



USAID'S LEADERSHIP IN PUBLIC FINANCIAL MANAGEMENT

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

Chapter 4. Organizational Structure and Management

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

Chapter 4. Organizational Structure and Management

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List of Acronyms and Abbreviations

| Acronym | Definition |
|---------|--|
| CIAT | Inter-American Center of Tax Administrations |
| EDTAX | Education Tax (Jamaica) |
| HEART | Human Employment and Resource Training Trust (Jamaica) |
| IMF | International Monetary Fund |
| IRS | Internal Revenue Service (United States) |
| IT | Information technology |
| JMD | Jamaican dollar |
| LAC | Latin America and the Caribbean |
| LTC | Large taxpayer center |
| LTO | Large taxpayer office |
| MCTC | Model Customs and Tax Center (Egypt) |
| ITIS | Integrated tax information system |
| MTO | Medium Taxpayer Office |
| NIS | National Insurance Scheme (Jamaica) |
| NTH | National Housing Trust (Jamaica) |
| OECD | Organisation for Economic Co-operation and Development |
| PAYE | Pay as you earn |
| SARA | Semi-autonomous revenue authority |
| TIN | Taxpayer identification number |
| VAT | Value added tax |

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Chapter 4. Organizational Structure and Management

The purpose of this chapter is to discuss the organizational and management structures and approaches to tax administration. Specific focus is given to functional organizational structures, with segmentation for certain types of taxpayers, as this has proven to be the most effective and efficient model. Typical functional organizational structures for headquarters, regional, and district/field offices are presented graphically. Several selected best practices by tax administrations are also discussed, such as those relating to categories of staffing, centralization of staffing, and delegations of authority.

4.1. Leading Practice

To collect the national tax revenues, tax administrations around the world have organized the bulk of their staff and other resources and executed their programs around one of four traditional types of organizational structures:

- Type of tax (e.g., with departments responsible for income tax, value added tax, excise taxes, and other taxes);
- Functions performed (e.g., with departments responsible for taxpayer audits, collection of tax arrears, and other functions);
- Type of taxpayer/client (e.g., with departments responsible for large enterprises, small/medium enterprises, wage and salary earners, and other taxpayers); or
- Combinations of two or more of the types of organizational structures above.

The type-of-tax organizational structure was the favored structure early on and for many years. The British Empire has structured its tax administration – the Board of Taxes and the Board of Stamps, later to become the Board of Inland Revenue – by type of tax since the 1690s. The United States also structured its tax administration by type of tax for decades, then operated according to functions performed from the early 1950s to the late 1990s, when it changed to a type-of-taxpayer structure mandated by Congress' 1998 IRS Restructuring and Reform Act, with 4 major divisions – Wage and Investment Income, Small Business and Self-Employed, Large & Mid-Size Business; and Tax Exempt & Government Entities. Other countries, like New Zealand and Australia originally structured their tax administrations by type of tax, changed to functional structures for many years, and then restructured according to the type of taxpayer/client in the early 1990s. Particularly in developed countries more recently, combinations of two or more of the structures listed above have been designed and implemented. Each of the four types of structures has advantages and disadvantages.

4.1.1. Disadvantages of the Type-of-Tax Organizational Structure

The following are among the longstanding problems of prolonged operations by separate type-of-tax departments, as cited by World Bank experts after in-depth studies of one LAC country during 1993-94,¹ but typical in many other countries as well:

- Duplication of effort was persistent among six front-line tax departments, because each department had been conducting the same functions for its own tax, including taxpayer registration, taxpayer audits, and compliance, separately and routinely for years.
- Fragmentation of resources for enforcement was widespread among the departments.
- Inefficiencies in operations, caused by this fragmentation, impacted on organizational performance, resources, procedures, and staff development.
- Shortcomings in management and staff performance of all tax departments were persistent.
- Weaknesses in collections and poor control of tax evasion lessened the government's revenue for economic development.
- A widespread lack of voluntary compliance by taxpayers was evident.
- Coordination and data sharing among tax departments led to advantages for those taxpayers who were evading or avoiding taxes.

Structuring by type of tax creates significant burdens for taxpayers, including increased time and expense when they are subjected to multiple registrations, audits, and other interactions with the separate tax departments.

4.1.2. Superiority of the Functional Organizational Structure

The most prevalent and successful organizational structure for many years has been the functional organizational structure; that is, a tax administration structured on the basis of the type of work performed, rather than the type of tax, business, product, or customer. The functional organizational structure is based on the theory that, by grouping together activities that require similar skills or specialties, real gains are achieved through an increased depth of knowledge in core areas of business expertise.²

Most international experts, including from the International Monetary Fund (IMF), the World Bank, and the Inter-American Development Bank, who have conducted countless tax reform missions all over the world over a span of several decades, have strongly and consistently favored and recommended functional organizational structures for national tax administrations. The functional structure has proven again and again that it:

- Permits standardization of similar processes across all taxes, which enables easier and simpler interactions by taxpayers, e.g., only one access point for registration, service and payment;

¹ KPMG Peat Marwick (1995), p. 1.

² Kidd (2008), p. 2.

- Facilitates simplification of procedures which taxpayers are required to follow to comply with their tax obligations;
- Permits greater uniformity across the organization enables grouping of all core functions together geographically for better management oversight and control, and for design of the same operating procedures for each core function in all field offices;
- Facilitates computerization of all work processes;
- Allows greater specialization, training and career development of staff;
- Promotes greater efficiency and higher productivity of the overall tax administration, as it avoids the duplication of processes across types of taxes;
- With a complete view of taxpayer behavior across all tax types and early detection of non-compliance trends, yields improved compliance results; and
- Decreases the incidence of intrusion on taxpayers common in organization by type of tax as it avoids, for example, separate audits at different times by different tax officials focused solely on income tax, value added tax, or other types of taxes.

Other benefits of functional organizations include:³

- Functional organizations enable units to focus on primary activities, which promotes efficiency – auditors, for example, are able to audit tax returns for all types of taxes;
- Functional organizations allow an integrated look at the taxpayer during registration, audit, and collections, as well as at the taxpayer base for planning purposes;
- Functional organizations enhance control and accountability, because no single tax official is responsible for all administrative elements related to a single taxpayer; and
- Functional organizations can accommodate major legislative changes, such as the introduction of a new tax, with minimal changes to the organizational structure.

It is not surprising, therefore, that functional structures are in extensive use in most developed countries and in developing countries as well. A recent study by the Organisation for Economic Cooperation and Development's Forum on Tax Administration⁴ confirms that, despite some significant variations in the organizational structures of revenue bodies from country to country, "there appears to be a substantial reliance on the functional model of organization—13 out of the 49 surveyed revenue bodies indicated that the functional model has been adopted as the primary criterion for structuring their tax administration operations, while 30 revenue bodies reported that a broad mix of criteria, including function, are applied in practice." In other words, 43 out of 49 tax administrations count on functional structures. It should also be noted that those few countries that rely exclusively on taxpayer segmentation (type of taxpayer) invariably organize the taxpayer segments, like Large Taxpayer Offices, under a functional structure, with components for audit, collection, and taxpayer service.

³ Murdoch et al. (2012), p. 3.

⁴ OECD (March 2011), p. 43.

4.1.3. Pros and Cons of the Type-of-Taxpayer Organizational Structure

The main rationale for organizing tax administration by type-of-taxpayer, or taxpayer segments, is that the various taxpayer groups have different characteristics, tax-compliance behavior, and levels of risk for loss of tax revenue, and should each be handled differently. Advantages of this organization model include:

- Ability to appoint and dedicate a fixed management team to oversee all compliance and service operations of each unique taxpayer segment, which strengthens responsibility and accountability for achieving organizational objectives;
- Ability to better research and understand compliance issues of each taxpayer segment;
- Ability to develop and implement compliance strategies unique to each segment, such as more targeted audits;
- Facility to provide better service and taxpayer education to targeted groups;
- Better management of various risk levels unique to each group;
- Ability to allocate resources of the tax administration commensurate with the risk level of each taxpayer segment; and
- Greater ability to closely monitor those taxpayers who account for the largest proportion of tax revenue.

Functional organization structures, with partial segmentation for large taxpayers is most common, but some countries have begun to establish Medium Taxpayer Offices (MTOs) as well to segment those taxpayers who account for 10-15 percent of the tax revenue. The IRS "Large and Medium-Size Business" established in 1999 is another example of segmentation based on this model.

Like with other organizational structures, there are disadvantages with the type-of-taxpayer structure:

- Administrative costs are likely to increase by duplicating common core and even some support functions, like IT, across the taxpayer segments;
- Duplication and fragmentation of staffing limits the ability to apply the best practice of centralized staffing, whereby adequate personnel is assigned to a limited number of centrally located tax offices to carry out all of the core functions of tax administration efficiently and effectively;
- Inconsistent application of tax laws, policies and procedures across different taxpayer segments is more likely; and
- There is too much dependence on a limited and scarce number of highly skilled managers and technical staff to design and administer the respective enforcement and educational programs for each group.

4.1.4. Core and Support Functions

Although listed in Chapter 2, the core or basic functions that a modern tax administration performs in its direct operations are repeated here so that the reader may easily associate them with their placement in the organizational charts introduced in the subsections that follow:

- Taxpayer registration – the collection, recording, and maintenance of basic identifying taxpayer information in the tax administration's master database that permits the tax administration to understand its taxpayer base and to plan accordingly;
- Taxpayer services – the information, forms, publications, and tax education that the tax administration provides taxpayers to help them comply with their tax obligations, to demonstrate that they are considered valued customers of the tax administration, and to reduce the need for extensive enforcement, given limited resources;
- Filing and processing of tax declarations and tax payments – the processes and forms designed by the tax administration for taxpayers to file their tax return(s) and pay their tax liabilities on specified dates, and the processes used by the tax administration to receive, document, review, correct if necessary, and archive the tax returns;
- Taxpayer audits – the processes used by the tax administration to monitor compliance, by selecting filed tax returns to audit/verify income, expenses, and supporting information reported by the taxpayer and to make additional assessments which require collection action;
- Taxpayer objections (administrative appeals) – the processes offered to taxpayers to first dispute proposed additional tax assessments in forums within the tax administration's field offices;
- Taxpayer appeals – the formal processes available to taxpayers under the law to protest proposed additional tax assessments or other actions by the tax administration at forums away from the direct jurisdiction of the tax administration's compliance offices, including judicial reviews and hearings;
- Collection of tax arrears – the business processes used by the tax administration to collect taxes which are due, assessed, and not paid by the due date under the law, including use of enforcement measures, such as liens, levies, and seizure and sale of taxpayers' property; and
- Tax-fraud investigations – the processes used to investigate financial transactions declared by taxpayers on their tax returns in cases in which the tax administration has a reasonable cause to suspect that the taxpayer has committed tax fraud. Tax-fraud investigations also involve cases of tax evasion, when taxpayers subject to tax do not register, file, and pay their taxes.

The support functions which provide the resources, support, and guidance to the staff that perform the core functions are:

- Information technology – computerization of systems and business processes of the tax administration, and data networking;

- Legal services – services provided to technical and management personnel by a cadre of attorneys of the tax administration, including legal interpretation of tax laws and regulations, and representation of the tax administration in all judicial forums, including tax appeals;
- Human resources - personnel management and training functions;
- Budget planning and resource management (physical space, facilities, and other property);
- Strategic and operations planning – the formulation of long-term strategic plans of the tax administration and the drafting, implementation, and monitoring of annual work plans for all its departments, consistent with the objectives of the strategic plan;
- Internal audit – the processes of conducting periodic reviews to ensure that selected regulations, operations, and administrative procedures and programs conform to specified standards and are being implemented efficiently and effectively, including the analysis and verification of accounts, financial transactions, and reports; and
- Integrity investigations – investigations about the conduct, such as alleged or suspected corruption, of any member of the tax administration’s staff.

