



VITARA

Virtual Training
to Advance Revenue
Administration

REFERENCE GUIDE

ORGANIZATION

Inter-American Center of Tax Administrations

International Monetary Fund

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Organisation for Economic Co-operation and Development



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Preamble

A series of Virtual Training to Advance Revenue Administration (VITARA) reference guides have been developed based on the content of the VITARA online modules. Readers are encouraged to enroll in the online modules. For more information on the schedule to register for the VITARA courses, scan the QR code below.

This reference guide presents the critical features to be considered in designing the organizational arrangements for a tax administration.¹ It sets out the general principles and good practice of organizational design and describes common organizational structures adopted by tax administrations. It is important to note that organizational design is more than changing the organizational chart—it facilitates thinking on how, where, and when work across an organization is done.

This guide is divided into six chapters highlighting the framework for organizational design, organizational models, the role of headquarters, field operations, and specialized units as well as the impact of new tax administration responsibilities on organizational design.



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¹ This VITARA reference guide is designed to support the administration of a national tax system. It is acknowledged that many tax agencies, revenue authorities, and tax departments administer other activities and revenues. In addition, many revenue authorities are created by merging tax and customs responsibilities. These arrangements will need to be factored into any organizational design process.

CHAPTER 1.

Introduction

This chapter provides an overview of the theory and framework of organizational design (OD)—how it is defined, what it means to apply a *systems approach* to OD, and why a systems approach is so important for the success of any design/redesign task. This chapter also describes the critical factors that need to be considered when developing a new design for an organization or for a subset of an organization. The framework will help ensure that a new design focuses on current organizational challenges and enables the redesigned organization to meet its strategic business goals.

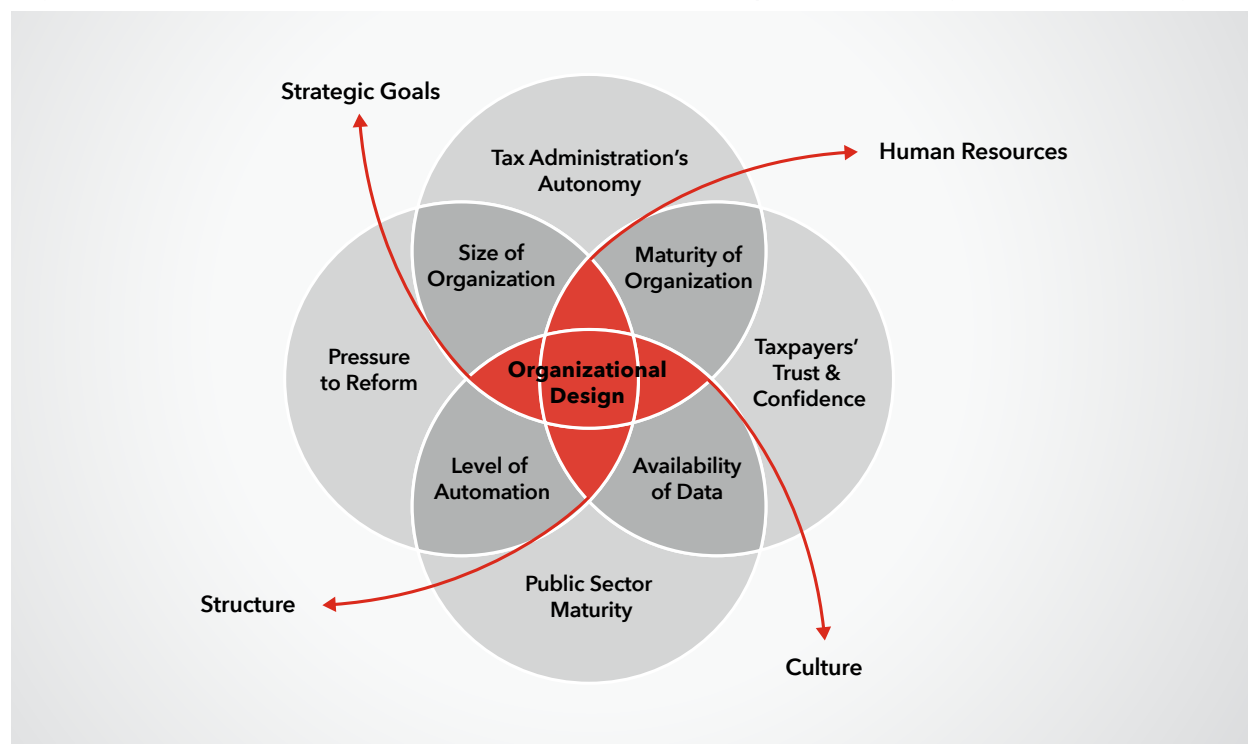
Systems Approach to Organizational Design: Key Terms and Definitions

Some of the key terms related to OD follow:

- **Systems approach:** As all parts of an organization are interrelated and interdependent, it is essential for an OD process to focus on how each part interacts with each other rather than looking at a specific part in isolation. When one change is made, the impacts on other parts of the wider tax system must be evaluated and adjustments made. This is known as taking a systems approach.
- **Organization:** Refers to the way people and functions are organized. It is commonly presented as a static organizational chart/diagram/structure that shows how people are grouped to deliver the mission and goals of the organization.
- **OD:** Is a step-by-step methodology to align the key components of the organization to ensure the best fit for the delivery of the organization's mission while considering relevant external and internal factors. Organizational design/redesign may involve a single process or involve changes to the entire organizational model.

Elements of the System

When undertaking an OD process, it is essential to understand the key components of an organization and the factors that influence the design. These components and influencing factors are both interrelated and interdependent. Figure 1.1 highlights the main external and internal factors and the components of OD.

Figure 1.1. External Factors, Internal Factors, and Components of Organizational Design

Core Components

The core components of OD are (1) the organization's strategy and strategic goals, (2) its structure, (3) human resources, and (4) its culture. All four core components, described in more detail below, must be considered in any OD or redesign process.

The strategic goals are the outcomes that the administration is pursuing to optimize the collection of revenue. The strategic goals are set out in the administration's **strategic plan**, which should also include mission and vision statements and the initiatives that will be implemented to achieve the strategic goals.

Structure is how tasks are grouped within the organization. At the general level, it is a diagram that shows the hierarchical levels in the structure, the way subordination is organized and specifies the structural units. At a more detailed level, it is expressed as jobs or positions within each organizational unit.

The **human resources** component refers to the complement of employees, its location, and any characteristics that influence organizational performance. The key human resource attributes are skills, knowledge, behaviors, and experiences—often referred to as *competencies*. For strategic planning, organizations must have a long-term view of their workforce needs as well as plans to ensure the right sets of competencies are available at the right time and in the right place for the organization. This planning must also address how existing organizational competencies will be upgraded or redeployed.

The **culture** component refers to both the organizational culture and the culture of a country. In a wider sense, it represents the collective mental thinking, beliefs, and behaviors. It is usually a combination of purposefully planned formal corporate culture and informal culture expressed within the social groupings in the organization.

Internal and External Factors

Figure 1.1 also highlights the internal and external factors that must be assessed in any OD process. Internal factors include the size and maturity of the administration, the level of automation, and the availability of data. These need to be considered in OD. For example, even a minor change to processes or workflows will require consideration of how this might be impacted by each of these internal elements. External factors (such as pressure to undertake a reform program) also shape any organizational change, particularly as governments are looking for tax administrations to be more connected with other agencies, and administrations themselves search for ways of increasing compliance and increasing public trust and confidence in their administration of the tax system.



Organizational design or redesign usually affects all elements of an administration's organizational arrangements, no matter what the scale of the change is.

Foundational Principles of Organizational Design

When embarking on an OD process, observing the following foundation principles will optimize the OD outcomes, help achieve good practice standards, and ensure the strategic goals of the tax administration are met.

- **Clear accountabilities:** Each department, division, section, or unit in the structure needs to have a clear mandate and relevant performance measures. Each area also requires a leader responsible for completion of the work of the unit, section, division, or department.
- **Sensitivity of certain functions:** While some of the work of the tax administration—and particularly individual taxpayer-related information—is strictly confidential, other information and data are also sensitive. This may include information on budget policy changes, salary information for employees, and risk tolerance information. It is good practice to ensure the OD process takes these matters into account when deciding on reporting lines and workflows.
- **Independence of some key functions:** Is needed to ensure objectivity and fair treatment:
 - **Internal control/assurance** is the function responsible for developing ethical conduct standards and conducting internal investigations. It should report directly to the head of the organization.
 - **Internal audit** is the function responsible for assuring organizational risk management, governance, and effective internal control processes. It should report to the head of the organization or the management board.

- **Manageable spans of control:** A manager can effectively manage only a certain number of people and functions. The optimal number of direct reports depends on the nature of the work and roles and capabilities of the manager as well as the employees. Most managers have dual dimensions to their roles:
 - **Administrative and people issues** depend largely on how well the work routines have been established and how corporate support functions work to support managers and employees. When established and working well, managers spend less time on administrative matters and more time working with their people identifying development needs, managing performance, and motivating and leading their employees.
 - **Functional guidance and monitoring** depends on the complexity of work, the way technical delegation and decision-making operate, operational business processes, and the automation of workflows.
- **Size of the organization:** Will influence (among others) grouping of activities and (de)centralization decisions.
- **Level of automation:** Impacts the organizational footprint. Automation refers to the extent to which the processes and workflows are automated and software applications are available and used. As the tax administration structure is designed to organize the administration's activities and people, the types of activities conducted by employees will differ based on the degree of automation. For example, when e-filing is available, fewer employees will be required for the processing of returns. This will have an impact on the number of employees needed, the competencies required, and the number of organizational units and whether these resources should be grouped in a central location or disbursed in several locations throughout the country.
- **Separation of headquarters (HQ) and field offices:** The design of the HQ function is the most significant part of any organizational structure as the HQ role is significantly different from the operational areas of the administration. HQ is responsible for designing the tax administration system, its strategies, business processes, administrative policies, and performance standards. It also contributes to policy development and sets program direction. It also guides and monitors program delivery to ensure revenue collection and other strategic goals are met. HQ ensures consistent application of processes across national operations. A more detailed description of the role of a tax administration HQ and its operational areas (field operations) is set out in Chapter 3.

OD is not a quick fix; it takes time to deliver the desired outcomes. Tax administration leaders need to think carefully about whether undertaking the redesign of their organization is the best way to respond to the challenges they face or whether there are other less intrusive, more cost-effective, and less time-consuming approaches available to them (e.g., establishing a project team for a fixed period).



