

# 2<sup>nd</sup> International Forum of Tax Agency CIOs

Les Fontaines, Paris



# Introduction

How can Tax Agencies create the right conditions to support government-wide change? This was the key question addressed at the 2nd International Forum of Tax Agency CIOs held by Capgemini this year.



Close working relationships with a number of Tax Agencies had led Capgemini to the conclusion that despite being of various size, scale and level of maturity, today's Tax Agencies had many similar challenges. But what we also found was that these challenges were being tackled in isolation with little opportunity for CIOs and Tax Agency leaders to meet, share ideas and work through potential solutions.

This 2nd International Forum, held on 31 May and 1 June 2007 at Les Fontaines, Paris, was devised to provide an opportunity for CIOs to engage in informal, open peer-to-peer discussions and for this critical community of government professionals to link ideas, share insights and perspectives and create a network for on-going discussions.



Several key areas of commonality were identified, including:

- An overwhelming need to make it easier for citizens and businesses to comply with their tax obligations.
- The vital role of IT in collecting and administering the taxes that support government-wide change.
- A demand for integrated IT systems enabling all government agencies to share information and cut the administrative burden to drive efficiency.
- The need for innovative solutions where IT alone isn't enough.
- Recognition that the sharing of best practice and insight across Tax Agencies internationally can support government demands for change.

This report will look at how the Tax Agencies represented at the 2nd International Forum addressed these issues.



# Case study: An Australian perspective

Greg Farr, Deputy Commissioner of the ATO, addressed the Forum, providing valuable insight into the approaches taken in Australia.



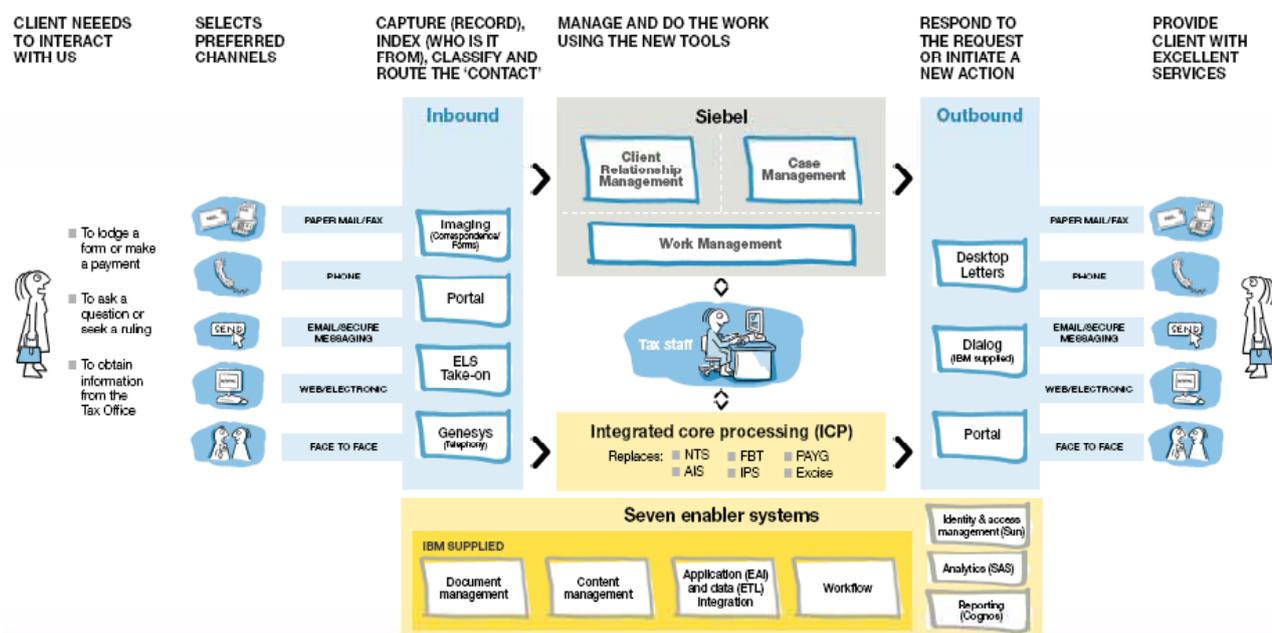
“Our role is to effectively manage the systems and services that fund Australia,” Greg asserted, and he added: “previously, we did see ourselves as just the tax collector but we are now deliberately making the connection between the money collected and the services Australians enjoy: if people don’t like the way the Government spends its money they won’t pay tax.”

