I-00-07-00005-00

This publication was produced for review by the United States Agency for International Development. It was prepared by Deloitte Consulting LLP.

Detailed Guidelines for Improved Tax Administration in Latin America and the Caribbean

Chapter 15. Strategic Planning

Program Name: USAID Leadership in Public Financial Management (LPFM)

Sponsoring USAID Office: USAID/LAC

Contract Number: EEM-I-00-07-00005-00 Task Order: 11

Contractor: Deloitte Consulting LLP

Date of Publication: August 31, 2013

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List of Acronyms and Abbreviations

Acronym	Definition
CIAT	Inter-American Center of Tax Administrations
CRA	Canada Revenue Agency
GST	General sales tax
HR	Human resources
IMF	International Monetary Fund
IT	Information technology
LAC	Latin America and the Caribbean
MIS	Management information system
OECD	Organisation for Economic Co-operation and Development
SWOT	Strengths, weaknesses, opportunities, and threats
TIN	Taxpayer identification number

ACKNOWLEDGMENTS:

A number of persons contributed to drafts of this document. Doug Pulse and Anton Kamenov provided an outline for the chapter and, with Rajul Awasthi of the World Bank Group, commented on drafts. This assistance is greatly appreciated. Errors and omissions should, of course, be attributed to the authors.

Chapter 15. Strategic Planning

Strategic planning is an important management tool that is used to guide the deployment of resources and provide focus on key activities and measurements of achievement in attaining the vision or future state of the organization.

There are a number of methodologies that can be used in developing a strategic plan, as evidenced by a prolific number of essays, research papers, and management books. With respect to tax administrations, there is not a standard approach to strategic planning, nor is there a standard template that can be applied. Tax administrations operate in varied environments, face different challenges and obstacles, have different visions of their future state, and operate with widely varying organizations. Additionally, tax administrations do not tend to publish full text versions of their strategic plans for others to use as examples when developing their own plans.

This chapter introduces the concept of a strategic plan, some of the principles, issues, and topics that are almost universally addressed in the few publically available strategic plans, and a possible hybrid approach to strategic plan development.

15.1. Leading Practice

According to internationally accepted principles, the tax administration should: (a) promote voluntary compliance; (b) be efficient, by raising the maximum amount of revenue under the law with the least cost and effort; (c) be effective and administratively capable of delivering the desired policy objectives; and (d) equitable, offering fair treatment of taxpayers. Making the tax system efficient, effective, and equitable is difficult when confronted with an external environment that is complex and can be politically disposed, along with a variety of internal challenges, such as staff shortages, operating budget constraints, poor facilities, etc. Even the most carefully crafted and appropriate tax policies, and the best intentions of adhering to the principles of a good tax system, are of little importance if the tax administration cannot effectively implement them.

Some of the more common problems confronting tax administrations, at the domestic level, include: the mandate to tax a vast informal economy with little financial infrastructure; the struggle to collect revenue in the face of poor attitudes toward paying tax, resulting in poor tax compliance; relative tax complexity and poor taxpayer education; major gaps in administrative capacity; shifting tax structures; trade liberalization; corruption; and a deficient rule of law. At an international level, tax challenges for countries include capital flight, a lack of relative power in negotiations around foreign direct investment, tax competition, and transfer pricing abuse by multinational firms.

Unfortunately, one of the basic tools of modern tax administration management is often overlooked – namely, the process of diagnosing existing problems and developing an appropriate strategy to address them. This process requires articulating where the administration wants to be by developing a future vision, identifying the key problems/challenges, and defining key goals, as well as the options for

achieving these goals, in a strategic plan. A strategic plan is a tool that helps management do a better job, as it assists in establishing the key linkage between core values, the principles of tax policy, and the tax administration, by anticipating challenges, developing appropriate responses, and effectively utilizing strengths to achieve improvements. The strategic plan helps to focus the entire tax administration's resources and efforts and guides all parts of the tax administration towards the same goals.

The strategic plan sets out objectives for the duration of the plan in the key areas against which successful performance will be measured. Normally, it also includes a brief description of the major planned projects for the period of the plan and a justification on how each project will contribute to the objectives. The strategic plan is supplemented with detailed action plans describing how each major organizational unit is to accomplish the objectives of the strategic plan. These action plans usually describe who has responsibility for various actions, the milestones, timing, required resources, and a rough budget. These action plans also contain a brief justification for how they will contribute to achieving the objectives. Finally, to be an effective management tool, the strategic plan requires performance indicators, which reflect performance against each objective. The plan sets performance targets against which actual performance is shown. Most modern tax administrations have clearly defined strategies that are linked to the major functional areas of the organization – audit, collections, taxpayer service, etc. – and most tax organizations aim to increase the quality of audits, improve their revenue collection, deliver quality service to taxpayers, and process information more rapidly and with greater accuracy. Improving the effectiveness of these key functions should be the basis for defining performance standards in most tax administrations.

The end product of the strategic planning process is a collaborative set of decisions on the objectives or goals about what to do, a justification for why do it, and, through a series of actions and projects, an approach on how to do it.

15.1.1. Introduction to Strategic Planning

Strategic planning can be defined as a process of articulating the desired future state of the tax administration and translating this vision into broadly defined goals or objectives and a sequence of steps to achieve them. The strategic plan covers all aspects of the tax administration's activities and must be revisited regularly, since the operating environment is not static, and, as projects and action plans progress, the tax administration needs to measure progress and achievements against the plan. In other words, the strategic plan is a living document and not just a report that is filed away after a box is checked that it has been done.

Strategic planning should not be confused with business planning. The strategic plan establishes broad objectives whereas business plans provide the detailed steps to accomplish individual projects, implement ongoing work, manage risk, or monitor progress¹. The strategic plan provides direction for

¹ The terms 'action plan', 'work plan', and 'performance monitoring plan' are used in this chapter to describe plans for projects, ongoing work, or monitoring progress respectively.

how the main responsibilities will be carried out, while the business plan that flows from the strategic plan details the various actions and projects that are required to achieve the vision that is broadly articulated in the strategic plan. This whole process is called 'strategic management'.

Management experts have described strategic management as:²

"Strategic management is the process of managing the pursuit of organizational mission while managing the relationship of the organization to its environment."

James M. Higgins, Rollins College

"Strategic management is defined as the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of the organization."

John A. Pearce II, Villanova University, and Richard B. Robinson, Jr., University of South Carolina.

"Strategic management is the process of examining both present and future environments, formulating the organization's objectives, and making, implementing, and controlling decisions focused on achieving these objectives in the present and future environments."

Garry D. Smith, Danny R. Arnold, Bobby G. Bizzell, Houghton Mifflin College

"Strategic management is a continuous process that involves attempts to match or fit the organization with its changing environment in the most advantageous way possible."

Lester A. Digman, University of Nebraska

In the case of a tax administration, the purpose of strategic management and the strategic plan is to:

- Document and communicate the vision, mission, and values;
- Align the goals, objectives, and action plans with the mission;
- Allow the tax organization to set priorities given the limited financial and human resources available; and
- Allow IT systems to be aligned so that reporting provides meaningful information to evaluate and measure performance.

² Barnat (n.d.), para. 3.

15.1.2. Political Commitment and Stakeholder Engagement

Prior to embarking on any significant changes in how the tax administration does business, the most important step is to ensure that the government is politically committed to the changes. In the case of sweeping tax reform, there needs to be explicit support for the reform effort through visible political commitment. Without visible political commitment and special programs to inform and obtain support from the taxpaying public, any package of reform measures may not be politically sustainable, and the usual expectation for improvements in tax compliance will be unlikely.

Successful implementation of changes in the tax structure, administration, and systems and procedures also requires committed and capable management teams that are backed by the government's strong political will to introduce change.

In addition, whether the plan is for significant changes or a wholesale reform, it must be politically sustainable. This means that the management and staff of the tax administrations must be involved in the design, planning, and implementation from the beginning. Their taking ownership is essential to success.

15.1.3. Implementing Change

In designing and implementing a strategy, it is important to keep in mind that tax administrations are usually large and often can be more complex than they first appear. Significant changes or wholesale reforms are also complex, often spanning many years and requiring significant human and financial resources to effect change. These resources are often in short supply. Strategic plans can require changes in legislation, regulations, processes, procedures, and staff qualifications and capabilities. The result is that tax administrations with limited resources cannot be expected to implement significant shifts in direction over a short period of time.

Experience has shown that significant changes, such as implementing a self-assessment system or a complete reform, should be implemented gradually through a series of practical and manageable steps. Sudden, swift changes seldom work, and taking significant risks when a country's revenue is at stake is not advisable.

Any strategic plan must keep the tax revenues flowing during change. If, during planning, there is a possible revenue risk, then a plan to supplement revenues with measures that can be implemented with existing resources should be considered. Contingencies for "worst case" scenarios must also be planned. Ad hoc measures implemented in a state of crisis can discredit the strategic plan and place the entire plan in jeopardy.

In summary, any strategic plan must be realistic, must have employee ownership through a consultative process, and must be a comprehensive plan that considers a coordinated approach and includes the entire organization.