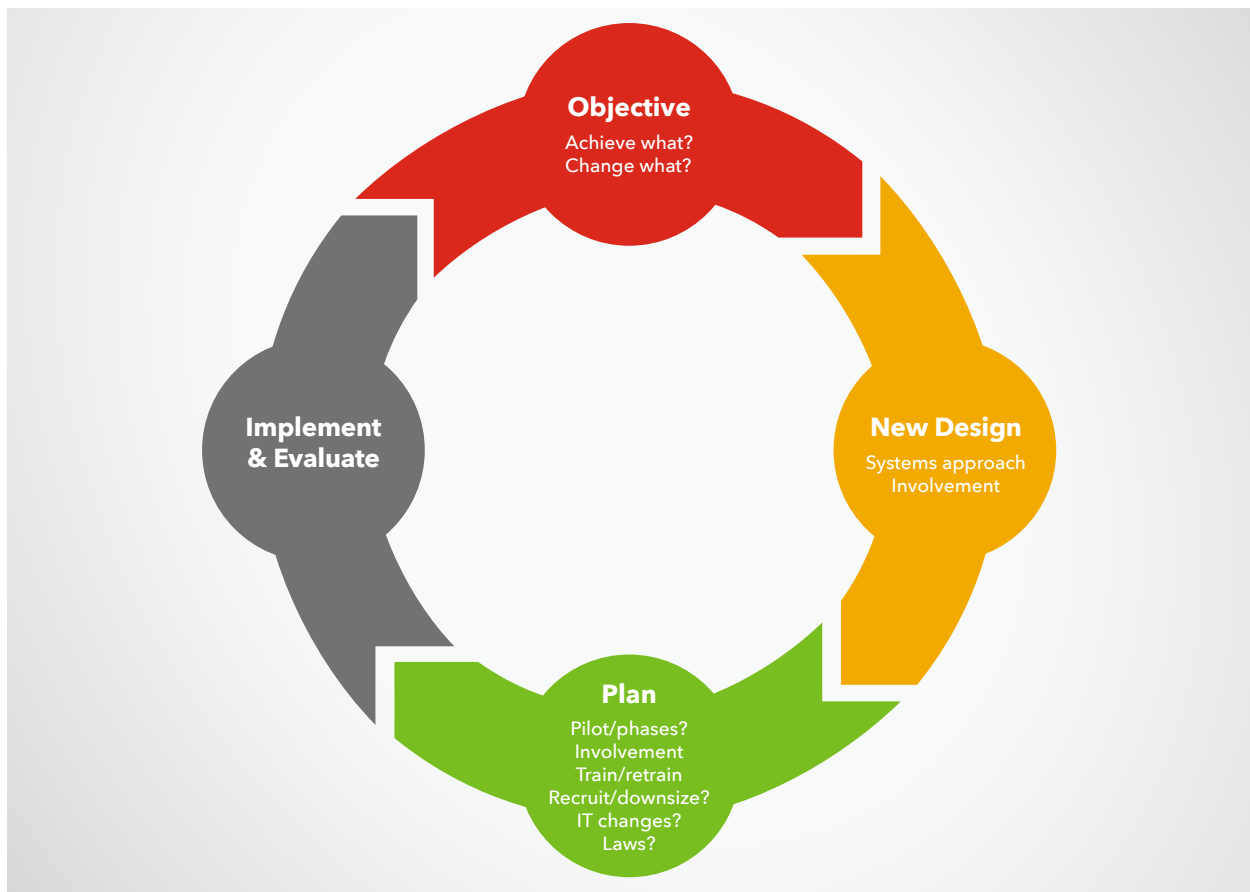
There is no **perfect tax administration organizational model**. An administration's culture, people, and strategy will shape the OD outcomes.

Process of Organizational Design

A schematic view of the main steps of the OD process is shown in Figure 1.2. This diagram highlights the following aspects of the design process:

- Each step of the process is built on the previous one.
- There is a feedback loop after each step with the previous step to check and adjust as required.
- The last step includes an evaluation based on the objective set out in the first step.

Figure 1.2. Process of Organizational Design



Note: IT = information technology.

These OD steps are described in more detail below.

- **Objective:** Defining the objective of the OD is critical. A clear understanding of what the redesign is intended to achieve and what the success criteria are must be determined. The review of the existing OD and its current performance against that objective will determine the areas for critical examination and indicate the extent of potential change. The outcome from this assessment may result in deciding that the organizational structure does not need to be changed and the reorganization of work or relationships between the existing organizational units would achieve the desired outcome.

- **New design:** In this phase of OD, a new design is developed using the systems approach described earlier, applying the foundational principles of OD, reviewing the design core components, and considering the external and internal factors (see Figure 1.1). Experience shows that involving senior leaders and employees in the design of organizational arrangements considerably increases buy-in and ownership of the OD outcome. Consultation with other relevant stakeholders may also be necessary.
- **Plan:** After the new design has been agreed and approved, a detailed plan for the successful implementation of the organizational changes must be developed. The plan should detail how business-as-usual activity will not be materially impacted by the organizational change processes. It should also include the various phases of implementation, including the use of pilot sites or testing of redesigned activities. The plan should include the critical path of activities that sets out the sequencing of actions that dictate the delivery timeline. Effective oversight and governance arrangements and reporting protocols must be established. Where possible, planning should be an inclusive process and involve stakeholders and employees. It may also be necessary to consider workforce downsizing or recruitment, amending procedural guidelines, information system changes, and developing communication products for all stakeholders.
- **Implement and evaluate:** The implementation should be closely monitored, and the design should be amended to reflect agreed and documented changes that occur during implementation. The organizational redesign can be considered implemented once the performance of the new design is tested to the satisfaction of the main stakeholders against the defined objective and success criteria. Evaluation is an integral part of the implementation, especially when the redesign is to be implemented in phases and success of the previous phase is a precondition for commencing the next phase.

Postimplementation evaluation or *postimplementation review (PIR)* is often treated as a separate process. PIR is performed after implementation of the change. It critically examines:

- Whether the project outcomes were met
- How effectively the project was run
- Lessons for future projects and initiatives



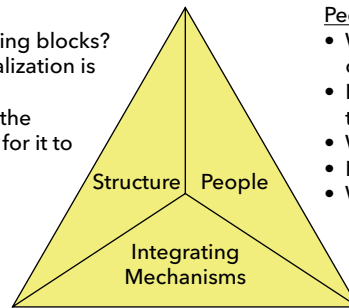
In many cases, ambitious redesign plans have **failed** because a **systems approach** to OD was not taken.

Organizational Fit and Design Parameters

When undertaking an OD process, the goal is to design an organization that will be able to execute the business strategies of the organization within its operating environment. The design parameters that guide that design are set out in Figure 1.3. Box 1.1 summarizes the key areas to consider when undertaking an OD of a tax administration.

Figure 1.3. Organizational Design Parameters**Structure**

- What are the main organizational building blocks?
- What degree of centralization/decentralization is required?
- What are the key drivers around which the business should be structured in order for it to achieve its objectives?
- How are the support areas defined?

**People aspects**

- What kind of skills, capabilities, and competencies do employees need?
- How should people be selected, recruited, trained, and rewarded?
- What leadership style should be displayed?
- How do we communicate with our people?
- What should be the corporate culture?

Integration

- How does coordination within and between units take place?
- What are the key business decisions, who needs to participate in them, and how are the decisions made and implemented?

BOX 1.1. Key Areas of Consideration for the OD of a Tax Administration

- **Before implementing organizational redesign, ensure there is a clear understanding of the issues to be fixed.** It may be the case that identified issues can be addressed without changing the organizational structure. For example, information flows could be reviewed and adjusted, governance arrangements enhanced, or accountabilities strengthened.
- **Take your time.** Implementation requires careful planning, proper resourcing, effective change management, and sound governance. Organizational redesign is not a *quick fix*; it takes time to implement and to deliver the desired outcomes.
- **Consider if major tax and support processes need to be reworked.** OD is not about changing the organizational chart but about redesigning how, where, and when work is done.
- **Be cautious not to underestimate the impact of “minor changes.”** Frequently, what seem like minor issues, for example, changing a reporting line, may have major implications and undo key aspects of the OD. Consider the principles that underpin the current OD to understand whether or not the current design remains valid against the merits of the proposed changes.
- **Take a holistic or systems view of any changes.** Whether it is something initiated by the administration, or imposed by an external source (e.g., ministerial request), the systems approach should be taken. This will ensure any design change is considered in the context of the entire operation and does not create new problems elsewhere.
- **Understand the human resources (HR) framework and know its limitations.** This will help determine what is possible and where other assistance and support may be needed.

Note: OD = organizational design.

CHAPTER 2.

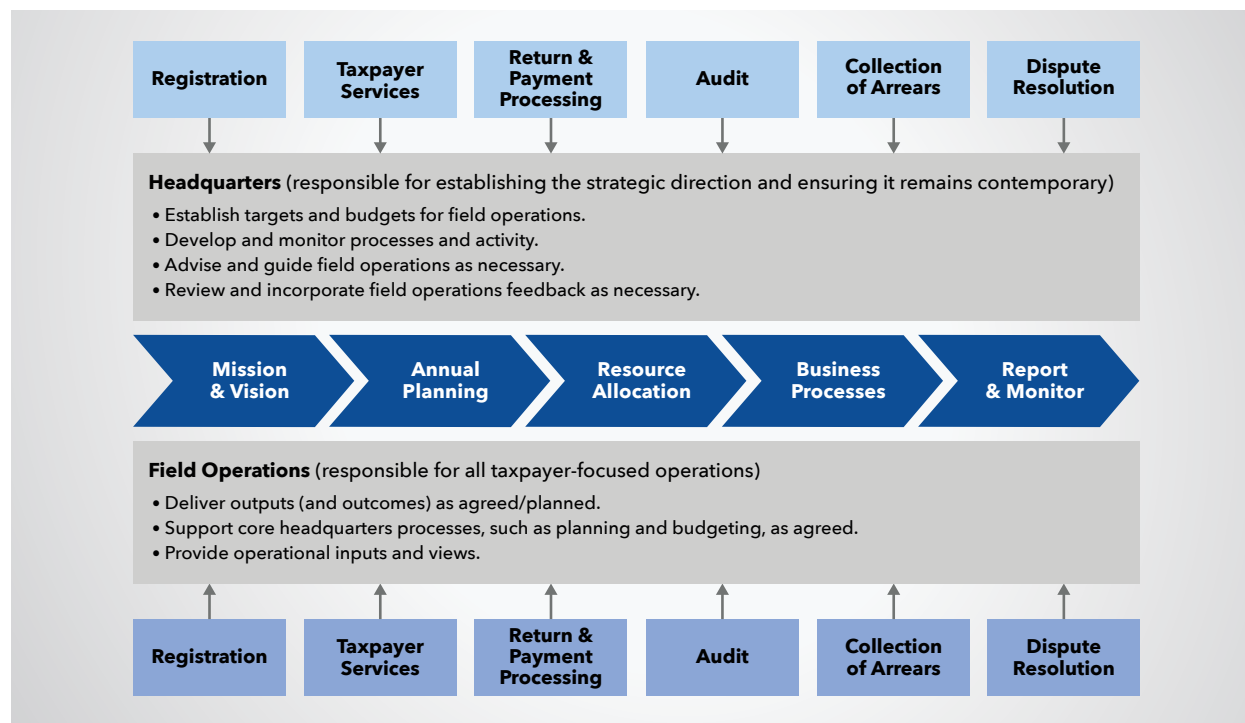
Tax Administration Organizational Models

This chapter provides an overview of the four main organizational models used by tax administrations. It highlights particular features of their design, how they work in practice, and their main strengths and limitations.

