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# Czech Republic
## Report on Vision and Strategy for an Integrated Revenue Administration

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# EXECUTIVE SUMMARY

1. **Background and Scope.** On November 3, 2008, the Government of the Czech Republic (GoCR) passed Resolution 1336 on the creation of an integrated revenue agency (IRA) named *Jednotni Inkasni Misto* (JIM). Under the Agreement for Advisory Services between the World Bank and GoCR, the Bank worked with the Czech counterparts to develop for the new JIM: (i) an integrated vision and key concepts; (ii) major objectives and key elements of reform; (iii) a comprehensive strategy for reform of the organizational structure, human resources, business processes and information systems; (iv) project management structure; (v) change management strategy; and (vi) key performance indicators. The report contains the recommendations of the World Bank in the above mentioned areas, and identifies the main risks and mitigation measures.

2. The **vision** for this reform is to create a modern revenue agency on par with similar organizations in other advanced countries, responsible for raising revenue for public expenditure, safeguarding society's welfare, and promoting economic growth. The basic premise behind this vision is the fundamental willingness of the Czech citizens to fulfill their revenue obligations. The new agency's **mission** is to create incentives for voluntary compliance.

3. The **key concepts** on which the vision and mission are based are: self-assessment; voluntary compliance; risk management; functional organization; specialization; segmentation; and equity and fairness. While some of these concepts are familiar in the Czech context, most are not fully internalized by the current revenue administrations. Their adoption and implementation in itself represents a major shift in thinking about revenue collection and revenue-payer culture.

4. The **objectives** of the Project JIM are: (i) improved efficiency; (ii) improved effectiveness; (iii) reduced compliance cost; (iv) simplified and rationalized revenue administration; (v) competent workforce; (vi) reduced contact between revenue payers and revenue authorities; and (vii) full use of modern technologies.

5. The **key elements of reform** lie in unraveling the steps that will lead to achieving the reform objectives. <u>Improved efficiency</u> will be achieved through reduced compliance burden and administrative costs; reduced number of revenue offices; and a function-based organization. <u>Improved effectiveness</u> and incentives to pay revenue requires new attitude toward compliance, i.e. a shift from control culture to service culture, promoting voluntary compliance; improved client service; greater use of third-party information; and risk analysis as a basis for audit and enforcement. <u>Simplified and rationalized revenue administration</u> will be possible through greater specialization and functional focus; enhanced transparency in revenue administration; and strategic management for the organization. A <u>competent workforce</u> must become the key asset of JIM, by ensuring that recruitment and selection are based on key competencies; that JIM provides career development strategy that attracts and retains high quality staff; and that JIM offers attractive and collegial working environment. <u>Reduced contact between revenue payers</u>

and revenue authorities will be ensured by a planned shift from geographic to functional focus; optimization of office network to regional (krajský) level; centralized processing of filing, payments and accounting; and targeted services based on taxpayer segments and risks. Finally, full use of information technology will require that JIM becomes a front-runner in full-scale use of e-government; the use of e-filing and e-processing is mainstreamed; efficient revenue data access is available to authorities whose revenue functions will be performed by JIM (Czech Social Security Administration or ČSSZ and the health insurance companies,); the use of third-party information for revenue purposes is made effective; and secure access to own information is provided to revenue payers.

6. The **strategy for reform** presented in this report has four parts: (i) Organizational Development and Management; (ii) Business Processes; (iii) Human Resource Management; and (iv) Informational Technologies.

7. The **strategy for organizational development and management** envisions building the agency structure and capacity to bring about a strategic focus on efficient compliance management based primarily on objective performance criteria rather than professional intuition. This requires developing plans to establish structures, and create capacity, for five key institutional themes relating to JIM: (a) Organizational Development; (b) Management Structure, Philosophy, and Systems; (c) Analytical Capacity; (d) Human Resources Management; and (e) Training.

8. The **strategy for business process design** requires initial mapping of existing business processes of all revenue agencies; then conducting functional review of the existing agencies and developing a functional design; followed by redesigning a business process model for JIM based on self assessment, centralized processing and risk management; and finally developing transition plans from current set of business processes to the integrated model. In redesigning the business processes, it is important to consider that many customs operations are inherently real-time, and there is physical control over its transactional space. While certain common functions and processes can be integrated, certain real-time border control functions cannot be integrated fully

9. The **strategy for human resource management** entails developing competency profiles for each function in JIM; determining staff requirement for JIM ensuring adequate positions for newly integrated functions; designing a recruitment and compensation policy for initial staffing of JIM; conducting training needs assessment and designing immediate training program for the new revenue authority; creating redeployment, placement, and re-training services for non-recruited employees; and designing long-term HR management policies and training.

10. The **strategy for IT** envisions a review of the existing IT infrastructure and software systems; design of the IT strategy for JIM - hardware, communications, system software and applications - for newly designed business processes; design of the data migration strategies to ensure individual-based and real-time information; retaining parallel functioning of existing and new IT systems until fully mature; developing data management and exchange strategies; developing management information systems;

developing information security and business continuity strategies; and developing technical specifications to procure systems.

11. The **governance structure for reform** will consist of: (i) Project Board (Ministers of Finance, Labor and Social Affairs, and Health), the main policy making body; (ii) Steering Committee (Heads of agencies and other key players – chaired by Dy. Minister of Finance), the main executive body; (iii) Project Coordination Unit (PCU) headed by Project Manager, the main implementation body; and (iv) Thematic Working Groups or TWGs (BP, Functional, HR, Legislative, IT, Change Management, Customs-Tax Integration, SS-Health Revenue Functions). The World Bank Advisory Services will be provided based on collaboration with TWGs and PCU, as well as to the Steering Committee and the Project Board.

12. The objectives of **change management** are as follows: (a) to ensure smooth reform process management (by utilizing a proven project management methodology); (b) to support the matrix structure of decision-making during the reform process and to provide a mechanism for discussion and resolution of conflicts among the thematic groups; (c) to involve internal and external stakeholders (including private businesses of different sizes) in the design of JIM; (d) to establish channels for a two-way interchange of information with the agencies being reformed and external stakeholders, including feedback mechanisms; and (e) to monitor the evolution of broad-based political and social support for the project, and devise strategies for maintaining such support.

13. There are at least three levels of **risk** that Project JIM faces: (a) political risks (reform fatigue; possible resistance by municipalities to consolidation of offices); (b) agency-level risks (different organizational cultures and remuneration structures of agencies may create conflicts; different legal and institutional frameworks and capacities that circumscribe the current agencies may be politically difficult to change); and (c) process level risks (these risks are specific to the transition process and concern mostly data and IT). Because these risks were identified prior to strategy formulation, the mitigation measures are built-in into the reform strategy as described above.

14. **Key performance indicators** are closely linked to the major objectives of the reform. Base value for these indicators will have to be determined soon, and the indicators should be monitored annually. (i) Improved Efficiency can be measured by administrative cost of collection per staff; (ii) Improved Effectiveness by the amount of audit adjustment / total number of audits; arrears recovered in a year / total annual revenue collection; and a perception survey on improvement in incentive to pay; (iii) Simplified and Rationalized Revenue Administration, as measured by the number of personal income tax (PIT) declarations filed; revenue paid on time / revenue assessed; (iv) Quality of workforce can be assessed by public perception of the quality and professionalism of revenue officials based on surveys of citizens; as well as by employees' survey; (v) Reduced Contact between Revenue Payers and Revenue Authorities can be shown by increased percentage of declarations filed electronically; and decreased hours spent by taxpayers to meet revenue obligations; and (vi) Full use of information technology can be approximated by the number of declarations processed electronically, as well as the volume of third party information processed electronically.

# 1. BACKGROUND, VISION AND KEY CONCEPTS OF REVENUE ADMINISTRATION REFORM

## A. BACKGROUND

1.1 This report is a result of the mission of the World Bank to the Czech Republic during November 17 to 27, 2008 for providing advisory service to the Government of the Czech Republic for the design and development of a modern, integrated revenue authority. Earlier, between February and April 2008, a World Bank mission had reviewed the draft merger plan[1] prepared by the Ministry of Finance of the Czech Republic in January 2008 and examined the key issues for the merger of tax and customs administrations and the integration of the collection, enforcement and audit functions of social contributions. The preliminary findings of the World Bank are contained in the "Report on an Integrated Revenue Administration" in two volumes which was disseminated in June 2008.

1.2 Based on the findings in the June report, the Minister of Finance, by his letter dated September 8, 2008, requested World Bank assistance for the creation of an integrated revenue authority for taxes, customs and social and health contributions on a fee-for-service basis. Subsequently, an Agreement for Advisory Services was signed in Washington, DC on October 10, 2008, between the Minister of Finance and the Vice President of the World Bank.

1.3 Meanwhile, on November 3, 2008, the Government of the Czech Republic passed Resolution No. 1336 dated November 3, 2008, proposing to create a new Integrated Revenue Agency (IRA) named *Jednotni Inkasni Misto* (JIM), and asking the Ministry of Finance to work on preparing the legislative, administrative and functional framework for JIM. A Project Management Board consisting of the Minister of Finance, Minister of Labor and Social Affairs, and Minister of Health was formed. In addition, a Project Steering Committee (PSC) was constituted under the Chairmanship of the Deputy Minister of Finance.

1.4 This mission in November 2008 is the first in a series of missions over the next eighteen months for providing the advisory services as requested to the Government of the Czech Republic. During this first mission, the Bank has worked with the Czech counterparts to develop for the new JIM: (i) an integrated vision and key concepts (ii) major objectives and key elements of reform; (iii) a comprehensive strategy for reform of the organizational structure, human resources, business processes and information systems; (iv) project management structure; (v) change management strategy; (vi) key performance indicators. The report contains the recommendations of the World Bank in the above mentioned areas, and identifies the main risks and mitigation measures.

[1] The merger plan stipulated merger of Tax Administration and Customs, and the integration of collection functions of social security and health insurance institutions.

## B. VISION

1.5 Recent years have seen major reforms in revenue administration all over the world. This is necessitated by the fact that revenue administrations need to be capable, anticipating and adapting to changes in business environment and methods, globalization, and innovations in communication and information technology. One of the key goals of most modern revenue administrations has been to be able to collect revenues both efficiently and effectively.

1.6 The Government of the Czech Republic has been concerned that both the collection costs of revenue administration and the compliance cost for taxpayers rank among the highest in Europe. A key concern of the Government was the sustainability of the financial base of the social security systems, and the reliability of its revenue collection mechanism. If the collection systems are not robust, effective coverage becomes a serious issue, and a free-rider problem can become endemic. Individuals can then enter the system without making their required share of contributions, making the system financially burdensome. Like in many other countries, the Czech Government has been looking at ways to improve the revenue collection system, while making voluntary compliance attractive for taxpayers and contributors.

1.7 In light of these trends, the Government adopted Resolution No. 1462, dated 20 December 2006, instructing the Ministry of Finance, Ministry of Labor and Social Affairs and the Ministry of Health, to produce a material for the Draft Consolidation Procedures which aims at simplifying and rationalizing the administration of taxes, customs and social and health contributions to improve internal and external efficiency, and to improve the effectiveness of these agencies in fighting against tax evasion in an integrated manner.

1.8 The proposal adopted in Government Resolution No. 1336 dated 3 November 2008 to create JIM, is based on the same vision of ***creating a modern revenue agency on par with similar institutions in other advanced countries, responsible for raising revenue, safeguarding society's welfare, and promoting economic growth***. This is planned to be achieved by modernizing and consolidating collections of the main government revenues in one specialized and professional revenue agency. Many countries already have long established common revenue collection under tax administration. Countries that have moved to integrate social contribution collection functions into a common revenue administration have generally found that the marginal costs of extending the systems used for tax administration to include social security contributions are relatively small, while the efficiency gains are significant.[2]

1.9 The basic premise behind this vision is the fundamental willingness of most Czech citizens to fulfill their revenue obligations correctly if the compliance burden on

[2] Peter Barrand, Stanford Ross and Graham Harrison, *Integrating a Unified Revenue Administration for Tax and Social Contributions: Experiences of Central and Eastern European Countries,* IMF Working Paper, December 2004.

honest taxpayers is not high. The vision foresees JIM as the agent for promoting voluntary compliance.

## C. KEY CONCEPTS

1.10 The Government's vision is based on an underpinning of key concepts that are international standards in advanced revenue agencies. Central to these reforms is the establishment of business-like corporate governance practices that includes (i) self-assessment; (ii) voluntary compliance; (iii) risk management; (iv) organizational structure, not based on geographic focus but functional focus; (v) promotion of equity and fairness; (vi) focus on specialization; and (vii) service and functions based on client segmentation to cater to the needs of different taxpayer categories (See Figure 1).

