

UK Devolution – A major change in the way we tax?





Introduction

Scotland, Wales (and potentially also England and Northern Ireland) are at a crossroads in terms of who is responsible for the administration of taxation. The model of a centralised single UK Tax Agency is giving way to a decentralised model and the creation of new devolved tax administrations in the shape of Revenue Scotland and the Welsh Revenue Authority.

The advent of devolved taxation provides an opportunity for Scotland and Wales to consider how they can deliver services differently, harnessing new technologies and new ways of engaging with their taxpayers. However, both Revenue Scotland and the Welsh Revenue Authority will need to consider how to future proof their operations. This means deciding which part of their operations they want to do themselves, the services they might want to continue and what they might want other 3rd parties to run on their behalf.

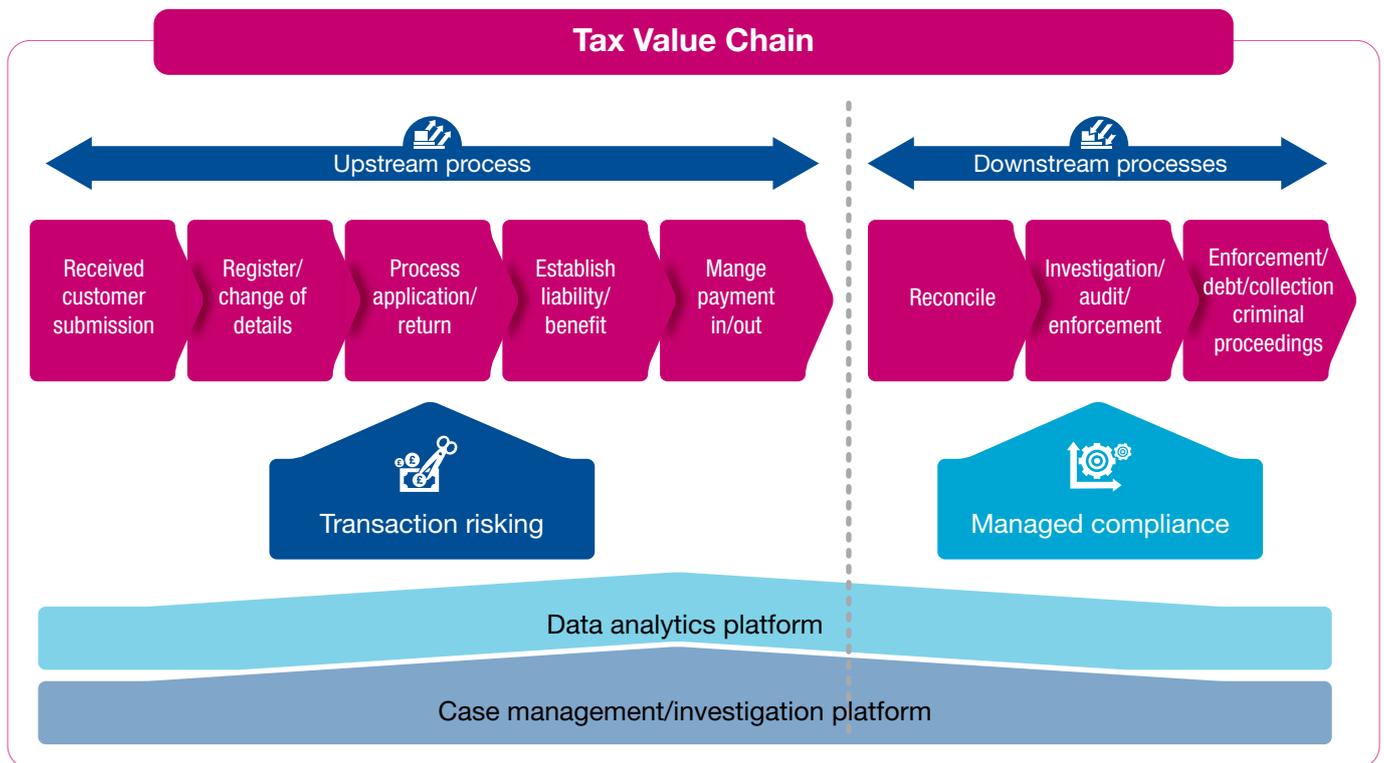
In our view, designing a modern tax agency has to start from digital principles. The way in which the taxpayer wishes to interact with tax agencies is changing rapidly. An almost explosive growth of the use of the internet and social media means that taxpayer requirements on the exchange of information, accessibility and re-use of data are already fundamentally different than a decade ago, and they will continue to change. Adding to this trend towards customer centricity is the pressing need to ensure compliance amongst the taxpayer base. As more and more of the budgets of the Scottish and Welsh Governments become directly dependent on their local tax base, the need to ensure compliance with the tax code will become ever more significant.

The core role fulfilled by a Tax Agency

A tax agency has essentially three key roles:

1. To assess the tax liability of an individual or entity
2. To collect the tax that is due and reconcile this through a Government's Treasury function
3. To undertake compliance activities to ensure the right amount of tax is paid at the right time

The **Tax Value Chain** sets out a generic view of the tax value chain which underpins these core roles.