Function-Based Organizational Model²

The function-based approach is based on the core tax functions—registration, taxpayer services, returns and payment processing, audit, enforced collection of arrears, and dispute resolution. Each of these areas would generally represent an organizational unit with dedicated employees at both the HQ and service delivery area, focused on the specific core function. The organizational arrangements at the service delivery (or field operations [FO]) in regional sites mirror the structure at HQ with field managers responsible for each of the core tax functions. This separation of planning from delivery is a critical feature of the function-based organizational model. Leadership roles in both HQ and FO are based on functions, with management positions having oversight of design and monitoring in HQ and of delivery in FO. Figure 2.1 sets out how this alignment between HQ and FO is organized in a function-based structure.

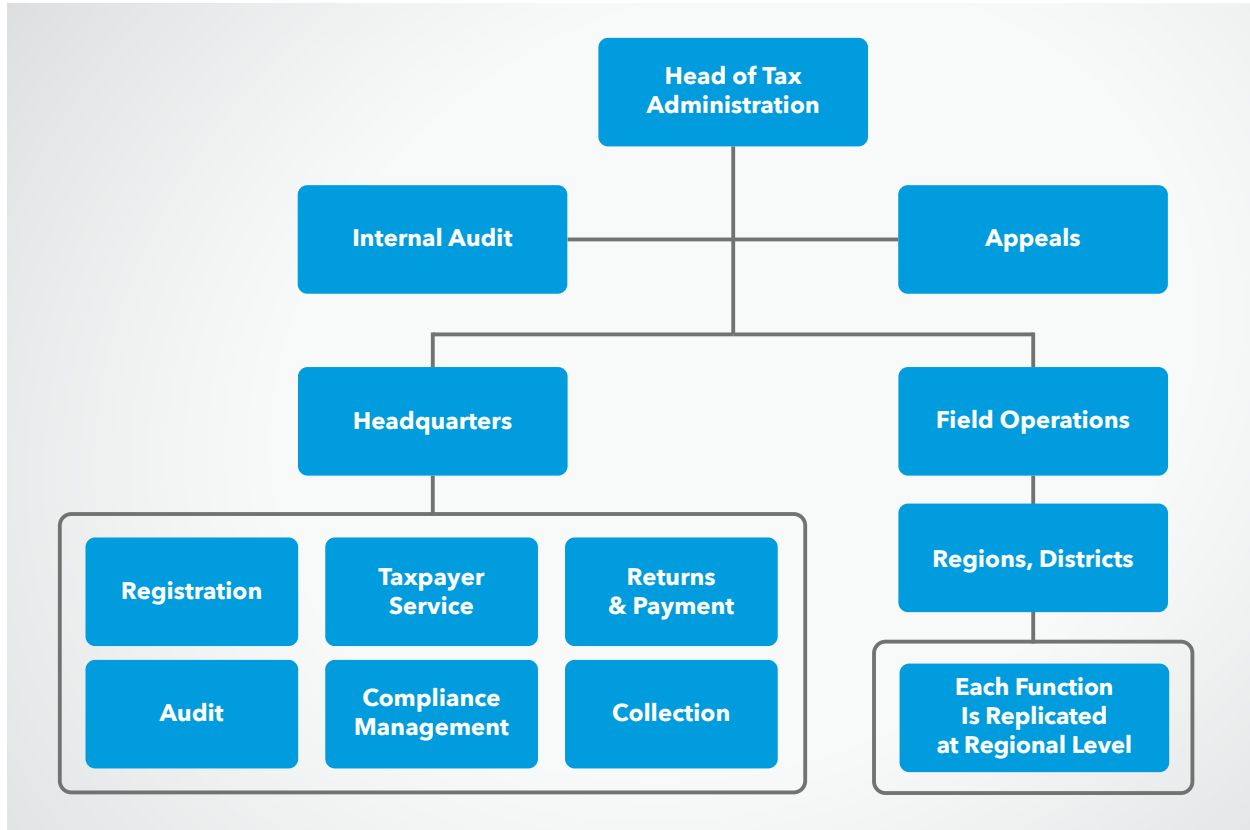
Figure 2.1. Alignment of Headquarters and Field Operations in a Function-Based Structure



² According to International Survey on Revenue Administration (ISORA) 2018, 42 percent of the surveyed tax administrations followed a function-based model in 2017.

An example of a function-based tax administration is highlighted in Figure 2.2 (note that some functions, including support functions [e.g., HR, IT], are not shown).

Figure 2.2. Example of a Function-Based Tax Administration



Strengths and Limitations of a Function-Based Organizational Model

The success of the function-based model relies heavily on the skill of senior management and their ability to work in a matrix management³ environment. For a function-based approach to work well, the following three basic requirements must be met:

- **Clearly defined roles and responsibilities:** The roles and responsibilities of operational and HQ functional management must be clearly defined. This means setting out clear accountabilities so that employees know to whom they are accountable for each aspect of their work.
- **Accountability:** Senior management must hold both the line managers and HQ managers accountable for their respective responsibilities.

³ In a tax administration, matrix management refers to where individuals may report to more than on a manager or supervisor. It is commonly used where employees and resources are “shared.” For example, the head of collection of tax arrears in a tax office may report to the tax office manager locally (sometimes called the prime reporting line) as well as the regional or HQ head of the debt function (sometimes referred to as a secondary reporting line). To function well, it is essential that responsibilities are clear.

- **Effective communication:** Good communication must be maintained between HQ and operational managers at all levels. This includes the need for clear direction from HQ, including detailed procedures that set out how processes should operate and legislation is interpreted and the monitoring arrangements to ensure the procedures are being followed. Field managers must know what direction or advice their employees are receiving from HQ, while HQ managers must get feedback from field offices to ensure their policies recognize operational reality.

The strengths of a function-based approach are that it:

- Drives greater standardization of work and work outcomes through having core tax functions grouped under central oversight and coordination.
- Facilitates centers of excellence—by grouping together employees specializing in the same work, it allows specialist capability to be developed.
- Improves compliance by having a complete view of taxpayer behavior across all tax types.
- Achieves reductions in taxpayer compliance burden through improved internal processes, for example, a single registration process across all tax types.
- Facilitates the assessment of overall efficiency and effectiveness of tax administrations—also provides a basis for administrations to benchmark performance.
- Provides a structure to support consistency in responding to taxpayers from a functional perspective.
- Improves resource management by reducing duplication of work effort.

A key limitation of the function-based approach is that it can inhibit end-to-end thinking and the development of systems and processes that promote taxpayer-centered interaction. For example, when following up with a taxpayer on meeting filing obligations, it would be beneficial if any unpaid taxes arising from the late filing of a declaration were discussed at the same time. Often in a function-based administration, there could be two separate areas making contact with the taxpayer that is inefficient for both the taxpayer and the administration. It also may not optimize the delivery of compliance programs from a taxpayer segment perspective.



A function-based tax administration model allows for standardization of tasks and task outcomes by having core tax functions grouped, with central coordination and monitoring by headquarters.

Taxpayer Segment-Based Organizational Model

Segment-based organizational models⁴ focus on key groups of taxpayers that share common characteristics and compliance risks. While the focus is commonly on business taxpayer groups (e.g., large corporations and small businesses), segmentation may also be applied to nonbusiness taxpayers, for example, salary and wage earners.

⁴ According to ISORA 2018, 23 percent of the surveyed tax administrations followed a taxpayer segment-based model in 2017.

An example of the segmentation of the taxpayer base follows:

- A large taxpayer segment (e.g., turnover exceeding USD 50 million per annum)
- Medium taxpayer segment (e.g., turnover between USD 2 million and USD 50 million per annum)
- Small (and sometimes micro) taxpayer segment (e.g., turnover less than USD 2 million per annum)
- Individuals (salary and wage earners)

Critical Taxpayer Segments

Two specific areas where tax administrations have found it advantageous to manage specific groups of taxpayers on a segmented basis are **large business taxpayers** and **high-net-worth individuals** (HNWIs). While not necessarily requiring a structural solution, many administrations have decided to establish separate units to manage the compliance risks of groups such as these. A specific focus for these “high-risk” groups of taxpayers recognizes the:

- **Significance of tax compliance risks:** Compliance risks vary depending on (1) the nature and type of transactions; (2) extent of offshore activities; (3) opportunities and strategies to minimize tax liabilities; and (4) in the case of large businesses, the differences between financial accounting profits and the profits calculated for tax purposes.
- **Complexity of business and tax dealings:** Business and tax dealings may be complex due to the breadth of the taxpayers’ business interests and, in the case of HNWIs, the mix of private and tax affairs.
- **Integrity of the tax system:** A key aspect of the integrity of the tax system is the importance of maintaining community confidence in the tax system by overtly addressing these high-risk groups.
- **Materiality of tax at risk:** Data collected as part of the 2019 International Survey of Revenue Administrations (ISORA) indicated that for most jurisdictions that were able to provide data, between 38 percent and 70 percent (average 54 percent) of their total net revenue, including withholding payments on behalf of employees, was received from taxpayers covered by their large taxpayer programs.

While management of these groups of taxpayers can be undertaken as a program within a wider organizational unit, many tax administrations have established structural solutions (e.g., a large taxpayer office [LTO] or an HNWI unit) to manage the tax activities of these taxpayers. The scope of work of these units varies considerably ranging from undertaking traditional audit activity to taking a full-service approach⁵ that covers all functions including the use of cooperative compliance approaches.

The success of these units relies on:

- Overt definition of the taxpayer group that allows employees and taxpayers to know which taxpayers are included in the segment
- Clear accountabilities for units and functions particularly where the units are not full service and some of the function-based activities are performed by other units in the administration

⁵ This term generally refers to the placement of all core tax functions within one unit.

- Well-established planning processes that allow work to be agreed and prioritized on a regular basis
- Reporting and monitoring process that is supported by HQ, ensuring regular performance reporting by segments and functions
- Management structures and processes that provide for scrutiny of reported results
- Compliance risk management aligned with enterprise planning and reporting



There is considerable merit in establishing oversight of taxpayers who represent particular areas of revenue collection or compliance risk, such as LTOs and HNWIs.

The Role of HQ and FO in a Segment-based Model

Segment-based models have sacrificed some of the advantages of the function-based model—such as standardization, functional centers, and cost—to allow a more comprehensive view of the needs and requirements of different groups of taxpayers. With advancements in data analytics, factors such as tax risk, industry type, and the level of international economic activity are now being used to more effectively partition the taxpayer base into segments and subsegments. This approach allows the tailoring of core functions such as taxpayer services, risk management, and audits based on the specific characteristics of the taxpayer segment.