There are several features that distinguish successful tax administrations with functional organizations around the world. A set of international leading practices from many of these features is discussed below.

4.1.5. Taxpayer Segmentation

The most common segmentation strategy in many countries, as discussed in Chapter 2, has been to establish a Large Taxpayer Office (LTO) program to control and provide service to those taxpayers, who collectively account for between 60-75 percent of the government’s overall tax revenue each year. In some countries, inclusion or exclusion for LTO control is simply determined by the amount of tax liabilities of the taxpayer in a given period. However, simply using tax liabilities in a single period is a flawed basis, because fluctuations of tax liabilities over several taxable periods usually distort the classifications. Instead, a "size" for inclusion or exclusion should be determined by multiple factors, such as the value of assets, gross/net income, the number of multinational entities, and the amount of tax liabilities. More specifically, the following parameters can be considered: the volume of sales during the past two years, the amount of taxes paid during the past two years, the amount of total assets from the most recent financial statements, the volume of payroll, the number of employees, etc. The nature of the business is another important factor in some countries, where all taxpayers in certain industries, such as financial institutions, telecommunications, and mining, are included in the LTO program, regardless of their turnover, tax liability, or other factors.⁵

Historically, many developing small/medium countries have established criteria that have initially singled out around 500 large taxpayers in their respective countries for LTO control, but this figure has gone up and down with time. The tax administration should define and abide by an "exit strategy",

⁵ Businesses in these sectors are usually large. This said, there are other reasons why a specific sector will require additional control, including past experience of the tax administration with monitoring compliance in the sector or the fact that businesses in the sector may be difficult to tax with the regular tax regime.

removing taxpayers from LTO control when their economic and financial status for two consecutive years have fallen below the initial classification status and they have consequently been re-classified as medium taxpayers. Conversely, companies not under LTO control that later meet the LTO criteria for two consecutive years should be inducted into the program. In short, since several of the parameters can vary significantly from year-to-year for specific taxpayers, the list of large taxpayers should be updated periodically. The most important consideration to determine the number of taxpayers for LTO control at any given time is revenue risk. The number of taxpayers that contribute between 60-75 percent of the country's tax revenue should be controlled, no matter how large or small the number. Adequate staffing of the LTO at all times is of top priority, because the group of large taxpayers represents the biggest risk of potential revenue loss to the government.

The segmentation and control of large taxpayers has been in practice for many years. For example, the Internal Revenue Service (IRS) of the United States established and operated large taxpayer branches in a few key district/field offices around the country in the 1970s. However, the staff of these large taxpayer branches were tasked only with performing only audits and not any other core tax administration functions. They were therefore placed in audit divisions in district/field offices around the country, i.e., within branches responsible for audits of medium and small taxpayers. As of 2004, the LTOs of the tax administrations in Austria, Canada, Japan, and Korea similarly operated only within the audit function. On the other hand, LTOs established in recent years in developing small/medium countries not only perform audits, but also carry out collection and compliance functions, provide taxpayer service, and perform all duties associated with international exchange of information agreements.

Additional segmentation of taxpayers has recently been extended in some countries to the design and implementation of strategies and offices to control medium-size taxpayers, who usually contribute around 10-15 percent of the government's annual tax revenue. Medium Taxpayer Offices (MTOs), by default, control those taxpayers that are not included in the large taxpayer program and those that are not classified as small taxpayers. However, when multiple MTOs are established, each with a separate organizational structure for the core functions of tax administration – audit, collection, taxpayer service, etc. – there is a risk of fragmenting the tax administration's functional staff into too many small, ineffective, and inefficient units.⁶ For effective and efficient audit and collections, tax administrations should have integrated, computerized systems to grade and rank taxpayers on the basis of risk and complexity. One option in lieu of MTOs is to establish in-office audit and collection work units, or to assign audit and collection cases of less technical difficulty and lower risk to less experienced audit and collection staff. Other disadvantages to too much taxpayer segmentation are discussed above.

⁶ See the discussion on centralized staffing below.

Box 4.1. Large Taxpayer Center in Egypt

USAID's Technical Assistance for Policy Reform project in Egypt assisted the government during 2002-2005 with the establishment of a Model Customs and Tax Center (MCTC). The MCTC was open to taxpayers of minimum size, located in Cairo, and classified as importers. Although participation in the MCTC was voluntary, the number of participating taxpayers grew quickly from 300 in 2003 to 2,000 in 2005. Improvements in taxpayer services, such as shortening the time for customs clearance from seven days to one day, were quoted as the main reason for the interest. After the MCTC was converted into a Large Taxpayer Center (LTC) in 2005, at the recommendation of the IMF, the center handled roughly 70 percent of total Egyptian tax revenue. The LTC was cited as one of the reasons for the reduction of Egypt's overall negative fiscal balance from 9.6 percent in 2004-2005 to 6.8 percent in 2007-2008. USAID's Technical Assistance for Policy Reform II (2005-2010) assisted the government of Egypt with the merger of its tax departments into a single Egyptian Tax Authority (2006). As a result of the merger and other project activities, more than 1 million active self-assessing taxpayers in 2006 and more than 600,000 in 2007 were added to the tax rolls, income tax collections grew albeit lower income tax rates and overall tax collections increased by reported record-breaking 20 percent year-over-year in 2006.⁷

4.1.6. Integrated Administration of Withholding Taxes and Contributions

Taxpayers and employers in many developing countries experience a heavy and ongoing burden to comply with laws and regulations related to withholding taxes and contributions.

Box 4.2. Withholding in Jamaica

For example, in Jamaica several years ago:

- Employers were required to withhold income tax (PAYE), Education Tax (EDTAX), National Insurance Scheme (NIS), and National Housing Trust (NHT) from the employee compensation. They were also required to pay a percentage of the employee compensation as EDTAX, NIS, NHT, and Human Employment and Resource Training Fund (HEART);
- Employers were assigned multiple TINs by the different authorities responsible for the administration of these transfers to the government; and
- Self-employed taxpayers were required to pay EDTAX, NIS, and NHT on their total earnings.

Applicable rates were different for each type of tax/contribution, as was the base (ceilings, exclusions, etc.), and thus accurately computing the correct amounts due presented a challenge to taxpayers/employers. Further complications for taxpayers and employers arose in dealing with the tax administration authorities. The collection of all of these taxes and contributions was centralized in the country's tax administration, except for NHT and NIS. NHT was deposited in commercial banks. NIS was either collected by the tax administration or through post offices, utilizing the sale of NIS stamps for the self-employed, domestic workers, and voluntary contributors. Generally, separate monthly payments of each type of withholding were required, as well as annual returns for PAYE, EDTAX, NIS, and NHT.

Recommendations were made to consolidate all audit activities under the jurisdiction of the audit function of the country's tax administration to enhance compliance monitoring and enforcement. Tax auditors conducting either specific audits of withholding taxes or "package audits" of all types of taxes, for which a taxpayer was liable, were given the responsibility to verify compliance with all withholding taxes and contributions during the audit. The other functions of the tax administration – collection, taxpayer service, etc. – similarly assumed their respective responsibilities regarding withholding taxes and social contributions.

⁷ Murdoch et al. (2012), p. 5.

The integration of tax revenue with social contributions has been the subject of recent analytical work undertaken by officials of the OECD, who documented the following reasons a number of countries chose to integrate operations over the last decade:

- Commonality of core processes involved in collection of tax and social contributions;
- Efficient use of resources;
- Lowering government administration costs; and
- Lowering taxpayer burden and costs.⁸

4.1.7. Roles of Headquarters, Regional, and Local Offices and Staff

In large countries with large, active⁹ taxpayer populations of approximately 2.5 million or more and more than 10,000 tax administration employees, the staff of the tax administration is organized around a headquarters office, two or more regional offices, and multiple district/field offices. In medium and smaller countries, with smaller numbers of taxpayers and tax administration staff (medium staff: 5,000 – 10,000; small staff: 5,000 or less), regional offices are usually not established, and their usual roles are performed by the headquarters office. Roles of district/field offices are the same in either case. A benchmark for the ratio of active taxpayers to administrative staff is 150-250:1.

The headquarters office of a country's national tax administration is meant to provide planning, support and normative guidance for all field operations, but not to actually carry out any of those operations in dealings with taxpayers. The specific roles of the various organizational components in the headquarters office generally include:

- Preparing strategic plans;
- Preparing, issuing, monitoring, and evaluating annual work plans for audit, collection, taxpayer service, fraud investigations, and monitoring progress on meeting objectives;
- Developing case selection criteria for the compliance functions in the field;
- Determining human resource needs and recruiting, training, and allocating personnel;
- Providing financial resources;
- Providing legal services;
- Providing IT hardware, software, and expertise; and
- Developing and providing the norms and procedures by which the entire organization is governed.

The normative role that headquarters office staff performs, particularly setting organization-wide policies and operating procedures and laying these out in written procedural manuals, is vital to the success of any tax administration. Clear policies and methodologies – the norms – are the guides for consistency in the application of tax laws, policies, and administrative procedures by staff at all levels, and help ensure fairness, transparency, and predictability in the tax system.

⁸ OECD (2004), p. 10.

⁹ Active taxpayers are those, who filed tax returns in the latest year.

The principal role of district/field offices and staff is simply to execute the annual work plans developed by the headquarters office. In so doing, they perform the operations role of the tax administration. The staff of district/field offices – auditors, collection officers, fraud investigators, customer service specialists, and some of their managers – are the ones who represent the tax administration exclusively, as they deal with taxpayers to provide information and assistance, perform audits, hear objections cases, enforce compliance, collect tax arrears, and investigate cases of possible tax fraud/evasion. Unfortunately, staff of headquarters offices in many developing countries either perform direct operations, such as audits, regularly or get involved with taxpayers on selected cases. Either is detrimental to the overall success of the tax administration, because such actions create confusion for taxpayers and tax administration staff at all levels about "who is in charge" and dilute program responsibility and accountability.

Large tax administrations should establish one or more regional offices, to provide technical assistance to local office staff. They, rather than the headquarters office, should monitor, control, and evaluate the execution of work plans by district/field offices. Progress reports should be delivered back from the districts through regional offices to headquarters on a timely basis. Staff at the three levels of the organization should have clear contact points for communication on a particular functional subject and, at the headquarters office in particular, there should be one focal point for the formation of administrative policy for a particular core function.

4.1.8. Centralized Staffing

Another important practice in successful functional organizations is to centralize staffing rather than fragment it in small numbers at too many locations. Centralized staffing ensures the adequate provision of personnel to a limited number of centrally located tax offices to carry out all of the core functions of tax administration efficiently and effectively. The central geographic locations of offices around the country make them accessible to a high percentage of the taxpayers in each tax jurisdiction, while also ensuring that taxpayers in the wider geographic area are still aware of and "feel" the presence of the tax authorities "nearby."

To provide adequate coverage in more remote areas, technical staff are assigned to travel periodically from these central locations to perform audits, collect tax arrears, hear taxpayer objections, and conduct taxpayer education sessions. Connectivity at all locations to centralized databases allows each site to provide services to taxpayers anywhere in the country.