15.1.4. Responsibility, Purpose, and Process

As previously mentioned, the strategic plan is the responsibility of senior management, but it involves a broad base of employees from across the organization to ensure employee commitment. Since strategic plans are often far reaching, they cannot be accomplished in a short time span and, thus, they have a multi-year focus. Most are at least three years in duration, but they can be longer. Where a major tax reform is being undertaken, it is not uncommon for the plan to be for five years or even longer. Shorter activities and projects that contribute to the success of the overall strategic plan will be within this multi-year plan. To be comprehensive, the plan also identifies measurable outputs for performance management. Finally, it is written as a means of communicating to employees, taxpayers, and all stakeholders.

15.1.5. Preparing to Plan

In its most basic form, the process begins with key management of the tax administration meeting to discuss, in a structured manner, what they view as the most important aspects of the organization and their views on attainable goals for the organization. This group of key executives, further discussed below, may also be supplemented with, for example, a senior person representing the Ministry of Finance or, if a revenue authority, a member of the governing board. This group constitutes the 'steering committee'.

The structure of the discussion normally consists of developing a rough framework for the strategic planning effort that is about to be undertaken. Generally, this framework includes the steps in the process, defines who will participate, identifies an individual who will ultimately be responsible for the overall coordination of the exercise and the proper implementation of the results (the 'strategic plan coordinator'), and provides a rough approximation of the time frames.

The strategic planning process requires a lot of work, thought, and discussion. This initial meeting is best described as planning to have a plan. The first question at such a meeting is whether the tax administration is ready to prepare a strategic plan. When preparing to start a strategic plan, many tax administrations conduct a review or an assessment of the current state of the administration. Often, the tax administration seeks external assistance to get a detached, critical view of the organization, processes, and procedures, as well as a sense for how stakeholders perceive the administration.

A good strategic plan for the tax administration should address a number of interlinked components. The failure to address any of the components below may result in failure of the overall strategy:³

- The adequacy of the tax laws and policies;
- Organization/taxpayer segmentation;
- Staffing;
- Facilities;
- Tax operations/functions (e.g., audit, taxpayer services and education);

³ Murdoch et al., p. 3.

- Human and institutional capacity;
- Integrity;
- Technology; and
- Communications.

In addition, some administrations will have either a previous report on taxpayer attitudes and perceptions about the tax system and the tax administration, or may commission a small survey as a resource to be used during the strategic planning sessions. This type of document can be important when conducting the environmental review (discussed later) and in the identification of strategic objectives.

Other current reports should also be gathered in advance of initiating the strategic planning process, such as:

- Any prior reports on the tax administration prepared by the Fiscal Affairs Department of the IMF;
- Documentation on any requests made to external providers of technical assistance;
- Any reports stemming from externally provided technical assistance that the tax administration has received;
- Reports stemming from any study tours to other tax administrations;
- Any prior strategic plans;
- The most recent budget;
- Prior and current work plans from each division of the tax administration; and
- Any other reports that may be relevant to the process.

These reports form the preliminary basis for discussions during the strategy planning sessions. It is the responsibility of the steering committee to ensure that the various background reports and other materials are assembled prior to commencing the process.

During this stage, it is decided who the participants⁴ in the strategic planning process will be, the broad parameters and timing of the strategic planning effort, and possibly the suggested number of working groups and their broad mandates.

A core working group of participants should be selected from all participants and given full access to all resource documents. Other participants should have access to the documents on a need-to-know basis, depending on their particular assignments. When the participants are all assembled, they should be briefed on the need to maintain confidentiality during the process, as the discussions and materials, until approval of the strategic plan, are only in draft form and may change, sometimes significantly.

⁴ The bulk of the participants should be selected from the most qualified tax administration employees who possess the required attributes and qualifications, including the ability to work effectively as a team and under pressure, and who are open to new ideas.

The development of the strategic plan should be a "bottom-up" process that is within the framework established during the initial senior management meeting. The participants in the development of the strategic plan should be drawn from across the entire organization. Participants should be inclusive of all levels of management, except for the most senior management. The rationale for excluding the head of the tax administration, and possibly the immediate level below, is to encourage an open and honest discussion in the working groups. This open discussion would usually not occur if the most senior persons in the organization were present. In addition, including a broad cross section of the organization instills ownership in the resulting strategy and action plans, as well as understanding among employees of the rationale behind certain goals and actions.

Using the previously identified resource materials, plus the work done during the workshop and by the sub-groups, the working group would create a first draft strategic plan for review by the steering committee. The plan should be accompanied by other draft supporting documents. For example, if a realignment of part of the organization is proposed in the draft plan, then a draft transitional organizational chart to assist in the allocation of human resources to achieve the objectives described in the strategic plan should be attached. This chart would assist in visualizing the reallocation of the positions to better reflect their actual utilization. If the strategic plan includes a reorganization and renovation of the office area, then it should also contain such details as a draft floor plan to better align them with the human resource allocations included in the strategic plan. When approved, these draft floor plan drawings would be important in determining the capital costs (furniture, dividers, etc.) to complete this segment of the strategic plan. The draft should also append a suggested a template for reporting results against objectives outlined in the draft strategic plan, as well as a brief instruction on how to complete each measurement and the potential data sources that would be used to complete the report on a monthly basis. The draft strategic plan should also contain the first draft of action plans. This would be a rough draft and would serve as a template, but may require significant further work by the senior management team to review the proposed tasks, timelines, and deliverables.

The steering committee should provide input and organize a discussion with the head of the tax administration to review the draft document. The head may provide further input and may, at this point, ask the working group to present the draft strategic plan to the entire senior management team. It is during this briefing that the importance of using the strategic plan in guiding the investments and operations of the tax administration over the period of the plan should be emphasized. The plan should be used as an input into the budget and reporting cycle, but, at this point, the plan only contains an educated guess as to resource requirements. During this briefing, it must be emphasized that those members of the management team that are in the best position to more accurately determine resources (i.e., the responsible managers) must fill in the details. In addition, it should be impressed upon the management team that they have responsibility for the achievement of results and for the development of reporting mechanisms for the sub-programs under their areas of responsibility.

Subsequent to this briefing to the head of the tax administration, there may be other briefing sessions before proceeding to the next step. These briefings could include, where the tax administration reports to the Minister of Finance, a briefing to senior Ministry officials or, in the case of a revenue authority, a

briefing to the full board. In addition, as part of labor relations, the union may be asked to attend a briefing to secure their input and support if the strategic plan contains elements that would affect labor relations.

15.1.6. Setting the Planning in Motion

The next step is to convene a meeting of all the participants in the strategic planning process. This is probably the most critical meeting in the process, as it demonstrates senior management's commitment to the planning process and provides the opportunity for the head of the tax administration to outline some of the recent internal and external developments that affect the tax administration, as well as what other tax administrations may be doing. The meeting also provides a platform for the head of the tax administration to outline ideas and possible directions for the future of the tax administration. In essence, the broadest general direction is provided, giving participants a general framework for the ensuing strategy sessions.

In opening the session, senior management should set the tone by providing some general, but not detailed, comments and guidance to the participants. It should also be stressed, however, that the participants are challenged to critically examine this information. Management should comment on, but not be dictatorial about, five basic questions:

- Where are we now? This is an abbreviated overview of the organization, policies, and programs;
- How did we get here? This is a short history of previous plans and their outcomes;
- Where are we going? This is an overview of what management sees as some of the challenges and threats. Some of the broad recommendations of the external review can be mentioned, as well as relevant statistics, such as "accounts receivable are trending up."
- Where should we be going? This is a general recap of what has been recommended, with possible general comments on what other tax administrations are doing. Presumably, the head of the tax administration has recently attended meetings with other colleagues and exchanged ideas. It is at this stage that senior management should outline its vision of the future. This serves to set the parameters for the vision. In the case of a donor offering significant assistance to conduct a major reform, the general parameters of the offer should also be outlined.⁵
- How will we get there? This is the challenge to the participants in the strategic planning process to develop the vision and how to achieve it.

Following these introductory remarks, there should be a workshop session for all participants to introduce them to strategic thinking and planning. Experience has shown that investing in a workshop

⁵ Although a donor may be specific about the reform assistance on offer, one of the key lessons learned is that there must be buy-in by employees and managers. Thus, although there may be limitations imposed (funding, scope, etc.), gaining buy-in and acceptance is necessary to success. For this reason, within the general parameters set by the head of the tax administration, the participants (with possible guidance) should be given the opportunity to determine the content of the draft strategic plan that goes to the steering committee for comment and review. It may be necessary to supplement the strategic planning workshop with prior sessions on: a) change management; b) high-level discussions on best practices in other countries; (c) project management; and (d) other specific topics, depending on the nature of the reform. During the process, a "champion" of the reforms should be identified.

that devotes sufficient detail to the questions above produces a superior strategic plan. The amount of time spent on the workshop varies, but would generally be at least a week, exclusive of planning. Some general observations to making the workshop a success are:

- The entire senior management team should be present to open the session and demonstrate to all participants the importance of the strategic plan;
- The workshop should be conducted by an expert in preparing strategic plans, and this expert should mentor the tax administration during the development of the plan. This expert should also serve as a discussion moderator and be responsible for distilling the various points that are made during discussions into a draft discussion paper. This discussion paper should later evolve into the framework for the strategic plan;⁶
- The strategic planning process should be the priority for all participants, and they should not be interrupted by their regular duties;
- The workshop should be conducted offsite to minimize interruptions and participants being drawn away for other work;
- It should be ensured that all participants understand that the strategic plan is their opportunity to make a contribution both individually and together to what they want their organization to do and look like; and
- As ideas are presented, the moderator should use the language of the group when noting points – any changes should be only to add clarity.

