

Implementation of a Modern, Unified Revenue Collection Agency (JIM): Review of the Feasibility Study

TEAM:

Jean-Paul Bodin
Eimar Coleman
Claus Johannessen
Munawer Khwaja (team leader)
Jana Kunicova

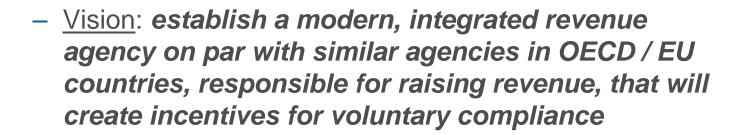
Prague, Czech Republic September 13-19, 2011

Preview of the Story: A Roadmap



- 1. Introduction
- 2. Current Approach for Implementation of JIM
- 3. Main issues in Feasibility Study and Risks
- 4. Recommendations

Introduction: Vision for JIM





- Improve efficiency >> reduced public expenditure
- Improve effectiveness >> better equipped to improve compliance and combat fraud
- Reduce compliance burden >> simplification of procedures and removal of multiple filing requirements for citizen



Lessons from International Experience



- Integration of revenue administration is a strong driver for modernization of the tax administration
- Proper modernization and integration of revenue administration yields *high returns* in terms of financial, social and economic benefits to the budget and to society – with IRR of 300% to 600%
- Integration without modernization of tax administration or delaying modernization after integration is a huge opportunity lost for the economy
- Modernization and integration should not be quick and dirty
 could lead to negative results.
- Proper sequencing and timing are key.

Progress Made in CR towards the Vision and Objective (1)

- Significant steps have been taken since the concept of integrated revenue administration was first presented
 - Vision and strategy developed in collaboration with the World Bank
 - Vision and strategy adopted by the Government as a whole
 - Robust consultative mechanism developed
 - Project board
 - Steering committee
 - Thematic working groups
 - Consultations with private sector stake holders



Progress Made in CR towards the Vision and Objective (2)



- first phase focusing on the merger of the tax and customs core revenue functions
- second phase focusing on integration of social security and health insurance collections - requires unification of revenue processes
- Decision to conduct a feasibility study for implementation of JIM



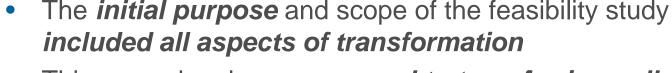
Recent Developments



- The agencies still have significant concerns about the capacity of tax administration to take over their collection functions, but are willing to work together
- **The sequence** of the two phases has been **reversed** (not an issue if tax administration is modernized)



How the Feasibility Study Fits In



- This scope has been narrowed to transferring collection functions to the tax authority
- Despite this, the FS is an important step forward
 - Provides a *signal* that the government is still committed to the implementation of JIM
 - Provides an opportunity for stakeholders to *clarify* their concerns and discuss implementation issues
- However, there are a number of potential risks with the current approach of narrowing the scope of the reform



Roadmap



- 1. Introduction
- 2. Current Approach to Implementation of JIM
 - Legislative Agenda
 - Modernization of Tax Administration
- 3. Main Issues in the Feasibility Study and Risks
- 4. Recommendations

Legislative Agenda (1)



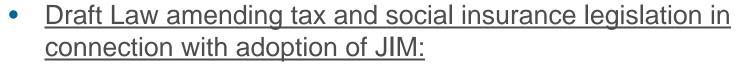
The reform begun by Act No. 1990/2010 on territorial tax authorities, effective January 1, 2011) creates **headquarters function**

The new law:

- Creates a Financial Administration with uniform structure centrally managed by GFR, subordinated to MoF and serving as a single accounting entity
- Director General : appointed and dismissed by the Cabinet
- Mandates 14 regional financial authorities and 199 local branches; (possibly reduce 199 over time by decree of MoF)
- Establishes LTO: for large tax entities (turnover over CZK2 bill as well as banks, insurance companies, etc.)
- Provides that this restructured Financial Administration be ready to take over collection of social and health insurance premiums as of January 1, 2013



Legislative Agenda (2)



- Simplifies the communication between taxpayers/contributors and government agencies (Financial Administration, CSSZ, HICs) by creating a single point of contact in JIM
- Provides for the common procedural legislation that will govern collection of tax and insurance premiums
- Mandates that all submissions be made on a common form and all payments made through a single payment into a common personal tax account
- Harmonizes individual income tax with social security and health insurance premiums (bases, terminology, procedural rules)
- Unifies tax rates and insurance premiums
- Introduces mandatory electronic form for certain types of returns
- Expected to be in force from January 1, 2013.