Greg continued that the key objective of the ATO was to optimise voluntary compliance. The ATO had been able to achieve very high levels of electronic lodgement of tax returns—currently 86%. This could be put down to the high use by taxpayers of tax agents to file their returns for them through a tax agent portal. This received 11.6 million logins in 2006

from a tax agent population of only 10,000. Why so high? Because it was the preferred method of delivery for tax agents. This was a radical shift for the ATO and one the agency had difficulty responding to initially.

The ATO’s response was to be open and to liaise with the community to devise systems that would work. By working with the community the ATO came up with a list of things people didn’t like and in response they developed a proposition to address those concerns. But they went one step further; they worked with the community to co-design an initiative that became the ‘Easier, Cheaper and more Personal’ Programme (see Figure 1). More personal meant being far more citizen focused than ever before so that the services were more tailored to individual needs.

Figure 1: Easier, Cheaper and More Personal: A Systems Overview



The ATO quickly discovered that the existing technology would not support the level of change required. At that time the ATO had 10 accounting systems, four registration systems and 189 case management systems, making it impossible to join up services let alone attempt to treat people individually. So the only solution was to throw the existing technology away and start again. But the scale of the change was daunting and to succeed the ATO decided it had to work with private sector IT partners and, more radically for the public sector, chose as far as possible to “buy” a suitable product rather than “build” a brand new system.

**So how did the ATO approach this task of making its IT systems citizen focused, joined up and based on commercial products?**

Greg explained that one early discovery had been that the ATO's systems were geared to particular tax types making it impossible to have a single view of the citizen. So it was decided that whatever channel the tax came from it had to reach the back-end systems in the same form. This required one accounting and one registration system and to achieve this an integrated core processing system had to be built. This would have to be supported by a single ERP system and a single case management system.

But the ATO took a different approach to this major programme. Rather than focusing measurements on outputs or requirements, the measurements (including those for the private sector partners) were on outcomes. So 17,000 requirements were reduced to 8 outcomes. Some related to customer perceptions, others to quantifiable

aspects of the taxation regime. Private sector partners were paid on achieving these outcomes.

Did this work? Greg believed that it did. Even though it was a very different way of working with many in the ATO believing they should be doing the design and requirements work rather than leaving it to the IT Partners. So far the programme had led to one CRM system replacing the original 189-odd case management systems. The entire back office systems would be replaced by the end of 2007 and this had been achieved within 1% of the original budget.

Perhaps one of the keys to this success had been the linking of pay and performance to the outcomes of the programme, not just for the IT Partners but also for Greg. As he said: “my pay depends on the perceptions of the community on how well we are doing and whether we really are making things easier, cheaper and more personalised.” And the ATO Commissioner was less interested in the IT and the IT systems. What he cared about was community perceptions and whether what they asked for was being delivered.

# Knowledge Bursts: Country Insights

With a key objective of the 2nd International Forum being to share experiences and insight, other participants provided input on their own approaches to their countries' tax regimes.