Like the function-based model, a segment-based approach has supporting activities included within the HQ. While these corporate functions fulfill the same role as that described for the function-based organization, their focus changes. Rather than considering and analyzing performance or risk only by each core tax function (e.g., taxpayer services or return filing), the assessment process uses **defined segments** (e.g., large taxpayers) to examine performance and risk. The result is an analysis that covers all core tax functions for the segment. Figure 2.3 sets out how a tax administration aligns its HQ and FO in a segment-based structure. Figure 2.4 illustrates an example of a segment-based tax administration (note that the figure does not display all functions).

Figure 2.3. Alignment of Headquarters and Field Operations in a Segment-Based Organizational Model

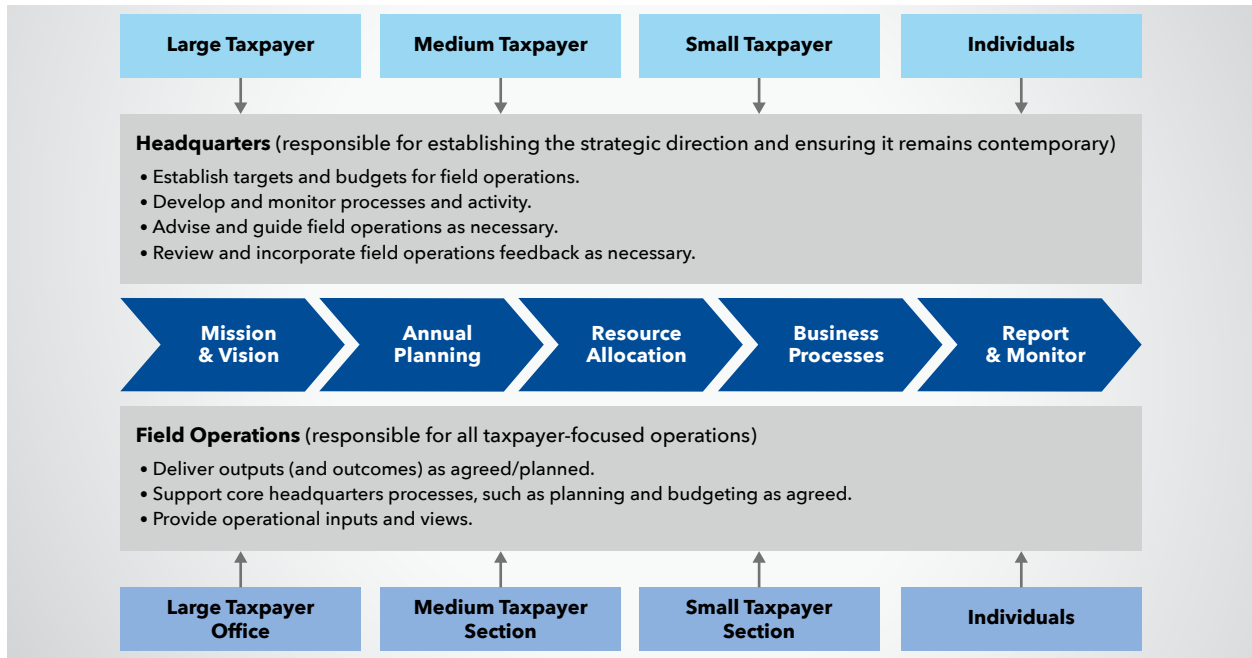
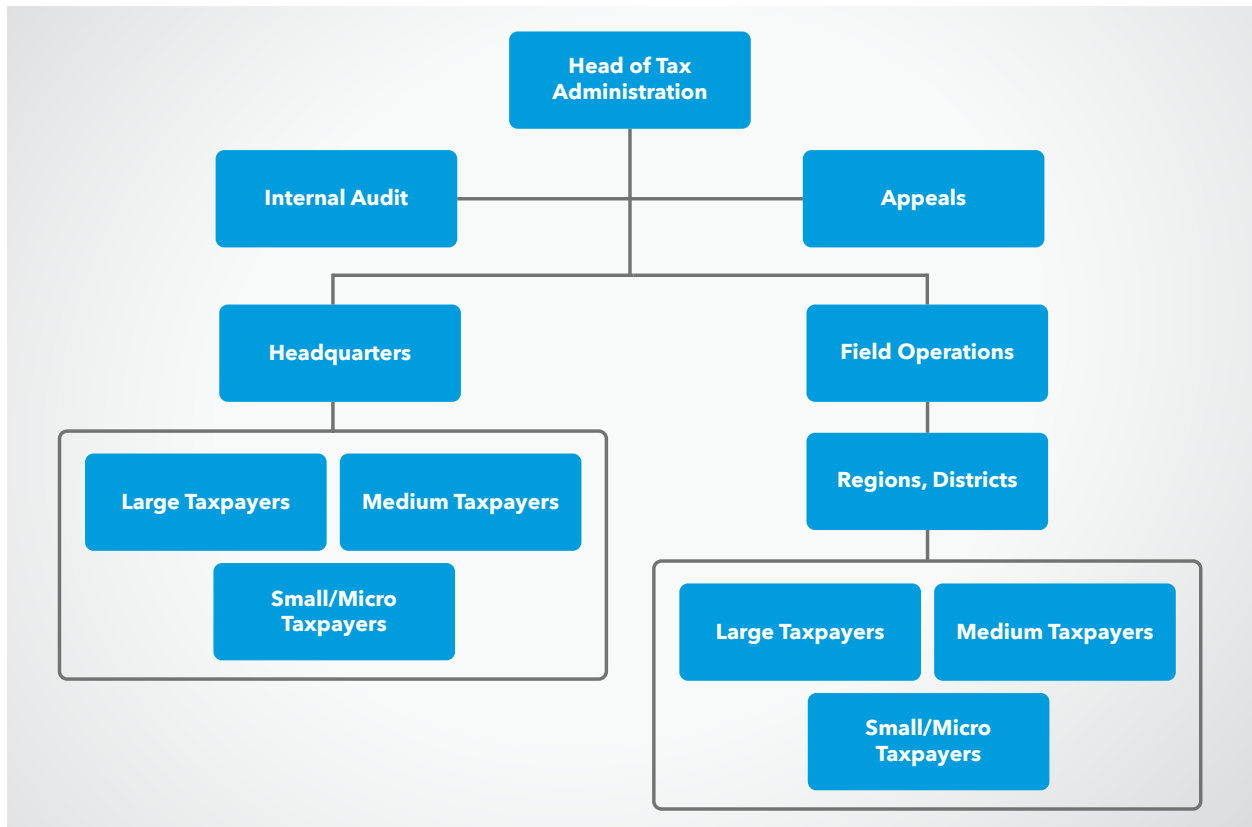
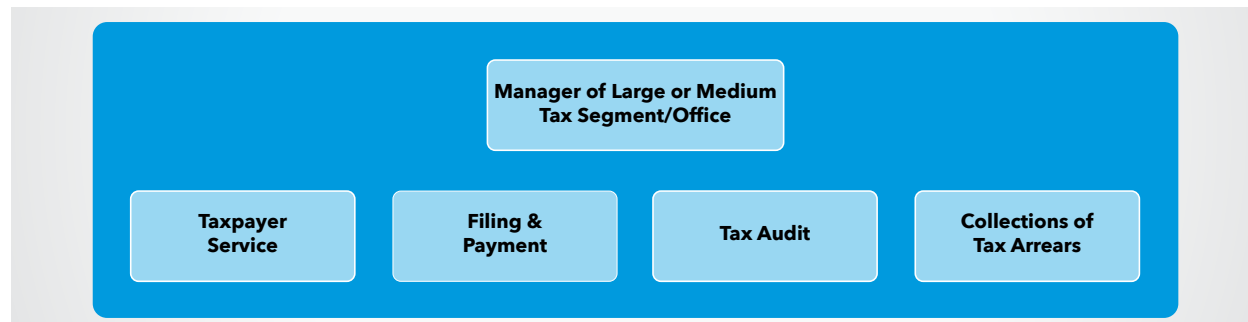


Figure 2.4. An Example of a Segment-Based Tax Administration



The **FO “arm”** in a segmented approach is responsible for all taxpayer-focused operations. It mirrors the HQ structure, although roles are generally described as *functions* within a segment. This approach is illustrated in Figure 2.5, where the activities of an office for a taxpayer segment are managed within functional units. In this example, each taxpayer segment (large, medium, and small) would have activities related to taxpayer service, filing and payment, tax audit, and collection of tax arrears.

Figure 2.5. Illustration of Segment-Based Field Operations Structure



Management responsibilities are established in HQ for the design of the annual work program and in the field for delivery. Typically, a segment manager in the field would have employees undertaking taxpayer service work including registration, advisory and postfiling reassessment, debt collection, and tax audit and verification work. In the pure segment-based model, declaration/returns processing and payments would be managed in the FO unit; however, in many instances, this work is centralized in a processing center—especially where electronic filing and document processing are widely used.

Strengths and Limitations of a Segment-Based Organizational Model

In addition to a more systematic view of the needs and requirements of different groups of taxpayers, **the strengths of the segment-based model** are like those of the function-based approach, except that they focus on smaller groupings of taxpayers rather than the taxpayer population as a whole. The strengths of this approach follow:

- Work tends to be standardized but can be adapted around segment-specific issues.
- Centers of excellence can focus more on segment differences, which allows better focus on addressing risk.
- Compliance is improved as a result of having a complete view of taxpayer behavior across all tax types and awareness of segment issues and risks.
- Taxpayer burden is lowered through clearer examination of end-to-end process outcomes that look to treat taxpayer interaction holistically.

Limitations of the model include:

- Higher cost of operations than the function-based approach due to duplication of work effort.
- Without good analytical tools, segmentation can be somewhat arbitrary.
- Without good processes to analyze and capture taxpayer behavior information, much of the benefit of segmentation can be lost.

- Strong planning and reporting disciplines required to ensure segment-based “design” is effectively delivered.

Many administrations have adopted organizational structures that draw on aspects of both function- and segment-based models. These *hybrid models* are discussed below.

