

A future vision for US tax agencies

Introduction

What will the future tax environment look like for America's tax authorities? We already know that agencies are working hard to meet citizen and business demands for simplicity, reduced administrative burden and ease of access. So how will this manifest itself by 2014?

Capgemini is the foremost European tax and transformation consulting and technology services firm with a strong presence in America where Capgemini has successfully supported US Federal State and clients on a variety of projects, both tax and non-tax related. We will therefore use this PoV to consider the lessons that could be shared from the reforms and modernizations undertaken by the Public Sector in Europe and elsewhere. Can those US agencies yet to fully transform reap the benefits of this shared knowledge by identifying and adopting best practice while avoiding many of the early-adopter pitfalls?

We look at the significant trends throughout the Public Sector globally and set out an ambition for how America's tax regime might look by 2014 and how this could act as the springboard for further changes after 2014.

We will ask what the essential ingredients are of successful tax authorities. What business and technology concepts lie behind the success of these organizations?


And finally, we articulate Capgemini's TechnoVision, our approach for the future of global tax agencies that marries technology and business drivers in a holistic solution.

The current situation

Like their European counterparts, US tax agencies are faced with an aging population and the challenges of an economic downturn. Tax regimes, whether Federal or State, are often highly complex and have incoherent legislation. Advice on and interpretation of that legislation is invariably inconsistent and the responsibilities of tax agencies are often considered to be unclear by citizens, which leads to further confusion. Moreover, citizens and business have to deal with multiple agencies to comply with their obligations, leading to an increase in the administrative burden.

Taxpayers also complain about poor performance and a lack of service. This is the challenging environment that Capgemini has helped a number of European tax agencies address, with notable success in the UK, The Netherlands, Sweden, Norway and France. We will consider these success stories later in this paper.

While some may argue that the problems and challenges mentioned above are merely temporary, we disagree: the strategic problems undermine core Federal and State functions, such as the collection of taxes or delivery of payments. The organization and processes of the collection agencies are increasing the risk of obligations not being met at the right time. This leads to loss of revenues because agencies are not providing an adequate incentive for paying taxes or social contributions.



These are not just challenges: these developments have the potential to undermine America's long-term economic recovery.

Within this tax landscape today's authorities, whether in the US, Europe or elsewhere, have been tasked with delivering a better and more efficient tax administration. This will ensure a reliable stream of tax revenues in order that governments have the budget to improve essential services. There are three critical challenges that will resonate with tax agencies across the world:

- *Compliance.* How to increase the rate of tax compliance so that agencies reduce the tax gap (the difference between what should be collected and what is actually collected); and how to give agencies the means to effectively tackle non-compliance.
- *Cost Efficiency.* How to make things twice as good for half as much, delivering genuine efficiency gains, not simply cost reduction.
- *Citizen-focus.* How to harness new technologies (such as electronic transaction) to deliver services to the citizen when they want them and how they want them, and to make it easier for citizens and businesses to comply with their tax obligations.

Citizen and business centric tax regimes

When we consider citizen needs, such as social security, simplicity, fairness, sustainability, we assume that greater citizen and business focus will simplify the processes and make it easier for law-abiding citizens to comply with their legal obligations. Capgemini believes that most have no objection to paying taxes or social contributions, and that the resources of tax agencies must be aimed at the exceptions; those who are unwilling to pay their fair share.

We believe that effective co-operation can lead to shared loads and reduced costs. In short, we believe a cost effective, citizen and business centric and collaborative tax regime will lead to more voluntary compliance amongst taxpayers allowing an agency to focus its efforts on those who do not wish to comply with their obligations.

At Capgemini, our vision of the tax agency of 2014 sees cost efficiency being achieved through measured performance and continuous improvement and delivery of services. Customer and business centric service delivery will address the needs of citizens and businesses, leading to improved service. Compliance and enforcement will be achieved through transparency, which will be created by sharing data and increased cooperation across public agencies and services, regardless of whether they are Federal or State government provided services.