4.1.9. Adequate Budget to Support Operations

Management, supervisory, and technical officials in modern, successful tax administrations throughout the world should be given the necessary human and financial resources to perform their principal core and support operations efficiently and effectively. Managers must have certainty that the resources allocated to them each year will be available as the expenditures become necessary. Furthermore, they

must have the authority and independence to manage their own budgets, while being held accountable for results and for efficient use of their allotments.¹⁰

4.1.10. Internal Audit and Integrity Functions

Internal audit and integrity functions are cited above as important support functions within tax administration but are emphasized here, because, surprisingly, in many developing countries, these two functions are often the responsibilities of other governmental jurisdictions. The term "internal audit" refers to the process of conducting periodic reviews to ensure that selected regulations, operations, and administrative procedures and programs conform to specified standards and are being implemented efficiently and effectively. All modern tax administrations have internal audit staff in the headquarters office who conduct independent and professional internal audits on behalf of the head of the tax administration to detect and deter inefficiency and waste and identify better ways to carry out tax administration operations. Audits by internal audit staff of the tax administration are much more effective than audits conducted by external auditors of central government Auditor General Departments, because, as discussed in Chapter 16, the former are much more knowledgeable about the tax administration's financial controls and complex operations.

The internal audit function is sometimes grouped with the integrity investigation function, although these two functions are somewhat different. Whereas internal audit staff focus on the quality and efficiency of tax administration systems, procedures, and processes, integrity staff focus on allegations of corruption and misconduct by tax officials. Integrity staff conduct professional and timely investigations of such misconduct and then recommend and carry out sanctions against those officials in confirmed cases. An effective, independent integrity function helps to preserve public confidence in the tax administration personnel. Since the internal audit and integrity investigation functions work closely together on some integrity-related cases, as discussed in Chapter 16, both functions can be combined, under one top-level official who reports to the Director General. However, the option to place them separately in the organization structure is also acceptable.

4.1.11. Typical Functional Structure for Medium and Small Tax Administrations

Typical functional organizational structures for headquarters and district/field offices of medium and small tax administrations are shown in Appendix 4.A. Note that the district/field organizational structures mirror the structure of the headquarters to a large extent, but that their respective roles are very different in that the Headquarters staff perform planning and normative roles, while field staff execute work and programs. Note the very critical operational role designed in the functional structures for the Deputy Director General of Operations. All district/field office Directors, including the Large Case Director, report directly to him or her. In effect, he or she is responsible and accountable for successful direct operations of the tax administration. He/she and all other Deputy Directors General, such as for Administrative Services or for Planning as in Appendix 4.A, report to the Director General. The Large Case Director has his/her own audit, collection, and taxpayer service staff, as well as the highly

¹⁰ The budget planning and management for tax administrations is discussed in Chapter 14.

specialized staff, which supports the Legal Department's staff on international exchange of information agreements with other countries.¹¹

In smaller tax administrations, some core and/or support functions are integrated at the district/field office level. For example, taxpayer registration, listed above as a separate core function, is a sub-function of the taxpayer services division. This grouping together of activities that require similar skills or specialties is an example of one of the strong advantages of functional organizations.

In addition, at the district/field office level, shown in Appendix 4.A, note that:

- Where MTOs have not been established, the Collection Division has an Office Collection Section with staff that handle less technically difficult or lower revenue risk in-office cases, and a Field Collection Section with staff that handle the more technically difficult or higher revenue risk cases during field visits to taxpayers and third parties;
- Similarly, the Audit Division has an Office Audit Section, which handles less difficult or lower revenue risk in-office audit cases, and a Field Audit Section, which handles the more technically difficult or higher revenue risk cases;
- The Audit Division relies on a Quality Review Section – a staff of experienced auditors who select samples of audit cases completed by the division's auditors, review them for compliance with all provisions of the tax law, regulations, and administrative policies and procedures, and issue advisory "common error" notices to improve the quality of the overall audit program;
- The Audit Division has an Objections Section – a staff of experienced auditors who preside over objections or protests by taxpayers to proposed tax assessments in administrative proceedings;
- The Collection Division has a Special Procedures Section with experienced collection staff who perform quality reviews from samples of completed collection cases and issue advisory notices to improve the quality of collection work. In addition, the staff handle cases where the taxpayer is involved in bankruptcy, insolvency, or other legal proceedings; and
- The Fraud Investigations Division has an Intelligence Gathering Section with staff, who not only gather intelligence from within the tax administration, from third parties, and from the media to develop fraud and evasion cases, but also review, accept, or reject potential cases referred by the Audit and Collection Divisions or initiated by information obtained from informants. In other words, the Intelligence Gathering Section determines which cases are assigned for investigation to the Investigation Groups.

4.1.12. Typical Functional Structure for Large Tax Administrations

Typical functional organizational structures for headquarters, regional, and district/field offices of a large tax administration are shown in Appendix 4.B.¹² Note that regional and district/field organizations

¹¹ The Legal Service division, typically the Legislation, Treaties and International Tax Matters section, has the primary responsibility for and works with Ministry of Finance officials on international tax matters. The organization unit in the LTO supports the main unit in the Legal Department.

¹² OECD (2004), p. 15.

also mirror the headquarters to a large extent, as they do for medium or small tax administrations, but again, their respective roles are different.

Almost all the notes cited above for medium and small tax administrations apply to functional structures for large tax administrations. One exception – in part, since it applies to small and medium tax administrations as well, but to a lesser extent – is that in large countries with large tax administrations, there are many external stakeholders, issues, and events, which requires much time and effort from top-level officials. It is often necessary to have two top-level officials – a Director General (or Commissioner) and a Deputy Director General (or Deputy Commissioner). The Director General tends to external activities, while the Deputy Director General manages the day-to-day operations of the tax administration. Usually, the Director General or Commissioner is the public "face" of the tax administration and spends a great deal of time at the Ministry of Finance, at parliamentary hearings on budget issues or complaints, at professional group meetings of accountants, lawyers, chambers of commerce, industry groups, at media appearances. For example, in the IRS, the Commissioner, a political appointee, usually performs this "external facing" role and the Deputy Commissioner performs the "internal management" role. The roles are not mutually exclusive and some IRS Commissioners took a more active role in operations, but also tended to the external activities.

A few other exceptions include:

- As shown in Appendix 4.B, the Director General has a Deputy Director General, rather than a Deputy Director General (Operations), to whom the Regional Directors report;
- The District/Field Office Directors report to their Regional Directors, rather than directly to headquarters;
- Regional Directors report to the Deputy Director General and so, in effect, the Deputy Director General is responsible and accountable for operations; and
- A Large Case Section is part of the Audit Division (as it is in the regional and national structures), and not a separate organizational unit, because a high number of large taxpayers throughout the country require multiple large case units at various locations. Therefore, taxpayer service and collection work targeting large taxpayers is assigned to top-level technical staff of the regular collection and taxpayer service divisions.

4.1.13. Successful Management Practices

Roles as Managers

The principal functions of management at all levels are planning, organizing, staffing, coaching (directing), and controlling. Organizational structures must have managers at all levels spend most of their official work time performing managerial functions. Higher-level managers especially should spend little time on the technical aspects of tax administration work. Of course, first-level managers/supervisors must conduct sample technical reviews of case work and coach inexperienced subordinates on technical issues. Nevertheless, even they need to spend much of their time on the functions of management.

Many international experts have noted the non-practice of the traditional roles of management throughout the tax administrations of many developing countries. Specifically, these experts have observed:

- Substantial time is spent by most of managers at all levels as technicians;
- Managers are often selected without proper credentials;
- Managers are selected and not given appropriate management training;
- Managers are not performing basic management tasks; and
- There is inadequate accountability for performance of managers.

Successful tax administrations all around the world invest in their management. They undertake extensive and continuing management training. To institutionalize the profession and practice of management, training programs are developed and specifically designed for each level of management – first, mid, and top levels - with major emphasis on teaching methods which blend management theory with everyday management tasks, such as assignment of work, reviewing work, and employee development. International leading practice suggests that effective methods of instructions for management training include lectures and discussions, case studies, and role plays which demonstrate practical application in everyday work at the various management levels, with topics such as the recruitment of personnel, the selection of personnel, postings, promotions, performance appraisals, training, transfers, and discipline.

Delegations of Authority

Functional organizations have a strong, vertical chain of command. District/Field Office Directors in large tax administrations report to their respective Regional Director, who reports to the Director General and Deputy Director General. In small tax administrations with no regional offices, the District/Field Office Directors report directly to the Deputy Director General (Operations). However, District/Field Office Directors and their staff are also required to receive and accept technical work assistance and guidance for their respective functions from Assistant Regional Directors or Headquarters Directors for Audit, Collection, etc. if there are no regional offices.

In the most successful tax administrations, tax officials in headquarters offices, regional offices, and district/field offices are given sufficient authority by law and delegated by the Director General to make and carry out technical and administrative decisions with a high level of independence, while being held fully accountable for their organization's performance.¹³ In fact, modern functional tax administrations rely heavily on a system of cascading delegations of authority. Without such delegations, work piles up as personnel await decisions from successive, higher level officials, stifling productivity and breeding frustration among staff and taxpayers alike. In the traditional chain of command, authority is given in the law to the Minister of Finance or/and to the Director General of Taxes to perform all duties necessary to execute the country's tax laws. The Director General is also authorized by law to delegate authority to his or her Deputy Directors in headquarters, to Regional Directors, and to District/Field

¹³ These authorities are discussed in Chapter 3.

Office Directors. In turn, District/Field Office Directors make similar written delegations of authority to their respective Division managers and assistant senior managers, who then can delegate to their managers and supervisors. Finally, managers are able to delegate sufficient authority to their trusted technical staff to make necessary decisions relating to their work to ensure that work gets done efficiently, effectively, and in a timely manner. Given sufficient, documented authority¹⁴, employees at each level of the tax administration are able to deal with most operational, personnel, and administrative matters expeditiously and with a high degree of confidence and independence. Each level of management periodically monitors the proper exercise of authority through monitoring reports, on-site reviews, and internal audits.

Limit Taxpayer Access to Work Areas

Taxpayers and/or their legal representatives should not be allowed access to compliance work areas of the audit, collection, and fraud investigation functions in the offices of the tax administration. This management practice helps prevent the unauthorized disclosure of information on other taxpayers, and at the same time reduces opportunities for improper, "closed door" contact between taxpayers and tax officials. Interview rooms in taxpayer reception/customer service areas away from the work areas should be made available for objections cases, in-office audits, in-office collection, and other compliance cases.

Tax administrations should also explore innovative means for delivering customer services to further reduce the need for taxpayer visits to compliance work areas. In Moldova, for instance, the State Tax Inspectorate, the country's tax administration, established "internet café"-style taxpayer service centers inside municipal government facilities, where taxpayers were able to register, obtain forms and instructions, update their status, or access their tax statement via an intranet portal. Increasingly, and especially as tax administrations move to centralized processing and bank payments, taxpayer information and assistance should be made available via their websites, call centers, and at "one-stop" taxpayer service centers.¹⁵

Summary of Good Management Practices

The most successful functional tax administrations around the world are those whose management:

- Defines, communicates, and applies clear roles for the normative, functional support and operations levels of the organization;
- Provides clear communication channels between different levels and among interdependent units;
- Maintains a comprehensive, up-to-date record of all taxpayers and their tax obligations;
- Directs the allocation of the bulk of their financial and human resources to the front-line functions and to those support functions directly related to tax compliance, enforcement, and taxpayer service;

¹⁴ The powers and responsibilities of the tax administration are discussed in Chapter 3.

¹⁵ Taxpayer services are discussed in Chapter 6.