The workshop should focus on preparing the participants to contribute to the following basic areas of the strategic plan:

- What is strategic thinking?
- What is strategic planning?
- Components of a strategic plan:
 - Environmental analysis;
 - Vision Statement;
 - Mission Statement; and
 - Values/Guiding Principles;
- Determining Strengths, Weaknesses, Opportunities and Threats (SWOT);

⁶ General experience indicates that the introduction to strategic planning, compiling a working paper from various discussion groups, and preparing a first draft of thoughts for further development and inclusion in a rough outline for the strategic plan takes, at a minimum, an intensive three-week effort. This assumes that some of the participants have had previous exposure to strategic planning. During this process all participating staff should be relieved from their regular duties to attend workshops and to participate, as necessary, in the various committees that are formed to develop sub-group documentation and plans. It is estimated that an additional one to three weeks is then required for the strategic plan coordinator to pull all documents together and formulate a first draft of the plan, which can then be presented to the steering committee. After the steering committee comments are received, further work is necessary to construct detailed work plans, review budgets, etc. to produce a final draft. Depending on the extent of the feedback from the steering committee, three to eight weeks could be required to complete the strategy to a final draft stage. In a large tax administration, considerably more time for each stage may be required. All documents during this process should be clearly marked as "DRAFT" until the plan is approved.

- Defining and setting strategic goals;
- Defining and setting strategic objectives; and
- Determining measurable outputs.

Concurrent with preparing and gaining an understanding of the subject matter, workshop participants should also be developing their input to form the draft framework of the strategic plan.

15.1.7. Mission

The next step in the process is to develop or clarify the tax administration's mission, values, and ideal vision. The core business function of collecting taxes is embodied in the mission statement, which usually also indicates the general direction of the organization and what has to be accomplished in the future. The strategic plan takes over from the mission statement to provide guidance on priorities and measurable indicators of quantity, targets, and detailed action plans on achieving specific goals in support of the mission.

The mission is a concise statement of what the organization wants to achieve. A mission statement is, in effect, a very condensed executive summary of what the revenue administration does, what it stands for, and why it exists. Tax administration mission statements tend to focus on collection, quality service, and enforcement. It is also common to make reference to tax collections contributing to the economy and government goods and services.

15.1.8. Environmental Analysis

As part of the development of the mission statement, it is also necessary to define the stakeholders. This step can also be referred to as an environmental analysis. A stakeholder is a person, group, or organization that has an interest in the tax administration, can have an effect on it, or is affected by what the tax administration does. This may include employees of the tax administration, employers, retailers, manufacturers, non-profit organizations, international investors, pensioners, unions, other government agencies, and importers, among others.

When identifying who the stakeholders are, it is also necessary to identify how each stakeholder would judge the performance of the tax administration and the criteria that each would use to identify success. For example, in the case of small businesses, success may be the ease of becoming a registered taxpayer, which could be measured by the number of trips to the tax office, the number of elapsed days to obtain a tax registration number, and/or other relevant indicators.

The identification of stakeholders and their perceptions of the tax administration is only part of the environmental analysis. The analysis also involves using all available internal and external information sources to understand the environment in which the tax administration operates, and to identify the risks and opportunities expected to impact on the organization over the duration of the strategic plan. During this activity, a wide range of available information should be reviewed, including, for example:

- Statements by the government of its priorities for revenue administration, and government activities that can impact on the tax administration. For example, it may be a stated priority to establish duty-free zones or tax holidays for new investors;
- An analysis of the organization's performance data so that areas requiring improvement can be identified objectively;
- Views of department specialists of emerging issues and developments relative to their area;
- Views expressed by stakeholders, obtained through consultation and, if available, survey data, including taxpayer attitudes to the organization's performance;
- Staff attitudes and ideas;
- International developments, particularly in advanced tax administrations, but also in neighboring countries;
- Formal reviews of the organization or other similar entities; and
- External experts' views, including reports on reviews by organizations such as the IMF, OECD, and the EU.

Concurrent with this process, the tax administration should also be documenting its own strengths and weaknesses, as this will assist in developing the specific strategies needed to address the emerging trends being identified.

Once all the stakeholders have been identified, their interests considered, and other information above has been analyzed, the mission statement can be developed to broadly cover all issues and factors.

Box 15.1. Mission statements⁷

In **Argentina**, the Federal Administration of Public Revenue (AFIP), which is an autonomous entity in the Ministry of Economy and Public Finance, is responsible for the collection of taxes for the Federal Government. Its mission statement is to "Manage the implementation, collection, control and examination of national taxes, social security resources and related foreign trade activities; promoting voluntary compliance, economic development and social inclusion."

In **Brazil**, the Secretariat of Federal Revenues of Brazil, which is a body reporting to the Ministry of Finance, is responsible for collecting the Federal Government's taxes. Its mission statement is "To exercise fiscal and customs control with fiscal equity and respect for the citizens, for the benefit of society."

The **Canada** Revenue Agency's (CRA) mission statement is "to administer tax, benefits, and related programs, and to ensure compliance on behalf of governments across Canada, thereby contributing to the ongoing economic and social well-being of Canadians."⁸

In **Chile**, the Internal Tax Service is responsible for auditing the Central Government's taxes, while the General Treasury of the Republic is in charge of the enforced collection of tax debts. The mission of the Internal Tax Service is "To administer the system of internal taxes for fiscal purposes with equity and justice, enabling voluntary performance through the provision of quality services adapted to each type of taxpayers; safeguarding the proper tax compliance, in strict compliance with the effective legislation and focusing its auditing efforts on taxpayers showing a risky tax behavior."

⁷ Mission statements for LAC countries are shown in Inter-American Center of Tax Administrations (CIAT) (2011), p. 6-32.

⁸ Canada Revenue Agency (n.d.), para. 3.

In **Colombia**, the Directorate of National Taxes and Customs is responsible for collecting the National Government's taxes, where the mission is to be "responsible for managing the compliance with tax, customs and foreign exchange duties with quality, through service, auditing and control; facilitating foreign trade operations and providing reliable and timely information with a view to assuring the Colombian State's fiscal sustainability."

In **Costa Rica**, the Directorate General of Taxation is responsible for the collection of taxes for the Central Government, and the mission is to "enforce tax laws, through effective management that promotes voluntary compliance, guarantees information and assistance services to taxpayers and to exercise effective control of tax compliance through actions that conform to principles and values, all within a framework of respect for citizens' rights and guarantees."

In **United States**, the mission of the Internal Revenue Service is to "provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all."⁹

Within these mission statements are also various goals for which measurements of progress and achievement can be developed as part of the strategic plan. Some examples are:

- Ensuring compliance;
- Providing quality products and service;
- Operating with motivated, competent, and well-trained staff;
- Operating with integrity and fairness;
- Ensuring fairness, equity, and equality in the collection of taxes;
- Improving productivity; and
- Efficient and effective use of resources.

15.1.9. Vision

It is during the strategy development process that various "visions" may be developed. The vision must be technically viable, legal, politically acceptable, acceptable to stakeholders, and within the mission of the tax administration. The vision statement is a means of motivating staff and clearly indicating direction to external stakeholders. Most vision statements emphasize the excellence of the organization, the achievement of targets, and the establishment of an effective and efficient administration.

After compiling a list of potential visions, it is necessary to critically examine each of the alternatives. It is helpful at this point to develop a chart that lists each vision, the barriers to achievement, the major steps required to overcome the barriers, and the steps to achieving the vision. As an example, a tax administration may propose the vision of a modern, autonomous functional organization. Such an organization could hire persons that possess the qualifications necessary for the positions, as opposed to drawing only from a pool of candidates that completed the general civil service entrance exam and were selected to serve in the tax administration, regardless of their qualifications. In examining the barriers to achievement, it may become evident that the prevailing civil service law, which applies to the

⁹ Internal Revenue Service (n.d.), para. 2.

tax administration, prevents both a reorganization to more effectively and efficiently deploy staff and any changes in human resource policies for hiring. In this case, fulfilling the vision would require either civil service reform or reorganizing the tax administration into an autonomous revenue authority. It may be decided that neither option is realistic within the time frame of the strategic plan and the vision may be discarded as unrealistic. However, it may also be recommended that options for modernization in this manner be examined for the next strategic plan, and that the tax administration begin preliminary planning along these lines.

The vision statement is a foundation, with which everyone in the tax administration and, presumably, all stakeholders can agree. By gaining agreement on the vision, deciding what must be accomplished in order for the strategic plan to be a success becomes an easier task. If the vision does not have unanimous agreement, then the foundation of the strategic plan is flawed. What will emerge as the development of the strategic plan progresses will be internal territorial disputes and personal interests. The objective of a vision that all participants can agree with is to create an atmosphere where all participants think of the common good of the organization and stakeholders, as opposed to the interests of their own smaller division or department within the tax administration (the latter is often referred to as "silo" thinking).

The final step, after selecting the most appropriate vision, is to articulate this selection in a brief statement that describes what the tax administration will look like once it has successfully implemented its strategy.

In summary, the purpose of the vision is:

- To create a clear picture of what the organization aspires to be in the future;
- To help the organization take a long-term view (as opposed to a series of ad hoc measures that respond to current hot issues);
- To serve as a benchmark for evaluating actions;
- To create a common purpose; and
- To help people understand how they should contribute to the organization.