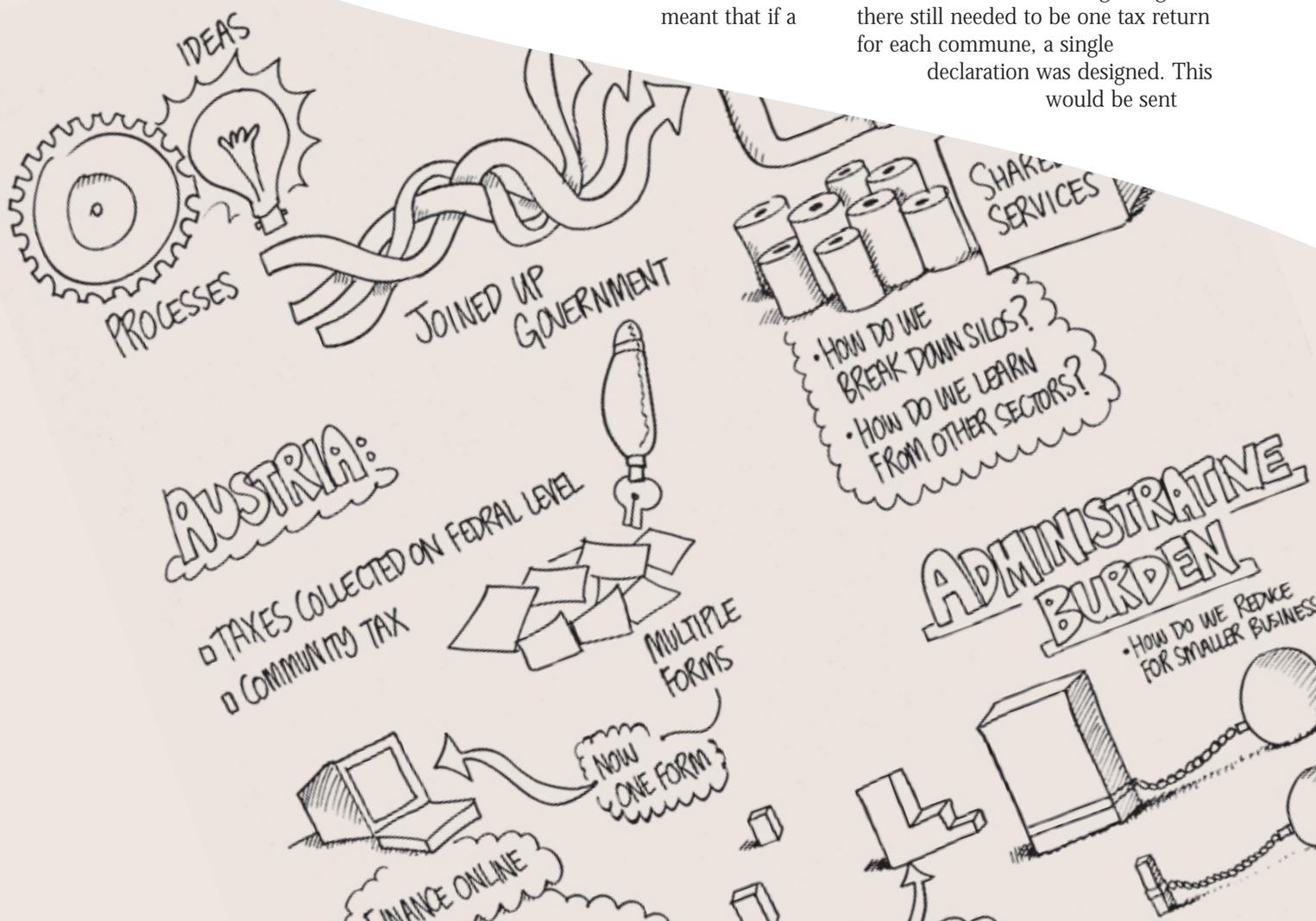
## Joined up Government: Austria

Erich Waldecker from the Federal Ministry of Finance gave examples of joined-up government in Austria. With its federal structure the challenge was to establish the right connections not just between central government ministries but also between central and local levels.

He explained that in Austria all the main taxes were collected at a federal level with only a few collected at the local level from municipalities. One of the local level taxes was a Commune Tax based on the sum of the wages a company paid its employees in a certain commune. This meant that if a

company had a subsidiary in more than one commune it was obliged to make a tax return in each and every commune in which it had a presence. So for example, supermarket companies filled in hundreds of tax returns. An added problem was that these forms varied from commune to commune—they were not standardised in any way.