***Figure 1. Key Concepts on which Modern Revenue Administrations are based***


1.11 **Self-assessment**. This is aimed at reducing the compliance burden of taxpayers and contributors, and streamlining procedures, guided by five principles: (i) not demanding more information than will be processed and used by the revenue administration; (ii) using third party information; (iii) providing simple and clear information, simplified forms and processes, and clearly delineating record keeping requirements; (iv) standardizing procedures nationwide in order to avoid differential treatment across different offices; and (v) operating with transparency and public accountability.

1.12 **Voluntary compliance.** This is a major strategic concept and is achieved through a system of self-assessment whereby taxpayers and contributors, with reasonable access to advice from the tax administration, calculate their own tax liabilities; complete their tax returns; submit returns and payments to the revenue administration. The few that are subject to audit are selected based on a transparent risk-based system. A taxpayer compliance strategy is designed and implemented uniformly throughout the country.

1.13 **Risk management.** This drives the operational priorities of revenue administration. Centralized strategies are developed to identify risks based on analysis of business trends and patterns of tax avoidance. The selection of taxpayers to be audited and other types of control are based on the assessment of risk and the development of risk-based selection techniques. Risk scoring systems use the characteristics of taxpayers to identify and assess their risk of non-compliance. This allows appropriate prioritization of audit and taxpayer service workload and allocates resources against the highest risks.

1.14 **Functional organization**. Modern revenue administrations are organized on functional, rather than geographic basis. The administration principally determines the structure, functions and allocation of resources throughout the organization by operational demands, not on geographical presence.

1.15 **Specialization.** Modern revenue administrations are organized based on specialization to meet the most significant revenue risks and priorities. Special functions require specific skills, and offer economies of scale, e.g., returns processing centers, taxpayer call centers, tax intelligence and investigation, and enforcement of collection, as well as specialization of audit units by industry. Likewise, there are usually specialization of some selected staff in specific complex issues such as e-trade, transfer pricing, mergers and acquisitions, taxation of derivatives and other hedging transactions.

1.16 **Segmentation.** This is a basic marketing concept that identifies the unique characteristics of different groups of clients and designs a strategy that takes into account these characteristics. Taxpayer segmentation creates an agency that deal with taxpayers and contributors according to their specific needs and features, rather than as a homogenous group. There are usually separate offices and units for large and medium-sized businesses, small businesses, self-employed persons, individual wage and investment earners, and charitable organizations. Likewise, there could be specialized offices for dealing with the specific issues of non-resident businesses and non-resident individuals. These offices are responsible for providing the full set of administrative functions to their designated taxpayer segments.

1.17 **Equity and fairness.** This concept helps enhance taxpayer confidence in the administration through the display of fairness, impartiality, honesty and professionalism, and through the development of transparent systems and procedures. Simple laws and regulations are relatively easier to understand, implement, comply with, and present fewer chances of ambiguous interpretations.

# 2. MAJOR OBJECTIVES AND KEY ELEMENTS OF REFORM

## A. MAJOR OBJECTIVES OF MODERNIZING AND INTEGRATING REVENUE COLLECTION

2.1 Long term economic growth, higher revenues, and lower unemployment are among the broad macroeconomic goals of Czech Government. These macroeconomic goals are determined by how well the revenue administration functions. The integration of revenue collection is part of the financial management reform strategy to ensure efficiency and effectiveness in revenue collection, while promoting a healthy private sector environment by reducing the compliance burden of taxpayers and contributors. The overriding objective of modernizing and integrating revenue administration is to achieve the best possible revenue collection performance, providing synergies between organizations and their core functions, and reduction in administrative and compliance cost.

2.2 In order to achieve these goals, an efficient, simple, and customer-oriented revenue administration is imperative. The key elements of the reform are driven by the following key objectives:

*(a) Improved efficiency*
- reducing compliance burden and administrative costs
- developing a functional organization with client segmentation
- reducing the number of revenue offices

*(b) Improved effectiveness of enforcement and incentives to pay voluntarily*
- new attitude towards compliance
- shift in administration from control culture to service culture
- improved taxpayer service
- greater use of third-party information to control evasion
- mainstreaming risk analysis as a basis for audit and enforcement

*(c) Simplified and rationalized revenue administration*
- greater specialization and functional focus
- enhanced transparency in revenue administration
- introducing strategic management for the organization

*(d) A competent workforce as the key asset of the IRA*
- qualified and motivated workforce
- recruitment and selection based on new key competencies
- career development strategy that attracts and retains staff
- attractive and collegial working environment

(e) *Reduced contact between revenue payer and revenue authorities*
- shift from geographic to functional focus
- optimization of office network to regional (krajský) level
- use of centralized processing of filing, payments and accounting
- targeted services based on taxpayer segments and risks

(f) *Full use of information technology*
- revenue agency as a front-runner in full-scale use of e-government
- mainstreaming the use of e-filing and e-processing
- computer-assisted risk management
- efficient data access by competent authorities (e.g., ČSSZ, health insurance, etc.)
- effective use of third-party information for revenue purposes
- secure access by taxpayers and contributors to own information and public access to forms, laws, etc.

## B. KEY ELEMENTS OF REFORM FOR THE CREATION OF JIM

2.3 The key elements[3] of the reforms for creating a modernized revenue agency are elaborated in greater detail below.

### Reducing compliance costs and administrative costs

2.4 The Czech Republic has a low ranking in terms of the time spent to fulfill revenue obligations. This incurs unnecessary costs for revenue payers. Therefore, one of the main objectives for the creation of an integrated revenue agency is reduction of these costs. Making it easier for the revenue payer to fulfill their revenue obligations is a necessary precondition for a successful revenue administration. Cost of compliance is a real cost to business and individuals, and if these costs are high, they create incentives for cheating or avoiding taxes. Reduction in compliance costs reduces the overall burden of paying taxes and helps improve the culture of voluntary compliance and the business environment.

### Reducing the number of revenue offices

2.5 In the existing administrative structure both the tax and custom administrations have a large number of local offices. On the tax side there are more than 220 local units of differing size while customs has more than 50 local offices.

2.6 The WB report of June 2008 argues that a structure with so many local tax offices entails a number of risks and inefficiencies, duplication of tasks, difficulties of attracting the right competencies, and lack of specialization. On the customs side it is argued that because the Czech Republic is an EU member state, and all its borders are internal EU borders, 54 customs offices seem excessive.

[3] The elements of reform relating to human resources and IT are discussed in separate chapters.

2.7 Following the international trend a reduction of the number of revenue offices taking advantage of a new functional organization, specialization, full use of information technology, using self assessment, compliance strategy and risk management will help improve efficiency.

### Developing a functional organization

2.8 Historically, revenue services have been organized along geographical lines often so that each office performed a comprehensive set of functions. This type of organization is rooted in a time when means of communication were much more limited and the tasks often simpler.

2.9 In a modern setting, such an organization with geographical focus implies a number of risks:

- Lack of focus on competent and efficient service and control
- Inefficient use of scarce competences
- Lack of unified application of tax laws, business processes etc.
- Inadequate specialization in complex tax issues
- Lack of segmentation of tax payers/clients

2.10 Creating a new organization based on a functional approach will help mitigate these risks. In broad terms, functions such as customer service, control, enforcement and legal service are a starting point but a thorough look at the business processes are necessary in order to create a structure that will ensure safe operation of all functions in the new revenue administration.

### A new attitude towards compliance

2.11 It is the revenue administration's responsibility to administer the laws in its area of responsibility in a way that instills community confidence and encourages high levels of voluntary compliance. No revenue administration has the resources to chase every last koruna owed, so the art of good revenue management is to create an environment which supports high levels of voluntary compliance. This is achieved in part by managing the inherent risks in the system and focusing on those areas that pose the highest risks in terms of non-compliance with the law.

2.12 The administration must meet and respond to the revenue payers according to where the revenue payer is situated on a compliance scale, going from willing to comply to not willing to comply. The needs of taxpayers differ. The willing and capable will pay their dues without assistance or prompting from the administration while the willing but not capable will need guidance from the administration to become both willing and capable. Unwilling revenue payers have to receive another form of attention from the administration. Here control and sanctions are the right tools to achieve compliance.

2.13 A modern revenue administration will use all the tools at its disposal in a combination decided by the taxpayer's attitude towards compliance. There is no need to control/audit taxpayers that are compliant. Scarce resources should be used where they are most needed, the goal being that the main part of revenue will be collected without any action from the administration. The assumption is that given the chance and facilities, most taxpayers do want to comply with the applicable laws.

2.14 The promotion of voluntary compliance is a major strategic objective of modern tax administrations. In practice, voluntary compliance is achieved through a system of self-assessment whereby taxpayers, with reasonable access to advice from the tax administration, calculate their own tax liabilities; complete their tax returns; submit returns and payments to the tax administration (or even better to a bank); and some are then subject to audit based on a transparent risk-based system (discussed below). A taxpayer compliance strategy is designed and implemented uniformly throughout the country.

2.15 One of the main objectives for the creation of JIM is the reduction of compliance costs. The Czech Republic has an unacceptably low ranking in terms of the time spent by taxpayers to fulfill their revenue obligations. Reduction of compliance costs will promote voluntary compliance, which is a necessary precondition for a successful revenue administration.

**Shift in administration from control culture to service culture**

2.16 Using compliance strategy as a working philosophy is a big change for both revenue payer and officials. Historically, the customer attitude in revenue agencies has been control-focused. However, as already mentioned above, this focus needs to change because of demands for cost effectiveness and a need to reduce administrative burdens and compliance costs.

2.17 As mentioned above, it is important to distinguish between the customers depending on their compliance. Partners who are willing to do things correctly must be rewarded, and informed correctly and punctually. Hereafter the partners will have the will as well as the ability to comply with rules and regulations. Information and service visits have an advantage over control activities because more taxpayers can be reached with the same resource costs.

2.18 Having a compliance strategy also means openness. The revenue administration must be willing to share its concerns as regards compliance risks and what it intends to do to address them. By openly telling the public where it is intended to increase activities to address the causes for non-compliance the aim is to encourage people to voluntarily comply with their obligations.

2.19 To get the best benefit of information activities, electronic communication must be used as much as possible and be accessible to the public. A communication strategy should be implemented and made known and visible for all stakeholders – internal as well as external.

**Greater use of third party information for controlling tax evasion**

2.20 Verification of reporting of income and calculation of tax liabilities, which must correctly reflect the taxpayers' economic activities, is a major concern for the revenue agency. Such verification can to a large extent be achieved by more comprehensive use of third party data. With access to third party information, computerized closed control systems can be created, which eliminate the need for manual handling and verification of information, particularly in personal income tax returns. Third party data will also be an integral part of the information available for risk management based selection for audit or investigation, a necessary complement to self-assessment.

### Mainstreaming risk analysis as a basis for audit and enforcement

2.21 Today no modern revenue authority would claim that it can service and control every revenue payer. Apart from not having the resources to do this, it would not be rational. Resources should be used where they give the best result. This implies that resources have to be used in a prioritized way that reflects the risk to revenue that is associated with a certain taxpayer or group of taxpayers, or with certain types of transactions.

2.22 The operational priorities of revenue administrations are driven by the process of risk assessment. Strategies to identify risks are developed. In the framework of its national and international environment, the revenue administration analyzes the business and legislative trends and anticipates the risk of avoidance. The selection of revenue payers to be audited and selected for other types of control is based on the assessment of risk and the development of risk-based selection techniques. Modern administrations apply systems for risk-scoring taxpayers across major tax types in the targeting of high-risk compliance workload. Risk scoring systems use the characteristics of revenue payers to identify and assess their risk of non-compliance. This allows appropriate prioritization of audit and taxpayer service workload and allocates resources against the highest risks

### Improved taxpayer service

2.23 An effective program of taxpayer services is a critical compliance instrument in a modern tax administration. The general complexity of tax laws coupled with the relatively large populations of taxpayers under self-assessment regimes mean that, fundamentally, all revenue authorities must rely on taxpayers' voluntary compliance to achieve their revenue goals. Client services should be tailored to the particular needs of the various taxpayer segments and the risk to revenue. The need for taxpayer services is determined in many ways, for example through: (i) taxpayer surveys; (ii) consultative meetings with taxpayer representatives; (iii) quality checks of taxpayer returns and other documentation prepared by taxpayers; (iv) analyses of the most visited topics on the revenue administration's web-site; (v) most frequent telephone and written inquiries; and (vi) feed back from audit activities concerning the most common mistakes or those that have been most costly in terms of revenue.