Box 15.2. Vision statements¹⁰

Australia¹¹: Australians value their tax and superannuation system as community assets, where willing participation is recognized as good citizenship.

Canada¹²: The Canada Revenue Agency is the model for trusted tax and benefit administration, providing unparalleled service and value to its clients, and offering its employees outstanding career opportunities.

El Salvador: Be a model public institution that promotes tax culture, ensures quality tax services to taxpayers, and is conducive to effective tax collection, which will contribute to the sustainable development of El Salvador.

¹⁰ Vision statements for LAC countries are shown in Inter-American Center of Tax Administrations (CIAT) (2011), p. 48-65.

¹¹ Australian Tax Office (n.d.), para. 1.

¹² Canada Revenue Agency (n.d.), p. 2.

Guatemala: Collect the necessary resources for the State to provide the essential services and provide greater opportunities for the development of Guatemalans, by obtaining the maximum performance from taxes; the full and impartial implementation of tax and customs legislation; and the facilitation the voluntary compliance of citizens with tax and customs obligations.

Honduras: In 2014, the DEI will be recognized as a sound, transparent, and responsible tax and customs administration, protected from political intrigues, sustainable and actively contributing to the country's social and economic development.

Nicaragua: Be a professional, flexible, and simple tax administration at the service of the people of Nicaragua.

United Kingdom¹³: We will close the tax gap, our customers will feel that the tax system is simple for them and even-handed, and we will be seen as a highly professional and efficient organization.

Uruguay: Be an organization respected for its effective, efficient, and transparent performance, which based on continuous improvement and applicable technological advances, operates with high standards of quality and ethics that are above reproach and with a professional staff committed to the institutional mission. In its actions, it seeks to optimize voluntary compliance with obligations, meeting both the needs of the taxpayers and their claims, and exercise permanent control on the intelligent use of information, equity, and highly qualified personnel, with the purpose of securing tax resources that contribute to the development of the country's social justice and the welfare of its inhabitants.

15.1.10. Values

The tax administration's values statement sets out the principles or beliefs that guide the tax administration's members as they pursue the organization's purpose. The statement is also used to specify the behaviors and attitudes that the tax staff are expected to display on the job and how the tax administration wishes to be seen externally. There are close similarities between the value statements of most tax administrations, with the most common values being integrity, fairness, honesty, professionalism, respect, efficiency, responsiveness, and cooperation.

Box 15.3. Example value statements

Australia¹⁴

- Being fair and professional
- Applying the rule of law
- Supporting people who want to do the right thing
- and being fair but firm with those who don't
- Being consultative, collaborative and willing to co-design
- Being open and accountable
- Being responsive to challenges and opportunities

Belize¹⁵

¹³ HM Revenue and Customs (n.d.), p. 4.

¹⁴ Australian Tax Office (n.d.), para. 3.

¹⁵ Belize General Sales Tax Department (n.d.), p. 7.

Effective tax administration rests on the fundamental notion that taxes are collected fairly and indiscriminately for the overall economic and social benefit of the citizens of the country. The citizens of Belize have the right to expect a high degree of integrity in the administration of the General Sales Tax (GST) and expect a tax system that is fair and responsive to their needs and that encourages all to pay their due share. The public must trust that administration of the GST will be fair and firm and handled with the utmost professionalism and integrity. The following values and principles underpin the actions not only of the department, but of each and every official in its employ.

Responsiveness: providing accurate, timely, and quality service—with an emphasis on a proactive versus reactive approach.

Transparency: sharing of all information in an open manner to external and internal stakeholders.

Integrity: continually demonstrating high moral and ethical behavior while upholding the rule of law (truthful, mutual respect, fair, honest, open, trust, professional performance).

Efficiency: using resources in a timely, cost effective manner to maximize results in the delivery of service and information.

Professionalism: acting with dedication and skill and in a manner that fully abides by professional standards and rules.

Accountability: taking responsibility for its actions.

Quality Service: identifying service standards and striving to provide quality service.

Mutual respect: treating all taxpayers with courtesy and respect in all dealings, while expecting that this will be reciprocal.

Canada¹⁶

Integrity is the foundation of the CRA's administration. It means treating people fairly and applying the law fairly.

Professionalism is the key to success in achieving the CRA's mission. It means being committed to the highest standards of achievement.

Respect is the basis for its dealings with employees, colleagues, and clients. It means being sensitive and responsive to the rights of individuals.

Co-operation is the foundation for meeting the challenges of the future. It means building partnerships and working together toward common goals.

South Africa¹⁷

Mutual trust and respect; equity and fairness; integrity and honesty; transparency and openness; and courtesy and commitment.

15.1.11. Developing Strategic Objectives – a Checklist

The following checklist will help the tax administration in defining appropriate strategic objectives.

- An objective must be clearly written for a specific result, a single topic, or an area of performance;
- An objective must contain a measurable component (e.g., how much, how many, etc.);

¹⁶ OECD (March 2011), p. 76.

¹⁷ Ibid., p. 78

- An objective must represent a significant change;
- An objective must define the results to be achieved;
- An objective should have a target time for completion;
- The objectives are encompassing of the stated mission and values, aligned, and supportive of each other; and
- Objectives should be monitored for progress and continued relevance, and results should be evaluated.

Examples of Strategic Objectives

Some examples of strategic objectives drawn from various countries¹⁸ include:

- Achieve uniformity in applying tax laws;
- Develop simple and efficient tax administration processes;
- Provide taxpayers with timely and accurate information;
- Introduce and expand self-assessment of liabilities and payment of taxes;
- Provide quality service and taxpayer education;
- Encourage the establishment of non-governmental tax agents to assist taxpayers in fulfilling their tax obligations;
- Develop targeted audit programs;
- Provide significant computer support for tax administration operations;
- Adopt a step-by-step approach to significant changes in doing business by using pilot projects to test these measures;
- Achieve fair and transparent administration;
- Develop professional, knowledgeable and skilled employees; and
- Develop effective managers.

15.1.12. Service and Performance Standards

As part of planning, organizations must develop standards to be achieved and the means to measure progress. As a general observation, experience has shown that organizations tend to direct effort and resources to accomplish that which gets measured. Conversely, effort and resources are diverted away from that which is not being measured. As a result, care needs to be taken when setting performance standards¹⁹ and in deciding on how to measure progress.

¹⁸ These examples are derived from the countries listed in Box 3 and from the author's experience.

¹⁹ **Performance indicators** define the measurement of important and useful information about the performance of a program or activity, expressed as a percentage, index, rate, or other comparison which is monitored at regular intervals and is compared to one or more criteria. Performance indicators help illustrate how well an organization is doing in meeting its objectives or achieving the desired outcomes. They are a means of assessing and evaluating the characteristics of products, services, processes, and operations of the organization. They need to be relevant to the program's desired outcomes and objectives, quantifiable, verifiable, and free from bias. **Key performance indicators** are quantifiable measurements, agreed to beforehand, that reflect the critical success factors of an organization. Whatever key performance indicators are selected, they must reflect the organization's goals, be key to

It is important to monitor the performance of all key organizational tasks. In order to accomplish this, performance standards should be set for each major task and achievement against these standards should be regularly monitored and evaluated, with corrective actions taken, as needed. This is important, as it:

- Ensures that the persons who are responsible for implementing the strategic or operational task are held accountable;
- Provides a management tool to assess the performance of units and individuals;
- Enables management to objectively assess the need for corrective action where targets are not being met;
- Provides a mechanism for shifting the performance focus away from simple revenue measures (money collected) to all of the major operational issues that impact on compliance; and
- Supplies objective information, which can be used to review and, if necessary, modify the strategic plan.

Some general guidelines are:²⁰

- Measures should not be too simplistic;
- Ideally, measures should cover both qualitative and quantitative aspects of the task; and
- Measures should include:
 - Quantities or volume of output (how many);
 - Quality of the output (how well, accuracy levels);
 - Timeliness (how long);
 - Monetary values.

15.1.13. Action Plans

Strategy development is about producing a blueprint. The strategy alone, however, achieves nothing. It requires implementation, which means that various programs and projects must be thought through and action plans must be developed. This stage of the process involves translating the high-level strategic objectives into action plans or actual deliverables. At this point, the strategic management process shifts from broad strategic planning to narrower planning that is concerned with shorter-term deliverables. The action plans should clearly identify:

- The tasks to be performed;
- The strategic objective to which they relate;
- The person or unit responsible for their delivery;

its success, and be quantifiable (measurable). Key performance indicators are usually long-term considerations. **Standards (or targets)** are norms or time frames, or sometimes just directions (such as "increase" or "improve" some measured situation), that enable an organization to use performance indicators to "judge" performance.

²⁰ For further information and guidance on formulating appropriate indicators, see Crandall (2010).

- Measurable standards by which performance can be assessed;
- Measures of the quantity, quality, and timeliness of delivery; and
- The costs of implementing the action plan.²¹

The first drafts that go to the steering committee should generally be high-level plans with minimal narrative. These high-level plans seek approval in principle before embarking on the time-consuming process of producing a detailed work plan, detailed budgets, etc. Participants in the strategic planning process are generally divided into various sub-groups, with each being responsible for the development of action plans and other documentation for a particular strategic goal. In some cases, various smaller projects contribute to the strategic objective. Each of these projects would normally have a separate action plan. Often, much of this preliminary planning is done in project management software, as such software makes it easier to visualize the sequencing, notes can be easily appended, and it is flexible.