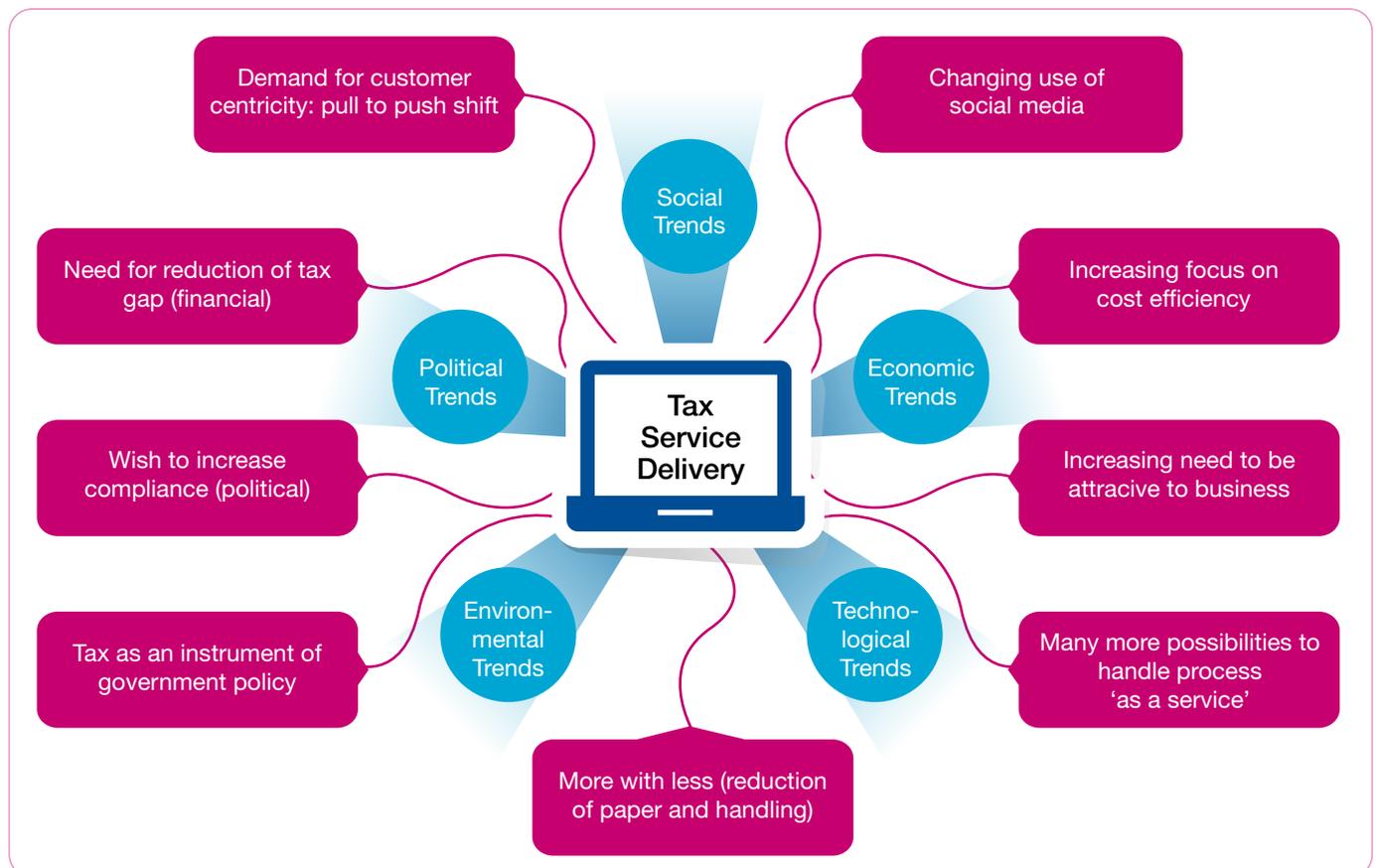
The Tax Value Chain

In our view, the activities of a tax agency can be split between upstream processes and downstream processes. All of these are underpinned by compliance and risking activities which leverage data and analytics through a platform that supports data provisioning and sharing. This model applies from the least sophisticated tax agencies through to the most complex. It also provides a way to model your tax agency for the future and to take into account, for example, new powers, new taxes and new technologies to support a fully digitalised customer experience.



The challenges confronting Tax Agencies

As **Key trends for Service Delivery in Tax** shows, there are five key trends that tax agencies need to be thinking about; social, political, economic, environmental and technological.



Key trends for Service Delivery in Tax

Social trends: Exchange of information and services in the private life of the taxpayer has become a commodity, ranging from simple online email and social networking to online purchasing of goods and registering for, and using, complex services such as banking and accounting. It means that person-to-person interaction is decreasing. In the past a visit to an office (or a phone call to a contact centre) was the first option when wanting to get business transacted. Now, smartphones, tablets or laptops are the devices of choice for a range of services. Social media is leading to a stronger demand for customer centricity and customers increasingly believe that it is no longer for them to deliver information through all sorts of forms and call centre contacts; the modern customer expects authorities and enterprises to have, and to reuse, available information and to pro-actively re-present this information.