2.24 Service activities not only address the expressed need of the taxpayer; they also include assistance in areas in which the taxpayer might not even have realized that there is a problem. Thus, taxpayer services can have two starting points - the taxpayer's need for contact to the tax administration or the administration's need to reach the taxpayer. One aspect of taxpayer service is the introduction of a call center for telephone information service. The call center should be centralized, or in case more than one location is chosen, coordinated from the HQ office. It should have access to a knowledge data base, built on experiences of frequent questions asked by the public, and on revenue legislation and officially approved interpretations thereof. It is important that the staff be well trained for their task and recruited from among those with demonstrated service attitude.

2.25 Another information initiative is the creation of websites to provide round-the-clock information and interactive services. New legislation and regulations can be presented and explained on the website. The public could order forms or additional information material to be sent them. The interactive services can include assistance to calculate the tax base or the tax liability. Electronic filing and electronic access to his tax account by revenue payers are further possible developments. Targeted information campaigns, such as thematic pamphlets, advertisements and media commercials, are other effective service initiatives. The need for personal visits to a tax office to seek information will be drastically reduced when these service initiatives are implemented.

2.26 A second aspect is prompt processing of taxpayer applications (e.g. tax refund claims) or complaints.

2.27 A modern revenue agency develops a comprehensive service strategy. The strategy is a major component of the agency's overall compliance plan. Innovative and professional taxpayer services can achieve considerable impact on taxpayer compliance. Partnerships with industry groups, business associations, bankers and financial advisors are also very useful in providing information to their membership and clientele on general tax compliance topics and specific issues related to their field, particularly if taxpayer segmentation is applied.

**Greater specialization**

2.28 A new revenue administration which is build more along functional lines and operating in a society with easy internet access for the greater part of the revenue payers should also exploit possibilities of specialization.

2.29 Specialization can take many forms, e.g. by segmentation of revenue payers. The segmentation can be done according to a number of criteria depending on the objective. Taxpayers can be divided in groups, beginning with the largest revenue contributors, medium and small. These groups can be further divided according to industry and compliance attitude. The segmentation can be used not only according to audit activities, but also according to service needs of different groups of taxpayers. For instance, many large corporations with trans-national transactions and complex financing and accounting structures would want to discuss their tax matters not with ordinary tax officials, but with specialist tax officials in Large Taxpayer Office (LTO) who are highly skilled professionals and understand their concerns and issues.

2.30 Enterprises have different needs and it is important to meet them individually according to their needs. Special and complex rules in international transactions are just a few examples which call for high competences among tax auditors. Typically the largest 100 to 200 enterprises will contribute a very large proportion of the total revenue. Highly skilled auditors are required in order that large enterprises pay their fair share of taxes. It is also important that these enterprises get proficient service from the revenue officials who are professionally trained to understand their complex transactions. In the international competition to attract foreign investment, a professional handling by the revenue authorities can be an important parameter for the enterprises' choice of domicile.

2.31 Specialisation is also a means of making most use of sparse resources by concentrating them in fewer units. Service and control of some industries may demand a very specialised and thorough knowledge of the production process (e.g. energy taxation) on behalf of the revenue administration in which case better quality for both the revenue payer and the administration is achieved by specialising. Most businesses find that better quality service easily pays for longer physical distance to the administration.

### Enhanced transparency in revenue administration

2.32 A key concept of the reform is transparency. No revenue administration has the resources to monitor all reporting documents (tax returns etc), and therefore depend on voluntary compliance by revenue payers. Transparency contributes to the establishment of a climate of voluntary compliance. Simple and stable revenue laws, fair and equal treatment by the revenue administration, service initiatives to assist revenue payers, perception of responsible spending by central and local government, an impartial dispute resolution system (appeals process), and use of monitoring and enforcement powers with respect for the rights of the revenue payers are some examples of promoting transparency.

2.33 The possibility of having access to the same information as the revenue administration creates a sense of participation, which has a positive impact on the voluntary compliance. The revenue agency should, therefore, take initiatives to create a climate of openness in its interaction with the revenue payers. This includes making information available, providing services, and giving access to data, e.g. the master file or the single revenue account concerning the revenue payer, unless there is a relevant reason for not disclosing it. This could happen if the information has been collected in the process of an audit or investigation and may be used as evidence. Access to data regarding other revenue payers should not be available, unless that person authorizes such access.

### Strategic management

2.34 The new integrated JIM is expected to be organized in two tiers. The first tier will consist of the Headquarters office, and the second tier of fourteen regional offices, a Special Tax Office (STO) responsible for the administration of the largest revenue payers, and possibly a tax fraud combating office. The regional offices will, to some extent, maintain a presence outside the regional centers, in a few branch offices.

2.35 The organizational layout is intended to separate strategic headquarters functions from operational functions, which will be performed by the regional revenue offices. The headquarters office will be responsible for formulating strategies, creation of corporate strategic plans and annual operation plans. It will also develop key performance indicators and monitor performance of the operational offices and their branches. The headquarters office should also create a national compliance plan based on risk management and business intelligence, and have a function for internal audit.

2.36 The headquarters office will be charged with providing guidance to the operational offices. This means establishing functions for international cooperation, revenue law interpretation, targeted service to revenue payers, development of tax and customs procedures, and audit and arrears management.

2.37 Finally the headquarters office should have functions for general support to the entire agency, such as management of human resources, Information technology, budget and accounting, and statistics. In principle, the headquarters office should not perform any operational duties. However, certain participation in the appeals process may be called for.

### Targeted services based on client segmentation

2.38 Client segmentation implies that revenue payers have different characteristics, behavior and should not be treated uniformly. Different types of revenue payers have different needs to fulfill their obligations. Also the response by the revenue agency will have to vary to satisfy the needs of different revenue payer types, and to satisfy its own need for relevant monitoring, verification and investigation. Therefore a crucial success factor for the new revenue agency is to create favorable conditions for providing targeted service and applying relevant control and enforcement measures. A functional organization, specialization and segmentation of revenue payers meet these requirements.

2.39 An organization based on functions allows an increased focus on the core processes under that function. This will promote building of top class competence among staff engaged in the processes. Since a functional organization allows specialization among staff, it is likely to further promote building of high staff competence. Segmentation of revenue payers, by size, type of revenue they are paying or by compliance behavior also calls for specialization and a more focused perspective than dealing with all aspects of all taxpayers in the same place.

### Shift from geographic to functional focus

2.40 One of the consequences of the reduction of the number of offices across the country for the new administration is reduced contact between revenue payers and the administration as a result of longer physical distances on average. However by nature and with the use of telecommunication, many functions do not require face-to-face contact with taxpayers – e.g. return filing and processing, A number of other functions can be centralized such as HR and IT departments, call centers, and risk management. A central return processing center could be established to save resources and to get more uniform data treatment. Only by focussing on whether functions are related to geography – proximity to the revenue payer – or is free of this constraint will it be possible to exploit economies of scale.

2.41 There is scope for centralizing high competence functions, such as field audits, post-control audits and fraud investigation should be placed at the central and regional level, rather than the local offices. Challenges in the form of globalization, further digitalized processes, compliance strategy, and new task set up, etc. will only be possible to handle centrally.

2.42 Professional/technical environments are necessary to achieve and to keep the right competences at the right places. From a professional point of view high competence functions should be placed on central and /or regional level, such as the large taxpayer office and fraud investigation office.

**Optimization of office network to regional level**

2.43 Deciding on how many offices are needed across the country will depend on the design of the new revenue administration and a number of practical issues such as staff mobility, housing possibilities, etc. In practical terms, this will be a process which will need careful planning and will require managing a transition period before the administration is located permanently.

2.44 The new revenue administration will need to cooperate with a number of other agencies not only centrally but also locally. It would make this cooperation easier if the geography was similar. Since the Czech Republic already utilizes a division of the country into 14 regions for many purposes, including the police, this seem to be a good starting point.

2.45 Creating 14 offices as the legal basis with a number of branch offices which can be decided by the new administration according to business needs would create a flexible framework for the transition.

**Centralized processing of filing and payments**

2.46 Routine functions like registration, filing and processing of declarations, and keeping taxpayer accounts are currently undertaken at geographic locations and have been the main cause of excessive contact between taxpayer and tax officials and has resulted in a huge amount of time that taxpayers have to spend in meeting their tax obligations. Centralized processing, using an integrated IT system with centralized data management and archiving will replace these routine functions and make the interaction of taxpayers remote. Tax returns and other documents can be sent by the revenue payers directly to a centralized processing center. This will facilitate revenue payers to fulfill their obligations remotely and will reduce both administrative and compliance cost and will promote voluntary compliance. It will also help focus attention of the revenue administration on high-risk cases.

# 3. STRATEGY FOR ORGANIZATIONAL DEVELOPMENT AND MANAGEMENT

## A. INTRODUCTION

3.1 The main objective of organizational development and management is to build the agency structure and capacity to bring about a strategic focus on efficient compliance management based primarily on objective performance criteria rather than professional intuition. The responsibility for this activity would be to develop the plans to establish structures and create capacity for five key elements:

(a) Organizational Development;
(b) Management Structure, Philosophy, and Systems;
(c) Analytical Capacity;
(d) Human Resources Management; and
(e) Training.

## B. ORGANIZATIONAL DEVELOPMENT

3.2 This element aims at providing an effective organizational structure for the integrated revenue agency.

3.3 At the highest levels the revenue agency should have a management board representative of the ministries for which the revenue agency would be collecting revenue and providing taxpayer information. The government may also consider representation of the taxpayers' interests in recognition of the self-assessment approach to taxation and the need to minimize the administrative burden imposed on taxpayers.[4] The board should be chaired by the Minister of Finance. The Deputy Minister of Finance in charge of revenue collection should be a member of the board and provide the secretariat functions. The board should consider and approve the strategic plan of the agency, draft budgets, financial plans, and annual reports, the territorial scope of operations, key strategies for human resource management, buildings and facilities, and information systems; and other issues submitted to it by the executive director of the revenue agency.

3.4 The revenue agency should institute a permanent consultative collegium of taxpayers that would provide the venue for formal taxpayer community participation in advising the agency on operational decisions, particularly those related to optimizing the self-assessment regimen through improvements of taxpayer compliance while minimizing the administrative burden imposed on taxpayers. The collegium should also be a key forum for taxpayer feedback on measures taken by revenue administration. It should provide key inputs for the preparation of taxpayer surveys.

[4] Throughout this paper the term taxpayer should be understood in the broad sense of revenue payer, include payers of taxes, fees, duties, social contributions, etc.

3.5 The revenue agency should be managed by an Executive Director, and consist of a central headquarters, regional operations directorates, and specialized operational directorates. Headquarters would provide strategic planning, organizational development, methodological development – regulations, processes, and procedures, and monitoring for the revenue agency. The revenue agency would be functionally organized, with a clear distribution of responsibilities between headquarters and field operations. Specifically, headquarters would refrain from assuming any operational responsibilities itself.

3.6 The organizational arrangements should recognize the need to provide specialized focus to (a) the management of fiscal activities related to revenue; and (b) the management of customs economic activities.

**Transfer non–core functions to relevant agencies/departments**

3.7 Strategies should be developed to divest currently performed non-fiscal activities under tax and customs agencies which would not be part of the core functions of the new revenue agency. The Finance Directorate and the Tax Offices in the Czech Republic perform a number of non-tax tasks including price audit, levying penalties for violation of budgetary discipline, administering lotteries and control of subsidies payments, including EU farm subsidies. Likewise the Customs administration performs a number of non-customs tasks, such as waste management, checking weights of trucks and motorway tolls. Such functions could be transferred to other ministries or to more relevant departments of the MOF.

3.8 In creating the new revenue administration, focus should be concentrated on processes related to core business in the revenue administration related to such tasks as information gathering and matching, audit, taxpayer services, collection, recovery, and enforcement. Focusing on core business helps specializing in what the administration are good at and what it was created for – that is revenue collection and related functions. Furthermore there is very little synergy between the non-core tasks mentioned above and tax and customs functions, implying that there is no cost advantage for having tax and customs offices perform these non-fiscal duties. However, that is not to say that these tasks are not important. They are, and a number of them, e.g. in customs, are EU-responsibilities.