So what did the Austrian Federal Ministry of Finance do? A tax portal for federal taxes had already been created so that all Returns could be filed electronically. The decision was taken to create a portal for commune taxes as well. Whilst recognising that there still needed to be one tax return for each commune, a single declaration was designed. This would be sent



through the same portal as the federal taxes, moving responsibility for sending the right form to the right commune from the company to the Federal Ministry of Finance. So companies now had a single point of filing for all their tax obligations.

The Austrian Government was now looking at how it could extend this approach further to create joined-up government in the area of unemployment services. These services, noted Erich, were currently separate from the tax authorities but the unemployment service always needed information on income when an individual applied for benefits. The answer was to give the unemployment services direct access through a portal so that they could directly search the tax databases to find the information they needed to process claims.

### **Administrative Burden: The Netherlands**

Evert Voorn from the Belastingdienst talked about “Another Government” reducing the burden on citizen and businesses. But this, he said, was about small ideas as well as big. He believed that reducing the administrative burden had to be looked at through the eyes of the government or the citizen and not exclusively from the Tax Agencies’ point of view. In the Netherlands the issue was broader than just tax; the administrative burden was about increasing the level of service a citizen received from government, reducing bureaucracy and being quicker to respond to citizen needs and to make assessments.

But even in the area of tax, reducing the administrative burden had to be

about reducing “citizen harassment.” For example, Dutch taxpayers complained that every year they were asked if they owned a house even though the Belastingdienst already had this information. They were also asked for income statements when the Belastingdienst had this data as well.

The Netherlands Government was now pushing reduction of administrative burden even further. New legislation would see, in 12 key areas of citizen registration (such as income, car license numbers, residency), that providing data to one government Agency meant the data had been provided to all government Agencies. So any government body wanting to use any particular type of information would have to access this data by going to the Agency holding the database.

And how would this be achieved? By making one Agency the lead Agency and creating interoperability of systems. Evert asserted that the first stage of this would be completed in January 2009 and would be the administration for entrepreneurs; at the moment an entrepreneur had to go to the Chamber of Commerce and answer numerous questions, then they had to go to the Belastingdienst and answer the same questions. From January 2009 the Chamber of Commerce would ask all the questions for the Belastingdienst as well.

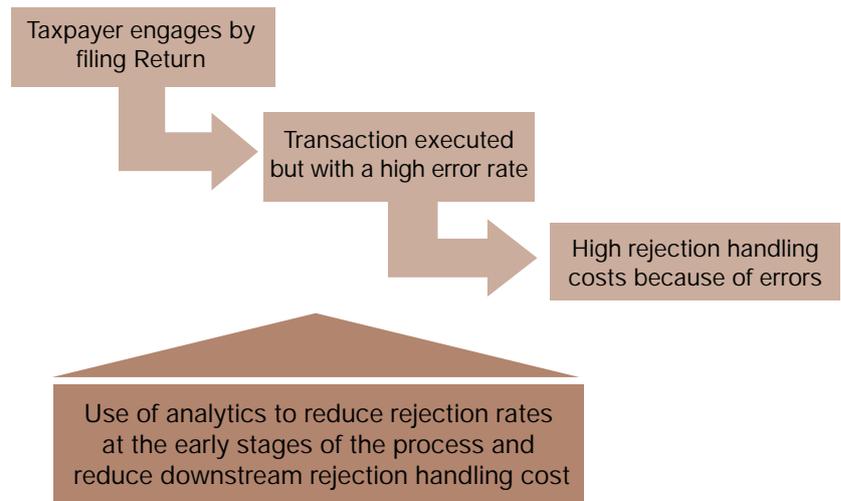
One of the major challenges was the low degree of interoperability and lack of agility in the current IT systems to enable sharing and retrieving of data. As such, linked to reducing administrative burden was a reduction of complexity in the Tax Administration systems so in the

future the Belastingdienst could adapt more easily to systems used by other agencies and be more agile. This would lead to a fundamental shift in approach by the Belastingdienst from building its own systems to buying “off the shelf” or even sharing or designing processes with other Tax Agencies.