15.1.14. Ensuring Success

The greatest gains are achieved by adopting an integrated approach to strategic planning. Any strategic plan should address all key areas of the tax administration, but in the case of a major tax reform effort, a holistic approach is mandatory. A holistic approach considers all of the following:²²

- Tax law and policy;
- The organization, including functional aspects and taxpayer segmentation;
- Tax operations/functions – audit, collection, taxpayer service, etc.;
- Human and institutional capacity;
- Integrity;
- Technology;
- Communications;
- Change management;
- Facilities; and
- Budget.

There is no "quick" solution to administrative change, increasing tax compliance, or boosting tax revenue. These require commitment to a long-range, coordinated, and comprehensive plan. The tax administration must expend time and resources to develop a shared "vision" for the future. Past experience dictates that this vision must have the buy-in of not just the current management, but also of those expected to be managers during the lifetime of the strategic plan, as these future managers must provide the continuity, ownership, and determination to see the plan through. Significant resources must be expended not only in creating the plan, but also in managing its implementation. Any new proposals for initiatives must be justified within the context of the strategic plan.

²¹ An example of the process for estimating the cost of a program in the strategic plan is presented in Appendix 15.A.

²² Murdoch et al., p. 3.

Implementation of a program or project requires the resources of the tax administration. Staff must be informed, fears and resistance dealt with, and staff motivated to work toward the objectives of the strategic plan. Where the plan includes significant changes in processes, procedures, staffing, or organization, there must be a detailed sub-component of the plan that explicitly deals with change management and communication with stakeholders.

Although many changes may be identified as necessary, the pace of change is often dictated by staff motivation, management capacity, and depth of management. In small organizations, there are often not enough managers to handle the reform program and ensure that existing operations continue. The pace of reforms has to be measured in terms of institutional ability to effectively handle change. The sequencing of reforms must be carefully determined and the timetable for implementation must be realistic given capacity constraints, the ability of staff and public to adjust to the reforms, and the need to ensure the effective management of current operations.

If the planning process itself is weak, the resulting strategic plan may be weak and not satisfactory to the organization. In addition, the plan may not turn out as well as expected because of changes in the environment in which the plan is supposed to operate. The plan is a living document and must be regularly revisited, and progress must be monitored, evaluated, and adjusted where necessary. The existence of a strategic plan does not, and cannot, get an organization out of a major crisis. A major crisis is a current event, whereas a strategic plan is a series of objectives that are implemented over time and are designed to accomplish a vision.

Based on worldwide experience in preparing to embark on a reform program, the box below presents conditions that are generally recognized as required for successful tax administration reform.

Figure 15.1. General conditions required for reform

- Sustained political commitment and support.
- Competent, committed, and dynamic leadership.
- A clear vision for the organization's future state, with well-articulated strategies.
- Change initiatives set out in manageable "chunks," rather than a "big bang" approach.
- Legislation that supports the reform proposals or is modified to do so.
- Initiatives to develop executives, middle management, and other institutional capacity.
- Adequate resources, funding, and cash flow arrangements.
- A high level of accountability, founded on sound corporate governance and management structures and processes.
- Good project management and budgeting processes, with appropriate external oversight and supervision.
- Staff and external stakeholder involvement, and strong communications with them.
- Cohesion within the administration, between those developing and implementing reform and those performing current operations.
- Appropriate use of technical assistance.
- Steps to ensure ownership of the reform process throughout the organization.

15.2. Common Trends

Tax administrations are introducing better management tools through planning, improvements in compiling statistics and their analysis, and setting informed targets and operational delivery standards. One of the most important trends for administrations is to increasingly involve their staff in planning and analyzing challenges and opportunities to produce plans that are both better understood across the organization and gain the necessary acceptance.

15.2.1. Increasing Emphasis on Management

As management practices in the private sector have evolved, the management of tax administrations is now beginning to catch up. Empirical evidence of this change is the growing number of tax administrations that now produce strategic plans and annual work plans, actively measuring and monitoring performance, surveying taxpayers to gauge their views and perceptions of service delivery and overall administration.

The practice of setting some form of service delivery standards is seen in 28 of the 34 OECD countries which set some form of service delivery standards, and 25 of the 28 countries which published this information. In the non-OECD countries covered by the report, 12 out of 15 countries produce and publish service delivery standards.²³

Governments and taxpayers are increasingly becoming concerned with the costs, efficiency, effectiveness, and transparency of their tax administrations. Tax administrations are pressed to justify their costs, requests for additional budgets, and the deployment of resources. Management in many tax administrations is taking a more holistic approach than the former practice of focusing solely on revenue. Strategic plans have an important management role in this holistic approach to managing the organization.

15.2.2. Strengths, Weaknesses, Opportunities, and Threats (SWOT) Analysis

The SWOT analysis is a tool that can be used during strategic planning and at different points of the planning process. It can help the tax administration define actions when the strategic objectives are known, during the preparation of the action plan. It can also help the administration identify action plan activities and outputs and synthesize those into strategic objectives and a vision. In principle, the SWOT analysis is usually not used to prepare the vision, unless the administration knows little of its current state and strategic objectives, while trying to develop a vision. The SWOT can be important, as the identification of strengths and opportunities can be used in the plan to overcome the identified weaknesses and threats and will assist in building a realistic strategy.

During the SWOT, a review of the external environment is conducted to identify both opportunities and threats. This review of the operating environment should consider the economic, political, social, and technological trends and recent events and how these may affect the various stakeholders and their

²³ OECD (March 2011), p. 69.

interaction with the tax administration. For example, an election that will be held next year may adversely impact enforcement initiatives, as it might not be politically expedient to crack down on a large number of small businesses in the months preceding the election. This could be a threat to tax compliance, but it could rapidly turn into an enforcement opportunity after the election. Alternately, the current government may want to be seen taking action against tax cheats, which, as part of the strategy development process, would be an opportunity.

The next step in the SWOT is to look inward at the tax administration and identify its strengths and weaknesses. This is usually an examination of the organization’s resources, the present strategies, and how the organization is performing. Once again, the stakeholder analysis has an important role, as measuring performance should be done from a stakeholder perspective. For example, small and medium size taxpayers generally do not have tax experts on staff and often rely on information obtained from the taxpayer services function of the tax administration. This category of taxpayer could judge performance on the basis of readily available information on the tax administration’s website (ease of use), the length of time on hold when telephoning for information and the number of times the call is transferred, and/or the amount of waiting time to see a tax officer at a tax office.

If the SWOT analysis is used to identify strategic issues that affect the tax administration, the administration should focus on the issues that it has the ability to deal with. For example, a general economic decline is not a strategic issue that can be dealt with by the tax administration and is not an issue for this strategic planning forum, but rather, may be more appropriate as a strategic issue for the government as a whole. An expected increase in non-compliant taxpayers that can be dealt with through changes to risk management, collection policy and procedures, or enhancements to the taxpayer service program could, however, be a strategic issue for the tax administration. Strategic issues are those that affect, or, more likely, conflict, with the tax administration’s mission, level of service, compliance programs (audit and collections), administrative costs, organizational design, and management.

Strategic issues should be described in a couple of sentences. Whether an issue is strategic or not should be described in terms of the mission or SWOT.

Figure 15.2. The SWOT analysis²⁴

The SWOT analysis	
<p>Strengths: What are the strengths of the organization?</p> <ul style="list-style-type: none"> • Analyze those strengths that will allow future strategies and tactics to be implemented successfully. • Celebrate the successes and use them as best practices. • Consider how to build on the identified strengths. 	<p>Weaknesses: What are the weaknesses of the organization?</p> <ul style="list-style-type: none"> • Analyze those internal processes, resources, and cultural elements that will be barriers or obstacles to achieving objectives. • Learn from pilot projects. • Consider the implications of the weaknesses. • Brainstorm how to address the identified weaknesses.

²⁴ Adapted from Belize Department of General Sales Tax (n.d.), p. 6.

The SWOT analysis

Examples:

- Knowledgeable older staff
- Good public image
- Well-defined organizational structure
- Modern computer system (network & hardware)
- Modern Tax Returns Processing Center
- Consistently applied and modernized business procedures
- A unique TIN is used for all taxes and all transactions with government.

Examples:

- Limited legal authorities for collection and audit powers
- Limited legal representation in litigation cases
- Lack of resources
- The website contains minimal assistance, and publications are dated.
- The IT system (software) is old and doesn't provide enough information.
- Lack of a structured method to disseminate information internally
- Data integrity issues with the computerized revenue system
- Laws are complicated and change frequently.
- Lack of training for new staff
- Insufficient fully trained Information Technology staff
- Staff resistance to change

Opportunities:

What opportunities does the organization have now and in the future?

- Analyze those external demands and influences in the environment that could be used in the future to develop better methods and means.
- Consider creating in-house solutions vs. purchasing solutions.
- Review the opportunities and how they link to the mission and vision.
- Consider what resources are needed.

Examples:

- New staff are all university graduates
- Ensuring updated tax information will encourage compliance
- Outreach programs to educate taxpayers and obtain feedback that will help improve tax administration
- Potential synergies with the pension system
- Other countries' successes can be used to assist in moving forward
- Networking with other tax administrations
- Access to international training programs

Threats:

What are the current threats to the organization or possible future threats?

- Analyze those external demands and influences in the environment that could be barriers or obstacles to future results.
- Understand the organization's limitations in developing creative solutions.
- Assess the threats with a view to reducing their impact or turning them into an opportunity.