- Delegates authority to all operations levels and officials of the organization;
- Encourages development and application of technology in all functions, including integrated tax information systems; and
- Provides functional and management training, career opportunities, and a work environment that helps attract and retain a high caliber career workforce.

4.1.14. Legal Services

Tax laws are complex and becoming ever more so in most countries. Tax rulings often require extensive legal analysis, can have significant tax revenue implications, and may require the involvement of legal counsel with specialized tax knowledge. The complexity of the law can be used to the advantage of large taxpayers, who often employ the best legal talent available. Often, provisions in the tax legislation are prepared by different legal draftsmen, and possibly by persons with minimal tax knowledge, causing provisions to have dissimilar wording or unintended consequences, introducing uncertainty into the interpretation and application of the law, and requiring legal analysis. In some cases, the courts can render decisions that are adverse to the intent of the law, which requires the tax administration to appeal or seek legislative amendments with the services of legal counsel. Last but not least, tax collection efforts may require the assistance of the court and legal counsel that is well-versed in the tax collection requirements of the law.

Tax administrations use various approaches to obtain legal service counsel. These can include:

- Ad hoc assignments of legal counsel from the Ministry of Justice/Attorney General to represent the tax administration for specific tax cases;
- Permanent assignment of legal counsel from the Ministry of Justice/Attorney General to represent the tax administration in all tax matters;
- The hiring of practicing lawyers/barristers/solicitors to form an in-house legal department;
- The hiring of private practice lawyers to represent the tax administration for a particular case (usually a tax arrears collection case);
- The hiring of law students (who may have graduated, but not yet passed the bar exam) to work on tax rulings or in the collection divisions; and/or
- Using their most senior person, who may not have any legal training, to work on cases involving legal issues, which may include legal drafting, collections, and rulings.

Many tax administrations do not have adequate access to specialized legal services. There are a variety of reasons for this problem. In some countries, the Ministry of Justice/Attorney General has the sole mandate to employ practicing lawyers. In some cases, the tax administration does not have adequate funds or the government's pay scales are inadequate to attract talent. Often, the tax administration lacks a career path for legal talent and, on rare occasions, may not recognize the need for in-house legal services.

The absence of proper legal counsel in a tax administration is a serious threat to its ability to function properly and apply the tax laws in an appropriate manner. The legal function within functionally

organized tax administrations is subject to wide variation. For the purpose of this discussion and as depicted in Appendix 4.B, a separate department has been presented that coordinates all legal activity to ensure quality and consistency in the application of the tax laws. This 'legal department' is the advocate of the tax administration, and its primary role is to represent the tax administration in all legal proceedings with taxpayers. Secondary roles include providing legal advice to appeals, helping to interpret legislation, assisting with tax collection and enforcement efforts that require court action, and helping government officials to negotiate tax treaties and international exchange-of-information agreements.

Operating Principles

Persons working in the legal department are public servants and must always represent and advocate only on behalf of the tax administration. Adherence to the following principles is a requirement for legal staff to ensure integrity, confidentiality, and professionalism.

- Legal staff must make their best efforts to resolve disputes between the tax administration and taxpayers in a fair, timely, and professional manner;
- As with anyone who has access to tax information, legal staff must maintain strict confidentiality and not reveal information or a litigation strategy to any person, unless necessary for the resolution of the matter and specifically authorized by law;
- Legal staff must act free from outside influence;
- Each tax case may be unique, and legal staff must use their professional judgment when deciding the most effective manner for handling a case; and
- As representatives of the tax administration and the government, legal staff must always maintain professionalism and objectivity and not initiate or advance any actions that are not in the interests of justice.

4.1.15. Computerization and Data Networking

As emphasized in Chapters 2 and 12, the successful execution of every function of a modern, functional tax administration requires the effective use of computers, automation, and data networking systems. To perform their respective jobs well, employees in all core and support functions rely heavily on information, and unless this information is accurate and complete and can be retrieved in a timely manner, the information becomes virtually meaningless. All levels of management rely on automated integrated tax information systems (ITIS) to monitor progress on strategic and annual objectives and report monthly and annual progress on objectives within the tax administration and to the Ministry of Finance. Taxpayers also benefit when the tax administration makes effective use of computerization and data networking systems, as this helps ensure timely registration and service and accurate taxpayer accounts.

4.2. Common Trends

4.2.1. Organizational Structure Trends

In recent years, tax administrations around the world have designed and tested new organizational structures in order to deal with a diversity of challenges presented by the global economy. Despite the clear advantages of functional organizational structures for tax administrations, recently some countries, including Australia, New Zealand, and the United States, have moved away from the wholly functional structure to either the client-type or to a hybrid structure, which combines elements of the functional and the client-type, or segmented, structures.

For example, in the mid-1990s, the United States replaced the functional organizational structure that the IRS had used very successfully for more than 40 years with a new structure organized under 4 client-type divisions: (1) Wage and Investment Income; (2) Small Business/Self-Employed; (3) Large and Mid-Size Business; and (4) Tax Exempt and Government Entities. Early in the 21st century, however, several countries which had switched from functional to client-type structures exclusively, including the United States, restored the major features of functional structures and combined them with client-type structures.

The shapes and structures of tax administration field organizations have also changed in recent years. In some cases, government pressure for greater efficiency has forced a review of the field office network and resulted in a smaller number of larger offices. Equally, the increasing presence and power of information technology as a tax administration tool has changed the nature of service delivery, with more tax administrations relying less on physical presence and more on the Internet and telephone. However, in many countries—and especially in developing economies—decisions on the field organization continue to be driven by the need for a physical presence across the country.¹⁶ Where tax administrations have not been able to fund information technology throughout the country and where taxpayers do not have access to modern technology, physical presence is paramount. Small offices, for example, one that primarily provide taxpayer service, forms and publications are common throughout many developing countries.

Segmentation for large taxpayers has been in use since at the least the 1970s, and the trend to establish LTOs has gathered momentum in recent years. In 2010, 27 of 34 OECD countries had a "dedicated large taxpayer office".¹⁷ In a sample of 17 member countries of CIAT taken in 2010, all but one had LTOs.¹⁸

4.2.2. Creative Organizational Structures

Fiscal Compliance Centers

With ever-mounting needs for additional revenue for governments and their own budget shortfalls, many tax administrations have attempted to boost tax revenue, incurring the least cost possible, by

¹⁶ Kidd (2008), p. 5.

¹⁷ OECD (March 2011), p. 43.

¹⁸ Inter-American Center of Tax Administrations (CIAT) et al. (2012), p. 59.

experimenting with special organizational units. Those that have designed and implemented centralized fiscal compliance centers, in conjunction with centralized automated tax returns and documents processing centers, have enjoyed a very high degree of success.

The compliance programs that lend themselves to placement under a centralized fiscal compliance unit include: (1) matching third-party information documents with amounts reported on tax returns; (2) non-filers and stop-filers;¹⁹ (3) delinquent taxpayer accounts; (4) the collection of payroll and estimated tax; and (5) auditing questionable deductions/exemptions through correspondence audits²⁰. Much of the work of fiscal compliance centers is automated, including the issuing of notices for the various types of non-compliance. Even some telephone calls to taxpayers can be automated.

Box 4.3. Automated call system in El Salvador

In El Salvador, for instance, the General Directorate of Internal Taxes deployed a new "robo-call" system – an automated program that calls stop-filers and other non-compliers with recorded messages instructing them to rectify their particular non-compliance issue by a specified date. In addition, there were compliance technicians on live telephone systems to work on cases not resolved by such "robo-call" systems. Cases not resolved by any of these methods were assigned to district/field offices for enforcement. This new approach brought 2,685 stop-filers into compliance in the first half of 2009, compared to 917 who had responded to mailed reminder notices in the first half of 2008. The call center was able to deliver 34,721 robo-calls in 2009 as opposed to 3,495 letter notices in 2008 and corresponding tax collections from stop-filers rose from \$1.57 million to \$3.12 million.²¹

Experience has shown that a large percentage of non-compliant cases are resolved by Fiscal Compliance Centers much more efficiently than through one-on-one efforts in field operations. Some countries have experienced a yield on average of 15:1 for their investment in fiscal compliance centers, i.e., an additional \$15 in taxes collected for every \$1 authorized and invested in these centers. A functional organization for a Centralized Fiscal Compliance Division recommended for Puerto Rico's Tax Administration by BearingPoint's advisors in 2004, among many other tax reform recommendations, is shown in Appendix 4.C. The Centralized Fiscal Compliance Division is still in operation to this date.

One-Stop Revenue Service Centers

"Voluntary compliance with tax laws creates more tax revenue and lowers the cost of enforcement. In an effort to encourage voluntary compliance, some tax administrations have found various ways to treat taxpayers like valued customers. For example, Jamaica established two one-stop tax service centers a few years ago. These now issue taxpayer identification numbers and tax compliance certificates, collect stamp duty and transfer taxes, and receive tax returns and payments. One of the centers also maintains the central motor-vehicle registry. Most transactions can be handled in a single visit by the

¹⁹ Non-filers are taxpayers who should have, but did not file. Stop-filers are taxpayers who filed before, but not in the current year.

²⁰ Correspondence audits are audits that the tax administration performs via mail. These are typically audits of low risk activity.

²¹ Murdoch et al. (2012), p. 8.

taxpayers. These taxpayer services centers in Jamaica—and in several other countries—are also equipped with electronic numbering systems ("QMatic Systems"), and taxpayers are provided chairs to await their automatic, numbered turns in getting needed services. Such efforts go a long way toward making taxpayers feel like real customers. World Bank consultants recently proposed a one-stop revenue service center for Tanzania to replace the current system, which required multiple visits to different agencies."

Gallagher et al., 2009

More recently, Jamaica's tax administration combined part of its One-Stop Revenue Service Center/Centralized Fiscal Compliance Branch with its Customer Care Center at one office that provides very good telephone taxpayer service. Through October 2011 of fiscal year 2011/12 the center had achieved 64 percent customer satisfaction against a target of 70 percent. The center also collects substantial sums of early stage tax arrears accounts. Through March 2012 of the same fiscal year, the center collected JMD 568.5 million (\$5.68 million) from 12,140 accounts.

Problem Resolution Offices (Taxpayers' Advocates)

Invariably, some taxpayers encounter a variety of non-case-related problems in dealing with the nature and complexity of tax administration through normal channels. Therefore, there has been a trend among tax administrations all around the world to establish Problem Resolution Offices to provide special services to taxpayers.²² In the United States, the IRS established its Problems Resolution Program in the mid-1980s. The objectives and everyday tasks of the Problem Resolution staff are to:

- Demonstrate quick responsiveness on the part of the tax administration to resolve difficult and frustrating problems of taxpayers in dealing with tax administration officials;
- Show concern for taxpayers involved in various ways with the tax administration and encourage their voluntary compliance with the country's tax laws; and
- Provide the top officials of the tax administration with information to improve the organization's overall efficiency and effectiveness of its systems, procedures, and performance of its personnel.

To qualify for referral to the Problem Resolution Office, a taxpayer must already have tried to resolve the problem through normal channels without success. The nature of cases for which relief is sought by taxpayers involves a variety of common tax problems, such as:

- Getting proper VAT credits;
- Getting a TIN issued to them promptly;
- Securing proper action to correct payments applied to wrong tax periods;
- Getting correct answers to technical questions about tax forms and tax filing requirements; and
- Getting necessary blank tax declarations timely.

²² Hussey et al. (1996), p. 221.