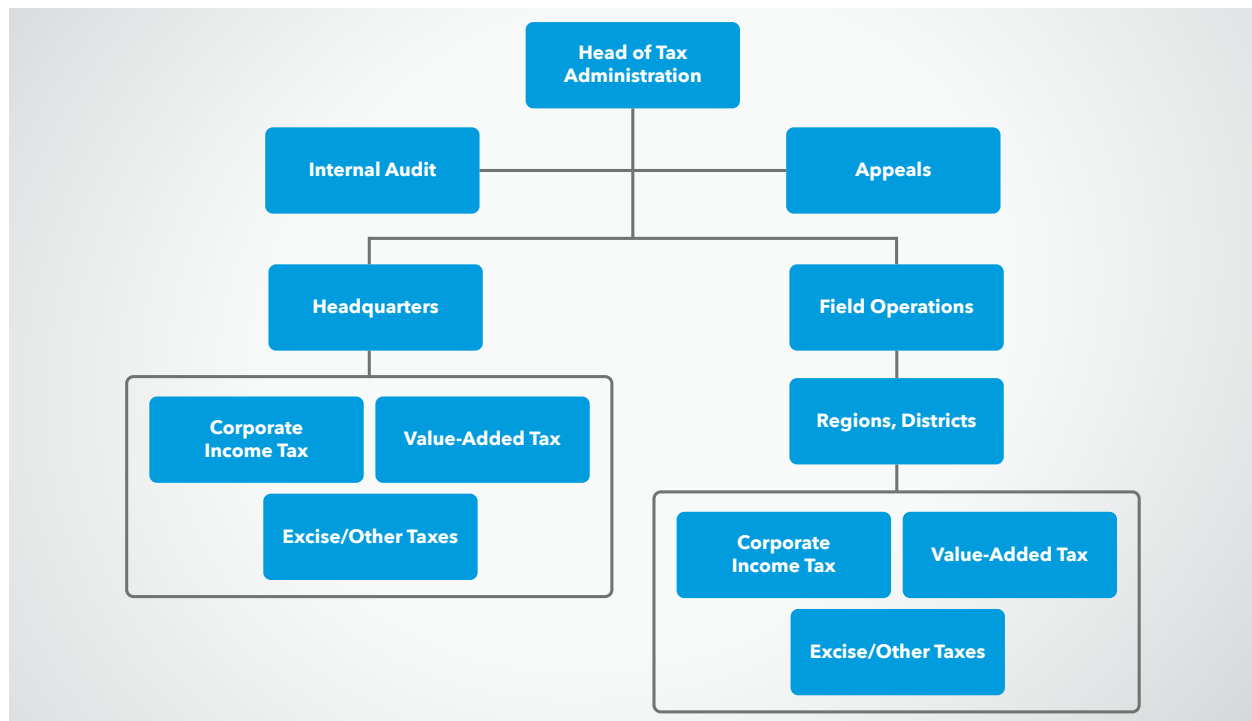
Tax-Type-Based Organizational Model

While largely replaced now by other models, a version of the tax-type-based organizational model is sometimes used when a new tax type (e.g., value-added tax [VAT]) or new area of responsibility (e.g., student loans, collection of social security contributions [SSC]) is added to a tax administration’s responsibilities.

The **tax-type-based organizational model**⁶ establishes accountabilities for core activities of the tax administration based on tax type. Typically, the approach distinguishes direct and indirect taxes or income tax and VAT.

The approach sees **each tax-type-based unit being responsible for administering all aspects of work** related to that tax type. This includes registration, taxpayer services, returns/payment processing, audit, collection of arrears, and dispute resolution. Leadership roles are also based on tax type (e.g., Commissioner of VAT), and many delivery roles, while functional, are also aligned with the particular tax type (e.g., CIT auditor, VAT debt collector). Figure 2.6 is an illustration of a tax-type-based model (with only the top levels of the organizational structure shown; some functions are not displayed).

Figure 2.6. An Example of a Tax-Type-Based Organization



⁶ According to ISORA 2018, 19 percent of the surveyed tax administrations followed a tax-type-based model in 2017.

Strengths and Limitations of a Tax-Type-Based Organizational Model

This model is based on having a dedicated focus and clear accountability and responsibility for each tax type and may be practical when a new tax type is introduced or there is a need for closer monitoring of the performance of a particular tax type. For example, an administration might establish a VAT organizational unit to improve VAT revenue collection.

While the tax-type-based organizational model is practical in some situations, it also has limitations. A tax-type-based structure typically duplicates effort, as most tax functions—from registration to tax audit—are replicated. This approach may not support internal synergy, as work on each tax type is being separately managed (e.g., VAT audit is managed separately from income tax audit). It also does not facilitate insights into the overall compliance behavior of the taxpayer across tax types. In addition, this approach is likely to increase the compliance burden for taxpayers having to put in place reporting and payment arrangements for each tax type. Tax-type-based models are no longer commonly used in organizational design.

Hybrid Organizational Model

A **hybrid** tax administration organizational structure is one that:

- Operates as a function-based or tax-type-based model with segmented and/or specialized field delivery activities, such as an LTO;
- Centralizes activities such as return and payments processing or call management; and/or
- Takes a front office / back office⁷ approach to organizational design.

Hybrid models tend to be unique to the administration and country frequently evolving where the tax administration has adopted a structural response to:

- Implementing new tax regimes or policies (e.g., VAT or social programs)
- Introducing new technologies or work methods (e.g., developing digital services)
- Managing specific compliance risks (e.g., managing VAT carousel fraud or base erosion and profit shifting)
- Establishing centers of excellence (e.g., government debt collection)
- Responding to external criticism (e.g., a public enquiry, major loss of trust and confidence, or central agency report highlighting shortcomings in tax administration)

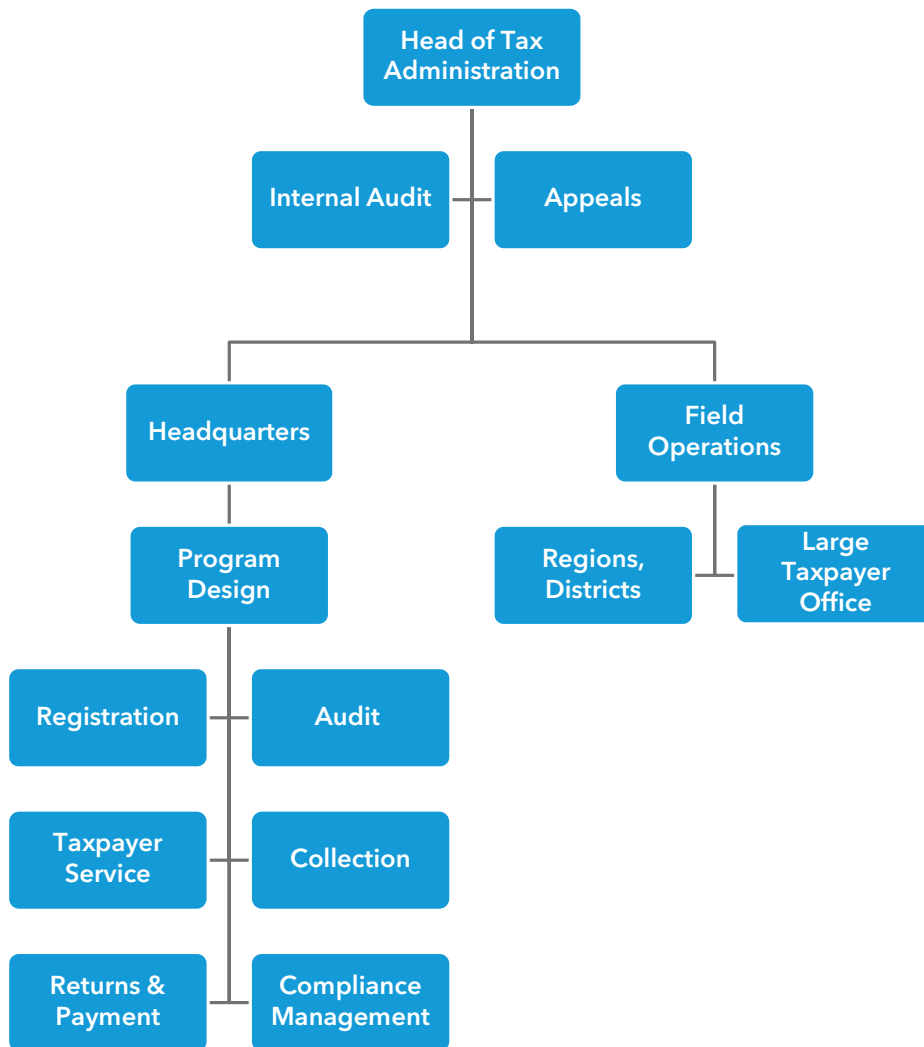
In some cases, hybrid models have facilitated wider outsourcing to include development of centers of expertise (e.g., training centers) and other areas of specialization (e.g., IT) across government.

⁷ Front office / back office refers to organizing work and business processes based around those areas that are primarily responsible for interacting with the taxpayer (front office) from those areas that do not (back office).

Hybrid models, many of which are underpinned by access to large volumes of data (analyzed using advanced analytics), enable more tailored approaches to be developed as well as a general rethinking of how tax compliance can be best assured and improved. Administrations that have implemented hybrid models typically have strong relationship management skills, sophisticated performance monitoring and reporting, and wider governance arrangements of their operations. They often have more open and strategic relationships with software developers, tax return preparers, and accountants.

An example of a hybrid (with a mix of functional focus and a large taxpayer segment) organizational structure is shown in Figure 2.7. Note that the figure does not display all tax administration functions.

Figure 2.7. An Example of a Hybrid Tax Administration Structure



There is no right or wrong tax administration organizational model. The ideal model is the one that works best for that administration and has been designed within the context of that administration’s requirements, size, and current reform progress.

Key Features of a Modern Tax Administration

The key features of a modern tax administration are summarized in Box 2.1.

BOX 2.1. Key Features of a Modern Tax Administration

- A single tax administration for all national taxes and core functions
- Strong internal and external governance arrangements
- An organizational structure that is function or function/segment based (hybrid)
- Separation of HQ and FO
- A strong performance management system
- Taxpayer segmentation based on risk and characteristics
- Fully automated, well-designed, and efficient business processes
- Well-designed and delivered programs including risk-based compliance and enforcement programs
- A “one-stop” taxpayer service window (usually through call centers)
- An integrated information technology system
- Strong engagement that facilitates coordination across relevant government agencies
- Skilled and professional employees who model fairness, honesty, and transparency

Note: FO = field operations; HQ = headquarters.

Comparing Tax Administration Organizational Models

The selection of an organizational model requires considerable thought, as do decisions to adapt and vary what is common practice in the use of these models. There is no perfect structure. Table 2.1 provides a simple comparison and highlights some of the major dependencies within each model and can assist in considering organizational change in a more holistic and systematic manner.

Most organizational models require “matrix management” arrangements in place requiring greater collaboration where employees or organizational units report to more than one manager. This requires strong internal governance processes and managers that embrace delivering outcomes rather than processes that simply track and report output delivery.