To realize the future, change must be focused on the five pillars of:

- Processes
- Organizational structure
- Product/services
- Technology.
- People

Pillar 1: Processes

In the future, business processes will be highly standardized and heavily automated, leading to faster and efficient delivery of services. Core processes will be designed around customers, not around public products, where information is provided only once by citizens and customer support is optimized. Rules and legislation will change, making it easier to comply and simplify the compliance and collection process. This will lead to simplicity, such as single Returns for obligations and a single view of the citizen's account with government. As much as possible of the tax and insurance assessment and processing will be carried out first by the agency, with only a light touch engagement by the citizen, thereby reducing the administrative burden. These processes will reduce the tax gap by increasing revenues but at the same time the core business processes will be delivered at a much lower cost. Constant evaluation of these processes will lead to continuous improvement and optimization.

In our future state, the emphasis will be placed on multi-channel services as the first line of service interaction with the citizen. This will enable the agency and citizens to achieve a 'single view of the customer' supported by 'single customer account' for all the relevant services, giving it a qualitative and quantitative picture of client requirements and appreciation through effective use of feedback and evaluation. The single customer account will also provide a view on the financial history and interactions between the agency and customer. This will enable the organization to reuse available information, and anticipate and design its processes to proactively serve citizens.

Advanced process design will enable the tax agency to target non-compliant customers by allocation of resources to focus on specific profiles. Simplification of the legislation and the deduction of most tax and insurance payments at source will mean that the agency is able to look more closely at specific groups with more complex tax affairs and where avoidance might be more likely, such as the self-employed and large businesses. Also, processes will be designed to be flexible, enabling alignment, integration and interoperability with other government services and commercial services. This will allow governing bodies to operate more efficiently and with one face towards their citizens.

The new approach will shift responsibility from the public to government in the collection and consolidation of data.

Pillar 2: Organizational Structure

The organizational structure we have defined for the future tax agency has a number of departments that stimulate shared services. The organizational concept will move away from a geographical based model to one designed around types of customers and functions, enabling a deeper understanding of customer profiles and requirements, and also achieving greater levels of business efficiency.

This functional based model will create greater internal flexibility allowing the agency to centralize some services such as Contact Centers (forming an efficient link between citizens and government), processing centers and corporate functions. It will

allow the agency to place work where it is most sensible to be placed and to thereby better manage workflows.

Service delivery channels will be a critical part of an agency’s future performance, and embody the strategy of customer centricity. Service delivery channels will be the cornerstone of policy, organization and operations, with three main communications channels to citizens and businesses:

- *Portal-based services* providing a full range of transactional services.
- A single *Call or Contact Center* delivered via a free phone number where agency staff have access to all information required to make

decisions and provide advice swiftly to clients.

- *Face-to-face services* which will be unified into a ‘One stop Shop’ for tax, social insurance and health insurance with Enquiry Centers based within agency offices. In remote areas mobile services can provide advice to citizens.