3.9 One of the tasks in defining the boundaries of the new administration will be to secure that the task presently contained in tax and customs, but not part of the core business of revenue administration, are not abandoned but are taken care of elsewhere. Pending further analysis, some of these tasks, e.g. a number of custom's tasks in relation with safety and security could stay in the new administration but be regulated by contracts with the real owners e.g. Ministry of Justice, Ministry of Trade, etc. Such a set up would also make the cost of these tasks more transparent. Other non-tax and non-customs functions should be transferred to the relevant agencies. Or it may be preferable to create new agencies within the Ministry of Finance to cater for these tasks.

## C. MANAGEMENT STRUCTURE AND APPROACH

3.10 This element targets implementing of a management structure and systems that includes governing decision making, accountability, internal audit, and integrity of managerial processes.

3.11 Headquarters management should concentrate of the development of strategic plans to make self-assessment work well in the country. Strategic plans should advocate the interest of taxpayers on simplification and automation of the responsibilities imposed on taxpayers by the self-assessment system, as well as providing taxpayer education and technical assistance to support the assessment and payment of revenue liabilities. Concomitantly, the headquarters would implement a strong focus on compliance management based, primarily, on objective performance criteria and risk management techniques.

### Creating a management structure with strong HQ functions

3.12 The new revenue administration will be a creature born on the unification of collection functions from tax, customs, social security and health insurance. It will have much more central focus than e.g. the existing tax administration. To make sure that the focus of HQ management rest sufficiently on achieving the objectives of the new revenue administration discussed earlier there should be a clear distinction between the strategic and the operational level. HQ functions should as far as possible be restricted to the more strategic level concentrating on strategy – planning – monitoring. Day to day business, implementing strategies etc. should be the remit of the operational level - be that in the regional offices or in central units covering the whole of the Czech Republic.

### Reasonable degree of autonomy as a separate agency within the Ministry of Finance

3.13 The management of the revenue administration should be given a reasonable degree of freedom to run its operations, with the Ministry of Finance providing oversight but not routine management. Monitoring should be done on the basis of annual plans/contracts encompassing development goals, production goals and budgetary conditions for the year. This will help ensure a clear distinction between the political level and the administrative level and their respective remits. Transparency will also benefit society's perception of the revenue administration as a trustworthy agent treating all equal and fair.

3.14 Organization of HQ should reflect the regional organization in order to ensure clear lines of communication and a clear division of responsibility.

### Management Information Systems

3.15 A management information system should be deployed throughout the revenue agency that would promote the ability of headquarters to plan and continuously evaluate the results of operations. The management information system should be built to automatically capture and interpret the results of operations, imposing no additional administrative data feed burden on professional staff. The management information system would also have data feeds from external sources, such as the statistical system, Treasury, and third-party data suppliers, giving management the ability to have a thorough view of collection in the country's economic activity context. Taxpayer risk profiles would be centrally managed with the possibility of formalized and documented override by top regional management as required to maintain efficient and effective operations.

3.16 Headquarters should pay special attention and would prepare specific strategies for the management of key agency resources: financial resources, human resources, and information technology resources.

3.17 Headquarters would establish and internal audit function to manage the agency's professionalism and integrity.

3.18 Plans and training programs would be prepared to develop the executive and managerial capacity of the management body of the agency in anticipation to the start of its operations.

## D. ANALYTICAL CAPACITY DEVELOPMENT

3.19 This element targets introducing internal analytical capacity to manage compliance in the country. This activity would support the revenue agency's strategic and operations planning as well as quality assurance.

3.20 A small but powerful analytical office should be established to provide management with objective information for decision making. At the core of its activities would be the development and continuous update of a series of performance indicators that would be used to measure the performance of the agency as a whole, as well as the performance of its field operations. Such indicators should enable the comparison of the efficiency and effectiveness of regional offices and pinpoint areas requiring management attention for improvement.

3.21 The analytical office would carry out compliance and economic studies, analyze the impact on revenue of proposed revenue legislation, policies and regulations, and prepare proposals to improve taxpayer compliance with the legislative and regulatory foundation of the revenue agency.

3.22 The analytical office would also assist the management in the preparation of proposals to the tax policy branch of the MOF to advocate a simple, supportive, and well-balanced approach to the collection of all revenue, including rates, thresholds, discretions, and exemptions.

## E. HUMAN RESOURCES MANAGEMENT

3.23 This element aims at establishing the basis for a modern Human Resource Management (HRM) function for the revenue agency that would recognize the workforce as the key asset of the agency and promote integrity, professionalism, and pride for both uniformed and non-uniformed staff.

3.24 A human resource management strategy would be developed covering recruitment and selection of staff, compensation policies and practices, management and professional career development, performance evaluation and incentive systems, separation and termination procedures, and workforce planning. Standardized long-term HRM policies and procedures would be developed for uniformed and non-uniformed staff. HRM procedural manuals and a Code of Ethics and Conduct would be adopted. An integrated human resource management system would be installed, including modules for payroll, human resource management, and performance evaluation.

3.25 A transition strategy should be developed for the initial staffing of the agency. Selection would be based on new competence profiles that would be developed for each function of the revenue agency. The agency would adopt a transition compensation policy for initial staffing that would be considerate of the current compensation policies of the agencies that would be providing staff to the new revenue agency, including special arrangements for uniformed staff. A training needs assessment would be carried out and a specific training program would be developed to establish the revenue agency. This would include inter-alia inductive training on the human resource and administrative arrangements of the revenue agency, its business processes, and information technology systems, which would be developed in consultation with these functional areas.

3.26 A transition strategy should be developed for the redeployment, retraining, and placement or separation of staff of the current tax and customs agencies not recruited into the new revenue agency. Consideration should be given to contracting out the execution of these services.

## F. TRAINING

3.27 This element targets establishing the capacity to deliver the short- and long-term training requirements of the revenue agency. A training strategy should be developed to ensure that revenue agency management and professional staff receive the skills and know-how needed to achieve high levels of performance in the execution of their responsibilities. Consideration would be given to establishing a permanent training infrastructure for staff induction, management development and professional training, while maximizing the use of existing private sector and university level capacity in the country and abroad.

3.28 Curricula and training programs should be developed adhering strictly to the functional profiles and management and professional needs of the agency. Interchange programs, study tours, and seminars in the country and abroad would be considered, particularly for management and high-skills professional development.

3.29 A short-term transition training program should be implemented to facilitate the launch of the revenue agency. Provision must be made to deliver training to all staff recruited into the new revenue agency covering at a minimum the human resource and administrative arrangements, policies and procedures the revenue agency, its business processes, and its information technology systems.

# 4. STRATEGY FOR DESIGN OF THE BUSINESS PROCESSES

## A. INTRODUCTION

4.1 The proposed unification of collection of social security and health insurance contributions stipulates integration of business processes within the overall revenue collection function of the new JIM. In the context of improving efficiency and effectiveness of collection, as well as simplifying and rationalizing revenue administration, strategic measures will need to be taken as part of revenue modernization strategy and reform.

4.2 Business processes will have to be designed to promote efficiency and integration, and reduce the opportunity for corrupt practices. Business processes should create the enabling conditions for self-assessment to work well. Taxpayers and contributors should understand their responsibilities and be able to assess their liabilities and make payments using standard materials/tools provided by the revenue agency with minimal assistance.

## B. MAPPING BUSINESS PROCESSES OF ALL EXISTING REVENUE AGENCIES

4.3 One of the important initial activities in the process of creating the new integrated revenue agency is to map all business processes of the tax and customs administrations and the collection functions of the social security and health insurance organizations. These elements will be included in the new agency. The purpose of this mapping, in general, is to create a full list of responsibilities of the old organizations and how they are performed presently. During this mapping exercise, a distinction will be made between core tax and customs responsibilities and non-fiscal responsibilities (such as price audit and road toll monitoring), which should not be transferred to the new agency.

4.4 The output of the mapping will be detailed descriptions of the processes and procedures of the present organizations and the linkages and interdependencies with other processes. The starting point will be the major processes, e.g., registration, payment, return processing, accounting, audit and recovery. When the major processes have been mapped, the work will continue in more detail, until all processes have been described. The process maps will be the basis for creation of new procedures and processes in the new agency.

## C. FUNCTIONAL REVIEW OF THE EXISTING AGENCIES AND DEVELOPMENT OF FUNCTIONAL DESIGN

4.5 The new agency will be organized along functional lines, which means that in most cases the core functions will be the building blocks for the organizational design. To get a full picture of which functions are performed in the existing organizations and to describe them, a functional review will be performed. This review will distinguish between core functions to be adopted by the new agency, and non-core functions which can be transferred to other authorities. The review will also provide input to decisions on where the function will be performed in the new agency; at the central level, the regional level, or possibly the local branch level.

4.6 The functional review will make it possible to compare similar functions in the different agencies and decide which functions can be merged in the new organization. Such considerations can be relevant in respect of functions such as registration, payment and collection, accounting, selection for audit, audit, arrears management and recovery.

## D. DESIGN OF THE BUSINESS PROCESS MODEL FOR JIM BASED ON SELF-ASSESSMENT AND RISK MANAGEMENT

4.7 Based on the considerations and experiences in the business processing mapping and the functional review, a business process model for the integrated revenue agency will be created. The intention is not to amalgamate existing procedures, but to create new processes, introducing the key concepts of self-assessment and risk management. The combination of self-assessment, where the taxpayer has the full responsibility for calculating his tax liability, central processing of reporting documents and risk based selection for audit will have a profound and far-reaching impact on most of the procedures of the revenue agency. Also the legal support for revenue administration will be changed, as the draft revenue procedures act becomes effective. Where existing processes need to be retained, efforts must be made to upgrade them and ensure increased efficiency and effectiveness. For instance certain customs functions of physical control will have to be retained since these are real-time operations. However, operations that are not real time, such as post-clearance audits, or various support functions, can be harmonized to a large extent.

4.8 The new business process model must contain all procedures intended to be administered by the new revenue agency. This includes all core fiscal processes and their sub-processes, but also the combined revenue processes of tax, customs, social security and health insurance contributions, such as registration, audit, customs related post-clearance audit, collection and arrears management. The non-fiscal customs functions of trade facilitation, security, anti-smuggling and passenger control should remain distinct within the new JIM.

4.9 The new business process model should look at various aspects of functions of a modern revenue agency and ensure that the processes are based on best international practices. The following are some of the areas that will need to be carefully considered, and incorporated into the model.

4.10 ***Audit and enforcement.*** The audit and enforcement activities of the revenue agency should seek to promote a more level playing field in the economy that would result in fairer competition among businesses, thereby increasing the competitiveness of the economy. This can be achieved by reducing the compliance burden of compliant and honest taxpayers and increasing the burden of non-compliant taxpayers through increased detection rates and increased penalties for deviations.

4.11 ***Service delivery.*** Service delivery should be designed to focus on the provision of web-based modern electronic services both internally and externally with third-party data interchange partners and taxpayers. The functioning of the electronic interface should be designed to be as simple as possible, and as paperless as possible. Incentives should be built in for the use of an integrated and centralized call center for web and voice advice to taxpayers and contributors, so as to eliminate the need for a taxpayer to have to visit a tax office. Every time a taxpayer makes a decision to go to a tax office for filing or payment, this should be considered as a failure to create the enabling environment for self-assessment.

4.12 ***Real time information.*** Information on the collection of revenue should be provided to clients on a real time basis. This must include all information needed for the clients to perform their business function efficiently and effectively. The following are minimum information requirements for social security agencies: (i) registration; (ii) monthly declaration and payment flows at the individual level; (iii) arrears; and (iv) audit performance. It is also desirable that compliance information be made available. Social security agencies requiring longer term data storage than that required by the revenue agency should make their own arrangements for such storage.

4.13 ***One-stop shop and single window.*** One of the best ways to reduce compliance costs is to introduce a one-stop-shop covering most of the functions used by taxpayers/contributors. This should consist of both an electronic one-stop-shop providing countrywide services, and physical points for single window services. At a minimum, these should perform the following functions: registration, induction information on taxpayer responsibilities for new taxpayers, offer forms, brochures and mass taxpayer education programs for major changes in the legal framework[5], provide advisory services on existing regulations, and issue taxpayer certificates. Additionally, taxpayer contact in the process of filing returns and payments should be automated to the extent possible.

4.14 ***Unencumbered access to tax and social security accounts.*** Revenue processing should be as prompt as possible, and should be quasi-immediate in the case of electronic filing. Taxpayers should be given unencumbered access to their account. Account transactions should be clearly stated and easy to understand. It should be simple for taxpayers to question and receive explanation when perceived or factual errors are identified.

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[3] To be fair to taxpayers, the Government must put in place a framework for declaration and payment that allows taxpayers to self-assess and pay their liabilities accurately, efficiently, and reliably.