Complaints about delays in the completion of audits or other investigations do not qualify for special services. Instead, such complaints are referred to the respective Audit, Collection or other managers of the technical employee handling the case for their intervention and resolution. Complaints about offensive behavior of tax administration auditors, collectors, etc., are not the responsibility of the Problem Resolutions Office, either. Such complaints are also routed to the manager of the named technical employee for investigation and resolution, and information copies of the investigation and resolution documents are sent to the proper management officials at higher levels.

In a functional organization, the Problem Resolution Officer and staff are most effective if they report directly to the office of the Director General. In regional offices, Problem Resolution Offices report directly to the Regional Directors. The traditional normative headquarters and technical guidance and monitoring regional roles are performed by these officials. At district/field offices, the Problem Resolution Offices are attached to the offices of District Directors. The District Problem Resolution Officer and his/her staff receive special services cases and assign them to the Chief of the appropriate division, control them, and follow-up on all cases assigned to division officials to ensure timely (usually around 10 days) and satisfactory completion of work.

4.2.3. Outsourcing

Outsourcing some core and support functions to the private sector or to other government institutions has become somewhat of a trend among tax administrations around the world. Information technology (IT) is the most commonly outsourced function. Germany, Luxembourg, Slovak Republic, Denmark, Iceland, Turkey, the U.K.'s Inland Revenue Department, and the U.K.'s Customs and Excise Tax Administrations have all outsourced information technology, either to the private sector or to other governmental entities. Maintaining IT as a support function within a tax administration, however, is advisable. In some cases, even core compliance functions have been outsourced to the private sector. For example, some countries' tax agencies have outsourced to the private sector the programs described above for Centralized Fiscal Compliance Centers in hopes of improving compliance levels and increasing tax revenues. Hungary has outsourced its fraud investigations function to a police body. In the United States, the IRS outsourced a portion of its inventory of tax arrears cases to a private sector company for collection a few years ago. However, after several reviews over a period of about three years, the U.S. Treasury's Inspector General concluded that the results were very poor, and the outsourcing contract was soon terminated.

The common belief that everything can be done better by the private sector is, in fact, a myth. Outsourcing to the private sector may work in some cases, but requires in-depth analysis of what programs can be outsourced, the corresponding legal issues, the expected results and finances, and a reference base to make meaningful comparisons of results periodically and thus determine success or failure.

4.2.4. Customs and Tax Administration – to Merge or Not

Mergers of tax departments in developing countries and/or, in particular, considerations to establish revenue authorities often give rise to the question whether the tax administration and Customs should be combined or separate. After all, most developing countries display a tax structure that relies heavily on customs duties and the VAT and excises collected on imports.

It should be noted that even in merged bodies, in most cases, customs and tax functions under the same Director General conduct their respective operations independently for a variety of reasons, including:

- Very dissimilar daily processes and procedures of the two agencies;
- Different historical, cultural, and functional bases;
- Different skills and processes:
 - Customs operates in "real-time" border control and revenue collection on traded goods;
 - The tax administration operates retrospectively;
- Customs is concerned about national health, security, and safety;
- Difficulty in integrating IT, which is almost always developed separately to meet the differing needs of each agency; and
- Dissimilar status and rates of modernization between the two agencies, including risk-and-strategic planning and information technology, where Customs lags tax administration in many countries.

In his study of revenue authorities, Mann concluded that "many developing countries that have already established SARAs have chosen to concentrate solely on strengthening internal tax administration (i.e., mainly income taxes, VAT, and excises), and have not incorporated customs operations into the SARA"²³. With respect to OECD countries, as of 2010 only 9 member countries have aligned tax and customs operations within a single agency/directorate and 36 have separate bodies.²⁴ Clearly, the best international practice is to keep the two agencies separate. However, the need for ongoing cooperation, close coordination, and legal exchanges of information between tax administration and Customs is of great importance to the work of either agency, as discussed in Chapter 3.

4.3. Tax Administration Maturity

The maturity levels of tax administrations, with regards to organizational structure and management, are discussed below.

Organizational Structure and Management: Maturity Level 1

Key word: "To Each His / Her Own"

²³ Ibid., p. 8.

²⁴ OECD (March 2011), p. 19.

- Based on the various tax laws, there are multiple tax administrations, each with its own organizational structure based on type of tax.
- The administrations of withholdings and social contributions are separate.
- Each tax administration has its own audit, collection, and other units, and the staff of these units conduct their compliance activities independently. Consequently, many taxpayers, and especially businesses, are subjected to multiple, uncoordinated, time-consuming, and costly audits and other compliance actions.
- Some core and support functions, such as investigation of tax fraud, internal audit, and integrity, do not exist in any of the tax departments and are the responsibility of other government-wide or Ministry institutions, whose staff are unfamiliar with tax administration programs and are ineffective with infrequent audits, or totally absent.
- The tax administration does not have its own legal department and is not concerned with the void in legal expertise. All litigation cases are referred to the Ministry of Justice or Attorney General. Attorneys of the Ministry of Justice/Attorney General are not well versed in tax law and, consequently, the majority of fraud, appeals, and seizure cases are lost in litigation.
- There are no advance-ruling services provided to taxpayers by the tax administration and so taxpayers have to make high-risk business decisions with regard to possible tax consequences.
- Legal interpretation of recurring problematic tax provisions and positions of the tax administration are not available either to taxpayers or to technical staff of the tax administration and uncertainty is widespread.
- There are no international tax treaties or exchange-of-information agreements; so some multinational taxpayers practice tax avoidance schemes extensively.
- Each tax department has separate headquarters and separate field offices scattered throughout the country, seldom at the same location, with little rationale about the size of staff of each department at each location.
- At the field office locations of all the tax departments, taxpayers that request by mail or telephone to meet with case agents are routinely sent from reception areas to work stations to meet and deal with the case agent, thereby facilitating possible collusion and risking possible disclosure of tax information of other taxpayers.
- None of the tax administrations has defined specific, exclusive roles for headquarters and field offices, and some headquarters staff in all tax administrations are heavily involved in direct operations dealing with taxpayers, as are the staff of field offices. Consequently there is a constant state of confusion among taxpayers and among staff of all tax administrations about "who is in charge".
- Between 60-75 percent of managers and staff are political appointees, are not well qualified for their jobs, and receive meager on-the-job training, but no formal training, for tax department work.
- Managers of all tax administrations spend most of their time working cases and do little management work.

- There are no formal, written delegations of authority in any tax administration, and many completed audits and other technical cases are submitted to successively higher levels of management for review and approval, resulting in a constant backlog of semi-completed cases.
- None of the tax administrations has segmented organizational structures for control of their large taxpayers.
- The number of taxpayer complaints is high in all tax departments.
- Productivity is low and inefficiency is high in each of the tax departments. For example, 40 percent of audited cases in a year result in no changes to original tax assessments, whereas the standard is 10 percent. This shows the poor selection of cases to be audited or the inefficiency of audit. For taxpayer service in tax administration offices, most taxpayers wait in queues or in reception areas at least 40-45 minutes before given service requested, whereas the standard is no more than 20 minutes. Other major program's objectives fall short of international or regional-country benchmarks.

Organizational Structure and Management: Maturity Level 2

Key word: "Floundering"

- Despite the country's various tax laws, the formerly separate tax administrations in the country have recently been merged under one Director General, except for withholding and social contributions.
- A functional structure has been designed and has recently been implemented.
- Based on the functional structure, the locations of consolidated headquarters and district/field offices around the country have been decided, and respective management and technical staff have been assigned to the various functional departments, divisions, and units at headquarters and district/field offices.
- Office and staff locations, however, have been decided without regard to the best practices of centralized staffing, adequate spans-of-control, adequate budgets, and adequate computerization and data networking. Consequently, functional staff at various office locations are fragmented in small units with ineffective staff-to-workload ratios and without the necessary equipment and information to perform their work efficiently and effectively.
- Some core and support functions, such as collection, internal audit, and integrity, still do not exist in the tax administration and are the responsibility of other government-wide or Ministry institutions, which are ineffective at best, or totally absent.
- The tax administration does not have its own legal department, but the Minister of Finance and the head of the tax administration are aware that one is required and have initiated efforts to establish it. Temporary assignments of attorneys from other agencies are occasionally requested and represent the tax administration on particularly important prosecution cases for tax fraud and appeals. Attorneys of the Ministry of Justice/Attorney General are not well versed in tax law and, consequently, the majority of fraud, appeals, and seizure cases are lost in litigation, but visiting attorneys from other agencies assigned to the tax administration temporarily are winning a few cases.

- There are no advance-ruling services provided taxpayers by the tax administration and so taxpayers have to make high-risk business decisions with regard to possible tax consequences.
- Legal interpretation of recurring problematic tax provisions and positions of the tax administration are not available either to taxpayers or to technical staff of the tax administration and uncertainty is widespread.
- There are no international tax treaties or exchange-of-information agreements and some large multinational taxpayers practice tax avoidance schemes extensively.
- Despite the functional structures, because of unfamiliarity with other types of taxes and lack of formal training for the transition, technical staff continue to work only in their own tax specialty area.
- At the field office locations, taxpayers that request by mail or telephone to meet with case agents are still routinely sent from reception areas to work stations to meet and deal with the case agent, thereby facilitating possible collusion and risking possible disclosure of tax information of other taxpayers.
- The Director General and his or her immediate staff have not defined specific, exclusive normative and planning roles for headquarters and operations/execution roles for field offices, and some headquarters staff of all tax departments continue to be heavily involved in direct operations dealing with taxpayers, as are staff of field offices. Consequently, a constant state of confusion among taxpayers and among staff of all tax departments about "who is in charge" persists.
- Civil service regulations have been enacted with pertinent qualifications criteria used for recent recruitments into the tax administration. However, about half of current managers and staff are still political appointees, are not well qualified for their jobs, and have received no formal training for their functional work specialties.
- Managers in all tax departments spend too much of their time working cases and perform management tasks sporadically.
- There are still no formal, written delegations of authority in the tax administration, and many completed audits and other technical cases continue to be submitted to successively higher levels of management for review and approval, such that a backlog of semi-completed cases is an ongoing reality.
- The tax administration has begun to identify the country's large taxpayers, but does so based on one criteria only – the taxpayers' tax liabilities for the prior year – and is organizing an LTO based on a functional structure.
- The number of taxpayer complaints is high.
- Productivity is still low and inefficiency is still high throughout the tax administration. For example, the audit and no additional assessment rate is 20-30 percent each year, whereas should be no more than 10 percent. Average wait time for taxpayers in taxpayer service reception areas is 35 minutes, whereas it should be 20 minutes or less. Other major program's objectives fall short of international benchmarks.