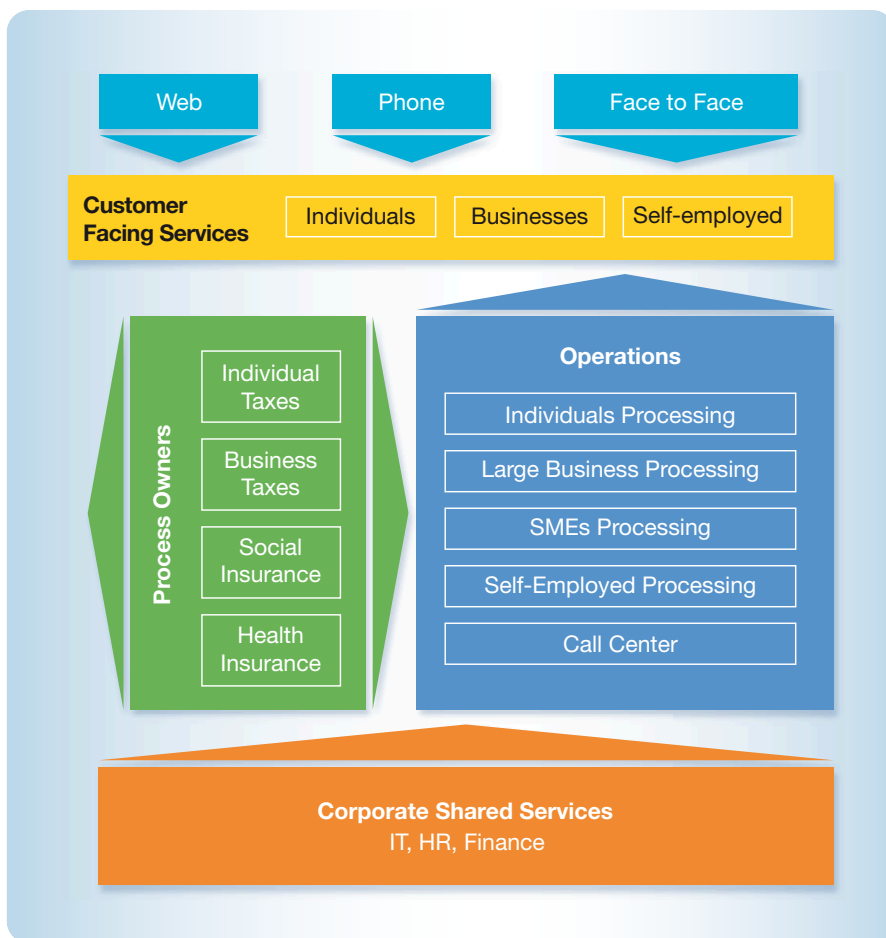
Pillar 3: Product & Services

In the future, tax agency services will be designed to ensure they are easy to deploy, execute and change. Products and services will meet the client need for fairness, simplicity and personalization. They will be selectively applying best practice and features from similar commercial products, such as flexible insurance rates, transferable benefits or loyalty schemes that fit the actual situation of customer and his/her behavior profile. This will be achieved by simple and transparent rules defining the products and services with clear links between contributions and benefits that lead to predictable future benefits for customers.

Products will be designed in a way that motivates compliance. To ensure higher added value, co-operation will be essential in the area of product design with standardized and simplified rules enabling these products to be combined with other products delivered by government agencies or even in combination with commercial products.

Pillar 4: Technology

Technology is already enabling co-operation between other governmental bodies and commercial services through secure data exchange. This is turning fragmentation into unification, allowing governmental agencies to work as one. In the future, technology decisions will enable tax authorities



to become more efficient with a modern SOA-based architecture and systems based on standardized software products rather than custom developed products.

In our vision for 2014 clients will use a personalized internet portal accessible from anywhere. This portal will give citizens and corporations easy – yet secure – access through a governmental portal. The personalized page will allow access to personal profiles and data, status of business topics, authorizations, an archive and messaging. It will also allow citizens to deal with virtually all governmental services online, such as taxes, insurances, requests for information, permits or health care etc. Furthermore, technology will enable a single view of the customer, which permits customers to comply with their obligations and for tax agencies to effectively manage their compliance regimes.

Technology will also provide a base for customer data management and improved segmentation of clientele. Business intelligence solutions will be used to provide early warnings, predictions and projections on key indicators both for the client and the agency.

Pillar 5: People

In the future tax agency as envisioned by Capgemini, civil servants will be trained to do what they should do and rewarded on how they perform. Decision makers will constantly seek improvements in processes and this will bring down costs. Face-to-face services will be driven by a desire to allow citizens to have as far as possible a 'one stop shop' for government services that is local and in the heart of their own town. But at the same time it will allow the agency to better centralize other services and create cost efficiencies.

Civil servants who face citizens will do so in a professional manner, meeting expectations in terms of approach, experience and providing the right expertise. They will be considered to be friendly and competent, providing consistent advice based on effective usage of information sharing tools.

How we can get there

When the core pillars (process, organization, product, technology and people) are approached holistically, the tax authority can be transformed as one, enabling sustainable change. Products can be designed in a simple and customer centric way. Processes can be aligned, simplified and standardized. Civil servants can be taught how to provide excellent service to taxpayers. For this purpose a number of actions are required:

- Competencies must be defined and developed
- Performance based management systems must be introduced
- Organizational structure can be redesigned to match specific groups of clients associated with core processes.
- Technology must be transformed to a means for interaction and sharing from a common source.