Political trends: Governments need to manage their budgets effectively and efficiently. Many Governments are now focussed on reducing the tax gap with a strong political drive to improve tax compliance and to reduce fraud and error. This typically requires a large number of public servants for inspection and fraud reduction, although we are now seeing Governments and Tax Agencies turning to more and more sophisticated risk analytic tools designed to both predict and prevent fraud and error. We also see governments using the tax system as an efficient instrument of government policy, requiring Tax Agencies to be closer to policy and have the agility to adapt rapidly to changing political and policy demands.



Economic Trends: Tax has become a critical part of the macro-economic policies of all major economies. Tax is simply a cost to businesses and to individuals. The attractiveness of the tax regime will impact on business decisions and, in turn, this impacts on the revenue streams of Governments. As a result we are seeing continued pressure on tax agencies, stemming from macro-economic policies, to become more attractive to businesses by being more flexible, accessible, transparent and service orientated.

Environmental trends: The increasing awareness of the impact which government and corporate operations have on the environment has sparked an increasing demand for sustainable, durable solutions. The key message is to do more with fewer resources. Not only is there a demand for reductions of unnecessary products, such as paper forms, but a demand is also developing for less energy consuming solutions to support business processes, such as Green IT.

Technological trends: The rapidly increasing availability of new technology, much of which involves 'as a service' and 'cloud' concepts, allows tax agencies to think differently about how and who delivers services. It allows for a debate about the best and most cost-efficient way to use technology which future proofs and avoids 'lock-in' to technologies and approaches over the medium to long-term.

These trends can perhaps be summarised into four challenges:

- How to improve compliance to ensure strong revenue streams
- How to think and operate as a customer centric organisation
- How to increase organisational effectiveness and efficiency
- How to make the best use of the ever expanding technological possibilities

And in practice this means that the tax agency of tomorrow must start from a customer-centric point of view, designing business processes around the use of digital and the exploitation of data through the effective use of analytics and data provisioning. Technology will allow the delivery of services to fundamentally shift to multi-channel with traditional back-office functions either outsourced or delivered through cloud-based services.

Tax Powers in the context of Devolution

Following the Scottish Referendum the extent and depth of the tax raising powers of the Scottish and Welsh Governments is in a state of change. Some powers have already been devolved by the UK Parliament. More are to follow. By April 2015 Scotland will have responsibility for Land & Buildings Transaction Tax (LBTT) and Scottish Landfill Tax, and in April 2016 the Scottish Parliament's new power to vary income tax rates will, come into force. The Welsh Assembly takes on responsibility for business rates from April 2015, and for LBTT and Welsh Landfill Tax from April 2018, with powers to vary income tax rates the subject of a referendum. Both the Scottish Parliament and Welsh Assembly will have the right to introduce new taxes unique to Scotland or Wales.

Scotland and Wales may be operating to different timelines, but what we do know is that the extent of the devolved tax powers of both Scotland and Wales will now be much greater than envisioned just three years ago with more powers to be announced in 2015.



Designing and delivering a successful Revenue Scotland and Welsh Revenue Authority

Both Revenue Scotland and the Welsh Revenue Authority are in the unique position of being able to develop and design their processes and operations on a virtually Greenfield site not encumbered by legacy systems and processes. To be successful we believe that both agencies will need to create future state models which are designed around digital and future-proofed in a way that allows the agencies to adapt their core model to changing political, client and technological needs. The future state model also needs to be able to adapt to the acquisition, by the Scottish Parliament and the Welsh Assembly, of more tax powers, or the introduction, by either of these legislatures, of new taxes.

So we believe that Revenue Scotland and the Welsh Revenue Authority will need to think about design principles around:

- **Customers** – Tax agencies have traditionally followed pull strategies in which necessary information is repeatedly collected from the customer. Is a push strategy, in which all available information is reused and the customer is only consulted when decisions are needed a better model?
- **Digital** – How does the digital strategy of the Scottish and Welsh Governments apply? Can a new Agency ignore digital and social media?
- **Compliance** – What is the compliance strategy of the agency and how will it use data and analytics to support that strategy as well as support its client-facing services?
- **Who does what** – What is the right balance between a physical and a virtual tax agency? What functions must Revenue Scotland and the Welsh Revenue Authority do for themselves? What functions could be done by others? Is there an on-going role for HMRC as a provider of services?
- **Technology** – What will be the technology strategy of Revenue Scotland and the Welsh Revenue Authority?
- **Future Proofing** - How does the design of the agency adapt over time as customer needs, compliance approaches, business and technology needs adapt and change?

It is an exciting period in the constitutional history of the UK but it is also a period of great change in the way taxes are managed in the UK. Leveraging the experiences of other tax agencies and the trends in business processing and technology will be key to the future success of Revenue Scotland and the Welsh Revenue Authority.



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