Table 2.1. Comparison of Tax Administration Organizational Models

| | Tax Type | Function | Segment | Hybrid |
|--------------------|--|--|--|---|
| Features | | | | |
| Accountability | On tax type | On function | On segment | On function or segment |
| Management | On tax type | On function | On segment | On function or segment |
| Resourcing | Functions with tax types | Function | Functions within segments | Specific to units and functions |
| Strengths | | | | |
| | <ul style="list-style-type: none"> • Tax-type focus • Establishing new business line | <ul style="list-style-type: none"> • Standardization • Excellence centers • Whole-of-taxpayer view • Improved compliance over tax-type model • Better resource management | <ul style="list-style-type: none"> • Systematic taxpayer view allows adaptive work practices • Excellence centers • Improved compliance • Better resource management • Compliance burden reduced • Improved end-to-end thinking and design | <ul style="list-style-type: none"> • Allows the tax administration to rethink what its role is in the tax system • Lower government cost of operations • Excellence centers |
| Limitations | | | | |
| | <ul style="list-style-type: none"> • Duplication of activity • Lack of internal synergy • No whole-of-taxpayer view • Can increase compliance burden | <ul style="list-style-type: none"> • Inhibits end-to-end thinking • Taxpayer not treated holistically • Increased compliance burden • Introduces matrix management | <ul style="list-style-type: none"> • Higher cost of operation • Duplication • Less internal synergy • Major reliance on data, analytics, and reporting • Requires matrix management | <ul style="list-style-type: none"> • Requires new nontax competencies • Lifts management complexity • Major reliance on data, analytics, and reporting • Requires matrix management |
| Use | | | | |
| | Rare —mainly now used in start-up or project mode in implementing new tax types | Common —principal basis for most tax organizational structures | Rare —full segmentation is rare, but most models use some segmentation | Common —draws together features of other models and emerging approaches |

CHAPTER 3.

The Role of Headquarters and Field Operations

This chapter expands on the role of headquarters (HQ) and field operations (FO) and explains why it is necessary to keep these two distinct functions separate.

Headquarters' Role in a Tax Administration

For a tax administration to be effective, it must have an HQ function that:

- Sets long-term goals and operational policy⁸
- Develops an annual work program
- Establishes, monitors, and reports on national performance
- Guides field operational units

Often referred to as the **brain of the organization**, a proper functioning HQ must have a leading role in shaping the system of tax administration. It is responsible for establishing the strategic direction of the tax administration and ensuring it remains contemporary in meeting the needs of government and taxpayers. This role includes ensuring that the organization is well positioned to take advantage of new technologies, changes in the wider tax ecosystem, and pursuing new opportunities. It must also monitor and report on national performance.

Box 3.1 sets out in more detail the critical roles performed by HQ.

⁸ Operational policies provide key information on the delivery of core tax operational activities. The policies outline the context for delivery as well as provide guidance and critical process information to ensure consistent application.

BOX 3.1. Critical Roles Performed by Headquarters

Headquarters has a leading role in the administration of the tax system, including:

- **Planning:** sets the tax administration's medium-term strategic direction and corporate priorities, prepares national work plans, and allocates resources in line with the organization's goals.
- **Managing compliance and other risks:** identifies and assesses risks to revenue (compliance risks) and risks to tax administration operations (enterprise risks) and develops strategies to mitigate those risks.
- **Monitoring and managing performance:** routinely measures and evaluates the organization's performance to ascertain the extent to which its goals and objectives are being achieved.
- **Developing programs, policies, and procedures:** designs taxpayer service and enforcement programs and core business processes and prepares administrative policies and procedures for national application.
- **Ensuring transparency, integrity, and accountability:** establishes and maintains the organization's governance framework of transparency and accountability in administration.
- **Managing reform:** develops and manages the organization's reform agenda.
- **Maintaining central control over field operations:** directs, advises, and monitors field offices to ensure national operational plans and performance standards are met and the organization's programs and policies are delivered in a uniform way.
- **Providing support services:** includes a range of administrative services (e.g., information technology [IT], human resources [HR], and finance) and specialist tax technical services (mostly legal) to the entire organization.
- **Analyzing tax revenues:** provides input to government tax revenue estimating and forecasting processes and supports tax administration planning and compliance risk management.
- **Managing relationships with stakeholders:** maintains effective working relationships with stakeholders who can affect or be affected by the tax administration's actions, processes, and policies.

HQ has a critical role in deciding the work priorities for the tax administration. The planning processes should identify volumes, performance standards, and funding allocations for work and prioritize work tasks for FO. This role is particularly important where case selection systems for arrears collection or follow-up of nonfilers use *business rules*⁹ that determine which cases will (and will not) be actioned. In more advanced applications, business rules may determine what actions are to be taken automatically through IT systems.

⁹ Business rules are decision hierarchies used, particularly in association with analytics, to identify risk, prioritize work, and select cases for examination.

HQ should also maintain central control over the tax administration's FO. It should direct, advise, and monitor FO to ensure national work plans are adhered to and operational performance standards are met. It ensures the organization's national plan, including programs such as the service and enforcement activity set out in the Compliance Improvement Plan, is delivered to set standards by all field offices consistently across the country. In most tax administrations, HQ and field structures align (see Figures 2.1 and 2.3). This means that in a function-based tax administration, each field unit will be linked to, and supported by, an HQ unit that will determine and guide its activities. In a segment-based structure, field units are typically supported by segmented units within HQ.



An effective and efficient tax administration can only be achieved with a **well-designed and operational HQ function** in place.

Many tax administrations continue to have weak HQ structures. The reasons for deficient structures vary but commonly stem from a poor understanding—at the government and/or tax administration level—of the role and contribution that a well-functioning HQ makes to the efficient and effective management of the tax system. Factors that inhibit the effectiveness of an HQ function include:

- **Inadequate and/or unstable resourcing of the HQ function:** where HQ roles are left unfilled for long periods of time often resulting in excessive autonomy of field offices and lack of uniformity and consistency in overall operations.
- **Siloed function or segment activity:** where the emphasis is on individual unit delivery without essential consideration of wider organizational outcomes.
- **HQ employees engaged in operational work:** HQ employees undertaking operational work that is more appropriately done in field offices. This activity not only blurs the lines of accountability between what field offices do but also means HQ employees are not performing their primary role of providing national direction and support to frontline operations.
- **Fragmented authority and functions at the central level:** where responsibility for tax administration functions is spread across several independent organizational units.
- **Duplication of effort:** where organizational structures have been changed in isolation and a system view of responsibility and accountability is not considered.

The Changing Role of Field Operations

In most jurisdictions, administrations provide taxpayer services and compliance interventions through branch, district, or local offices. The location of these “field operations” is generally determined by the location of centers of population (and workforce), the scope of taxes or fees administered, and the capacity of information technology available to change the nature of service delivery (reducing physical presence through providing more electronic and phone-based support). These offices, either directly or indirectly, report to HQ.

Where the field office network is extensive, administrations have established a separate layer in the organizational hierarchy, often called regional offices, to ensure spans of control are appropriate and accountabilities are clear and monitored. Many administrations, particularly those that have modernized, have assigned a predominantly coordinating role to their regional offices. While some regional offices may include centralized taxpayer-facing work (e.g., audit or debt collection), regional offices typically focus on serving as the primary contact between HQ and the operational offices for general management and administrative issues.

FO are directly responsible for program delivery. They should not have responsibility for national program design, planning, and policymaking. Field offices should focus on their primary role of being the interface between taxpayers and the tax administration. They are responsible for administering the tax law, collecting revenue, and providing services to taxpayers. Field offices are directly responsible for day-to-day work with taxpayers (e.g., delivering frontline services to taxpayers, performing audits, enforcing filing, and collecting tax debts) in line with national policies, procedures, and performance standards set by HQ. While the exact type of office—including any branch or regional network, other specialist units such as call or processing centers, or centralized field activities such as debt collection or taxpayer audit—may differ, FO should be designed in a way that allows it to focus on delivery.

FO are also responsible for providing feedback on the effectiveness and efficiency of the processes, procedures, guidelines, and policies set by the HQ. They bring a unique view to national design and planning, particularly by providing a *reality check* to HQ-designed approaches and suggestions.

Rationalization of the delivery network is mainly driven by technology. IT systems have provided the platform for tax administrations to rethink how its delivery network, including field offices, operates and where it is located. This includes:

- **The use and locations of FO:** As the office network is largely a factor of geography and history, with many established before IT systems and electronic systems were developed, many administrations have looked to rationalize their office networks. This rationalization is often associated with wider reforms to the administration and its work.
- **Different office structures and work arrangements:** Over the last twenty years, new technology has allowed many administrations to rationalize their branch network, close offices, centralize work, and establish centers of excellence for activities such as registration and return and payment processing. In others, while the physical number of offices may not have been reduced, the activities performed in each are no longer a simple mirror image of each other. This model means, for example, that one office may have an audit function, while another may not.
- **More service-orientated approaches to supporting compliance:** While much service work is still reactive, administrations are using technology and data to undertake new proactive activities to address tax compliance risks. Many administrations are now using data from various sources to identify taxpayers who should be registered and using centralized management systems to register taxpayers and follow up outstanding declarations and debt.
- **More all-of-government activity:** Technology allows administrations to work with other government (or local government) bodies to deliver more shared services. This occurs through government service centers and may also utilize taxpayer-centered business processes. For example, the registration of a business could be designed to consider all government registration requirements in a single process.

- **Access:** Much of tax compliance design is based on making it easy for taxpayers to comply (or get it right). Where presence or services are withdrawn from a location, it is important the administration considers how it will maintain and improve taxpayer access and compliance—both in respect of taxpayers who want to comply and those who do not. Compliance improvement programs will require a tax administration to do different things in these areas than it has done before.
- **Digital divide:** This term refers to the gap between demographics and regions that have access to modern information and communications technology (ICT) and those that have limited or no access. As more and more services are being designed to provide electronic access and service delivery for taxpayers, tax administrations will need to consider how to support those taxpayers who want to comply but fall into this “digital divide.”
- **Visibility and proximity:** Where taxpayers consider that the tax administration is no longer active in their area, there is an assumption that they will become less compliant. This issue may also be one that needs to be considered regarding cultural diversity, size, and geographical location of the taxpayer population.



FO are most effective when **tailored to taxpayers’ characteristics and needs, guided by well-designed work programs** and supported by a strong HQ function.

Organizing Internal (Corporate) Support Services and Governance Functions

A tax administration’s work must be supported by a range of **internal support functions**. These functions are often drawn together into an HQ-based organizational unit managed by a senior leader. This approach ensures these functions are represented at senior management decision-making forums without the need to have each support function individually represented. Typically, even in the largest tax administrations, support functions are regarded as part of HQ—even when some of the employees of these functions may be based in branch/regional offices.

The major HQ support functions are:

- **Human resources (HR):** Includes staffing and recruitment, remuneration, employee relations, employee training and upskilling, and performance management.
- **Finance and budgeting:** Includes management and oversight of the annual budget allocated by government for operation of the tax administration—including allocation to business units, internal and external reporting, and maintenance of accounting procedures, systems, and policies. In many organizations, the finance function will also manage procurement activity for the administration.
- **IT/ICT:** Includes managing the technical environment and software used by the tax administration, such as software and hardware enhancements, and storage and security of taxpayer electronic information.