Examples:

- A substantial underground economy
- Political interference/intervention
- Human resource capacity is archaic and cannot respond to staffing requests and other HR issues
- Natural disasters
- Advanced technology and globalization of business/clients' operations
- Use of advanced technology to avoid taxation (e.g., fraudulent documents)
- Budgetary constraints
- Poor relationship with Customs
- Increased demands for tax exemption and concessions

In the figure above, each of the examples of strengths, weaknesses, opportunities, or threats could be rated to assess its impact and establish priorities. For example, threats could be rated on a scale of 1 to 3, with the highest rating applied to a significant threat that demands strong action, a medium level rating applied to a serious threat that cannot be dismissed but requires more information before an action is taken, and the lowest level rating applied to a remote threat, for which caution is necessary, but which is not a major concern

15.3. Tax Administration Maturity

Strategic Planning: Maturity Level 1

Key word: "Focused on day-to-day work"

- The tax administration's vision, mission statement, and goals are unclear and not documented. Only a few individuals, primarily at the senior leadership level, understand what the administration aspires to achieve. Activities are not aligned to the strategic objectives and the mission and the organization rarely achieves benchmarks toward its mission and vision.
- The tax administration has no formal strategic plan and does not have in-house capacity (staff skills, tools) to develop a plan. Leaders view the strategic plan as something required by external stakeholders. Staff have limited understanding of the role of strategic planning and do not contribute to discussion about strategy. The administration's programs and services lack clear alignment with its mission and objectives. New programs are often ad hoc reactions to current events unrelated to each other and rarely integrated.
- The tax administration does not have performance targets or indicators to adequately measure performance at an organizational level, and is reluctant to set targets because of a lack of tools, capacity, or time to collect performance data. Leaders and staff focus only on measuring and achieving externally imposed targets (e.g., project targets) or individual targets. The administration has no benchmark for measuring its success and there are often disagreements about whether the organization is successful and how it can improve.
- The tax administration does not have systems, processes, or tools in place for performance data use. There are no mechanisms to check if data is reliable or correct. Data, when it exists, are often set aside, rarely used, and not analyzed, and there is no compliance or accountability around collecting, using, or ensuring the quality of data. Data is collected because it is required by external stakeholders and there is no internal demand for data. Leaders prefer to make decisions based on "gut feeling" or past experience. Staff lacks capacity to analyze or apply data to their jobs. Even if data are available, the administration is unable to use it effectively. The administration often misallocates resources as a reaction to current events.
- Managers and staff feel that implementation is more important than planning. Attempts to develop work plans or action plans often fail because there are no planning processes or tools, and few staff has experience or interest in this area. Projects are implemented with minimal short- or long-term planning, and may exceed budget, if a project budget was set, and are not implemented on schedule.

Strategic Planning: Maturity Level 2

Key word: "Qualitative"

- The tax administration has a specific vision and mission statement that is formally posted or documented. Few staff know the mission and see a connection between it and their day-to-day tasks. Leaders sometimes use the organizational mission and vision to direct goals and activities and aim to develop a process that will help them more consistently align goals and activities. The administration is sometimes able to achieve benchmarks toward desired goals and objectives when activities are aligned.
- The tax administration has a strategic plan or, at a minimum, has had some discussions around a strategy, but does not have a formal process to develop, update, or monitor activities against the plan. The strategic plan is driven primarily by senior management, with little input from staff, and few staff are aware of the plan. Leaders develop a strategic plan to guide the organization toward the mission, but the plan is rarely referred to and changes are not implemented as a result of the plan, but rather as a reaction to events. Programs are not closely linked to mission or strategic objectives.
- Leaders have set some performance targets, but the targets are not measurable. There are no key performance indicators or plans to collect and monitor data. Only a few staff are aware of performance targets and understand how their individual targets contribute to the administration's targets. They are rarely asked to provide input or feedback on targets. The performance targets that exist are primarily related to revenue collection with minimal attention to other priorities in the plan such as service delivery. The administration is still unable to measure progress towards those targets.
- The tax administration is starting to develop systems and/or tools to assist in using data. However, it is still unclear if the data being collected is applicable or reliable. Data are being collected and standard operating procedures for compliance, quality control, and accountability on collecting and using data are in the process of being developed. Leaders understand that there is value in using data to guide decision-making, and do refer to it from time-to-time. Some staff are being trained to analyze and use data in their job functions, but the data being used may be incorrect or not applicable to providing an accurate analysis of the project or task being measured. Although the data are being used sporadically, when it is used correctly, the organization is able to identify and avoid negative outcomes or mistakes.
- Some staff have planning skills and have introduced planning tools to the organization. These are occasionally used to develop a work plan or action plans, but the plans are rarely integrated, linked to the strategic plan, or implemented. Staff that use work plans are better able to manage costs, where there is budget responsibility, and schedule, and can identify problems early on.

Strategic Planning: Maturity Level 3

Key word: "Strategic"

- The tax administration's vision and mission statements are posted in multiple locations and integrated into orientation materials and other guidelines. The vision and mission statements have been communicated to all staff in seminars and using other methods. All staff understand how they contribute to it, and can communicate it to external stakeholders. The administration consistently uses a formal process to align strategies and activities to the mission, and it achieves benchmarks toward its mission/vision.
- The tax administration has developed a strategic plan using formal processes and tools to translate it to action plans and work plans. Leaders and staff are involved in implementing the strategic plan and monitoring progress towards strategic objectives and mission. The plan is widely known within the organization and it is consistently used to guide operational and program decisions. The strategic plan contributes to better alignment between programs and operations, and the organization is achieving some strategic objectives.
- The tax administration has established performance targets, key performance indicators, and a formal performance monitoring plan. Staff are aware of these targets, understand how their performance contributes, and are collecting performance data to measure progress towards these targets, though data are not always reliable. Leaders and management consistently review performance data, using dashboards and other tools, and check progress toward strategic objectives. The organization is able to objectively demonstrate its success, and sometimes uses performance data to improve areas where performance is weak.
- The organization has formalized the development of systems, processes, and tools to collect data and has formalized mechanisms to ensure that the data, when it is collected, is both applicable and reliable. There is an internal demand for data, but it is primarily driven from the top. Leaders are using data to inform and guide decision-making. There are documented standard operating procedures for data collection that outline guidelines for data collection, quality control, and accountability, but these are only occasionally followed by staff. The administration has been successful in using data to avoid making mistakes and, as a result, there has been an increase in positive outcomes.
- The tax administration has formal planning processes and tools, and has built staff capacity to use these tools. Staff have been specifically assigned to compiling and providing senior management with an analysis of the indicators. Leaders and staff work together to develop an annual work plan based on the strategic plan. Action plans are developed for most projects and are integrated. New project proposals that are not provided for in the strategic plan and subsequent work plans are approved when they are in conformity with the plan. Managers are required to implement these, and are consistently able to manage costs and schedules effectively.

Strategic Planning: Maturity Level 4

Key word: "Inspiring"

- The organization's vision and mission statement inspire staff and frame the work of the tax administration as contributing to something important beyond organizational self-interest. The

mission statement is frequently referenced by staff and stakeholders. The tax administration sets industry benchmarks. Leaders use internal data, intelligence from outside the organization, data showing trends that will impact the future of the organization, and meaningful staff engagement in order to review and refresh the mission and vision as well as to set benchmarks.

- The tax administration has a multi-year strategic plan that is reviewed annually and translated into annual action plans and work plans. At regular intervals during the year progress against plans is evaluated and plans adjusted, if necessary. Leaders and management consistently use the strategic and action plans as tools to guide decisions and ensure alignment with mission and vision. Staff has skills to contribute meaningfully to the strategic planning process and use strategic objectives to guide their work. Synergies across programs result in greater program efficiencies and effectiveness. There are measurable performance improvements based on direction provided by the strategic plan.
- The tax administration has tested the reliability and feasibility of its performance monitoring plan, including key performance indicators and data collection tools. Leaders consistently have the information they need when they need it. Managers and leaders are measuring the right key performance indicators in order to track progress and detect signs of problems. Staff are consistently involved in setting targets and receive regular updates from leadership on organizational performance. Leaders review and update performance targets to ensure alignment to mission/mandate as well as external threats and opportunities. Through the performance management system, managers make adjustments to programs, resource allocations, and staff performance targets.
- The tax administration systems collect and track data and the data is generally reliable. Leaders and staff consistently use data to guide organizational decisions, capitalize on opportunities, and learn from the past. Staff are held accountable for compliance with regulations regarding data usage, and quality, and there is a culture of compliance with these regulations.
- Leaders invest considerable effort and resources in strategic planning and gather significant information (staff views, stakeholder views, trend analysis, etc.) for the process. Once these plans are defined, they are translated into division, unit, team, and individual work plans, and all are measured on the extent to which they achieve their part of the overall plan. Variance from the plan is managed and adjustments made, such that projects and units deliver services and products on time and on budget. The planning process is intuitive and efficient.

15.4. Latin America and the Caribbean

Abbreviated strategic plans that are usually limited to outlining the tax administration's mission, vision, and values are generally available through the administration's website. The full text of the balance of the plan is generally not in the public domain for the Latin America and the Caribbean (LAC) region with the exception of Belize (see Appendix 15.B) and, more recently, El Salvador. An overview of strategic planning in Latin America, however, is available in a recent CIAT study.²⁵

²⁵ Inter-American Center of Tax Administrations (CIAT) et al. (2012), section 6.4.