Organization of Tax Administration: current situation and planned changes

- January 2011: creation of the General Tax Directorate (GFR)
- January 2012: implementation of the Large Taxpayers Office (LTO)
- January 2013: creation of 14 regional tax offices with a network of 199 local branches
- January 2013/14: transfer of social contribution collections and creation of JIM



Business Processes and IT



- Design of the IT system does not eliminate differences in architecture, database structure, methods of data integration, and exchange between GFR, CSSZ, and VZP CR
- Analysis of the current IT systems reveals a number of weaknesses weak customer relationship support, weak use of data warehouse and weak centralized data access)
- Tax administration is the weakest institution from IT perspective due to its fragmented systems
- IT system for JIM is being designed as a heterogeneous system built around a new centralized system supporting collection of income tax and social contributions; it will use existing systems for other taxes (VAT)
- Data in the new system will be based on individual records and it is expected that in 2012 a new central register will simplify data management
- Analysis of business processes is limited to registration, collection, assessment, audit, and debt management for PIT and social contributions

Human Resource Strategy



- Draft Law on Financial Administration does not elaborate
 on human resources issues
- Since *no decrease in the number of territorial units* is envisioned in foreseeable future, no reduction in the workforce is foreseen in the legislation.
- Focus has been on number of employees to be transferred, in theory, from the social and health insurance agencies
- There is *no mention in the legislation of how the integration of staff* from the other institutions into tax administration will take place.

Roadmap



- 1. Introduction
- 2. Current Approach to Implementation of JIM
- 3. Main Issues in the Feasibility Study and Risks
- 4. Recommendations

Preliminary comments on the Feasibility Study: Positives

- <u>Continuity</u>: the study signals the government's commitment to continue the integration of the revenue collection agencies
- <u>Dialogue</u>: the study has provided an opportunity to enhance discussions among stakeholders
- <u>Depth</u>: the study was professionally executed and clarified a number of technical issues hitherto unspecified to the stakeholders.



Concerns about FS (1): The Scope



- TORs particularly narrow and not in line with the strategic vision
- As a result, the Study has mainly focused on transfer of social security and health insurance contribution collections to the existing tax administration.
- Analyses of processes are static, focusing only on moving registration and collection functions to JIM. They do not take into account the modernization of processes. A dynamic analysis would need to compare the present situation with the end goal
- Modernization of the tax administration not considered in the study; this include the following key elements:
 - Changes in the organizational structure of the tax administration:
 - Major changes to the IT system:
- Because the study does not take into the account these key elements, its conclusions do not provide the robust platform for implementation of a modern revenue agency that is critically needed in the CR.

Concerns about FS (2): Processes



- Conceptualization of Registration.
 - JIM should only register those from whom it collects money – taxpayers and contributors to the social security and health insurance.
 - JIM register should not be burdened by registrations of no relevance for its core revenue function
 (children and persons without taxable income almost 50% of population-- who do not pay taxes and whose contributions are paid for by the state).
 - CSSZ and ZPs will need to keep registers pertaining to the payment of benefits.

Concerns about FS (3): ICT

- Role of IT in modern revenue administration is underestimated (e.g., potential for virtual office and role of external providers not considered)
- Since **neither** Service delivery model nor Business process model properly defined in the FS, the ICT chapter does not appropriately describe how the ICT system will function
- Document management, data warehousing, and data retention need to be explored further, as JIM and CSSZ / ZPs have different data access & retention requirements
- **Data migration to JIM** from legacy systems in CSSZ and ZPs needs to be specified (data sources, choice of data, responsibility for data validation, technology for data consolidation, synchronization with Min. Interior registry)
- Running parallel systems for a long transition period will increase costs and delays savings

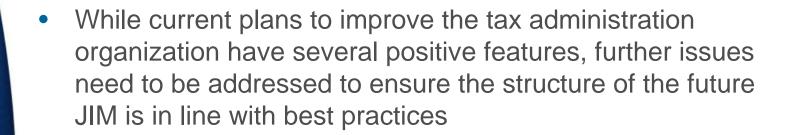


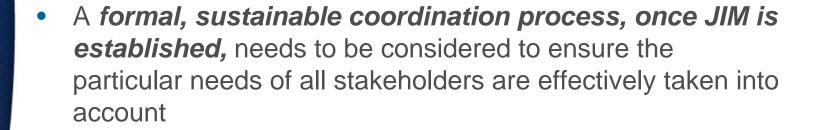
Concerns about FS (4): Costs and Benefits of JIM Reform

- The estimate of cost savings and gains from the creation of JIM mirrors the ToR and therefore only provides a static picture
- Since there is no plan for tax administration modernization in the FS, economic model does not take into account its potential impact on administrative and taxpayer compliance costs and improved tax compliance.
- The potential impact from an actual modernization would take into account the following:
 - creation of the large taxpayer office
 - reduction in the number of local office s
 - impact of a new IT system
 - more aggressive approach in promoting electronic filing and payment,
 - downsizing of the staff of the existing agencies, including tax administration, etc.
- The economic model focuses only on administrative and operational costs,
 with no attempt to estimate compliance costs
- Savings in compliance cost would have occurred if JIM was a modern administration. This is a political selling point for JIM from the beginning and experience shows that compliance costs savings are particularly high in revenue integration and modernization reform.