- **Strategy and planning:** Includes the annual planning process and delivery of corporate planning documents, including the strategic plan. Oversight of development of operational plans by business units, monitoring and reporting on achievement against these plans, and reporting against annual, strategic, and corporate plans is important.
- **Internal governance functions:** Internal governance functions (e.g., reform project management) are HQ based and report to the head of the tax administration or an executive committee.
- **Internal audit and internal affairs:** Includes the development of an annual risk-based internal audit plan; undertaking internal audits of key business systems, processes, and programs; and conducting internal investigations within delegated powers.
- **Enterprise risk management:** Given the *whole-of-organization* nature of this work, this activity is frequently situated with other core corporate functions such as internal audit, HR, and finance.
- **Policy and legislation:** Includes the interpretation of tax laws, legal advice, and guidance to FO. This area may be involved in providing taxpayer rulings and authoring guidance notes and brochures. It may also play a central role in considering tax disputes, especially where litigation is involved, and reviewing administrative decisions.
- **International cooperation:** Facilitates cooperation with international agencies assisting with capacity development, tax administrations from other countries (for exchange of information services), and other international enforcement authorities.

CHAPTER 4.

Specialized Functions

An organizational design or redesign of a tax administration should consider if some functions require special attention. There are several functions and activities where it may be more efficient and effective for them to be placed in close proximity to each other (e.g., compliance risk management and strategic planning) or be physically distanced (e.g., audit and the disputes resolution unit). This chapter discusses some of these specialized functions and their placement within a tax administration.

Critical Business Processes

Tax administrations have a range of critical activities or processes that require careful consideration about where they are placed in the organization. Many of these areas are crosscutting, in that they *cut across* the normal vertical lines of authority in an organization, and therefore require an understanding of how accountabilities are managed across the organization. Examples of cross-cutting critical business processes include:

- **Compliance risk management (CRM):** The crosscutting nature of CRM means care needs to be exercised in the placement of management responsibility for developing compliance improvement plans and for overseeing delivery of those plans. HQ coordination and management of the CRM process is essential. A dedicated unit with skilled personnel, a well-designed CRM process, and access to high-quality data are critical success factors for effective CRM.
- **Tax disputes:** A fair, independent, accessible, and effective disputes resolution process is an essential element of an effective tax system. Separation, both physically and operationally, from audit and verification function should be maintained. The precise design of the function will also be strongly influenced by the tax and judicial legislation and processes in each jurisdiction. The independence and fairness demonstrated by this function plays a critical role in building taxpayers' trust and confidence in the tax administration.
- **Revenue forecasting and analysis:** Data gathering plays an important role in revenue performance, monitoring, and reporting tax revenue outcomes, tracking refunds, and the stock of carried forward tax losses. This work often also includes analyzing tax collection trends, revenue yields from audits, and other compliance management-related activities and payment behavior across tax types and taxpayer segments. In some countries, it includes assisting the relevant ministry in: (1) assessing the impact on revenues of new taxes (or changes to existing ones) being considered by government; (2) identifying the revenue effects of tax expenditures (i.e., the value of revenue foregone by government because of concessions¹⁰); and (3) calculating the amount of past years' tax losses yet to be recovered. Placement of this function is in either a finance unit that has a focus on revenue reporting or an operations policy and research unit.

¹⁰ For example, deductions, exemptions, concessional rates, and deferral of tax liabilities

- **Tax and crime:** The jurisdiction of tax administrations varies widely, with some able to perform criminal (tax fraud) investigations, while others must hand over the investigation responsibility to other agencies or departments. Placement of, and responsibility for, such work requires careful consideration to ensure issues such as secrecy, due process, and safety of employees are fully addressed. Where tax and crime activities are part of the tax administration, it is good practice to have an active reporting line to an executive leader. The independence and fairness demonstrated by this function are critical to public and judicial confidence in the activities of the tax administration.
- **Data analytics and research:** The use of data analytics is now widespread across tax administrations. With it comes the risk that individual units, sections, or divisions will look to establish their own analytics and research activities. How analytics fit into the wider tax organization is a complex question, but it is generally accepted that, because of the scope and complexity of a contemporary analytics function, it is best positioned as an HQ function.

While most corporate functions including planning and budgeting, reporting and monitoring, and performance management tend to have obvious “homes” in a tax administration organizational structure, there are several critical functions where multiple options for their location in the organization require careful consideration. For example, the maintenance of a high-integrity taxpayer register is pivotal to effective tax administration. Without the register, automatic actions for returns and payment management, services, audit, or tax arrears cannot occur. Unfortunately, in many organizations, ownership of the taxpayer register is not clear. The tax administration must have an appointed gatekeeper who is responsible for overseeing the policies and processes to support, maintain, and enhance the integrity and use of the taxpayer register. There may be a tendency to think that IT would be an appropriate gatekeeper; however, because the register is so important to managing compliance, a business owner (a senior employee from an operational area of the administration) would be better placed to maintain the register and ensure the accuracy and completeness of taxpayer information.

CHAPTER 5.

Adapting the Organization for New Responsibilities

With many tax administrations now being tasked by their governments to take on other areas of responsibility in addition to their tax administration role, this chapter explores how administrations are adapting their organizational structures to support delivery of wider government programs. The allocation of additional responsibilities reflects the diverse capabilities that tax administrations have particularly in registry, service delivery, customer interface, tax collection, data management, and compliance management. Taking on these additional areas of responsibility recognizes:

- The synergies with existing administrative processes, particularly when introducing new policies or redesigning services from the customer's perspective
- An administration's access to tax data, powers, or core capabilities
- Economies of scale, particularly in service delivery
- Confidence in the proven ability of tax administrations to deliver complex administrative processes on a large scale

Creating Synergy with Existing Administrative Processes

With most governments looking to achieve more, often with less, they are increasingly seeking synergies inside government agencies and within the overall government domain. As they look to respond to citizens who often see government as one body rather than individual departments or agencies, they want a public sector that is more responsive and integrated. This whole-of-government approach has seen the establishment of centers of excellence, or shared services arrangements, across government in areas such as:

- **Business registration:** Rather than each agency enrolling or registering new businesses, one agency ensures registration requirements of all government agencies are managed.
- **Customer service:** Multiagency service centers are established so that citizens can transact with a range of government services in one location (referred to as a "one-stop shop"). Often with this approach, "taxpayers" are referred to as "customers."
- **Information Technology:** The investment made in establishing a tax system's IT operation is also being used to run or provide disaster recovery backup for other agencies.
- **Debt collection:** Tax administration collection capabilities and powers are used to collect multiagency debt.

Adopting new organizational changes that take this approach should be carefully considered. They frequently require a greater investment of time and energy to implement and maintain.

New Nontax Roles

The strong capabilities within a tax administration are often the reason governments use the tax administration to deliver new nontax programs or to make transfer payments¹¹ to citizens. In many cases, these nontax programs are related to a tax type (e.g., collection of student loans through the Pay-As-You-Earn system) and can generally be integrated into the tax administration's processes. However, when the nontax roles do not have an association with a tax type, such as collection of child support payments, careful consideration needs to be given to the capabilities needed, how these activities are managed, and the processes needed to support successful delivery. For example, while administrating a child support regime deals with a similar client (taxpayer) base to that of a tax administration, the client interactions are very different.

New Technologies and Software

The last ten years have seen major changes in the development of bookkeeping, accounting, and payroll software. Accounting software is now more accessible and affordable, with better functionality and more intuitive interfaces. These advances, alongside the expanded use of new technologies in the business and general communities, are presenting administrations with new business relationships and opportunities, especially with taxpayers in the Small and Medium Enterprises (SME) sector. These changes have seen growth in electronic and digital payment systems, electronic invoicing, and digital cash registers that track sales, production, or consumption at different stages of the supply chain.

The likelihood is that advances in the sophistication and application of technology will accelerate as tax administrators and regulators consider how the new technology (e.g., blockchain) might be used to enhance tax collection.



The pace of change driven by government, new technologies, expectations of taxpayers and the wider community, and new stakeholders operating in an ever-expanding tax ecosystem are all placing demands on tax administrations to change not just **what they do** but **how they are organized** to do it.

¹¹ A transfer payment is a redistribution of income and wealth by means of the government making a welfare or business support payment/grant, without goods or services being received in return. Increasingly, tax administrations are being tasked to manage these arrangements through welfare or tax support programs.

CHAPTER 6.

Summary

A tax administration's organizational arrangements underpin its success. It is therefore essential that OD follows modern OD principles, is tailored to the administration's challenges and environment, and positions the organization for the future.

Undertaking the design of a tax administration is a challenging task. The administration's organizational arrangements underpin its ability to achieve an efficient and effective administration that will ensure it meets its strategic goals. The organizational arrangements should be flexible enough to support the administration in the future but rigid enough to support the delivery of short- and medium-term business outcomes.

OD is much more than changing the organizational chart—it facilitates thinking on how, where, and when work across an organization is done. Key questions that will assist in assessing the effectiveness of a tax administration's organizational structure are set out in Table 6.1. It is also important to recognize that organizational arrangements will need to be reviewed and adjusted over time as the administration deals with changes to law, improvements to IT systems, and changes to compliance risks and significant resourcing decisions.

Table 6.1. Assessing the Effectiveness of a Tax Administration Organizational Structure

| Dimension | Common Mistakes |
|--|---|
| Organization and Accountability | |
| <ul style="list-style-type: none"> • Are sound accountability mechanisms in place in headquarters (HQ) and field operations (FO)? <hr/> • Are similar activities grouped or are they replicated across the administration? <hr/> • Are centers of excellence part of the current organizational structure? <hr/> • Is the current organizational structure well understood and regarded as effective? <hr/> • Do spans of control allow proper management of areas of accountability? <hr/> • How effective is internal governance? | <ul style="list-style-type: none"> • Not establishing clear responsibilities and accountabilities—knowing where one role ends and another begins avoids either overlap or gaps. • Not adjusting the structure as the organization changes—tax administrators need to continuously review how their structure supports delivery of their vision; otherwise the administration outgrows its structure and finds it cannot deliver effectively in the new environment. • Structuring around people and not tasks. • Not obtaining input from employees, stakeholders, and taxpayers. • Ignoring what is happening in the general or business community or with key stakeholders. |
| Planning | |
| <ul style="list-style-type: none"> • Are planning processes well understood and embedded in the tax administration? <hr/> • Does enterprise planning address major compliance risks in a holistic way? <hr/> • Does the annual planning and resource allocation process involve HQ and FO? <hr/> • Are performance reporting processes robust and driving performance improvement? <hr/> • Does the administration formally review its annual plan and replan if necessary? <hr/> • Is it easy to get a whole-of-taxpayer view on tax compliance? <hr/> • Are advanced analytical capabilities in place to support business planning? | <ul style="list-style-type: none"> • Not developing a clear vision for how the organizational changes support new ways of operating—including how structure aligns with vision, strategy, and goals. • Not developing a sound communication strategy including engagement with employees and stakeholders. • Not developing a change management plan that establishes a sense of urgency. • Changes not being well planned and governed. • Making ad hoc changes that are not thought through—all changes whether large or minor need to be properly assessed to ensure: (1) they address the causes of the problems identified and not just treat the symptoms and (2) an end-to-end view of the changes and their impact is examined. |