In Latin America, all tax administrations except for Panama and El Salvador have mission and vision statements and, according to CIAT, these contain appropriate values and goals, in line with those produced by OECD countries and may be short (Mexico, Nicaragua) or detailed (Uruguay, Costa Rica). All tax administrations have a strategic plan adopted and in effect, except Panama, which has annual operating plans. It is, however, not clear how often strategic plans are followed by action plans and implementation. One of the few cases of a well institutionalized planning process is presented below. There are also issues with performance monitoring. Revenue targets seem to be primary goals of performance measures, and other indicators are nonspecific, too detailed, difficult to quantify, or not relevant. This places LAC countries between the second and third level of the maturity model presented above.

Box 15.4. Planning in Argentina²⁶

Planning by the Federal Administration of Public Revenues in Argentina (AFIP) begins with its long-term strategic plan. AFIP's 2011-2015 Strategic Plan is the second in its series and follows AFIP's 2007-2010 Strategic Plan. It defines AFIP's mission, vision, values, policies, strategic objectives, and strategies. In general, proposals for projects under the strategic plan can be prepared by senior management or bottom up. These proposals are discussed during meetings of operational and technical areas, which discuss the needed information support, prioritize proposals according to timeline and subject, coordinate between similar proposals, and discuss technical issues. Approval is taken by a plenary meeting of top level authorities,

AFIP's planning process is well established in regulations and instructions and has the following phases.

Formulation of the Preliminary AFIP Management Plan: This document accompanies AFIP's draft budget, which is sent annually to the National Budget Office. It includes the most relevant activities – management indicators and improvement initiatives – that will be included in the AFIP's Management Plan. It is prepared in July of each year.

Formulation of the AFIP Management Plan: This document is submitted to the consideration of the Cabinet of Ministers Head Office. It is prepared between October and December of each year with the following phases:

- Identification of indicators and phases by the central and operational areas;
- Analysis and prioritization of indicators and initiatives;
- Validation meetings with the top level management;
- Preparation of the Management Plan; and
- Approval of the Management Plan by the Federal Administrator and delivery to the Cabinet of Ministers Head Office.

After the final AFIP Management Plan with observations by the Cabinet of Ministers Head Office is received, it is disseminated to all areas of the Federal Administration. The plan's implementation includes various follow up and evaluation activities during the calendar year, with different cuts in information, according to the periodicity determined for routine activities at pre-defined initiative stages. Periodic (monthly and quarterly) reports are prepared and progress and results are submitted on a quarterly basis to AFIP's Advisory Council. In addition, AFIP uses a Management Plan Follow-up System (a scoreboard) that includes an alert system for promptly visualizing the course of the scheduled activities, where indicators and initiatives are rated according to level of compliance (green, yellow, and red).

At year end, a closing report is prepared with the final evaluation of the institutional management results. The results are submitted to AFIP's Advisory Council, which gives its opinion on compliance with the Management Plan.

²⁶ Adapted from Federal Administration of Public Revenues of Argentina (2012).

15.5. Key Benchmarks and Guidelines

The two most basic prerequisites for proper strategic planning in tax administrations are autonomy and organization:

- Modern tax administrations have political autonomy to manage their day-to-day decision and operational activities. They are independent of political changes. They enhance taxpayer confidence in the administration through the display of fairness, impartiality, honesty, integrity, and professionalism, and through the development of transparent systems and procedures.
- A modern tax administration is organized to meet the most significant commercial risks and priorities. Units requiring specific skills and offering economies of scale are part of a modern tax administration (e.g., return processing centers, revenue intelligence, tax collection, audit units specialized by industry, etc.). The administration largely determines the structure, functional organization, and allocation of resources throughout the organization by operational demand.

Assuming the aforementioned fundamentals are in place, the following are key questions that would assist tax administration officials in identifying whether the strategic planning process at their organization is appropriate.

- Strategic plan development is through the broad-based participation of managers, supervisors and staff;
- All staff are aware of the organization's vision and mission and their role in contributing to its success;
- Stakeholders are aware of the strategic plan;
- The strategic plan is periodically reviewed, progress against the plan is assessed against benchmarks, and, if necessary, the plan is adjusted;
- Management assesses any proposed new projects and initiatives against the plan to ensure their alignment with the mission, vision, action plans and work plans contained in the plan;
- Systems to collect and track performance data have been refined to ensure the data is generally reliable and consistent.
- Management refers to performance data to guide decision making.
- Staff are accountable for their performance against the strategic plan.
- Leaders invest considerable effort and resources in strategic planning and gather significant information (staff views, stakeholder views, trend analysis, etc.) for the process. Once these plans are defined, they are translated into division, unit, team, and individual work plans, and all are measured on the extent to which they achieve their part of the overall plan. Variance from the plan is managed and adjustments made, such that projects and units deliver services and products on time and on budget. The planning process is intuitive and efficient.

In addition, a number of performance targets that are typically included in the strategic plan are discussed in Appendix 15.B.

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Appendix 15.A. An Example of the Process for Estimating the Cost of a Program in the Strategic Plan

Program: Collect domestic revenue

Sub-Program 1: Assess initial tax liability and process tax declarations

Officer in Charge: Name

Goal: All registered taxpayers submit their tax returns

Action:

- Issue remittances to taxpayers for payment of their taxes;
- Review returns for completeness/mathematical correctness;
- Capture data from returns in computer system;
- Create a list of non-filers by tax type; and
- Take follow-up action to secure missing tax returns.

Objective:

1. Tax returns are entered in the automated system for Personal Income Tax within 90 days of the filing date, and for 100 percent of VAT/PAYE returns within 30 days of filing.
2. 90 percent of targeted taxpayers file returns within 60 days of appearing on the non-filers list.

Figure 15-A.3. Goal / global objective: All registered taxpayers submit their tax return

	Expenditure Actual 20XX	Expenditure Estimated 20XX	Expenditure Planned 20XX	Expenditure Projected 20XX	Expenditure Projected 20XX
Recurrent					
Compensation of Employees					
Personnel – Direct					
Personal Benefits					
Wages					
Use of Goods and Services					
Goods and Services - Overhead					
Training					
Total					
Capital					
Non-Financial Assets					

	Expenditure Actual 20XX	Expenditure Estimated 20XX	Expenditure Planned 20XX	Expenditure Projected 20XX	Expenditure Projected 20XX
Capital Expenditures					
Purchase of Equipment/Vehicle					
Total					

Appendix 15.B. Performance Measurement

There are a variety of statistical measures that can be used when attempting to gauge the performance of the tax administration. The decisions reached in establishing measurement criteria not only define how performance will be measured, but also influence how the organization behaves. Large organizations, as discussed above, tend to devote resources toward achieving what gets measured. If the established criteria only measure some portions of a tax administration, then those will probably get attention and resources, possibly at the expense of other, equally, or more important, dimensions of work. For example, if the measure in a tax collection unit is the number of telephone calls made to stop-filers within 30 days of their filing date, the context of the call may become skewed to requiring the return, without digging deeper to ascertain the problem and being helpful, as well as gathering facts in case further contact is necessary. The object would be to make the call brief, so the collector can make as many calls as possible to fulfill the criteria that the collector is measured by.

The second problem with measuring is that things that are difficult to measure can be neglected, while things that are easier to measure may enjoy exaggerated importance within the tax administration. One of the most common performance measures that falls into this category is revenue targets. The amount of money collected during a period is easy to measure and necessary to meet the government budget objectives. Revenue targets are necessary for the tax administration to closely monitor the revenue inflows and to sensitize management to its primary responsibility of revenue collection. There is, however, a downside that should not be ignored. Often, disproportionate attention and resources are devoted to meeting monthly revenue collection targets at all costs, which can cause major distortions. Some possible distortions include:

- Legitimate refund payments are withheld, as payment would cause the target not to be met;
- Collections from some large taxpayers are held back until they are needed to meet the target;
- Some taxpayers are known but not officially registered, and these hidden taxpayers are asked to "contribute" when revenues are low;
- Upon achieving the target, staff stop activities and leave the remaining taxpayers "in reserve" until the next period;
- Fear of not meeting the target leads to harassment, inflated assessments that target ability to pay rather than the true tax liability, and misdirection of enforcement efforts away from difficult cases; and
- When targets are in danger of not being met, some taxpayers may be offered an inducement to pay their liability in advance of the legal due date.

Establishing Indicators

The tax administration can make better decisions regarding measurement by following a process that involves many people and their knowledge, experience, and wisdom. It is recommended that everyone involved submit written ideas, exchange those ideas, and come together as a group, including advisors, key members of functions, and key executives, to come to an agreement on what to measure. This

process can be long, but the results are worth the time, as there is participation in the process by those who will be directly involved in compiling the statistics and using them. The quality of the decision and the understanding of those that must implement the decision are important.

Fortunately, there are shortcuts to the process of determining what measures to consider, such as the experience of other countries. There is also an appropriate sequence of steps to choosing measures. The first question in measuring performance is to look inward at the information that is currently produced to determine the reliability of the data. A second question to ask is whether the reports produced, if any, are relevant. Finally, to the extent that such reports are actually being analyzed, it should be verified whether this analysis leads to outcomes. Too often, senior management is inundated with spreadsheets of statistics with variances indicated for many items, but what is often lacking is the analysis that provides why a change has occurred, if there is a trend or pattern, what the report suggests for the future, and what recommendations can alter these projections.