In conclusion Evert said that much of reducing the administrative burden was about transforming behaviours and getting the trust of the citizen. The Belastingdienst, like the ATO, was

then deal with “reject handling”—effectively fixing everything that was broken on the production line (see Figure 2). The challenge, said Steve Lamey, was how to reduce the high levels of reject handling as a way to drive out costs. 88% of tax flowed in without problems and only 3% of undeclared tax as discovered as part of “reject handling.” Yet a very high proportion of returns had to be corrected and thousands of staff were employed to deal with this. So a real opportunity would be to increase the

Figure 2: Improving Business Effectiveness



engaging with citizens, presenting itself as an open transparent Agency, explaining to them why they wanted to be open and making them aware of the information the Belastingdienst had on them.

**Tax Agency Business Effectiveness: The United Kingdom**  
Steve Lamey from HM Revenue & Customs shared some of his ideas on the Tax Agency as a set of joined up processes.

The UK had a simple model: engage with citizens, execute the process, and

flows of problem-free tax payments to 90% because this would significantly reduce the overall costs of running HMRC.

One of the key challenges though was to know what was causing the errors in filing in the first place. Was most of it being caused by unclear advice, lazy mistakes or deliberate avoidance? So one of the things that HMRC was looking to invest in was “analytics” to create better upfront risk assessment and use this to improve engagements with the citizen and business to reduce the error rates in tax filing.

# Multiple Drivers or one Driver: Improving the experience of the citizen

**As well as hearing from fellow CIOs about their individual experiences, participants took the opportunity to discuss issues of mutual interest.**

To actually deliver wider challenges such as reducing the administrative burden and joining up government services, the Forum felt that Tax Agencies needed to think differently. The focus had to be on a framework, or matrix, setting out the overall objectives of the customer and staff experience. But this then had to be backed up by a number of outcomes and those outcomes must impact a number of these objectives.

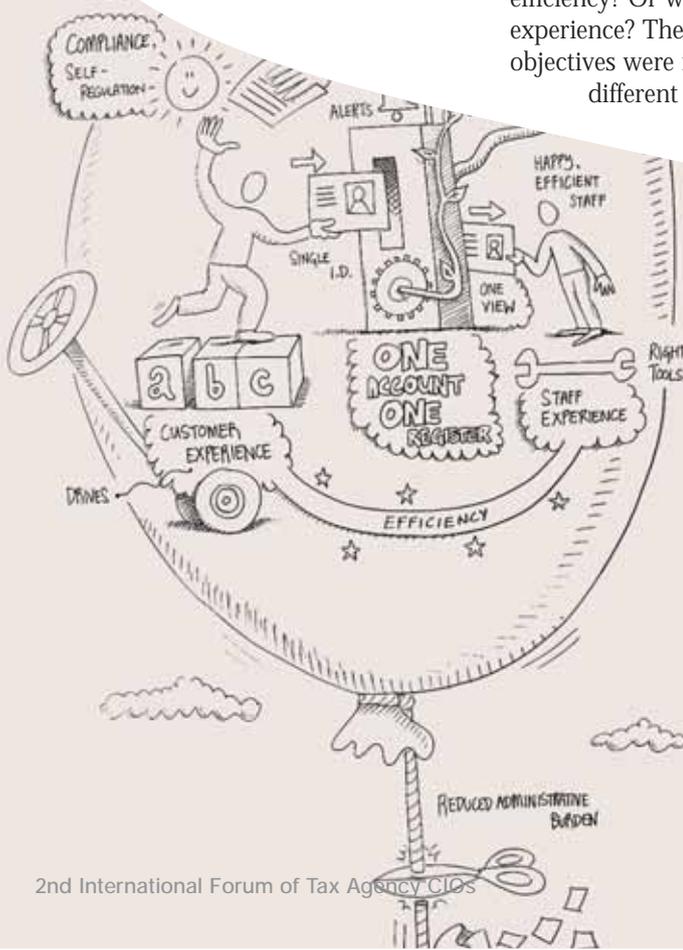
## **What were the variations in approaches by the Tax Agencies?**