(Continued)

Table 6.1. Assessing the Effectiveness of a Tax Administration Organizational Structure (Continued)

| Dimension | Common Mistakes |
|---|---|
| Monitoring and Reporting | |
| <ul style="list-style-type: none"> Is information on tax type <u>and</u> functional performance readily available and monitored? | <ul style="list-style-type: none"> Not considering changes to management reporting and information systems. |
| <ul style="list-style-type: none"> Does the administration regularly analyze information on segment/sector performance? | <ul style="list-style-type: none"> Failure to establish effective internal governance and management forums to support new delivery approaches and to embed change. |
| <ul style="list-style-type: none"> Are compliance improvement plans documented and reported against? | <ul style="list-style-type: none"> Not considering how “informal information flows and systems,” used by managers and employees, can be used and adapted. |
| <ul style="list-style-type: none"> Do managers meet regularly to discuss performance? | |
| <ul style="list-style-type: none"> Are managers held accountable for nondelivery? | |
| Design and delivery | |
| <ul style="list-style-type: none"> Is data collected and routinely analyzed and used in HQ and FO? | <ul style="list-style-type: none"> Not understanding the internal culture of the organization to help guide placement of activities and units. |
| <ul style="list-style-type: none"> Does the taxpayer register have a designated owner, who drives data improvement? | <ul style="list-style-type: none"> Having the wrong people in critical roles. |
| <ul style="list-style-type: none"> Does FO provide input to HQ on changes needed to IT systems? | <ul style="list-style-type: none"> Not ensuring accountability statements are clear and aligned—includes ensuring that managers and employees are clear on the roles of HQ and FO. |
| <ul style="list-style-type: none"> Do HQ units and FO regularly prioritize change requests made for IT systems? | <ul style="list-style-type: none"> Not establishing effective management forums to support “across organizational” decision-making. |
| <ul style="list-style-type: none"> Can resources be easily mobilized between business units to address business peaks? | |
| Systems and Processes | |
| <ul style="list-style-type: none"> Are business processes owned, mapped, and well maintained? | <ul style="list-style-type: none"> Failing to attribute ownership of critical business processes or systems, e.g., ownership of the taxpayer register—including the various roles of HQ and FO in maintaining and monitoring performance. |

A tax administration organizational design checklist to assist with the design and implementation stages of OD is in Appendix 1 followed by a list of key OD tools and references (Appendix 2).

APPENDICES

Appendix 1. Tax Administration Organizational Design Checklist

Step 1: Defining the outcome (objective) expected from the OD process

Preparatory Activities

- Appoint an “owner” of the work, someone to oversee the work on behalf of senior management; frequently, this will be one of the direct reports of the commissioner / director general.
- Decide on the initial core team.
- Appoint a project manager to manage the overall day-to-day processes.
- Choose the “design method” for the systems approach to OD. This will be the framework throughout the OD steps and the basis for documenting the OD work.
- Agree on collaboration arrangements, documentation requirements, and time schedule for this OD step.

Describe the problem or the opportunity that the redesign is addressing

- What is the “problem that needs to be solved” or “the opportunity to improve the administration” in words and in numbers? This will help to understand the urgency/priority of the issue.
- What is the scope of potential change?
 - Single or multiple existing processes
 - Entire functional area
 - Technological interfaces only
 - Internal communication/collaboration arrangements
 - External communication/collaboration arrangements
 - Introduction of new functions or processes
- Who will be affected by the changes?
 - Internally: functional areas, units, number of people
 - Externally: taxpayers, government agencies, ministries, civil society

- How will they be affected?
 - There may be a need for new employees who may require training or existing employees requiring retraining.
 - Existing jobs may disappear, downsizing needs to be planned for.

Estimate the time required and cost involved

- Be conservative (realistic)—experience shows that it will always take longer and cost more than initially planned.
- Be pragmatic—the design team is not “selling” anything but finding the least intrusive way to make improvements.
- Remember the business continuity requirement—whatever it takes to design and implement the change, the day-to-day revenue administration work must continue.
- Identify risks to the work and how these might be managed/mitigated.
- Determine if external advice or input is required from a consulting company.

Formulate the Objective (expected outcome)

- Make it specific, measurable, attainable, relevant, and timebound (SMART).
- Ensure there are quality and quantity indicators in place and that the components of the OD that are affected/need adjusting are clear.
- Identify which of the components of the OD is the primary object for change.
- Prepare the business case.

Step 2: Developing the new design

Establish a project team, agree an action plan and time frames:

- Depending on the scope of the OD task, some or all of the OD team may need to be released from their other duties to allow them to focus on the OD work full time.
- If external advice is required, factor that into the timetable and budget.
- Build in the project governance aspects to ensure it is clear how the project work is monitored and reported by senior management and stakeholders.¹²
- Determine a critical path for the project that includes delivery milestones.

Develop an initial communication package based on the business case to:

- Inform the rest of the organization about what is being proposed, the time frames, and who the go-to-person is should anybody have any questions about the OD initiative.
- Involve relevant people in the work of the core design team to ensure the best expertise is used.

¹² For major organizational redesign projects, a more formal governance structure may be required so that senior management, relevant ministries, and/or public service authorities are consulted in a timely manner.

- Manage and inform stakeholders and the public about what the change might mean for them and how they might (or might not) be involved.

Develop alternatives for achieving the design objective:

- Remain focused on the objective and key performance indicators (KPIs) and do not be distracted with “nice-to-have things.”
- Study international best practice and benchmarks, understanding the different backgrounds.
- “Dig into” internal and external factors to understand which alternative generates the least resistance and offers the best effect in relation to the design objective.
- Recognize the difference between what is theoretically possible and what is possible given the reality of the organization.
- Document “now” and “after,” visually and in terms of KPIs—this also helps determine whether the project plan has covered all aspects of the work.
- Test the alternatives. This can be done using formal focus groups, meetings with senior management, or using a more informal group of people. Ensure the perspective of all internal and external stakeholders is understood.
- Prepare a high-level delivery roadmap for each option.

Choose the best design option:

- Facilitate sessions with key stakeholders to test the design team’s thinking, approach, and conclusions. This will help ensure the approach is robust and the design thinking is grounded.

Step 3: Implementing the new design

Decide if single-phase or multiple-phase design:

- Single phase means that the OD solution is implemented in one go followed by the PIR.
- Multiple phases are normally used for larger-scale changes where the desired outcomes cannot be predicted with certainty for all parts of the system and the system as a whole.
- Where multiple phases are used, build feedback loops into the action plan together with approval procedures before entering the next phase.
- Consider what actions to take if the design becomes interrupted by “unplanned events,” such as changes to management or unexpected events, such as the COVID-19 pandemic.

Ensure all “key players” are involved:

- What support is needed from HR, Communication/PR, Finance/Infrastructure, and IT?
- At what stage would it be useful to involve internal audit and internal integrity management specialists to sign off the design from an institutional risk management perspective?
- Consider ongoing internal and external communication.

Integrate the OD implementation plan into the general planning and reporting cycle:

- This is important for awareness, recognition of people who work on it, and resource and outcome planning in general.
- Ensure all relevant resource coordinators/managers are consulted in a timely manner so that the OD plans are included in the plans for their respective areas (e.g., HR, IT, infrastructure, internal audit, internal control) and that they have a chance to contribute at the right time and not be caught unprepared.
- Ensure budget approval and obtain funding for the implementation.
- Are the planning and reporting templates in place? This includes templates for those managing the project as well as for those in oversight or governance roles.

Prepare a risk management plan:

- How will the periodic reporting of milestones and risks within the project team be organized?
- Who is responsible for internal/external communications?
- How resource changes may impact the delivery timetable and outcomes?

Document:

- Documenting processes and outcomes helps build the knowledge base and experience about the administration, the initiatives to redesign it, and the learnings from the processes.

Step 4: Conducting PIR

- A PIR evaluates whether the OD task objectives were met, how effectively the project was run, lessons for the future, and the actions required to maximize the benefits from the project outputs.
- It is tailored to different types of projects and industries. It should be tied to the essential success indicators and objectives identified and agreed at the beginning of the OD process and can be tied to the benchmarks agreed to in the planning and implementation phases.
- The PIR will also help document weaknesses in processes, procedures, and competencies that may have emerged during the implementation phase. It also provides a comprehensive compendium of learnings and experiences for future OD projects.

Appendix 2. Toolbox and References

There are a range of tools available to analyze and visualize the information that may be useful in an OD process. This list is not exhaustive; it is a source of inspiration for further research.

| Tool | Purpose | Link |
|--|--|--|
| Root Cause Analysis (RCA) | RCA is a method of problem solving used for identifying the root causes of faults or problems in various circumstances—processes, IT ops, accidents, incidents, etc. | https://www.cms.gov/medicare/provider-enrollment-and-certification/gapi/downloads/fishbonerevised.pdf |
| Force Field Analysis | This tool is used for the preliminary sketching after RCA. It provides a good understanding of stakeholder analysis. | https://www.mindtools.com/pages/article/newTED_06.htm |
| Functional Review | Functional review is a tool for mapping the entire organization identifying overlaps, conflicts of interests, and obsolete activities. It works well provided the “functions” are defined properly. Start by distinguishing between core and support functions, then look at the HQ and FO responsibilities. | http://www.globaldeliveryinitiative.org/library/tools/functional-reviews |
| Process/ Workflow Mapping and Business Process Reengineering | This guide provides further detail into the specific project management discipline and features a range of project management tools. | https://creately.com/blog/diagrams/process-mapping-guide/ https://en.wikipedia.org/wiki/Business_process_re-engineering |
| RACI Matrix | Derived from the four key responsibilities most typically used: responsible, accountable, consulted, and informed. It is used for clarifying and defining roles and responsibilities in cross-functional or departmental projects and processes. | https://en.wikipedia.org/wiki/Responsibility_assignment_matrix |
| Focus Group (FG) | The idea of FG is to learn about the participants’ reactions and to collect qualitative data through interactive and directed discussions. | https://en.wikipedia.org/wiki/Focus_group |
| PIR | How to lead a review of the OD process and outcomes and learn how to repeat what worked and discard what didn’t work. | https://www.projectmanager.com/blog/post-implementation-review https://yourprojectmanager.com.au/when-what-post-implementation-review-part-2/ |

Notes: HQ = headquarters; FO = field operations; OD = organizational design; PIR = postimplementation review.

Models and Frameworks

There is a wide variety of frameworks to ensure the systems approach. Below are examples of four of the more commonly used approaches:

- McKinsey's 7S Design Model (https://www.mindtools.com/pages/article/newSTR_91.htm)
- Transformation Model by the Center of Organizational Design (<http://www.centerod.com/framework/>)
- Strategy's DNA Approach (<https://www.strategy-business.com/blog/The-10-Principles-of-Organizational-DNA?gko=dd477>)
- BCG's Smart Design Approach (<https://www.bcg.com/publications/2016/people-organization-new-approach-organization-design>)



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