TECHNICAL NOTES AND MANUALS

Revenue Administration: Autonomy in Tax Administration and the Revenue Authority Model

William Crandall

Fiscal Affairs Department

INTERNATIONAL MONETARY FUND

INTERNATIONAL MONETARY FUND

Fiscal Affairs Department

Revenue Administration:
Autonomy in Tax Administration and the Revenue Authority Model

Prepared by William Crandall

Authorized for distribution by Carlo Cottarelli

June 2010

DISCLAIMER: This Technical Guidance Note should not be reported as representing the views of the IMF. The views expressed in this Note are those of the authors and do not necessarily represent those of the IMF or IMF policy.

JEL Classification Numbers:	H10, H11, H20, H24, H25
Keywords:	tax administration, revenue administration, Revenue Authority, autonomy, governance, public administration
Authors' E-Mail Addresses:	williamcrandall@hotmail.com

TECHNICAL NOTES AND MANUALS

Revenue Administration: Autonomy in Tax Administration and the Revenue Authority Model

William Crandall

This technical note addresses the following questions:

- What is autonomy and why is it important in public administration?
- How is autonomy relevant for revenue administration and what is the range of autonomy currently practiced?
- What are the key measures of autonomy in revenue administration?
- What is a Revenue Authority and what are its general characteristics and features?
- What conclusions have been reached about Revenue Authority effectiveness?
- What has been the experience with autonomy in revenue administration?

I. What is autonomy and why is it important in public administration?

The reform and modernization of government institutions has been a constant theme over the last three decades in both developed and developing economies. Governments have faced a series of pressures that include:

- the need to deliver services more effectively and at a lower cost to citizens, as expenditure budgets decline.
- the need to address deficiencies in traditional procedures and structures that have come to be seen as too rigid to respond to the rapidly changing needs of the public and the challenges confronted by government in modern society.
- the pressure to adapt current business or private sector management practice to public sector institutions.

As a result, there has been a tendency for governments to increase the *autonomy* of its departments and agencies. The basic principle is that such autonomy can lead to better performance by removing impediments to effective and efficient management while maintaining appropriate accountability and transparency.

Note: William Crandall is a former Associate Deputy Minister of Revenue Canada and is a member of the IMF's Fiscal Affairs Department roster of experts.

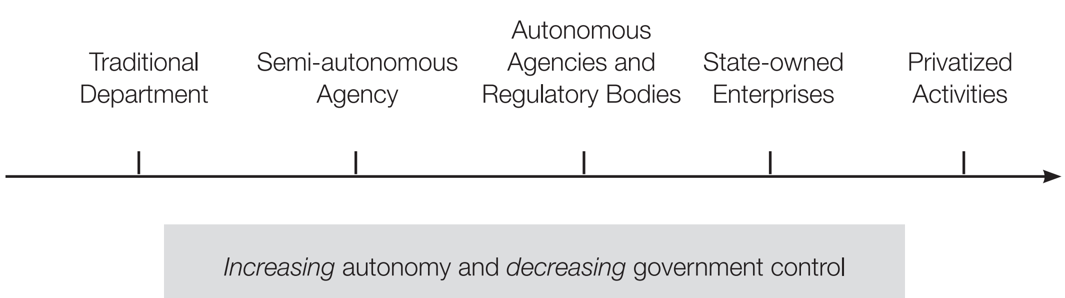
Autonomy can mean many things, including independence or even self-government, but in the context of public sector administration it usually refers to

> *….the degree to which a government department or agency is able to operate independently from government, in terms of legal form and status, funding and budget, and financial, human resources and administrative practices*

In considering the question of autonomy, it can be useful to look at typical national government structures along a spectrum that indicates ***decreasing*** government control and ***increasing*** autonomy (Figure 1). In the last few decades, many models have emerged along this spectrum. The standard model, furthest left, is a ***traditional*** department of government within a ministry, such as finance or agriculture. Moving to the right on the spectrum are the semi-autonomous agencies, and this broad and expanding group would include Revenue Authorities (discussed in subsequent sections). Further along the spectrum are the autonomous agencies and regulatory bodies that have true distance from the government and the public service. This group could be said to include the central banks and other independent regulatory bodies of government. Even further along are state-owned enterprises engaged in a variety of activities from quasi-public ones, such as post offices, to traditionally private sector activities, such as oil production. The far end of the spectrum, for illustration, depicts activities previously carried out by government that have been fully privatized. Examples might include air traffic control, correctional facilities management, or (in the case of revenue administration) pre-shipment or arrival inspection in customs.