Organizational Structure and Management: Maturity Level 3

Key word: "Shaping Up"

- A functional organizational structure has been in place for several years, as mandated by the country's tax code or tax procedures code, and the tax administration handles withholdings and social contributions.
- Based on the functional structures, headquarters and district/field offices around the country have been operational for several years and have been staffed according to workload studies, centralized-staffing concepts, and acceptable manager-to-technical staff ratios.
- Some of the district/field offices and functional groups have limited and/or outdated computerization and data networking equipment necessary to perform their work efficiently and effectively.
- Some core and support functions, such as investigation of tax fraud, internal audit, and integrity, have been operational in the tax administration for only a few years and are not yet very effective.
- The tax administration has established its own legal department within the last five years and has, only recently, fully staffed it with qualified attorneys assigned to the organizational units for legislation, litigation, and advisory services, tax treaties, and international exchange-of-information agreements. All litigation cases of the Tax Administration are handled by attorneys of its legal department, who have attained a 60/40 win/loss rate the last two years.
- Advance-ruling services are provided to taxpayers by the legal department of the tax administration, although 30 percent of the rulings are issued beyond the 60-day time objective.
- Legal interpretation of recurring problematic tax provisions and positions of the tax administration are regularly made available by the legal department to taxpayers and to enforcement staff of the tax administration.
- Attorneys from the legal department have assisted in the successful negotiation of a few international tax treaties and exchange-of-information agreements and control of multinational taxpayers by the Large Taxpayer Office has improved somewhat.
- Taxpayers that requested by mail or telephone to meet auditors/collection officers/investigators at field office locations are met and escorted to interview rooms in the taxpayer service reception area, where they are met to conduct the necessary business by the case agent. Taxpayers do not enter staff work spaces.
- The Director General and his immediate staff have defined specific, exclusive roles for headquarters (normative and planning) and district/field offices (operations/execution) so that any occasional contact between headquarters staff and taxpayers is usually detected and corrected.
- Civil service regulations are in place, with pertinent qualifications criteria used for recruitment into the tax administration, and existing staff are generally well qualified for their positions. However, inordinate delays by the Civil Service Agency on new recruitment requests by the tax administration are fairly common.

- Good classroom training courses and formal on-the-job training programs, which include all tax types for each of the specialized functions, have been in place several years, but they are not regularly updated for changes in tax law, regulations, and procedures. Also, there is a lack of continuing professional education programs to "refresh and update" those whose training is out of date.
- All mid-level managers and first-level supervisors have attended management training, and they mostly perform management functions, but there are no courses for top-level management.
- There are some formal, written delegations of authority in the tax administration, but they are not granted below senior technical staff levels because of fear that authority will be abused or opportunities for corruption will be given to too many people, and so experienced, journeyman (fully qualified to act independently on the job) level auditors and collection staff are not as efficient and productive as they could be.
- The country's largest taxpayers, selected based on several criteria, have been under the control of a functionally organized LTO for several years, but with no defined exit criteria or ongoing monitoring, and some taxpayers who no longer meet the entry criteria are still under LTO control.
- An effective problem resolution program has been in place for several years, and taxpayers generally feel that their complaints are resolved in a timely manner by the tax administration.
- Productivity has been fairly high for the last several years throughout the tax administration and performance indicators are generally being met. For example, the audit and no additional assessment rate of at most 10 percent has been met 2 of the last 3 years. Taxpayers in reception areas are usually given service requested within 20 minutes of their arrival in the office. International or regional-country benchmarks for other major programs have been met for 2 of the last 3 years.

Organizational Structure and Management: Maturity Level 4

Key word: "Ship Shape"

- A functional organizational structure has been in place for several years, as mandated by the country's tax code or tax procedures code.
- Based on the functional structures, headquarters and district/field offices around the country have been operational for several years and have been staffed according to workload studies, centralized-staffing concepts, and reasonable manager-to-technical-staff ratios.
- Up-to-date computerization, data networking equipment, and links to databases necessary to perform work efficiently and effectively are provided and available to all necessary users.
- All core and support functions have been operational in the tax administration for several years and are all consistently effective.
- The tax administration has had its own legal department for more than ten years, fully staffed with qualified attorneys respectively assigned to the organizational units for legislation, litigation, and advisory services, tax treaties, and international exchange-of-information

agreements. All litigation cases of the tax administration are handled by attorneys of its legal department, who have attained at least an 85/15 win/loss rate during the last five years.

- Advance-ruling services are timely provided to taxpayers by the legal department of the tax administration 100 percent of the time.
- Legal interpretation of recurring problematic tax provisions and positions of the tax administration are regularly and timely made available by the legal department to taxpayers and to enforcement staff of the tax administration.
- Attorneys from the legal department have assisted in the successful negotiation of a number of international tax treaties and exchange-of-information agreements, and multi-national corporations are all under full control of the Large Taxpayer Office.
- Taxpayers that requested (by mail or telephone) to meet auditors, collection officers, or investigators at field office locations are escorted to interview rooms in the taxpayer service reception area, where they are met to conduct the necessary business by the case agent.
- Specific, exclusive roles for headquarters (normative, planning) and district/field offices (operations/execution) have been defined and in existence for several years, and respective roles are generally practiced.
- Civil service regulations are in place, with pertinent qualifications criteria used for recruitment into the tax administration, existing staff are very well qualified for their positions, and new recruitment requests by the tax administration are usually met in a timely manner by Civil Service officials.
- Excellent classroom training courses and formal on-the-job training programs, which include all tax types for each of the specialized functions, have been in place for several years and are regularly updated with changes in tax law, regulations, and procedures. Technical staff in need of updated and refresher training are regularly sent to continuing professional education courses.
- All top and mid-level managers and first-level supervisors have attended management training and perform their respective management functions the majority of their time on the job.
- Formal, written delegations of authority have been granted to the lowest managerial and journeyman (fully qualified to act independently on the job) technical levels throughout the organization, and ongoing management and internal audit reviews monitor for violations of authority for necessary corrective actions.
- The country's largest taxpayers, selected based on several criteria, have been under control of a functionally organized LTO for several years. Close monitoring by LTO officials every year has resulted in new taxpayers being added and others being dropped from LTO control, based on the qualifying criteria.
- An effective problem resolution program has been in place for several years, and taxpayers generally feel that their complaints are resolved in a timely manner by the tax administration.
- Productivity for the last several years has been high throughout the tax administration and performance indicators have been met or exceeded. For example, the audit and no additional assessment rate of 10 percent has been met or exceeded in the last 5 years. Most taxpayers in reception areas have been given service requested within 20 minutes of their arrival in the office

for the last 5 years. International or regional-country benchmarks for other major programs have been met for the last 5 years.

4.4. Latin America and the Caribbean

In developing countries, just as in developed countries, organization by type of tax was the dominant structure for many years and still prevails in many countries. However, the functional structure has been fast displacing tax-type structures during the last ten years in developing countries. For example, in Latin America and the Caribbean (LAC), most of the member countries of Inter-American Center of Tax Administrations (CIAT) have had functional structures and some level of taxpayer segmentation for many years. In a study by the author from as early as 1999,²⁵ all of the 13 sample countries employed functional organizational structures in both headquarters and at the operation level. All but two had LTOs.²⁶ A study published April 2012 by CIAT, IMF's Regional Center for Technical Assistance, Panama and the Dominican Republic (CAPTAC-DR), and the Inter-American Development Bank confirms that the functional organization structure prevails in most LAC countries, together with some form of type-of-taxpayer feature, such as large taxpayer offices.²⁷

With regard to the 4 levels of maturity in terms of organization and management, there is some degree of diversity among LAC countries. A few countries are clearly between the third and fourth levels. Several countries, however, should be placed between the second and third levels, for the following common reasons:

- Respective roles for headquarters and district/field offices are understood but not well defined, and some headquarters officials in some countries get involved with taxpayers on case-related activities;
- The concepts of centralized staffing and optimum spans-of-control are not always practiced, resulting in too many small offices around the country and too few technical staff under each manager;
- Managers spend too little time on management functions and too much time on technical work;
- Formal delegations of authority are largely non-existent;
- Budgets each year are increasing but are still insufficient for necessary operations;
- Mainly because of inadequate budgets each year, computerization and data-networking equipment are insufficient for necessary operations in all tax administration offices;
- Access to work areas in tax administration offices by taxpayers who visit the offices and others is not strictly controlled;
- Some core and support functions do not exist within the tax administration. For example, as of 2010 the collection function in El Salvador had been carried out for many years by staff of the Minister of Finance, and the integrity function in Jamaica as of 2012 is still being carried out by the Revenue Protection Division, a unit under the Ministry of Finance;

²⁵ Unpublished.

²⁶ Generally, LTO organizational structures in LAC countries include taxpayer services, collections, and audit.

²⁷ Inter-American Center for Tax Administrations (CIAT) et al. (2012), p. 16.

- One-stop-service centers and centralized fiscal compliance centers are not used (though there are exceptions, such as Jamaica and El Salvador, respectively); and
- Problem Resolution Offices are largely non-existent.

4.5. Key Benchmarks and Guidelines

The following are key benchmarks for this chapter, discussed throughout the chapter and summarized here.

- The tax administration should employ a functional organizational structure both at headquarters and at operational offices, or an organizational structure that is a matrix of functional and type-of-taxpayer divisions. All core and support functions should be included.
- Where there is a segmentation of large taxpayers, there should be multiple criteria for inclusion in LTOs. Exit criteria should also be defined.
- Taxpayers should not be allowed to enter or exit LTO's premises unescorted and, preferably, not at all. They should instead be met in interview areas;
- A strict division of roles between headquarters, regional offices, and district and field offices should be practiced. Headquarters should have normative and planning functions. Regional offices should have advisory, guidance, and monitoring functions. District and field office should have execution / operational functions.
- Successful management practices require that managers manage, that there is a formal delegation of authority to the lowest practical level, and that staffing is located in a limited number of centralized locations.
- Institutional and professional credibility is achieved with high stability of top-level management and with the recruitment of educated top-level and technical staff.
- The following ratios are indicative of international leading practice:
 - Proportion of human and financial resources allocated to the core functions or field operations in relation to those provided to the support functions in headquarters: 70 percent;
 - Technical positions/administrative and support positions: 3:1.
 - Ratio of active taxpayers to tax administrators: 850:1.

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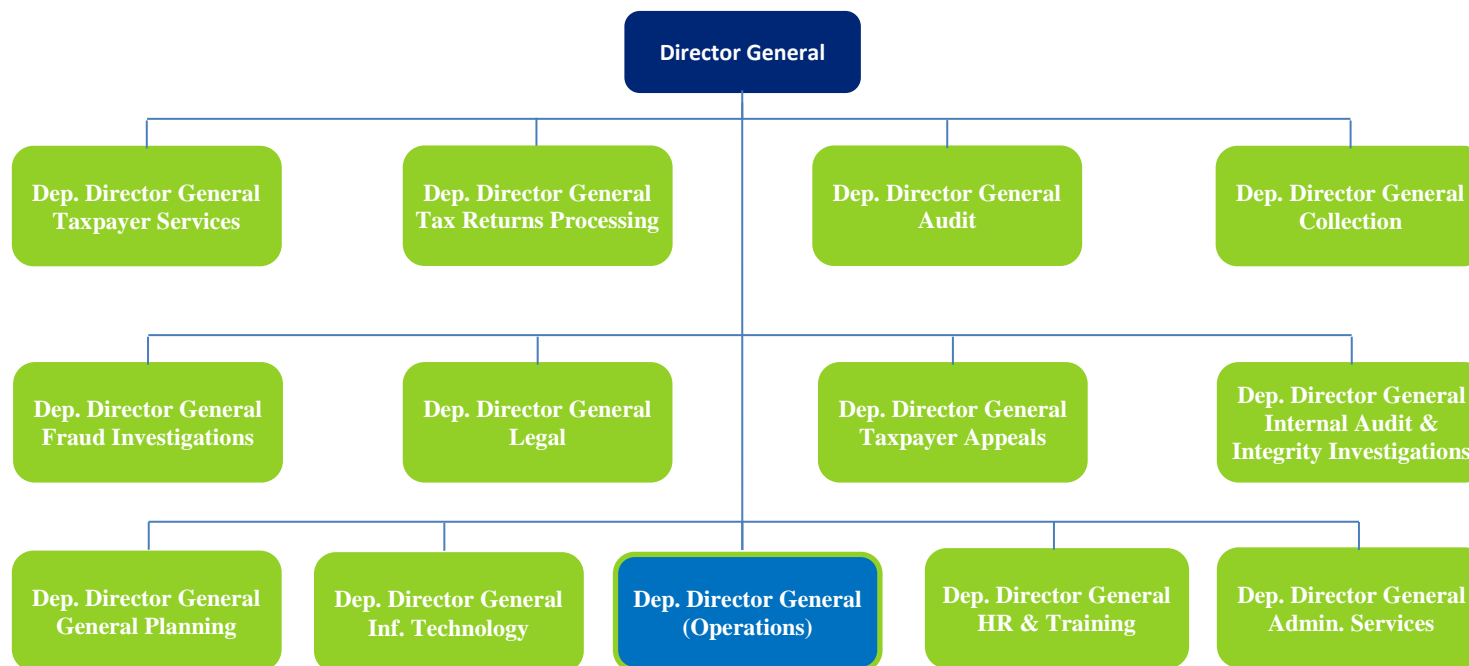
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Appendix 4.A. Medium or Small Tax Administrations²⁸

Figure 4-A.1. Headquarters office of a medium or small tax administration



²⁸ Source: author.