It was agreed that a single tax account was essential for improving customer experience. From there you could start to build up a business case for change. But was the starting point efficiency? Or was it customer experience? The reality was that both objectives were relevant. Ultimately different burning platforms might mean

different starting points and different short-term priorities but it was essential to keep sight of long-term goals. So in the UK right now the key driver was cost efficiency. In Australia the driver was that the ATO could no longer stand the heat from the community as citizens began losing confidence in the tax administration system.

So a single tax account was essentially about enhancing customer experience but it could also be the platform to drive efficiency. A single tax account could make it easier and cheaper for people to comply with their obligations. It allowed more transparency. Three examples were given:

- In France, the Copernic Programme has allowed the Direction Generale des Impots to become much more joined up as an Agency but also enhanced the service to the citizen. The Programme is providing the platform for a single view of the taxpayer and provides more transparency than in the past. It is also providing the platform for improved online services and the use of more modern forms of payment such as direct debit.
- In Australia, the experience has also been positive. Allowing businesses and tax agents into mainframe systems to see their accounts had both enhanced the customer experience and created internal cost efficiencies because basic tasks (such as enquiries and correctional work) had disappeared.
- In Austria, a similar experience has meant that customers could now look at their tax accounts and tax files (including assessment notes) through a portal saving a lot of time for tax officers.





But, as the Forum recognised, the single account could also improve compliance by improving risk management so that the right people in the right industries were targeted and agencies could go after the high scale non-compliant industries and target them one by one.

**So what are the enablers and barriers to delivering real change?**

The Forum took a three stage approach to thinking about enablers and blockers to real change.

- 1. REGULATIONS
- 2. BUSINESS PROCESSES
- 3. TECHNOLOGY

Participants concluded that technology was no longer the obstacle to bringing about changes in the way Tax Agencies delivered their services or indeed in developing cross-

government solutions. The main blockers (and enablers) were regulations and business processes.

Laws governing the ability to share information cross-agency were a major obstacle. Sharing data between different Agencies needed legislation. For example there were some projects in Belgium that tried to combine different databases but which came up against Agencies wanting to keep information in their own areas and refusing to share. In addition there were civil liberties concerns about Tax Agencies having access to all data. By way of comparison this was not an issue in Scandinavian countries where open access was more generally accepted.

One approach in Austria had been to take a step-by-step approach, bringing in small pieces of legislation, for example setting up exchanges of data with social security. But part of the solution had to be a more open debate about how to make it clear to citizens the advantages of joining up all the data to make the administrative processes easier, cheaper and faster.

At the process level there needed to be a more fundamental debate about business processes. So, business processes needed to be analysed before getting into technical solutions that could end up being built on obsolete processes. As part of this, uniformity and standardisation were seen as very important enablers. Each country had quite different legislation and different levels of administration but if the underlying processes could become more uniform this would allow Tax Agencies to push for repeatable solutions from the IT industry.

# Removing these Barriers

**In the final session of the Forum the participants shared thoughts on how to overcome the blockers they had identified over the course of the event.**

## **Ensuring Data entering the Tax Agency is “Clean”**

The ATO had addressed this issue by putting control in the hands of the taxpayer. A lot of information on an individual was held throughout government and it was therefore possible to pre-populate tax returns. So the ATO asked individual taxpayers if they wanted the ATO to go to other Agencies to get the data. If they said no, they had to get it themselves. If they said yes the ATO obtained the information and reduced the burden at the same time.

The ATO was also in the process of creating a “citizen e-vault” to ease the burden still further. Traditionally the taxpayer had to provide data such as bank interest in their tax returns even though the banks were also under a legal obligation to provide the same data to the ATO. The idea of the “citizen e-vault” was that the data from the banks would be held for them and taxpayers could then come in and authenticate all the information held (for example bank interest, dividends, and settlement payments) and if nothing more was needed all they had to do was press a button and lodge their return. If they disagreed with the details in the e-vault and wanted to change the data or provide more information they could do this within their e-vault. The advantage of this was that data would be presented to the taxpayer and confirmation could be easily obtained that the information was correct.