As is demonstrated in Figure 1, governments have increased autonomy in a number of ways. However, only the first two in the diagram are relevant for revenue administration.

Figure 1. Autonomy in Government Sructures



With respect to traditional departments and agencies, many countries have reduced the central agency controls on public service managers and have increased the authority of these managers to make decisions. This increase in authority is usually accompanied by related increases in accountability, including reporting and transparency requirements, and is provided within existing institutional structures.

With respect to the second category, some countries have established new institutions for carrying out government services and activities. These institutions have considerably more autonomy than a traditional government department, and are often referred to as semi-autonomous or quasi-autonomous agencies. The United Kingdom is seen by many as in the forefront of this new way of doing business and, since the 1990s, its quasi-autonomous agencies[1] account for close to 25 percent of all government expenditure. Canada and New Zealand employ a similar approach in some cases, and significant areas of government whose diversity ranges from film production to food inspection are being run by agencies, rather than traditional ministries of government.

Many countries believe increased autonomy can solve administrative and corporate governance problems, such as organizational inefficiencies, and deliver fair and effective services to the public. Problems such as low pay, low quality staff, low retention rates, and patronage-based recruitment can be improved through autonomy in human resources areas. Political intervention can be addressed through increased independence from the executive branch of government. And adequate funding can be provided through the adoption of formulae or other guarantees.

Increased autonomy is sometimes seen as a response to inadequate central government systems for human resources, expenditure management, and general administration. Over the last few decades, the belief that reform and modernization of government institutions must be anchored by significant increases in autonomy and accountability has become widespread.

II. How is autonomy relevant for revenue administration and what is the range of autonomy currently practiced?

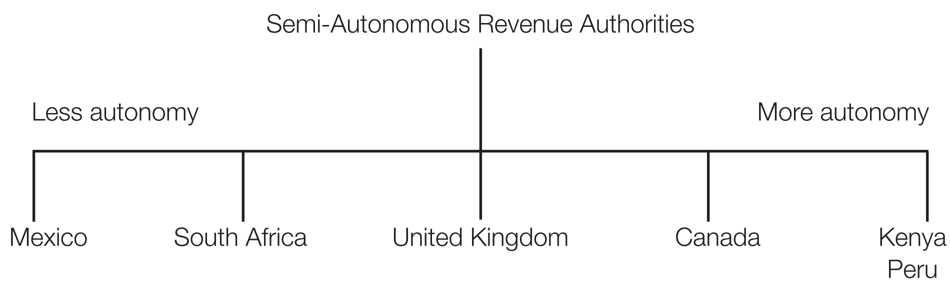
Revenue administrations throughout the world have a mandate to administer and enforce the revenue laws. These laws are extensive in their range and nature, involve many persons and businesses, and generally result in the collection of the vast bulk of revenues needed to support the state. The revenue administration must be efficient and effective, on the one hand, and fair and impartial on the other. To achieve these objectives, the revenue administration requires sufficient autonomy to exercise its powers and responsibilities set out in the revenue laws. It should be noted that these powers are amongst the most pervasive that any law or statute provides. As a result, there are usually limits to autonomy and to the extent that the administration of these laws can be distanced from government.

As was noted above in Figure 1, revenue administrations normally fall under two possibilities only—traditional departments of government or semi-autonomous agencies. In each

[1]The United Kingdom defines a quasi-autonomous agency as "a body which has a role in the processes of national government, but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arms' length from ministers."

of these possibilities, there is a range of autonomy practised. In the context of a traditional department of government, there is relatively little information available about the range and degree of autonomy provided (some OECD data is presented in the next section). However, in terms of the semi-autonomous revenue agencies, studies including a 2006 IMF survey[2] have shown there is considerable range in the autonomy they enjoy. Figure 2 illustrates examples of relative autonomy within the semi-autonomous group based on the IMF survey.

Figure 2. Relative Autonomy in the Semi-autonomous Revenue Authorities



Within the semi-autonomous group, Mexico might be an example of more limited autonomy as the revenue administration remains fully within the public service. The South Africa Revenue Service (SARS) might be next, with its independence from public service rules but close control by government. A subsequent example could be Canada, with its management board and human resources autonomy, but relatively close control by government. What follows would be the broad group normally referring to themselves as full-fledged Revenue Authorities, such as Kenya or Peru, similar to Canada but with more autonomous budget features and somewhat less general government control.

While the trend toward increased autonomy is clearly a general one for governments, revenue administration has been very much at the forefront of this movement. