Global Trends in Revenue Administration
Meeting Economic Challenges and Tax System Modernization Goals

Siem Reap: Asia Tax Forum
October, 2010
Agenda

- Macro View of Trends in Revenue Agencies
- Business/IT Alignment in Revenue Agencies
- The Path to Effective Systems Modernization
The Macro View of Trends in Revenue Agencies
Revenue Statement of Strategy

Context

Political
• Transforming public services
• Doing more with less
• Shared services

Economic
• Unprecedented economic upheaval/recession/recovery along with continuing development needs

Social
• Social networking
• Data privacy & security considerations
• Social inclusiveness
• Social progress

Technological
• Technical approach
• Cost and schedule
• Advanced analytics
• Cloud computing

Legal
• National and international legislative and regulatory requirements are continually evolving

Environmental
• Green agenda
The rate and pace of change is accelerating
Forcing Governments of All Sizes to Respond to a ‘Flat World’

- Citizens are redefining the rules of the game
- Changing workforce composition dictates new approaches
- Better information sharing within government departments, across levels of governments and extending to private enterprise
- Dynamic collaboration and coordination with multiple public and private parties during times of national emergency
- Emerging requirements (data security, threat/fraud abuse, security concerns) have significant impact on budgets and procedures
- Regulatory burdens intensify

Source:
Identifying what should be changed: How public officials and military leaders can choose wisely
Key trends: Modern Tax Administration

- Reducing burden on taxpayers and increasing on-line taxpayer services
- Improving taxpayer services through better customer relationship management and channel management
- Continuing concerns over privacy/data security in an on-line world
- Reducing fraud and abuse
- Closing the gap between owed and collected tax
- Increased use of third party data for compliance purposes
- Increasing trend towards third party intermediation, e.g. including banks, clearing houses, tax agents, etc. in business process
- Exploring new models for combined government tasks, like collection/payment of social, health and other income related benefits/payments
Some key questions for administrators that impact systems

- Need to think about what we are measuring
  - Activities such as processing all filings?
  - Outcomes such as improving customer perception of fairness or service?
  - Need to measure both
  - Need to tie measures to performance plans and evaluation

- For customs need to be clear on priorities
  - Facilitating commerce
  - Anti-terrorism and organized crime
  - Revenue

- Overall structure of government
  - Collection and disbursements model
  - Non-core activities
  - E-strategy
Compliance on center stage with key questions

How do I know how well I am doing?
Some don’t really know how much they should be collecting.

How do I assure I am auditing the right taxpayers?
Revenue agencies need to reduce no change rates.

What are the tools of the modern auditor?
The is a need to provide auditors with much more than just the paper files in an electronic format.

How do I know which sectors are compliant and which are a problem?
We know not all sectors are the same in terms of compliance.

How can I use my collection resources most effectively?
Collection resources are often not effectively used, wasting time on non-productive cases.

How do I do compliance in a real time world?
It is possible to move more compliance activities to the front of the processing stream.
Some clients want to do this first but compliance use of analytics still evolving

- New York State is probably as advanced as anyone we have worked with
  - Improved case selection and feedback to front end to stop bad refunds from being issued (est. $800 million in bad refunds will be stopped in first 4 years)
  - Improved collection case assignment (est. $400 million in additional revenue in first 3 years)

- We see a number of patterns
  - Expensive software licenses receiving very limited use
  - Clients saying they are not getting adequate ROI
  - Clients with multiple stovepipe compliance systems saying “please, I don’t need one more”

- There are some creative projects underway
  - U.S. criminal business intelligence project
  - Canada project on tools for auditors
Business/IT Alignment in Tax Agencies
Processes before systems

- Systems support the business activities
- If it does not clearly support improving a business measure, don’t do it
- Even missions are subject to change and are changing

- Establish measures for success up front
- Manage “transition”
- Look for a vendor who will be a “partner”
Example: IBM uses a structured model “Service Oriented Enterprise” as a design starting point for its Tax Solution Framework.

Service Oriented Enterprise (SOE) – From strategy to services and IT implementation

End to end services identification with forward and backward traceability to performance impact
Reengineered Tax Administration Framework

Identity management

E-Tax Administration
- Tax Web Portal
- E-Tax Self Services
  - Registration
  - Filing
  - Payment
  - Compliance
  - Self Audit
  - Taxpayer Service
  - Research Policy
- E-Data Store

Core Tax Processing System (s)
- Transaction Processing
  - Registration
  - Returns
  - Remittances
- Taxpayer Accounting
  - Personal Income
  - Business Income
  - Sales
  - Withholding
  - Misc. Taxes
- Revenue Accounting
- Workflow Management or CRM
- Correspondence and Document Management
- Authoritative Taxpayer Account Data

Compliance Management
- Strategy/Policy Development
- Performance Measurement
- Taxpayer Behavior Modeling
- Decision Engine
- Compliance Components
  - Collection
  - Audit
  - Fraud Detection
  - Legal
- Compliance Data Warehouse

Technical framework (variety of vendor solutions)

Back office systems (personnel, finance, internal audit, asset management)
Example: The e-Customs Suite consists of different functional components seamlessly integrated, on top of a rich foundation.
The Path to Effective Systems Modernization
Should technology react to business needs or should business respond to new technologies?
## Alternative solution approaches

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<tr>
<th>Solution</th>
<th>Advantages</th>
<th>Disadvantages</th>
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<tr>
<td>Custom Built</td>
<td>- build to exact client specifications</td>
<td>- allows maximum deviation from best practice</td>
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<td></td>
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<td>- generally costly to maintain and modify</td>
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<td>- to be effective requires IT department to operate like software company</td>
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<tr>
<td>End-to-End COTS</td>
<td>- configured full solution closely aligned to best practice based upon earlier client experience</td>
<td>- generally not best-of-breed in all functions</td>
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<td>- could be hard to “pull apart” to install alternative components</td>
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<td>- ties agency to single SW vendor</td>
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<tr>
<td>Component COTS</td>
<td>- advantages of COTS components with maximum flexibility to use variety of software products and to upgrade components in the future</td>
<td>- requires higher level of enterprise architecture management and governance</td>
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Lessons Learned From Other Modernization Projects

- **Mission, Desired Outcomes and Indicators**
  - Clearly define the organizational mission – define and validate what that truly means for the modernization effort

- **Enterprise Vision and Strategy**
  - **Business Strategy**
    - Invest the up front time in truly defining the challenge and root causes
    - Create a vision and strategy that affirms your mission – if you don’t know where you’re going, any road will do
  - **Operations Strategy**
    - Build operational improvement objectives associated with achieving the transformation into the performance evaluation of key executives … when they succeed they should share in the rewards
    - **IT Strategy**
      - Engage the IT staff in the strategic dialogue
      - Iteratively define the IT strategy within the context of the mission
      - Know what you have
Lessons Learned (continued …)

- **Enterprise Architecture**
  - Establish a baseline – if you don’t know where you’re starting from, moving anywhere compounds the risk
  - Make sure there is a clear, robust and well-articulated target architecture
  - Adopting a service-oriented architecture (SOA) provides the ability to integrate current systems with new systems to stay in business while transitioning to new systems

- **Transformation Roadmap**
  - Modernizing government organizations is a complex journey into unfamiliar territory – best to take a map
  - Look for quick hits; make sure the roadmap is achievable and that constraints are visible

- **Transition management**
  - There are many moving pieces….failing to tightly manage them will lead to schedule delays and higher costs
  - Transition has risk which much be addressed through a risk management plan
When do we get to the goal?

- No matter how good you are, the job is never finished

- The dynamic nature of economies and societies along with the role of revenue administrations in them assure a continuing set of challenges

- There are always the top 3 things that keep the CEO awake at night—know them and focus on them

- Build renewal and self challenge into your planning processes
Thank You

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