To realize the future tax agency vision, a clear path that leads to implementation is necessary. Strong political support is a requirement for sustainable change. Without a clear agenda for realizing the vision, descriptions of the future will remain mere descriptions. Therefore, an unambiguous picture of an ideal situation must be drawn up first, leaving behind any constraints that may blur the vision.

Second, a feasibility assessment will provide insight into the degree of organizational readiness with regards to change. Third, a clear concept of the future state must be drafted, including a scope and set timeframe. During the process, stakeholder involvement and support is critical. The draft of the future state is a basis for a change management program, which provides a path to the future.

We recognize that realization of change on such a scale – whilst core processes continue unhindered – is complex, especially in light of the unique characteristics of the public sector with regards to the challenges of transformation. These challenges were extensively dealt with (twice) during the transformation processes at the UK Tax & Customs Agency (HMRC) leading to valuable lessons for transformation of tax and customs organizations. Change requires not only a broad vision and an overview, but also understanding and experience regarding strategic transformation.

2014 and beyond

Beyond 2014, tax products will be simple and easy to customize by client needs, processes will have become more efficient, customer friendly and less complex. These processes will be driven by an organization that seeks constant adaptation to the clientele in its surroundings. Adaptation is realized through technology and training of personnel.

Achieving the vision with TechnoVision

Having set out the vision for 2014, how do tax agencies move ahead on their journey to achieving it? Society expects the tax authorities to be able to adapt to changes in tasks (new tasks related to extra allowances and surcharges) and information processing and the manner in which citizens can gain access to such information – expectations which currently the tax authorities cannot always meet.

In the Web 2.0 age, the public expects an error-free execution of large-scale computerized processes and a high degree of personal service in their contacts and interactions with the tax authorities. The Web 2.0 citizen demands a service based on the same 'You' approach that characterizes his dealings with Amazon.com or YouTube. Both citizen and business expect a personal approach in their contacts and interactions with the tax authorities.

The challenge for tax authorities the world over is that to respond to these customer demands and ensure operational excellence, many agencies are having to address the issue of complex legacy ICT systems – a challenge also being faced in the private sector where, for example, banks, insurance companies, and pension funds face problems in terms of complexity and legacy systems.

In addition, many national governments have included ambitious targets in their policy plans for reducing the administrative burden imposed by government. In Europe, for example, Capgemini is helping clients achieve their target to reduce the administrative burden by approximately 25% by 2012. Reductions can be achieved by implementing new legislation

and making it easier to comply with Information Obligations via the use of modern ICT. Examples of this include: electronic invoicing, the use of e-forms, web services, and new types of information exchange formats such as XBRL (eXtensible Business Reporting Language).

It is clear that transformation is both a technology and a business/legislative issue. And that's where Capgemini's TechnoVision approach comes to bear. TechnoVision tightly marries business and technology to underpin successful business transformation. It considers the information technologies that are most relevant to an organization's users and assesses how these technologies affect business as they evolve.

In the world of tax agencies, Web 2.0 is gradually taking on increasing importance in the delivery of citizen-centric services and effective revenue collection. Taking the TechnoVision approach, this evolution in technology can be illustrated by HMRC in the UK. The government department is communicating with an increasingly IT aware generation of taxpayers who want to do business using the latest technology and for whom social networking is the norm. They want to be able to see their data. Our TechnoVision approach will enable HMRC to understand the technology implications of the 'citizen first' business driver.

So what exactly is TechnoVision? As it is Capgemini's core business to help clients perform and transform through technologies, we developed the TechnoVision approach as a means of exploring the evolution of technology and its impact on the way our clients operate and how they will run their organizations in the future. It answers questions that will always