The objective when establishing performance reports should not be to compile a comprehensive set of measurements but, rather, to concentrate on a select, small number of reports that can be produced with reasonable accuracy and that are meaningful.

Figure 15-B.4. Examples of measures used by selected countries²⁷

Measurement	Country results
Percent of taxpayers that file their returns on time	1) Ireland: large cases – 95 percent by the due date; 99 percent by the due date + one month; 2) medium cases – 90 percent by the due date; 95 percent by the due date + one month; 3) other cases – 75 percent by the due date; 85 percent by the due date + one month; 2) Canada: ²⁸ 91 percent of individuals filed their tax return on time; 85 percent of corporations with taxable income filed their tax return on time.
Degree to which taxpayers report complete and accurate information for determining their tax liability	Canada: trend ²⁹
Percent of taxpayers that paid amounts due on time, by tax type	1) United States: 86 percent of all taxpayers; 2) Canada: 94 percent of individuals and 90 percent of corporations.
Ratio of year-end outstanding tax debts to gross tax receipts	Most countries: trend
Level of debt available for collection as a percent of annual gross collections	1.3 percent Ireland; 2.7 percent Latvia
Percent of VAT and corporate tax refunds paid in 30 days	Most countries: 90 percent

²⁷ Information adapted from OECD (March 2011), p. 73, 110-160.

²⁸ Canada Revenue Agency (n.d.), p. 19.

²⁹ Rather than a specific number – e.g., the exact percent of taxpayers, who report complete and accurate information – the tax administration should be looking for whether this percentage has improved.

In order to monitor performance, targets should be set against a given baseline level of performance. This is followed by establishing a future target to be achieved. For example, one of the "core" performance indicators in most tax administrations is the time it takes to process a return. The first step is to set up a system for measuring the average amount of time it takes to process a return. After some time spent observing, it may be determined that, for example, the average return is processed within 18 working days. The administration would use this data, as well as information on expectations from taxpayers and consultation with managers and supervisors involved with processing, to set a realistic future performance standard, such as "returns will be processed within 14 days after the return is filed." After the baseline has been established and standards are in place, the annual performance reports show the new average time and the percentage of times the standard was or was not met. After the system is in place, the tax administration will have a historical perspective of actual data, will establish reasonable targets, and will monitor performance in order to adjust strategies and actions where needed.

There are a number of problems associated with setting performance targets. While it may sound simple, countries struggle with developing an appropriate target level that should be achieved. One problem is setting a realistic target level and ensuring that it is not too low or too high. While a 90 percent compliance rate for individuals may be appropriate in Canada, it may not be realistic in a country that has poor communications and other challenges. If the target is set too low, it is easily obtained and the tax administration can relax. If it is set too high, it may be demoralizing to staff if it cannot be achieved.

The number of targets to set is always a debated issue. Tax administrations that are not used to measuring performance may be overwhelmed if they establish too many complex measurements. In these cases, the tax administration should determine the level of detail it needs in its measurements and, more importantly, whether management will actually use the information. The best approach for an organization that is starting with minimal performance measurements is to begin with a small number of targets that can be increased when a need for more detail is identified.

Some Common Measurements of Performance

Typical "core" measures used by tax administrations include:

- Number of returns received by tax/by type and total tax base;
- Number of stop-filers by tax and total tax base;
- Number of stop-filers by taxpayer size (small, medium, large);
- Number of returns processed (paper, e-filed);
- Time for processing returns;
- Number/value of refund claims received;
- Number/value of refund claims approved; and
- Time for processing refunds.

It should be noted that few international standards are available, as these measures are influenced by tax policy, politics, geography, history, culture, and many other factors; however, the few benchmarks below are generally accepted as international standards.

Figure 15-B.5. Typical core measures used by tax administrations around the world

Measure	International Benchmark ³⁰
Percent of large taxpayers declaring via Internet	100
"Stop-filers" as percent of active taxpayers	5
Late payments as percent of total tax receipts	5
Business days for VAT refunds	25

Other common measures are:

Tax revenue gap: Where there is reliable data, it may be possible to estimate the potential tax revenue that can be collected under the current tax policy. This modeled revenue expectation is then compared with the tax revenue actually collected. The resulting difference indicates the tax revenue lost due to non-compliance, corruption, inefficiencies of the tax administration, etc., which is an indication of the overall effectiveness and efficiency of the revenue administration.

Total tax revenue/GDP: This is a readily available indicator that gives a sense of the fiscal pressure. Comparing the tax to GDP ratio of countries with similar economic and tax structures gives a sense of the relative effectiveness of the tax administration. This measure is not without its problems and should be used cautiously. For example, GDP estimates can be widely inaccurate, depending on the extent of the underground economy in a country.

Actual tax revenue/tax revenue estimated in the budget: This is often used, but the tax administration should be careful to ensure that it can demonstrate that there is some validity to how the target was set.

Value of year-end tax debt/ annual net revenue: The use of this measure is questionable when attempting to compare countries. In recent OECD statistics,³¹ inventories of tax debts were shown to vary widely across the countries in the survey. When the benchmark ratio of the value of year-end tax debt/annual net revenue was used as a broad indicator of the relative magnitude of the debt inventory, 16 countries had a ratio of less than 5 percent, 8 countries were between 5 and 10 percent, 4 countries were between 10-20 percent, and 4 countries were over 20 percent. This same survey observed that management information systems (MIS) in many of the revenue bodies that responded were weak, with almost one third unable to report the amount of tax collected resulting from enforced debt collection activities, and just over one quarter unable to report the number of debt cases and associated tax amounts.

³⁰ Gallagher (2004), p. 8-20.

³¹ OECD (January 2009), p. 8.

Returns: Measures that could be considered are usually the number of cases received (intake), number of contacts, number of returns secured, number of non-filing taxpayers identified (and registered), number of cases in inventory of each of these, average processing times, and the average age of cases.

Payments: Payments categorized by tax type that are received on time as a percentage of total expected payments. This statistic is often by number of payments and the value of the payments – often, this measure is further refined by taxpayer size.

Collections: In collecting arrears, there are several measures of accomplishment. The longer a debt is owed, the less likely it will be collected, so prompt contact and action is important. Therefore, some measure of prompt contact is necessary, such as the number of cases received in a given month and the number of taxpayer contacts that are made. Others might include the average age of cases, monetary value of cases, money collected, cases over one year old, number of cases closed, number and value of garnishees and liens, number and value of assets seized, and other enforced collection actions. Each of the measures should ideally be stratified for businesses versus for natural persons, size of taxpayer, and tax type.

After deciding the performance measures, to ensure that all persons creating and using the information have a clear understanding of how the information is gathered and what it means, a chart similar to the one below should be developed to explain each measure.

Figure 15-B.6. Defining performance measures

Defining performance measures	
Percentage of taxpayers filing their VAT returns on time	Repeated for each tax type – personal income tax, PAYE, Excise, Property, etc.
Definition: a clear explanation of what the measure means.	Indicator of the effectiveness of tax administration efforts to gain compliance
Formula/Methodology: an explanation of how the measure is calculated.	Calculated by dividing the number of taxpayers who file on or before the legal due date by the total number of taxpayers who are required to file a return.
Data Source: identification of the systems or processes compiling the data.	Returns and payments module of the tax administration IT system
Frequency of Data Availability: how frequently the data is available or updated.	Data is available from the computer system usually XX days after the due date, which allows for data processing returns that have been received.
Reliability of the Data: an assessment of the reliability of the data (poor, fair, good, excellent).	Data reliability is good to excellent. Delays can occur in data entry due to leave and system problems.
Number of stop-filers by tax and total tax base	Separate indicator for each tax type (VAT, Property, Income Tax, PAYE, Excise, etc.)
Definition: a clear explanation of what the measure	Indicator of the effectiveness of tax administration

Defining performance measures	
means.	efforts to gain compliance
Formula/Methodology: an explanation of how the measure is calculated.	Calculated by subtracting the number of taxpayers who file on or before the legal due date from the total number of taxpayers who are required to file a return for the tax period.
Data Source: identification of the systems or processes compiling the data.	Returns and payments module of the tax administration IT system
Frequency of Data Availability: how frequently the data is available or updated.	VAT, PAYE, Excise are monthly; Personal Income Tax is annual on X date; Corporate Income Tax is annual on X date.
Reliability of the Data: an assessment of the reliability of the data (poor, fair, good, excellent).	Data reliability is good to excellent. Delays can occur in data entry due to leave and system problems.
Percent of tax paid tax on time	
Definition: a clear explanation of what the measure means.	Provides insight to the compliance of taxpayers in paying their tax obligations on time. The trend over time gives a good indication of any changes in compliance patterns.
Formula/Methodology: an explanation of how the measure is calculated.	This indicator is calculated by comparing the amount of tax paid for a tax liability period by the due date with the overall amount of tax debited for a given period. It measures the extent to which taxpayers comply with their statutory obligation to pay each tax liability by a date prescribed in the law.
Data Source: identification of the systems or processes compiling the data.	Returns and payments module of the tax administration IT system
Frequency of Data Availability: how frequently the data is available or updated.	VAT, PAYE, and Excise are monthly; Personal Income Tax is annual on X date; Corporate Income Tax is annual on X date.
Reliability of the Data: an assessment of the reliability of the data (poor, fair, good, excellent).	Excellent