4.15 ***Integrated revenue appeals system.*** An efficient and well balanced administrative appeals system must be put in place and taxpayers and contributors should be encouraged to use it instead of going to the courts to address grievances. Ideally, the taxpayer community should be represented in the appeals system. It is important to acknowledge that the push towards increased compliance may produce an increase in appeals. It is equally important that taxpayers perceive the appeals system as a fair, equitable and speedy means to resolve disputes with the revenue administration.

4.16 ***Focus on compliance rather than routine functions.*** One of the key measures for improving the effectiveness and efficiency in revenue collection is to increase the focus of the revenue agency on compliance. Highly automated checking and desk audits should be used for small taxpayers where it may not be cost effective to use auditors. Compliance strategies need to be developed considerate of geographical and economic sector differences. Enforcing a similar tax base (while allowing for legally mandated deviations) across personal income tax and social contributions helps eliminate the possibility for selective compliance by taxpayers. Without harmonization of the bases, the increase in efficiency, and reduction in administrative and compliance burden would be reduced.

4.17 ***Redesign the functions to reduce costs.*** Duplication of back-office business functions should be eliminated during the process of integration, while making every effort to retain the professional knowledge base of the institutions being integrated. Clear and distinct demarcation of the functions of headquarters, processing centers and tax offices has to be made. The organization and management systems of the office network should be standardized. The registration system, processing of returns and payments, management of large taxpayers, and informatics management, particularly databases, security, and application systems should be centralized. Centralization will help reduce costs, and help integrate the risk management for all taxpayers and contributors under a single system.

4.18 ***Introduction of a service strategy.*** The purpose of service initiatives is to assist the revenue payer to fulfill his obligations. Different segments of the revenue payer population have different demands on service. The business process model must therefore incorporate the different needs and develop a service strategy to satisfy these needs.

4.19 ***Consolidated registration***. The creation of a single point of registration for different revenue purposes where possible will reduce the time spent to enter the revenue systems. Information common to all or many taxes and contributions can be provided at the same time, and fed into a common register.

4.20 ***Consolidated reporting of taxes***. It is possible to consolidate reporting of taxes and contributions with identical reporting periods and similar revenue base into one document, thereby reducing the time spent on reporting obligations.

4.21 ***Use of third party information.*** Verification of reporting of income and calculation of tax liabilities, which must correctly reflect the taxpayers' economic activities, is a major concern for the revenue agency. Such verification can, to a large extent, be achieved by more comprehensive use of third party data. With access to third party information, computerized closed control systems can be created, which eliminate the need for manual handling and verification of the information, particularly in personal income tax returns. A closed control system exists where the revenue administration and the revenue payer are provided with the same information by an independent body. Obligations to provide the revenue agency with third party information about taxpayers should be imposed on payers of the most common taxable incomes, particularly if there is also a withholding obligation. Such incomes are employment income or taxable benefits, interest from bank savings, dividends from shareholding or investment in funds.

4.22 Some countries have introduced a system of pre-populated tax returns, using available information from the taxpayer file and third party information to create a draft tax return. The taxpayer is then asked to verify and accept or to add information before signing and returning the tax return to the revenue agency. Acceptance in some countries can be made by telephone or even SMS-message.

4.23 Third party data will also be an integral part of the information available for risk management based selection for audit or investigation, a necessary complement to self-assessment.

4.24 ***Risk analysis as a basis for audit and enforcement.*** The business process model for the JIM should mainstream risk analysis and risk assessment as the key concept of operation. Risk management techniques must, as a practical matter, group taxpayers by a few major types of risks, picking visible characteristics as a proxy for underlying compliance behavior. Size is typically a starting point for this process, although multiple criteria are commonly used. In most revenue administrations compliance strategies for the largest companies are further refined by industry sector to develop industry financial norms and staff expertise necessary to perform effective audits of complex multinational businesses. Specific targeting of groups within the small taxpayer population is also undertaken, particularly for categories of businesses that have been identified as posing compliance problems.

4.25 Not all risks require treatment through audit and enforcement. Several may be addressed through targeted taxpayer services in the form of information campaigns, service calls and visits, etc. – or initiatives to change tax legislation. Such actions are less costly than audits and may impact on compliance for all taxpayers within a taxpayer segment, while an audit may only have limited impact on overall compliance. Thus, a well balanced use of compliance instruments will increase substantially the revenue agency's options for narrowing the tax gap.

4.26 ***Centralized processing of registration.*** To facilitate for revenue payers to fulfill their obligations and reduce compliance costs consolidated registration for different engagements relating to the revenue agency should be introduced, where possible. All registration should be centralized with a possibility to register electronically. Central registration with a unique identification for each taxpayer will make it easy for the revenue administration to provide an overview for each registered taxpayer. This will be one input to the risk management system. The basic information in the electronic file should be possible to access by the revenue payer, or with his consent to relevant parties with a legal right to have it. This will increase transparency and promote confidence in the revenue agency.

4.27 ***Centralized declaration and document processing***. The existing system of revenue return processing at local offices should be replaced by centralized processing of reporting documents. Tax returns and other necessary documents should be sent by the revenue payers directly to a centralized processing center. In case they are lodged at local or regional offices, these offices should forward the documents to the processing center without delay. It is much easier to manage and more efficient and effective to centralize all data entry and returns processing. Once data from the returns have been entered at a centralized location, authorized personnel can access the data electronically at any level in the organization.

4.28 Locating the processing center in an economically depressed region will help create jobs and generate political goodwill.

4.29 Centralizing the data entry and processing of returns provides many advantages over decentralization. The key advantages are:

- more cost effective because of economies of scale
- easier to control the quality of the work
- management controls are much more effective; management has only one or two locations to monitor the quality of data entry and any delays in processing returns
- much easier to maintain security and control of data and tax returns
- higher quality of training at less cost along with a better measurement of work performance
- changes in procedures are easier and quicker to implement
- easier to introduce new technology such as scanning and Optical Character Recognition (OCR)

4.30 ***Electronic filing***. The Czech Republic is an advanced country, where high computer literacy and widespread access to internet can be expected. Therefore introduction of electronic services and electronic filing are likely to be well received and quickly adopted by a large number of citizens. This offers a considerable potential for reducing administration costs as well as compliance costs.

4.31 Electronic filing, where reporting for tax purposes can take place on the internet, using an electronic signature, should be optional for most taxpayer segments, but could be made mandatory for large and medium sized business (including reporting of withholding and social security contributions). To be effective, electronic filing must not be subject to obligations to file additional information on paper. The electronic format should contain all information necessary to accept self-assessment and to make a risk oriented selection for audit. Only when an audit has been decided should more information, in relevant format, be requested from the taxpayer.

4.32 The main benefits of electronic filing are increased flexibility and reduction of compliance costs for the taxpayer, and lower administration costs for the revenue agency. Manual paperwork can be eliminated and quality tests can be built into the system. The format will not accept formal errors or unreasonable information. Electronic filing systems can be piloted within the STO and thereafter rolled out nationwide.

4.33 ***Call center.*** Electronic services include telephone service (call center), websites containing information to assist the public, interactive services such as calculation programs, and access to registers the taxpayer single tax account and the VAT register to verify if business partners are registered for VAT.

4.34 Increasing transparency in tax administration through web-based information can help prevent the practice of taxpayers shopping between revenue offices for the most favorable treatment. Such practices are quite common when there is lack of transparency which encourages inconsistent application of law in a geographically-focused setting.

4.35 ***Payment system***. Introduction of straightforward simple procedures for revenue payment is an important element of modernizing revenue administration and reducing compliance cost. Revenue should be paid through banks and/or post offices, using standardized payment documents containing information regarding identity of payer, revenue type, reporting period and revenue amount. The payment should be transferred to a central revenue account. Providing taxpayers with secure online access to their accounts will help them manage their own payments electronically.

4.36 Cash payment at revenue offices should not be accepted, unless under enforcement or recovery procedures. These measures are intended to reduce risk of corruption and therefore inspire public confidence in the agency.

4.37 Payments should be credited to single revenue accounts, unique for every payer. To increase transparency the revenue payer should have access to the information in the tax account.

4.38 ***E-government.*** JIM can be at the forefront of e-government. The IT function will be a central player to make full use of technology as it evolves to create benefits for both taxpayers and administration. Making full use of the possibilities created by information technology will be a prerequisite for the creation of a modern revenue administration that can live up to expectations relating to efficiency and low compliance costs for the taxpayers.

4.39 ***Business processes linked to modern IT systems.*** All revenue administration work functions and processes should be facilitated through modern information technology - to include communication and data interchange with other national and international bodies as well as revenue payers, etc. Generally, IT systems should adopt designs that centralize and aggregate data to facilitate access by relevant authorities, and should be integrated in nature, as opposed to having a separate IT system for each revenue type. Database systems should be centralized with the possibility of access to all information both centrally and locally, and not be fragmented at local offices. If any IT activity is outsourced, the revenue administration should retain full control over the decision-making relative to the content and operation of the IT system.

4.40 ***Compliance strategy.*** To ensure that compliance strategy is used as the all pervasive business philosophy of the revenue administration, it is important that the whole spectrum of tools are used in an integrated fashion so that the use of tools are tailor-made to the client in question, i.e., service and guidance to the compliant taxpayers and sanctions to the non-compliant taxpayers.

4.41 ***Service functions.*** The service function will essentially encompass everything from questions from the revenue payer concerning what and how to pay – handled by a call center - to receiving declarations – in a central processing unit. The service function will be very important for the promotion of voluntary compliance and will be the only arm of the revenue administration that compliant revenue payers need to be in contact with. It will also be the function responsible for the continued development of business processes, and as such a main actor in the search for continued efficiency gains in the organization, e.g. the development of pre-populated declarations based on third party information.

4.42 ***Control functions.*** The control function is entrusted with the job of monitoring the compliance situation using risk management and analysis based on IT supplemented with information gained in the service and legal functions along with information gained from other sources. It will be responsible for analytical functions relating to compliance working with risk monitoring and planning of compliance initiatives in collaboration with the service and legal functions. This could take the form of a formal compliance plan presented yearly.

4.43 ***Enforcement functions.*** The enforcement function is the traditional last resort of revenue administrations before going to court. As part of compliance it has to be seen as an integral part of the compliance sequence service – control – enforcement in order to make the new administration credible also to those revenue payers not willing to pay. A smooth an efficient enforcement together with adequate sanctions will be the strong arm of the new administration and also a guarantee against the misconception that compliance is only about service.

## E. HARMONIZING LEGAL FRAMEWORK AND TAXABLE BASE

4.44 An important pre-condition for successful integration of the new revenue agency, consisting of elements from the tax administration, customs administration, social security authorities and health insurance organizations is to establish a legal framework which is harmonized and simplified to the extent possible. This should not be limited to organizational and management provisions, but should also apply to revenue procedures, and revenue policy provisions, such as aligning the tax bases between personal income tax and social security contribution.

4.45 Particularly, the procedural rules for the operational processes are suitable for harmonization. Rules regarding identification of revenue payers, registration, reporting requirements, reporting procedures, payment and collection procedures, revenue accounting, selection for audit, audit procedures, enforcement of collection, sanctions and penalties can be harmonized to a certain extent. For instance, the rules for sanctions in case of non-filing, stop-filing, late or inadequate payment, and underreporting should be as similar as possible regardless of tax or function within the revenue agency. Unjustified differences in legislation for different revenue elements will also confuse the revenue payers and lead to irrational behavior by them. Where, however, harmonization of legal provisions is not possible, streamlining of procedures will be difficult. For instance, the nature of tax and customs operations is inherently different in the time dimension. While tax operations are periodic, some customs operations are real-time, e.g., physical control. However, customs operations that are not real time, such as post-control audits, can be harmonized to a large extent.

4.46 The possibilities of harmonizing tax bases are limited to the tax base for employment income under personal income tax with the base for social security contributions (both by the employer and the employee). These are very similar and only minor differences exist according to existing legislative acts. Since the employers are charged with calculating, withholding, and payment of both personal income tax and social security contributions, harmonization is desirable and feasible.

4.47 ***Simplification and harmonization of revenue legislation.*** Adoption of self-assessment regimes puts pressure on lawmakers to facilitate simple procedures for revenue payers. Simplified rules are easier to understand and, therefore, reduce the risk of errors in reporting. Harmonization of legislation on revenue procedures will opens the possibility to streamline procedures and reduce reporting obligations. The revenue payers will spend less time on fulfilling his obligations

4.48 ***Uniform application of revenue legislation***. In an integrated nationwide revenue agency with only two administrative tiers and a small number of operational offices, the prospect of uniform treatment in similar circumstances will be considerably enhanced. This will increase public confidence in the revenue agency and promote voluntary compliance.