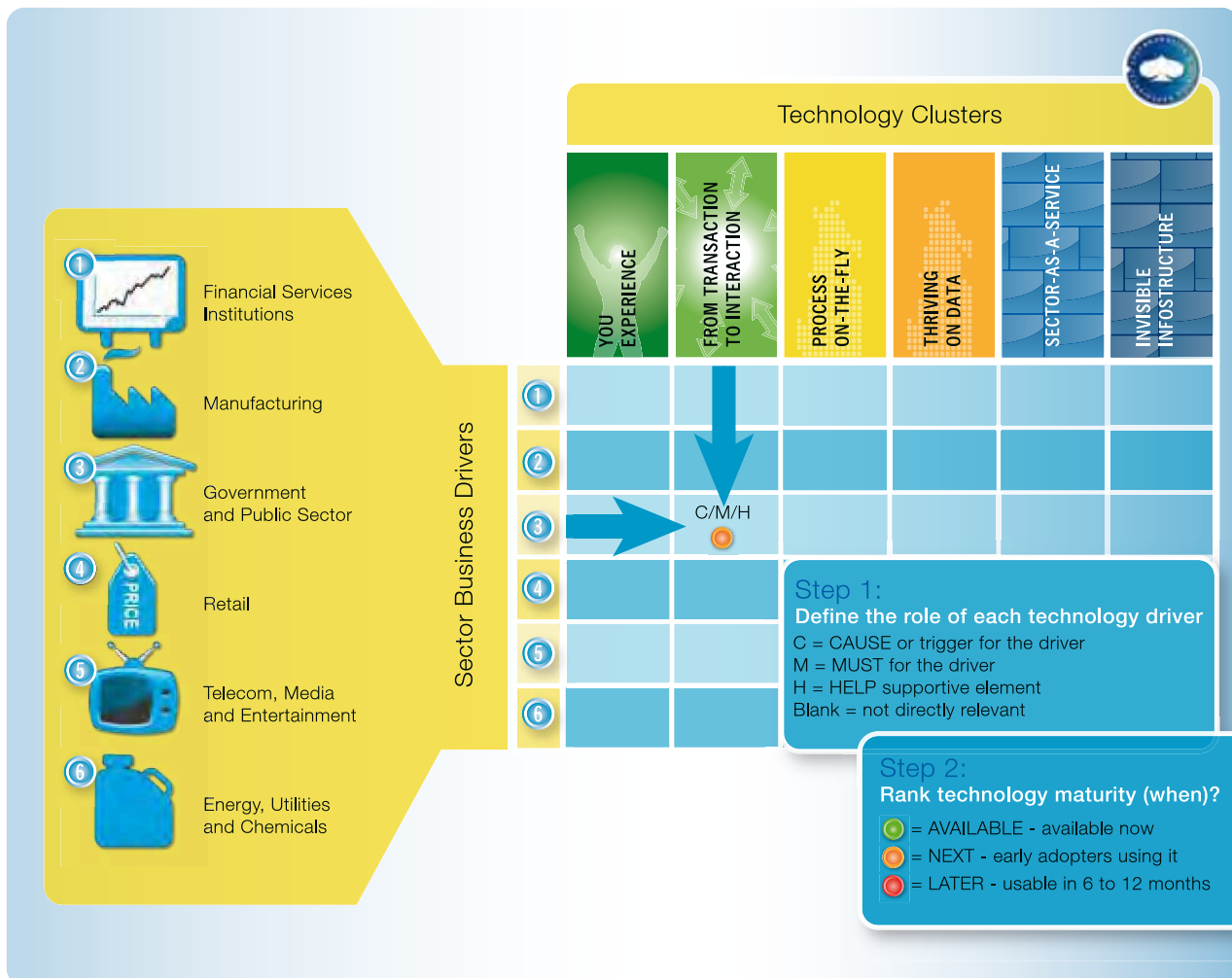
be asked, over and over again: how is technology evolving? Where should we invest to ensure we're ready to deliver the services of tomorrow?

TechnoVision proposes a simple, elegant matrix as the tool to explore the increasingly close relationships between business and technology. It literally maps business drivers (such as citizen centricity, online submissions, closing the non compliance gap) to technology solutions, describing the impact of a certain technology solution on a business driver, both in terms of causality (how important is the solution to challenge the business driver) and in terms of timing (how mature is the technology solution, but also: what are the capabilities of the organization to actually apply the solution).

TechnoVision is built on 17 key technology trends that we identified as likely to have a profound effect on business, now and in the forthcoming years. These include real-time integrated business intelligence, smart business networks and software as a service. We then structured these 17 trends, or building blocks, into seven technology clusters, as illustrated here.

We use this seven cluster structure in order to support our clients in better understanding how technologies are linked to the drivers that matter for their organization, such as the need to ensure efficient revenue collection and administration.