Figure 4-A.2. Operations structure of a medium or small tax administration

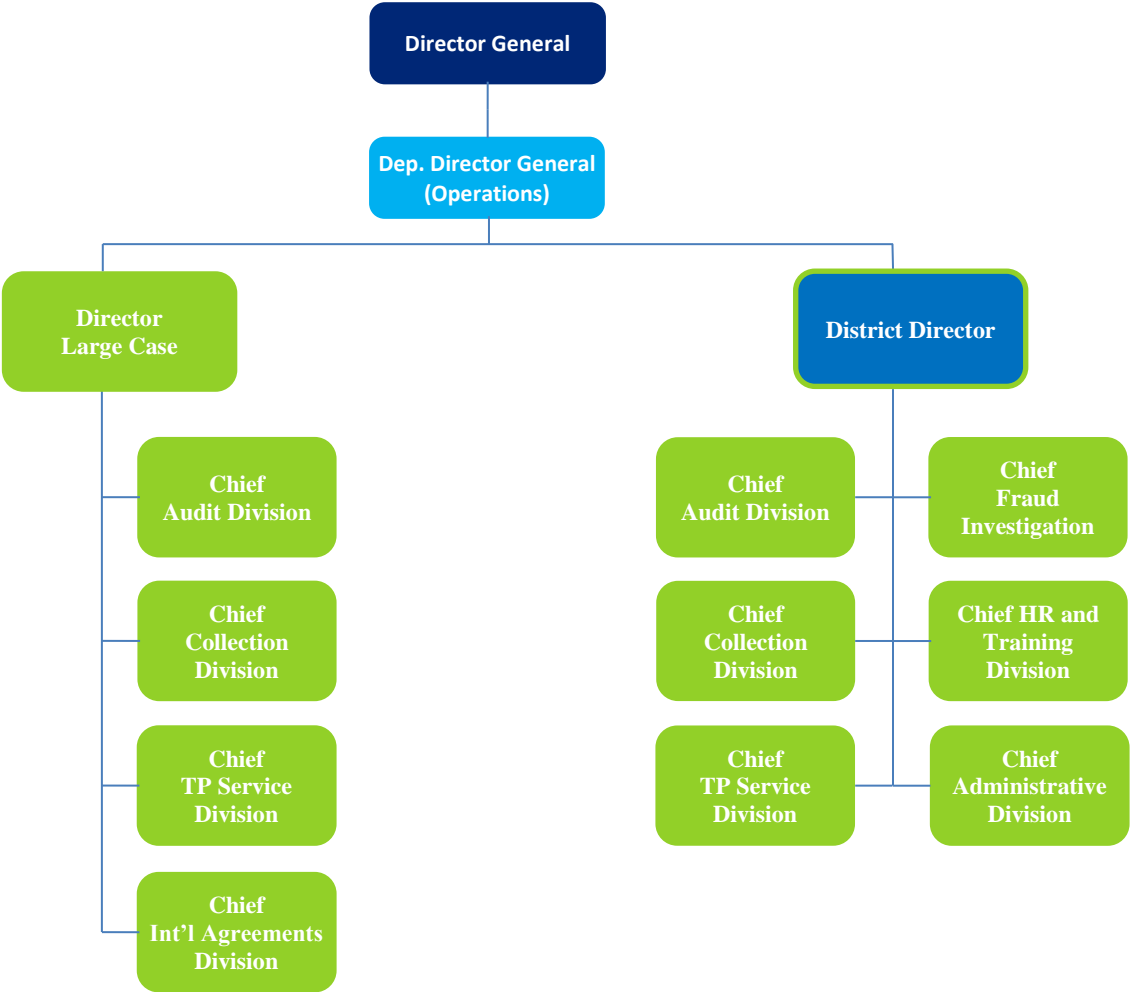
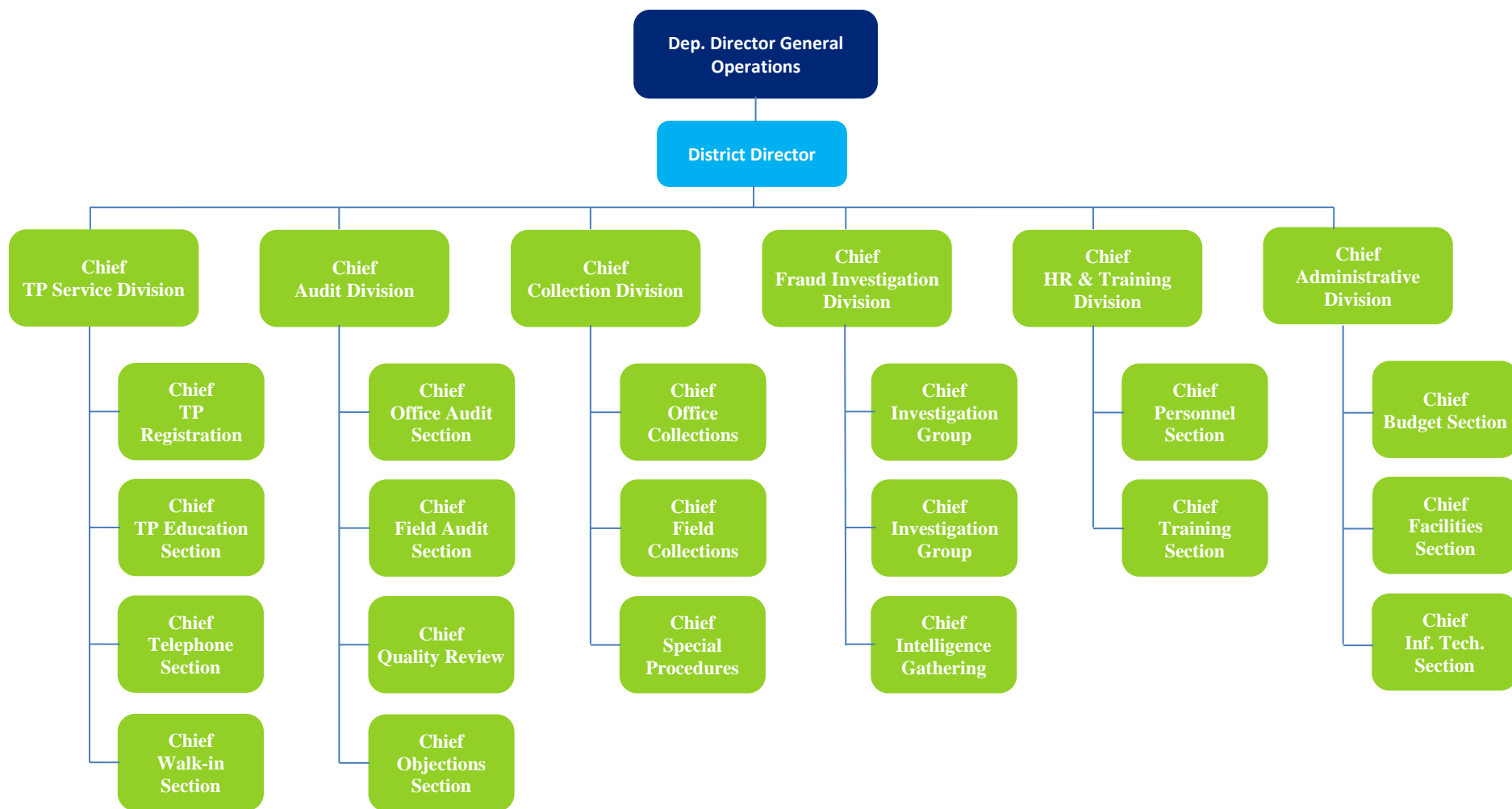
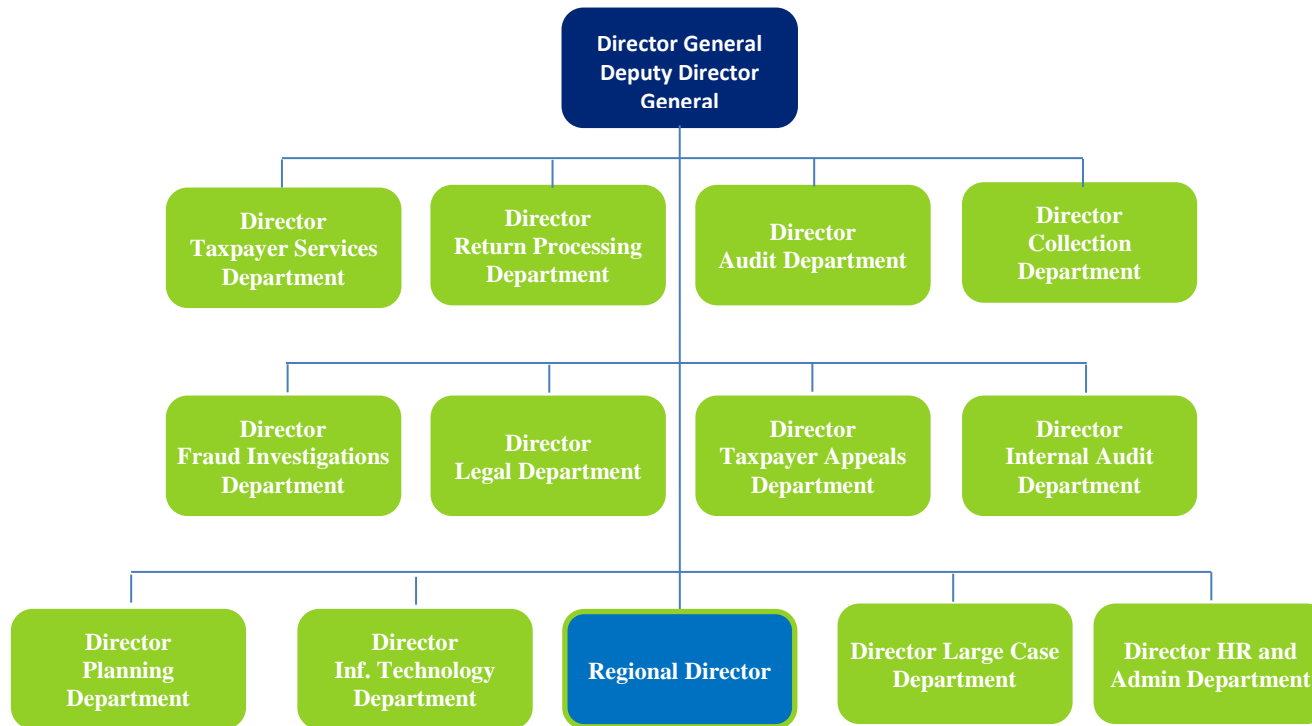


Figure 4-A.3. District/field office of a medium or small tax administration



Appendix 4.B. Large Tax Administrations²⁹

Figure 4-B.4. Headquarters office of a large tax administration



Note: Tax policy units are not included in the organizational charts, despite the fact that tax administrations of many countries have them. Tax policy unit staff is comprised of public finance economists, tax attorneys, statisticians, modelers, and computer specialists, who undertake a wide range of studies on policy issues directed toward changing the structure of tax laws to achieve fairness, efficiency, and simplicity and propose new tax legislation or amendments to existing tax legislation through the Ministry of Finance. As such, tax policy units should not be a part of the tax administration, but should instead be placed at the Minister of Finance level, under a Permanent Secretary or Deputy Permanent Secretary. Nevertheless, tax administration officials, who apply the theories in nuts-and-bolts operations, are the ones who experience the effects of tax policy at the implementation level.