4.49 ***Nationwide application of streamlined procedures***. Modern streamlined procedures, supported by a state of the art IT system will reduce the need for personal contacts between revenue officers and revenue payers, and reduce compliance costs and administration costs.

4.50 ***Legal interpretations.*** Creating a legal function is central in order to ensure that there is unified application of revenue laws. Issuing binding legal interpretations on revenue matters, and publishing them as general guide for the use of both the administration and revenue payers should be carried out by the legal unit. In matters other than revenue collection, the legal interpretation for social security and health insurance provisions should left with the social and health administrations, as is the case today.

4.51 The legal function will build on the new central IT structure which will support information sharing across the administration. The new IT structure should also make it easier to monitor uniformity. Lack of uniformity is detrimental to voluntary compliance because taxpayers see different decisions on the same question across regional offices.

## F. DEVELOPMENT OF TRANSITION PLANS FROM CURRENT SET OF BUSINESS PROCESSES TO THE INTEGRATED MODEL

4.52 An important initial step towards creating an integrated revenue authority is to create a transition plan for the move from existing processes to the integrated model. In doing so, two main factors need to be carefully considered. One is the different stage of development in terms of procedures and computerization among the existing organizations, where the customs organization and the social security and health insurance organizations are ahead of the tax administration. The second is the necessity of preventing disruption of existing functions so that business is performed continually during the reform transition, in order to avoid negative impact on the outcome of the operations of all involved organizations. Since a new comprehensive IT support system has to be developed and implemented, which will take considerable time, given the scope of the undertaking, highly computerized existing processes may have to be run in parallel using existing processes and IT support for some time. It is also advisable to duplicate sensitive processes for some time (minimum one year) to ensure that data is not lost and that the new systems are reliable.

4.53 Early transition to new processes can, therefore, only be made regarding processes that are not highly computerized, such as taxpayer services, audit and recovery of arrears. Even for these processes, there need to have a common legal support for the new procedures before a transition can be made.

# 5. STRATEGY FOR INFORMATION TECHNOLOGY AND SYSTEMS

## A. INTRODUCTION

5.1 The main objective of the strategy for information technology and systems is to plan and build the revenue agency's IT infrastructure and information system capacity to support a highly automated business model. Information technology and systems would support the revenue agency's management activities; the interaction with taxpayers and delivery of taxpayer services; the operations for revenue collection in general and the strategic management of taxpayer compliance in particular; and the administration of the agency. Plans should be developed to establish the infrastructure and create capacity for the following key informatics areas of the revenue agency:

(i) Information Technology Governance and Executive Management
(ii) Information Technology Infrastructure
(iii) Security, Transparency and Compliance with International Standards
(iv) Management Information System
(v) Integrated Revenue Management System
(vi) Administrative Systems
(vii) Data Migration
(viii) Third-Party Data Flows and Integration with Social Security Agencies
(ix) IT Training

5.2 Project implementation plans for information technology and systems should recognize the large investment already made over the years by the tax and customs administrations, social security agency, and health insurance companies, as well as the current need for an integrated approach to revenue collection by the future revenue agency. To the extent possible, and without sacrificing the quality of the business processes of the new revenue agency, there should be an attempt to preserve the investments made. It is reasonable to expect that some of the existing hardware and telecommunications infrastructure of the tax and customs administrations would be moved to the revenue agency. Equally, it is reasonable to expect that some of the existing application systems would be migrated to the new agency and incorporated into the new integrated revenue management system in due time.

5.3 It is paramount that the IT system design for the revenue agency incorporates enhancement of informatics management capacity and technical governance for JIM along the lines of best international practice. This must include a close link to the Czech e-government portals for service delivery to the population, strong reliance on web-services to the taxpayer, and 24-by-7 operation of filing of electronic declarations and payment infrastructure. Web and telephone services should provide for two-way communication including taxpayer access to general and own information, revenue assessment and payment consultations, and feedback mechanisms including those related to abuse and corruption of revenue administration officials.

5.4 Moreover, project implementation plans must recognize systemic risks such as exposure to a security threat and information access by unauthorized parties. They should also mitigate the risks to revenue commonly associated to the migration of conventional (non-formalized) data, integration of multiple sources of data, and introduction of new revenue management systems. Carefully planned pilot testing and parallel execution of systems should be used to ensure successful migration of applications and data into the revenue agency and provide sufficient assurance of the timeliness and correctness of data flows to the tax, customs, and social sector agents.

## B. INFORMATION TECHNOLOGY GOVERNANCE AND EXECUTIVE MANAGEMENT

5.5 IT governance and management entails development of JIM's information and communications technology and systems policies with due attention to the interests of the internal and external clients. It is expected that the IT function would be centrally managed and would provide the necessary technical guidance, coordination, and monitoring of the IT functions of regional directorates and other specialized directorates. IT governance should ensure uniformity of processes, procedures, and assistance to end-users. Measures would be introduced to manage the performance of the IT function through appropriate performance indicators. Effective quality control procedures would be put in place to ensure the provision information to the MOF, social security agencies, taxpayers, and other key stakeholders. A strategic plan would be developed for business continuity and disaster recovery. Consideration would be given to creating a backup center outside Prague which would periodically take over revenue agency operations.

5.6 JIM should adopt and implement a formal project management methodology and system for informatics. The selected contractor should train all headquarters and field analysts on the methodology and system.

5.7 Finally, the informatics function of the revenue agency headquarters would have enhanced financial management capacity to evaluate and consider, as part of its decision making processes, the life-cycle costs of IT investments, for hardware, telecommunications infrastructure, system software, off-the-shelf software, and application development.

## C. INFORMATION TECHNOLOGY INFRASTRUCTURE

5.8 This includes development and implementation of JIM's IT and telecommunications infrastructure strategy, carrying out a program to implement all the IT equipment needed to support the headquarters and operational needs of JIM, implementing system and application software, as well as specialized equipment to provide security and prevent unwanted access to the JIM's information resources.

5.9 Upon approval of the strategies, JIM would develop technical specifications, carry out procurement, and installation of computer and networking equipment, including central and regional equipment, internet gateway servers, and systems software (including business software and development tools), and portable computers for key staff and auditors. As an early step, inventory should be made of existing computers, network, and telecommunications assets of the tax administration and customs at HQ and in the regions, and a strategy should be formulated to maximize their use in the new revenue agency insofar as these assets fit the IT infrastructure strategy of the revenue agency. Technology procurement and implementation plans should be considerate and abut with the development and implementation of enhanced business processes for the revenue agency. Delivery of hardware and system software should be properly timed so as to avoid losses due to technical depreciation of unused assets.

5.10 JIM should design and implement the necessary gateways to implement the revenue agency's slice of e-Government, as well as specialized gateways that may be required to support third-party data that may not flow through Internet gateways, and for delivery of information to the social security agencies. Special attention must be paid to the integration of Customs systems and data flows because they are somewhat different from standard revenue flows.

5.11 A specific information security and access control strategy must be developed and implemented.

5.12 A specific plan would be developed and implemented to provide technical infrastructure support for a central Call Center to provide information to clients over the telephone.

5.13 It would be important to prepare a strategic proposal to support business continuity for 24-by-7 filing and payment operations, as well as disaster recovery and contingency plans. This plan should contemplate the issues of location of the disaster recovery center and all costs, particularly those related to necessary investments in physical infrastructure, human, and computing resources.

### Compliance with Czech and International Standards

5.14 Government and International standards that must be observed by the IT systems of JIM should be researched and disseminated. In particular, this should include e-government and data sharing laws, regulations, and practices of the government, EU requirements and practices regarding exchange of tax information such as those of VIES and INTRASTAT, and compliance with recommendations of Section 7 "Application of Information Technologies" of General Annex to WCO Kyoto Convention in the case of Customs.

5.15 These activities should be initiated and completed at the earliest possible time and provide the required input to the other IT development activities.

## D. MANAGEMENT INFORMATION SYSTEM

5.16 Implementation of the management information system is a key element that will ensure efficient and effective management of revenue collection. The management information system should enable management decision making to be based on objective information on the operations of the agency and on the taxpayer rather than capricious intuition which may vary from manager to manager and may be subject to political and corruption pressures.

5.17 The main source of information for the MIS would be the results of the revenue agency's operations. This information should be automatically captured. Requests for revenue officers to prepare information and feed the MIS should be avoided as it is a common source of administrative inefficiencies. External information, including those from the statistical system and Treasury would also be important for interpretation of the economic impact of revenue collection and compliance studies. Management information should be stored in a data warehouse. A data mining system should be implemented to allow management to fully exploit the data warehouse.

5.18 The business requirements, data architecture and data sources for the MIS, in general, and the data warehouse and data mining environment, in particular, would be developed. The required software would be procured and implemented, hopefully in advance of the launching of the revenue agency. Management training would be provided to maximize use of the tools and data available to management.

5.19 JIM would also develop the requirements and procure an application software solution to support analytical modeling capacity necessary to support management decision making. In particular, the modeling software should be useful to develop compliance analytical models for the main taxes and social contributions.

## E. INTEGRATED REVENUE MANAGEMENT SYSTEM

5.20 JIM will need to develop the technical requirements, data architecture, data sources, and all other aspects of an Integrated Revenue Management System (IRMS) that would provide the revenue agency with a highly automated system to manage revenues cradle-to-grave. At a minimum the IRMS should contain the following modules and/or functions:

- Security and access control management
- Registration
- File and document control
- Assessment for each revenue
- Tax accounting
- Social contribution accounting
- Payment processing and reconciliation
- Penalties processing

- Enforced collection and arrears management
- Non-filers and delinquents
- Appeals
- Risk assessment and Audit selection
- Taxpayer services; and
- e-Filing, e-payment, and other e-services

5.21 The technical specifications for the IRMS would be developed based on the requirements generated by the business processes. Taxpayer interfaces based on e-government principles should be at the heart of the IRMS, which would allow taxpayers to have easy, transparent, accurate and user-friendly access to their accounts. Consideration should be given to the possibility of acquiring an off-the-shelf solution that could be customized to fit the revenue agency's requirements.

5.22 Ancillary contractual conditions for the procurement of the IRMS and procurement evaluation criteria should be developed. The relevant departments should be represented in the procurement committee responsible for the acquisition of the IRMS. The same would equally apply to processes for the acquisition of licenses for system software and development tools related to the IRMS.

5.23 The necessary guidance for the actual implementation of the IRMS would be developed, including, inter-alia: (a) migration and conversion of data from existing revenue collection systems; (b) general protocols and draft MOUs for information interchange with third-parties; (c) specific protocols and draft MOUs for information interchange with the agencies revenue is collected for, i.e. social sector agencies and the MOF; (d) protocols for the acceptance of IRMS-related hardware, system software and application software systems; (e) protocols for module level and system level testing, pilot implementation, entry in production, and national deployment of application systems; and (f) training of IT technical personnel and end-users in the use of the IRMS.

## F. ADMINISTRATIVE SYSTEMS

5.24 At a minimum, the following administrative systems would be implemented:

- Financial Management System
- Payroll System
- Human Resource Management System; and
- Filing and Document Control System

5.25 The technical requirements, data architecture, data sources, and all other aspects of the administrative systems of the revenue agency will need to be developed. Technical specifications for the administrative systems would be based on the requirements generated by business process development. To the extent possible, attempt should be made to make use of existing systems. Should these application systems prove inadequate, consideration must be given to off-the-shelf solutions that could be customized to fit the revenue agency's requirements.

5.26 The necessary guidance for the actual implementation of the administrative systems would be developed, including, inter-alia: (a) migration and conversion of data from existing systems; (b) protocols for the acceptance of the administrative application software systems; (c) protocols for testing, pilot implementation, and entry in production of application systems; and (d) training of end-users in the use of the systems.

### G. DATA MIGRATION

5.27 The technical and business requirements for the migration and conversion of operational data from existing systems of all agencies currently collecting revenue to JIM would be developed in close cooperation with the IRMS development. Specifically, the technical specifications and ancillary contractual conditions should be prepared for the procurement of Data Migration Services to migrate and convert existing data into the data architecture and data base systems used by the IRMS. The impact of moving towards a centralized data processing and management environment for the revenue agency should be considered. It is expected that the migration would be executed by a contractor experienced in migrating and converting data. The relevant agencies should be represented in the procurement committee responsible for the selection of the contractor.

5.28 The necessary guidance and protocols should be developed for data security during the process of migration as well as the periodic and final acceptance of the migrated data. Special arrangements should be made to accommodate the currently decentralized nature of some of the tax administration data. Data migration procedures should also be cognizant of the need to repeat migration several times until particular systems are placed into final production and utilization.