## **Single Sources of the Truth**

Participants heard that another possible way to overcome some of the blockers to data exchange was to create data registers held by a single

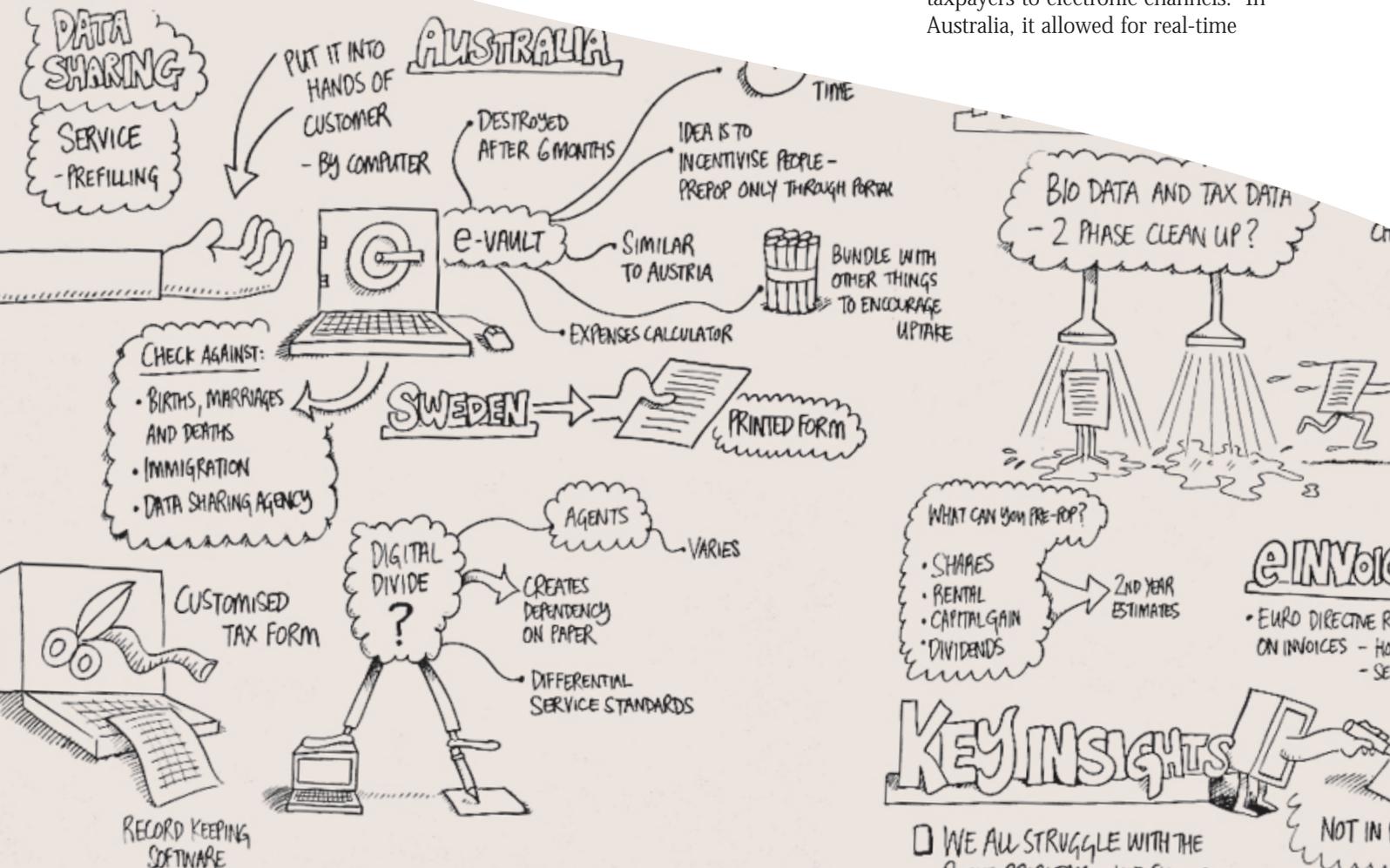
Agency for the benefit of other Agencies. Both Australia and the Netherlands were developing similar approaches to creating single data registers for core data which would then be managed by one Agency—the creation of single Business Registers and single sources for non-Business Taxpayers. For example, individual citizens tended to notify a change of address once a year with their tax return but when they were getting a benefit they had to keep their address up to date all the time. It therefore might make sense for a Benefits Agency to hold the citizen data because it would have more day-to-day contact with the citizen—with the Tax Agency having access to the data registry.