Implementation of JIM -- Issues and Risks to be Addressed: Organizational Issues (1)





 A more forward looking approach is needed to streamline and consolidate the network of local branches that will report to the 14 regional offices of JIM



Implementation of JIM -- Issues and Risks to be Addressed: Organizational Issues (2)

- A more effective and efficient approach needs to be adopted in designing the LTO structure, including centralization of the main functions and specialization of the staff by industry
- In the longer term, consideration will also need to be given to establishing a modern tax fraud investigation office comprised of high-skilled tax auditors in JIM
- Transfer of excise tax collections to JIM will be a logical step to modernize revenue administration, but this should be subject to significant improvements in the effectiveness and efficiency of the current excise tax system and its administration





- **Full use of** integrated IT systems making access to information easy for both the tax authority and the taxpayers / contributors.
- Full self assessment with extensive use of risk management, including use of third party information – no need to check each tax return.
- Developing strategies and programs to promote voluntary compliance, including:
 - Effective taxpayer service and education
 - Assessment and audit based on risk management.
- Exploring **possibilities for specialisation** for efficiency and better service (tax fraud investigation office, call centres, etc).
- Focusing the revenue collection agency on its primary role for all taxes (including excises) and transferring non-revenue functions to other agencies



Roadmap



- 1. Introduction
- 2. Current Approach to Implementation of JIM
- 3. Main Issues in the Feasibility Study and Risks

4. Recommendations

Recommendations: Strategic Vision and Commitment

- Urgent need to reiterate commitment to the strategic vision for creation of a modern, unified revenue agency in the Czech Republic, including the role of JIM
- Integration of social security and health insurance contribution collections without modernization of tax administration risks failure
- Once the vision for JIM is reiterated, ensure there is a strong political commitment and consensus to support implementation, which requires the provision of appropriate budget resources to support the modernization of the existing tax administration.



Recommendations: Modernization of Revenue Collection



- A comprehensive strategy for the modernization of the tax administration should be developed to ensure that the future JIM will deliver the expected results.
- The legislative basis for the new organization will not be enough to guarantee success.
- The strategy to be based on full review of business processes on a wider scale than the FS, and introduce concepts such as self assessment, risk based audits, taxpayer segmentation

Recommendations: Organizational Structure (1)



- Strengthen the LTO structure—in line with best practices
- Develop a plan for a phased (short, medium, long term) approach for closure of a large number of small local branches as a natural sequence to modernization



Recommendations: Organizational Structure (2)



- In the longer term, prepare for the creation, within JIM, of a modern Tax Fraud Investigation
 Office comprised of high-skilled tax auditors and a few specialists in penal procedures
- Pay significant attention to the simplification of the current excise tax system and improvement of its effectiveness and efficiency before the planned transfer of responsibility to JIM

Recommendations: IT

- Conduct an in-depth review of the IT requirements for a modern revenue administration as a basis for an IT strategy based on centralized access to all data.
- The system will need to provide supporting services to the taxpayers /
 contributors and to support the key functions of the JIM. It must also
 provide a solid basis for planning operations and policies, and
 developing compliance strategies and risk assessment.
- Investments in IT need to increase. At present, FS estimates IT costs to be around 5% in JIM. Doubling these costs to 10% would bring the Czech Republic to the lower end of modern revenue administrations.





Recommendations: Developing a HR strategy dealing with all aspects of the creation of JIM

Transfer from CSSZ, VZP and SZP to JIM,

- Policies to deal with the transfer of a large number of staff to JIM will be a major challenge.
- Plans are needed to deal with differences in salaries, salary structure and employment conditions.
- Processes to ensure that the **right competencies** are transferred and incentives to make them stay in JIM must be considered.

<u>Transfer of staff inside the existing tax organization to the new 14+1 structure</u>

- including incentives to get the best qualified people to apply for posts in specialised functions such as the LTO (special unit).
- Training policies in respect of new IT systems

Recommendations: Process for Transfer



- Master plan for transfer needs to be presented well in advance of transfer (building on other recommendations).
- Labor and Employer Unions and other stakeholders to be consulted.
- Communication strategy for the general public to be aware of changes -- who to go to with questions, etc.



Thank you for your attention!

... we are happy to answer any questions you may have