### H. THIRD PARTY DATA FLOWS AND INTEGRATION WITH SOCIAL SECURITY AGENCIES

5.29 The primary purpose of third party data flow is to feed a reliable matching program to compare the information provided by flow-through entities to that reported by taxpayers on their self-assessed revenue declarations. This comparison is an essential step to ensure taxpayer compliance. It would be an important factor in feeding the risk management system for selection of taxpayers for conventional audit activities. It would also be a fundamental tool for the automated audit detection of under-reporting of low-income taxpayers for whom the cost of conventional audit would not be economical.

5.30 In close cooperation with the development of IT infrastructure and IRMS, the technical specifications need to be developed for the telecommunications infrastructure, data architecture and models necessary to establish the secure flow of information from third parties into JIM. In consultation with the third party data providers, the technical specifications for the telecommunications infrastructure should be designed to facilitate the establishment of secure real time links and database structures that would receive, store and maintain the data, possibly in a data warehouse environment.

5.31 In addition, the technical specifications for the telecommunications infrastructure for data interchange with third parties would be able to serve the data interchange interests of the CSSZ and health insurance companies. In consultation with the CSSZ and health insurance companies, efforts will be made to ensure the technical specifications would enable secure links for the real time information flows related to registration, assessment and payments made by insured persons.

5.32 The necessary guidance and protocols would be developed for testing the data flows from the providers and data security during the process of transferring information to JIM. Simple, efficient, and highly-automated procedures would be established for information providers to test their ability to feed data to JIM.

5.33 JIM must consider the specialized needs of CSSZ and health insurance companies, and reach consensus on ownership of data, authority to collect and update data, historical archival, data flows and their frequency.

5.34 Rules for the resolution of data conflicts should be established, particularly those found during migration of registration data which would be flowing from several different sources – tax, customs, social security, health insurance companies – into an integrated IRMS environment. For example, the revenue agency would need to establish a unique address for the revenue payer but currently the tax administration, the customs administration, CSSZ, and the revenue payer's health insurance company may have different addresses for the payer. It would be desirable to have automated rules to resolve these conflicts.

### I. ITC TRAINING

5.35 A short-term training program would be designed to align the knowledge base and skills of IT staff recruited into the JIM with the technological requirements of the hardware and communications infrastructure, system software, and key applications – MIS, IRMS, and administrative systems. This program would acquaint the recruited IT technical staff from headquarters and regional offices with the technologies, and technical processes and procedures of the new agency and prepare them to support end-users transitioning into the revenue agency.

5.36 The need for training and retraining will exist continuously during the project life-cycle as staff join and leave the implementation team for various reasons. It is expected that most training would be delivered by the corresponding suppliers of IT technology.

5.37 Long term IT training strategies will be developed for IT personnel and end-users. This will include development of curricula and training programs that could be delivered through distance learning methodologies to facilitate development of IT awareness and faster adoption of change management throughout the revenue agency. External training providers may be necessary in order to invest early in the modernization of the revenue administrations as a necessary condition for the challenging task of integration.

# 6. GOVERNANCE STRUCTURE AND CHANGE MANAGEMENT

## A. INTRODUCTION

6.1 The development of a modern integrated revenue administration, based on the principles applied in advanced revenue systems, will change substantially the way the administration of revenues will operate in the Czech Republic. Moreover, integrating agencies with different strengths and weaknesses and distinct institutional history is a massive task. This will require careful planning, defining of policies, and development of strategy and design of the implementation plan for the reform through a consultative process. A comprehensive project management structure has to be developed that would provide the policy and technical support as well as stakeholder inputs during the life of the project.

6.2 Assimilating the differences between the agencies will require a robust change management strategy which will include project management, broad-based internal and external communication, and the development of a shared understanding and vision of the future. At any given time, the actors affecting different components of the reform program should be aware of the strategy and processes of all the other components in order to harmonize their own strategy and processes.

6.3 Integrating revenue collection in one agency is not without significant risks. However, these risks are not insurmountable and many countries have successfully improved the efficiency and effectiveness of revenue administration by integrating their functions. It is important that these risks are identified and the mitigation measures are recognized right at the outset.

6.4 The project management team should establish a results framework whereby progress on key reform objectives can be measured and assessed in a transparent manner and results disseminated publicly with the help of some key results indicators.

6.5 In the following sections, we lay down the outline for the project management structure, the change management strategy, the risks and mitigation measures and the key performance indicators.

## B. PROJECT MANAGEMENT STRUCTURE

6.6 The design of the project management structure has been discussed and agreed with the Government which has started taking steps for the creation of a comprehensive project management team that would provide the policy and technical guidance and provide management, coordination and oversight the reform process.

**Project Implementation Arrangements**

6.7 Given the magnitude of change in institutional environment that the Project will introduce, the implementation arrangements of the Project have been designed based on the following key principles:

(a) Guaranteeing high level policy direction, oversight and political support through the establishment of a **Project Management Board**;

(b) Ensuring interagency coordination of policies, design and implementation and participation of all stakeholders through establishing a **Project Steering Committee** responsible for the overall oversight, management, monitoring and evaluation of the progress of the reform implementation;

(c) Involving all structural units of the CSSZ, customs, tax administration and health insurance companies into the reform design and implementation through establishing of **Thematic Working Groups** to be in charge of preparation and implementation of the relevant reform activities; and

(d) Ensuring coordination of all reform activities through the **Project Manager** in the MOF, responsible for day to day management of coordinating, monitoring, and evaluating the implementation of reform activities, including interaction with the regional structures.

**Project Management Board (PMB)**

6.8 Successful integration will need consensus on broad policy direction and support for financial and human resources from the entire Government and the Parliament. Ensuring this support, and providing higher level oversight and policy direction for the reform will be undertaken by Project Management Board (PMB) consisting of the Minister of Finance, Minister of Labor and Social Affairs (MOLSA) and the Minister of Health (MOH). Other relevant high level participants (e.g., Parliament) are also invited to the Board meetings as guests. The PMB will be the voice of the reform process in the Government and in the Parliament and will guarantee that all legislative and financial proposals for the creation of a modern integrated revenue administration are adequately espoused. It is proposed that the PMB will meet regularly, at least once every quarter.

**Project Steering Committee (PSC)**

6.9 Project implementation and the achievement of specific project objectives will be overseen by a Project Steering Committee (PSC), which will be chaired by the Deputy Finance Minister, who will also be the *ex officio* **Project Director**. The PSC will include Deputy Ministers of the MOF, MOLSA and MOH, and heads of the tax and customs administrations, CSSZ, and representatives of the health insurance companies.

6.10 The PSC will have the overall responsibility for the management of the project and will oversee and ensure effective coordination of all integration and modernization activities. The PSC will regularly review and approve the reform proposals of the Thematic Working Groups, and develop proposals on improving the efficiency and effectiveness of the reform project.

6.11 The PSC will present documents for the approval of the PMB and the Government as and when required. The PSC will report progress to the Project Management Board twice a year.

6.12 The PSC mechanism will supervise the change management structure and also provide for the process of consultation with other private sector stakeholders so as to ensure that the project responds to the needs of the taxpayers and contributors.

**Project Manager**

6.13 On a day-to-day basis, the Project will be managed by a Project Manager who will be in charge of coordination of modernization activities in all agencies, and will coordinate preparation, implementation, monitoring, and evaluation of the project including submission of progress reports for the review of the PSC and the PMB. The Project Manager will be a person fully committed to the integration and modernization reform program approved by the PSC. He/she will coordinate on a regular basis with the Thematic Working Groups and the change management structure.

6.14 The Project Manager will be assisted by a **Project Coordination Unit (PCU)**. This unit will be responsible for collecting all inputs and documentation from all working groups and World Bank missions.

**Thematic Working Groups**

6.15 To ensure effective review, design and implementation of the key thematic areas of the reform activities, eight **Thematic Working Groups (TWGs)** are proposed**.** These will be:

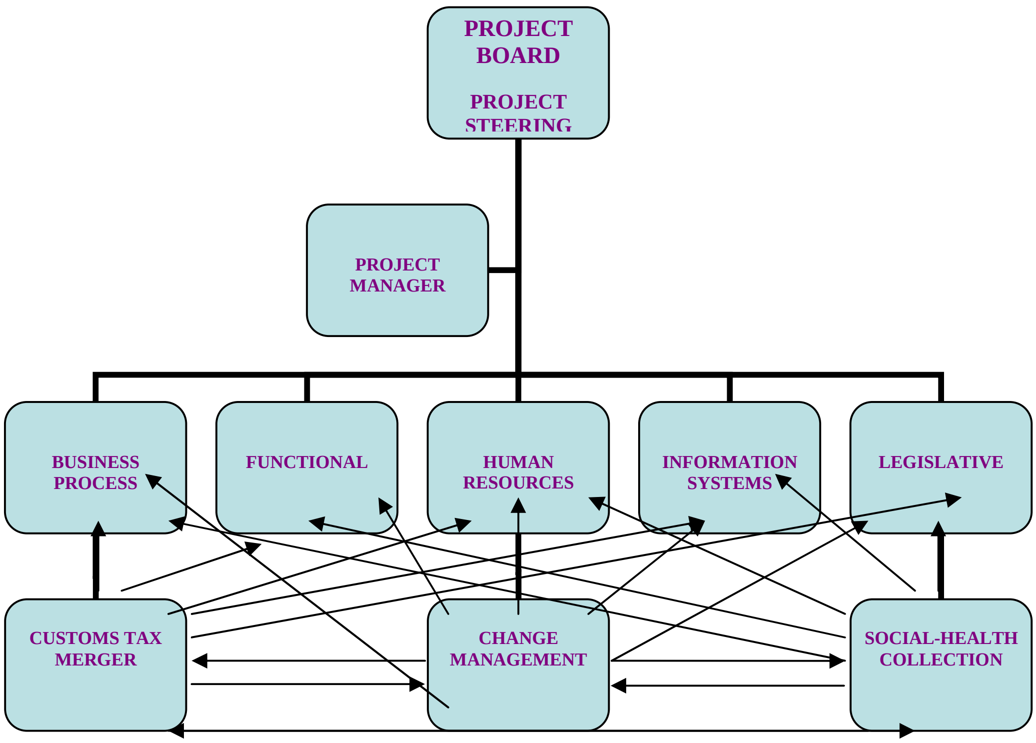
(i) Business Process TWG
(ii) Functional/Organizational TWG
(iii) Human Resource TWG
(iv) Legislative TWG
(v) Information Systems TWG
(vi) Revenue Integration of Social-Health TWG
(vii) Customs-Tax Integration TWG
(viii) Change Management TWG

6.16 Each TWG will comprise of senior and middle level management and technical officials of the CSSZ, Customs Administration, health insurance companies, Tax Administration, and the relevant ministries, where necessary. They will be drawn from operational departments relevant to the scope of work of the TWG (see Annex 1). Each TWG will be supported by one or more Advisor(s) from the World Bank advisory team.

6.17 The members of the working group will serve in a part-time capacity. The PSC will nominate a senior level official as the Convener for each TWG. Each Convener will also become an *ex officio* Change Management Facilitator who will represent the TWG at the Change Management TWG (see below Change Management description). To ensure coordination at the regional level, and responsibility for the modernization process in the regions, effort should be made to nominate some regional heads (or deputy heads) to the TWGs.

6.18 The first five TWGs (Business Process, Organizational, HR, Legislative, and IT) are core reform areas under the project. The last three (Revenue Integration of Social-Health, Customs-Tax Integration and Change Management) are cross-cutting thematic groups. Because functions such as registration, assessment, audit and collection will have implications on all the core thematic groups, the TWGs will work in a matrix structure, and each TWG will have to interact with the other TWGs. This matrix structure will be ensured by the Change Management TWG where all TWG conveners will interact.

6.19 The TWGs will participate in the relevant mappings, reviews, development of the design and the implementation plan, and the implementation of the respective elements of the project. This participatory process will ensure ownership of each output by all the concerned agencies. Each TWG will contribute to progress reports on the project activities.



## C. CHANGE MANAGEMENT STRATEGY

6.20 The objectives of change management (CM) are as follows:

(a) ensure smooth reform process management by utilizing a proven project management methodology;

(b) support the matrix structure of decision-making during the reform process; and to provide a mechanism for discussion and resolution of conflicts among the thematic groups;

(c) involve internal and external stakeholders in the design of JIM;

(d) establish channels for a two-way interchange of information with the agencies being reformed and external stakeholders, including feedback mechanisms; and

(e) monitor the evolution of broad-based political and social support for the project, and devise strategies for maintaining such support.