In Austria they also faced a problem of deciding whether basic information was correct or not. They looked to solve the problem as part of the process. So if a citizen wanted to use the online systems they had to apply to do so—either electronically or in a tax office. In return they received a user ID and pin code. This then enabled the Ministry of Finance to run real time checks within their databases to see whether data matched that on the taxpayers ID application form. Once the user code was in the system, changes to core data were automatic. Austria also had an approach similar to the “citizen e-vault.” Information on tax statements came from different sources and taxpayers could look at their own file, check the information and make changes if they were needed. Critically this worked because of a single unique identifier.

**Who makes the first step in pre-population, the tax administration or the citizen?**

Many countries now had in place, or were looking at how to put in place, pre-populated tax returns. Sweden and Denmark were very advanced in their thinking and delivery of pre-population of tax returns.

The Forum heard how the main benefit of pre-populated filing for the citizen was time. But for the Tax Agency it was cost, more assurance about how clean the data was within systems and also as a way to attract taxpayers to electronic channels. In Australia, it allowed for real-time



**KEY INSIGHTS**

- WE ALL STRUGGLE WITH THE SAME PROBLEMS - WE SHOULD SHARE THINKING
- CUSTOMER EXPERIENCE VS EFFICIENCY-  HOW

processing but the real benefits were seen in the delivery of joined-up services to encourage greater take-up of e-services by bundling services together much like banks bundle service offering together as part of internet banking services.

There was, however, a question mark over the limitations of Tax Agencies to completely pre-populate a tax return. For example, both the UK and Australia would struggle to pre-populate Tax Returns with information on capital gains and rental income unless they had a strong identifier to match against. Although with rental income and with share income an option would be to get the taxpayer to populate the tax return in one year and in the following year pre-fill using the previous year's data—the taxpayer would then be asked to confirm if the data was correct.

### The Digital Divide

A major challenge was the so-called digital divide between those that had access to computers and digital services and those that did not. In the UK this drove a large amount of government policy and potentially held back the development of many online services. Belgium had an interesting low-tech solution to this problem. They had created a FiscalBus which on market days visited small towns and villages and the small team on board helped taxpayers to fill in forms which were taken from the internet services offered in Belgium.



### Mandating delivery channels for certain taxpayers

In Austria if a business had Revenues of more than €100,000 euros per year or if a taxpayer (individual or business) appointed a tax agent to handle their affairs, then they had to file electronically. This meant that over 80% of corporate taxpayers now filed online and over 25% of individual taxpayers.

# Conclusion of the 2nd Forum

This year's Forum was an opportunity for Tax Agency leaders to hear at first-hand how fellow Agencies were working to support their governments' wide-ranging transformation programmes through the efficient collection of taxes that would fund change. New technologies, cultural shifts, innovative and practical solutions including the greater use of private sector suppliers, and a focus on communicating more efficiently with citizens were among the many elements of today's tax environments that delegates gained fresh perspectives on.

The Forum concluded that "even if we are starting from different places with different cultures the objectives are the same. We are all struggling with the same problems; there is a great commonality in what we are being asked to deal with and we shouldn't be thinking we have to solve all these problems in isolation—we can share the problems and successes".



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