²⁹ Source: author.

Figure 4-B.5. Regional office of a large tax administration

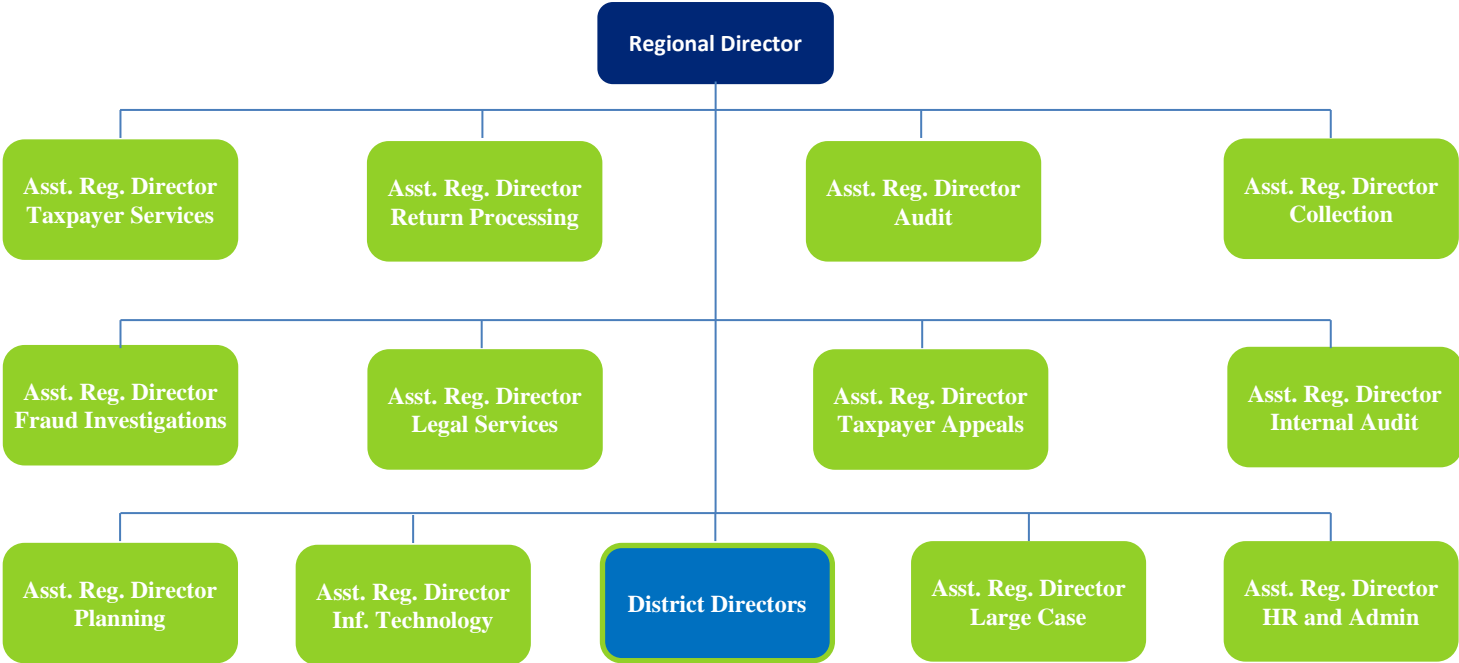
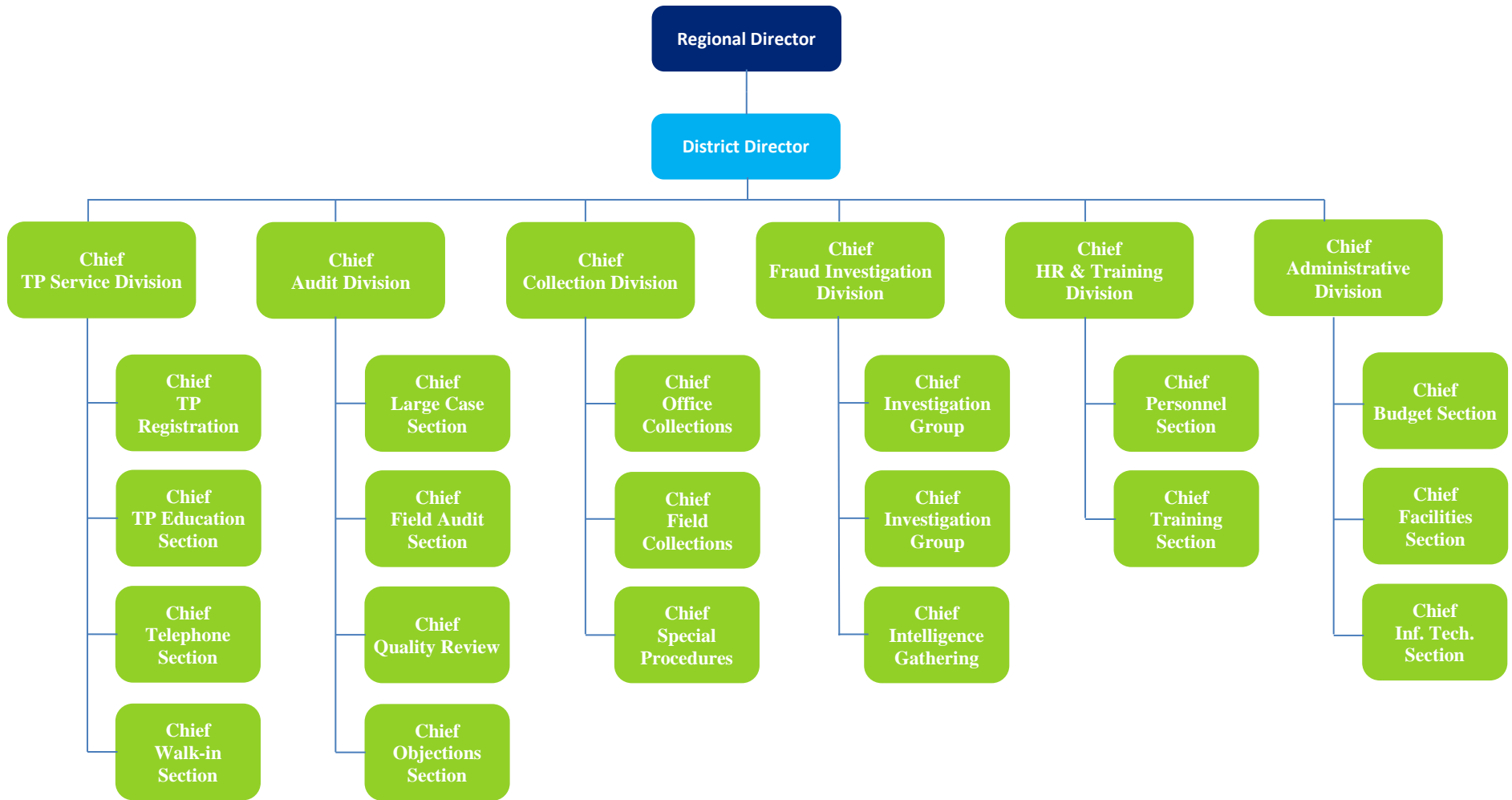
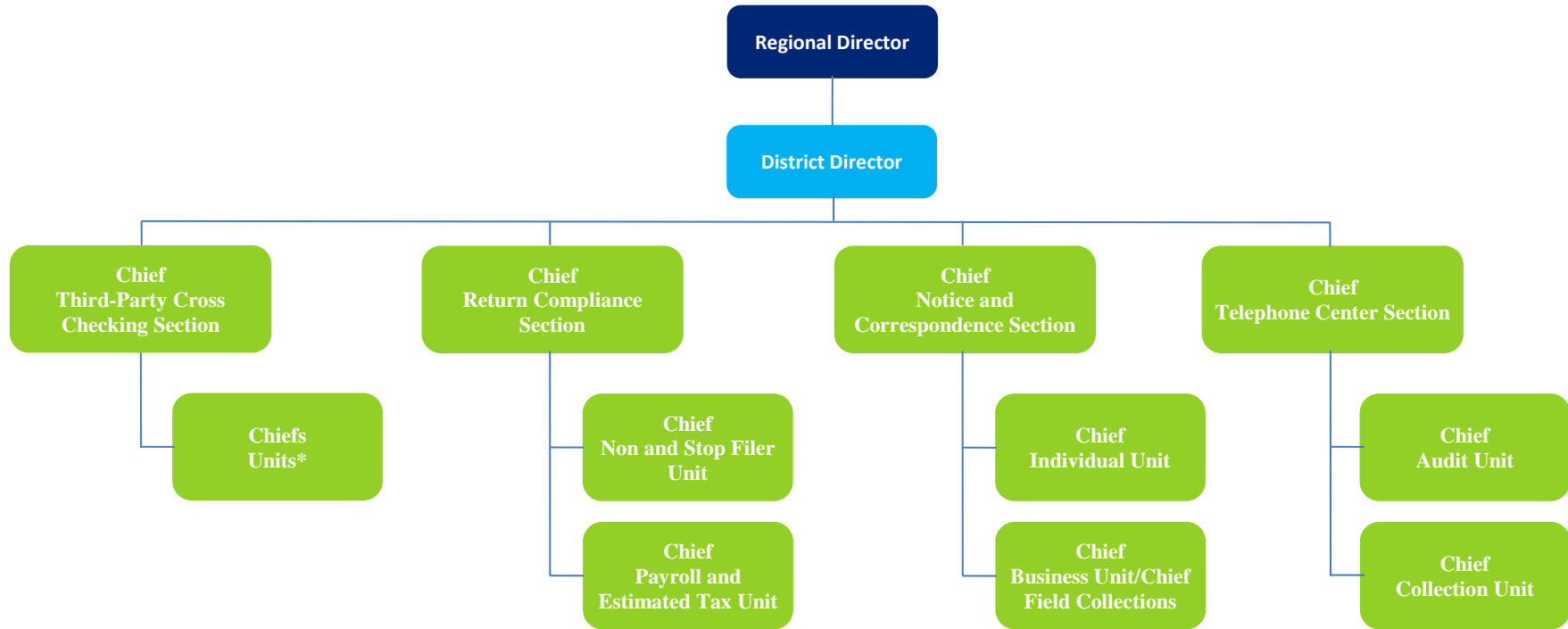


Figure 4-B.6. District/field office of a large tax administration



Appendix 4.C. Fiscal Compliance Division

Figure 4-C.7. Typical centralized fiscal compliance division³⁰



Note: Each unit is responsible for different type of third-party data.

³⁰ As proposed by BearingPoint, Inc. to the Puerto Rico Department of the Treasury.