6.21 Smooth reform process management can be ensured by a proven project management tool, such as PRINCE2[6] or similar. PRINCE2 is a free project management software (http://www.prince2.com/) with resources and training available in Prague; it is non-proprietary and easy to learn. This and other proven project management tools enable project managers to organize, manage and control the flow of reform projects. It allows managing risk, controlling quality and change effectively, as well as finding solutions for challenging situations and opportunities that arise within a project. Some of the benefits include:

(a) A common, consistent approach

(b) A controlled and organized start, middle and end

(c) Regular reviews of progress against plan

(d) Assurance that the project continues to have a business justification

(e) Flexible decision points

(f) Management control of any deviations from the plan

(g) The involvement of management and stakeholders at the right time and place during the project

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[6] PRINCE (Projects in Controlled Environments) was first developed by the UK government in 1989 as the standard approach to IT project management for central government. Since then, the method has been enhanced to become a generic, best practice approach suitable for the management of all types of projects, and has a proven record outside both IT and government sectors. PRINCE2 has been widely adopted and adapted by both the public and private sectors and is now the UK's de facto standard for project management. There is also a rapidly growing international interest.

(h) Good communication channels between the project, project management, and the rest of the organization

(i) A means of capturing and sharing lessons learned

(j) A route to increasing the project management skills and competences of the organization's staff at all levels.

6.22 Not only the Project Manager, but also Conveners of the TWGs should become proficient in, and routinely use the selected project management tool in order to facilitate project management effectively.

6.23 The objective to support the matrix structure of decision-making during the reform process boils down to ensuring that the decisions of each thematic group are disseminated, understood, and considered by all other thematic groups. As a corollary, this involves ensuring that decisions of each thematic group are fully considerate of the requirements and decision taken by other thematic groups, as well as considerate of the impact of their decisions on other thematic groups. The Change Management TWG will also provide a forum and a mechanism for discussion and resolution of conflicts among the thematic groups.

6.24 Internal communication and feedback will have the following components:

(a) Ensuring that the management of all agencies participate in IRA design, by appropriately structuring PSC and TWGs with a balanced composition of all staff;

(b) Ensuring communication channels between management and staff of all agencies during transition, to prevent and/or mitigate "FUD" (fear, uncertainty, and doubt) among the staff;

(c) Conducting staff surveys to monitor staff awareness and response to change, and identify FUD points that require attention;

(d) Providing regional outreach, where top management travel to the regional offices communicate change to the local staff.

6.25 External communication will have the following components:

(a) Ensuring feedback and constructive discussion with external stakeholders (private sector, labor unions, other government agencies, parliament);

(b) Creating reform website with a discussion forum moderated by CM group;

(c) Periodic public events with participation of high-level stakeholders (including members of Parliament)

(d) Monitoring the evolution of broad-based political and social support for the project (by periodic stocktaking of the discussion forum on the JIM website, discussions at the public events, press, etc.), and devising strategies for maintaining such support.

### D. KEY PERFORMANCE INDICATORS

6.26 Reform such as the modernization of revenue administration is a multi-year process, and unless some quick gains are perceived, reform fatigue may set in. It is important, therefore, to monitor the success of the reform program related to the creation of JIM. Support for JIM will be strong only if stakeholders can see demonstrable benefits.

6.27 A set of key performance indicators have been developed in consultation with the Czech Government in all the major areas, and closely linked to the major objectives of the reform. Base value for these indicators will have to be determined soon, and the indicators should be monitored annually. The following are the agreed key performance indicators.

- **Improved Efficiency**
  Administrative cost of collection per staff

- **Improved Effectiveness and Incentive to Pay**
  Amount of audit adjustment / total number of audits
  Arrears recovered in a year / total annual revenue collection
  Perception survey on improvement in incentive to pay

- **Simplified and Rationalized Revenue Administration**
  Number of personal income tax (PIT) declarations filed
  Revenue paid on time / revenue assessed

- **Quality of workforce**
  Public perception of the quality and professionalism of revenue officials based on surveys of citizens
  Employees' survey

- **Reduced Contact between Revenue Payers and Revenue Authorities**
  Percentage of declarations filed electronically
  Hours spent by taxpayers to meet revenue obligations

- **Full use of information technology**
  Number of declarations processed electronically
  Volume of third party information processed electronically

## E. UNDERSTANDING RISKS AND THEIR MITIGATION

6.28 A project of this magnitude faces a multitude of risks. These risks need to be identified early on, before the project strategy is formulated and implementation starts, so that the strategy can be designed with the mitigation measures in mind.

6.29 There are at least three levels of risk that Project JIM faces:

(a) Political risks. At the central level, these include reform fatigue, or waning of broad-based political support and weakening of political commitment for implementation. In addition, at the local level, municipalities may resist consolidation of offices to the regional level, in order to maintain political clout.

(b) Agency-level risks. Because Project JIM integrates revenue functions of four sets of agencies, these risks are very important and significant. Different organizational cultures and remuneration structures of agencies may create conflicts, such as between uniformed and non-uniformed employees in the case of Customs. Also, different legal and institutional frameworks that circumscribe the current agencies may be politically difficult to change, i.e. the Parliamentary process may be slow and unpredictable. Moreover, different agencies may not collaborate sufficiently due to preconceptions of relative power, “takeover” of functions, personality, and other reasons.

(c) Process level risks. These risks are specific to the transition process and concern mostly data and IT. For example, data management systems may not be integrated in a timely manner, leading to enormous delays in the functionality of JIM. Also, because different agencies have different level of information on their contributors (CSSZ, for example, maintains individual-level information over time, while tax information is at the level of the firm at this stage), important information on contributors may be lost in the transition.

6.30 Because these risks have been identified prior to strategy formulation, the mitigation measures are built in the reform strategy, as described above. The table below concisely summarizes the main risks and mitigation measures:

| RISK | MITIGATION MEASURE |
|---|---|
| Political commitment may wane | Gain and maintain broad public consensus and stakeholder support via CM strategies |
| Municipalities may resist consolidation of offices | Retain some non-core functions in municipalities |
| Different organizational cultures and remuneration structures of agencies may create conflicts | Internal change management: representation, communication, and participation |
| Different legal and institutional frameworks may be politically difficult to change | Legislative working group with international experience<br>Involvement of high-level political leaders in change management |
| Different agencies may not collaborate sufficiently | Internal change management; governance structure of IRA;<br>Specific thematic groups to address Tax-Customs and SS-Health concerns |
| Data management systems may not be integrated in a timely manner | Consider off-the-shelf software solutions<br>IT working group with international experience |
| Important information on contributors may be lost in the transition | IT working group representing all agencies to reflect concerns<br>Parallel IT systems during transition |

# ANNEX 1

## SCOPE OF WORK
## OF THE EIGHT THEMATIC WORKING GROUPS

The TWGs will participate in the relevant mappings, reviews, development of the design and the implementation plan, and the implementation of the respective elements of the project. This participatory process will ensure ownership of each output by all the concerned agencies. Each TWG will contribute to progress reports on the project activities. The following is the scope of work for the respective TWGs.

A. Business Process. This TWG will participate in:

- mappings of separate business process of the existing Tax Administration, Customs, and revenue related functions (registration, assessment, audit, enforcement and accounting, etc. ) of CSSZ and the health insurance agencies;
- design of business process model for the IRA based on the principles of self assessment, centralized processing and risk management; and aimed at reducing compliance burden and administrative costs;
- ensuring that the concerns of all the existing agencies are addressed;
- development of transition plans from current set of business processes to the integrated model.

B. Functional/Organizational. This TWG will participate in:

- functional review of the organizational structure of the existing Tax Administration, Customs, and revenue related functions of CSSZ and the health insurance agencies;
- design of an appropriate functional-focused organizational structure for the new IRA based on the principles of self-assessment, risk management, client segmentation, specialization, and aimed at reducing compliance burden, administrative costs and optimization of office network to “kraj” level;
- development of a plan for a transitional organizational structure where necessary to ensure smooth transition from current structures to the organizational structure of the new agency.

C. Human Resource. This TWG will participate in:

- human resource review of the existing Tax Administration, Customs, and staff in CSSZ and the health insurance agencies carrying out revenue related functions;
- development of competency profiles for each function of the IRA;
- design of the appropriate staff requirement for the IRA ensuring adequate positions for newly integrated functions;
- design of a recruitment and compensation policy for initial staffing of the IRA;
- training needs assessment and design for an immediate training program for IRA functions;

- creation of redeployment, placement and re-training services for non-recruited staff;
- design of long term HR management and training policies.

D. Legislative. This TWG will participate in:

- review of the existing legislation relevant for the existing agencies;
- analysis of legislation that will require to be elaborated, amended or repealed;
- harmonization of the tax bases, procedures and penalties to the extent necessary and possible;
- harmonization of the legal framework wherever necessary for the proper functioning of the IRA;
- development of service agreements between the IRA and the social security and health insurance institutions where needed.

E. Information Systems. This TWG will participate in:

- review of the existing IT infrastructure and software systems;
- design of the IT strategy for IRA (hardware, communications, system software and applications) for newly designed business processes;
- design data migration strategies to ensure individual-based and real-time information;
- development of data management and exchange strategies
- development of management information systems
- development of information security and business continuity strategies
- development of technical specifications to procure systems

F. Revenue Integration of Social-Health. This TWG has cross-cutting functions, working closely with the TWGs on Business Process, Functional/Organizational, Human Resources, Legislative and Information Systems. The TWG will participate in:

- ensuring that the integration of collection functions of social security and health insurance takes into account the concerns of these institutions;
- harmonization of the legislative and institutional frameworks;
- alignment of the business processes for collection and enforcement of social security and health insurance contributions to ensure that key elements are properly mapped and integrated in the BP design of the new agency;
- development of staff requirement of the IRA so that revenue functions of social security and health insurance are adequately represented;
- development of the integrated data management systems and exchange strategy that ensures the life-long data of contributors;
- ensuring that the stringencies of information needs of the social security and health insurance institutions are reflected in the IT design of the IRA;

- o design of the data migration strategies to ensure individual-based and real-time information and integrity and completeness of collection data in the IRA;
- o design for real-time access of collection/enforcement information for all contributors/insured;
- o maintaining a parallel system of full cycle of payment transaction and document processing during the transitional period until such point as the social security and health insurance institutions start receiving full collection information from the IRA to its satisfaction.

G. Customs-Tax Integration. This TWG has cross-cutting functions, working closely with the TWGs on Business Process, Functional/Organizational, Human Resources, Legislative and Information Systems. This TWG will participate in:

- o development of a shared vision, ensuring assimilation of institutional cultures;
- o development of proposals for transfer of non-core customs and tax functions to other appropriate agencies/departments;
- o development of an organizational structure that ensures that, first the support functions, and gradually the more technical functions, are integrated
- o ensuring that core customs functions are emphasized within the IRA, and are performed by experienced customs staff;
- o harmonization of the legislative and institutional frameworks;
- o harmonization, and to the extent possible, integration of business processes, ensuring a shared realization of the principles of self-assessment, risk management, client segmentation, specialization, and reduction of compliance burden and administrative costs;
- o development of staff requirement of the IRA so that customs functions are adequately represented;
- o development of the integrated data management systems and data exchange strategy;

H. Change Management. This TWG has a cross-cutting function. It will include Conveners (also ex officio CM Facilitators) from the other seven groups, as well as internal and external communication experts. By invitation and when necessary, this group will also invite external stakeholders. This TWG will participate in:

- o ensuring smooth reform process management (via Prince or similar software);
- o supporting the matrix structure of decision-making during the reform process (i.e., ensuring that the decisions of each thematic group are disseminated, understood, and considered by all other thematic groups; as a corollary, this also involves ensuring that decisions of each thematic group are fully considerate of the requirements and decision taken by other thematic groups, as well as considerate of the impact of their decisions on other thematic groups);
- o providing a mechanism for discussion and resolution of conflicts among the thematic groups;
- o ensuring that the management of all agencies participate in IRA design;

- ensuring communication channels between management and staff of all agencies during transition;
- conducting staff surveys to monitor staff awareness and response to change;
- providing regional outreach: top management communicate change to the local staff;
- ensuring feedback and constructive discussion with external stakeholders (private sector, labor unions, other government agencies, parliament);
- creation of reform website with a discussion forum;
- moderating web discussion forum and periodic public events;
- monitoring the evolution of broad-based political and social support for the project, and devising strategies for maintaining such support.