With this intelligence, a tax authority can prioritize and focus its efforts on developing the right capabilities. It can then appropriately time the adoption of new technologies to drive and support its transformation and efficiency objectives. What's more, TechnoVision's focus on business drivers and technology clusters



makes it easier to recognize relevant applications of technology from a wide range of industries that may be applicable to the business of revenue collection and administration.

Global leaders in tax transformation

As tax authorities across the world have gradually moved away from heavily paper bound administration, they have re-engineered and optimized business processes to become more citizen-focused. Capgemini has been at the forefront of supporting the transformation from ‘management’ to ‘service’ that has

been linked to process re-engineering and Service-Oriented Architecture. We are also playing a pivotal role in the adoption of outsourcing to control IT expenditures that has been another consideration for European and other national agencies.

In the UK, the national tax and revenue agency HMRC (Her Majesty’s Revenue and Customs) has an on-going modernization program aimed at the transformation of its operations to meet three significant external challenges: modernizing government, welfare reform and eGovernment. This includes a wide-ranging modernization

of its IT systems which has been delivered since 2004 through what is known as the ASPIRE contract. This contract is managed by Capgemini as a business and technology partner working with HMRC to transform the delivery of its services.

Capgemini has prime responsibility for the provision of outsourcing services to HMRC and provides IT development capability. Currently Capgemini has 3,500 people working on more than 200 major projects at any one time and the partnership with HMRC is considered a flagship for other public sector transformation.

In France, Capgemini is a key partner in a program to renew tax-based systems as part of a major tax agency modernization that reflects the global trend to use Service Oriented Architecture and Enterprise Architecture for transformation. The transformation includes the creation of a single view of the customer (or unified data view) through a single taxpayer account. At the heart of this is the core business data, accessed through web services to and from the French Ministry of Economy and Finance.

In Sweden, Capgemini has supported the tax agency's moved toward pre-filled and pre-calculated tax returns with a service that provides straight-through-processing so the agency can securely refund taxes directly to a user's account. Integration and co-operation with the private sector has made this transformation possible. Without BankID providing secure identity management, the government would not have been so easily able to electronically verify citizens and offer up this service. The Swedish example is a clear indication of how an agency is using both technology and business partnerships to close the tax gap.

In The Netherlands, Capgemini BAS is supporting Belastingdienst, the tax and customs administration benefits system, with a technology solution that includes a public portal and a new approach to benefits in which benefits will be determined automatically on the basis of events in the citizen's life (birth, moving home etc). Capgemini recognizes that information – an agency's most important strategic asset – is central to any tax transformation of this nature. The business processes supporting data management are therefore vital.

Lessons learned – continuing the journey

As Capgemini continues to support the transformation journeys of tax authorities across the world, we have identified the key requirements of successful transformation as follows:

- A technology-only driven approach has to be replaced with a business-driven approach – technology is the enabler, not the driver of change.
- Strategies must embrace the vision of a citizen-oriented tax organization.
- New technologies must be harnessed to make it easier for the citizen and businesses to comply with their tax obligations.

- Multiple taxation systems must be overcome to form a unified view of taxpayer information.
- Risk management and mitigation must be central components of large modernization projects.

In the US, the need to target non-compliance and increase the collection rate of taxes is as urgent as anywhere else in the world. Agencies are increasingly looking for innovative yet pragmatic solutions to their revenue collection and administration challenges. To this end, Capgemini brings both technology capability and insight into proven global best practice as a partner to tax authorities worldwide.



About Capgemini and the Collaborative Business Experience

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies. Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working, the Collaborative Business Experience™. The Group relies on its global delivery

model called Rightshore®, which aims to get the right balance of the best talent from multiple locations, working as one team to create and deliver the optimum solution for clients. Present in more than 30 countries, Capgemini reported 2008 global revenues of EUR 8.7 billion and employs over 92,000 people worldwide.

More information is available at www.capgemini.com.

Contact

George A. Love III
Senior Manager, Global Tax Strategy
George.love@capgemini-gs.com
+1 480 370 6472

Acknowledgements

Ian Pretty
VP, Global Tax Lead
ian.pretty@capgemini.com

Maxwell Keyte for his work on the content.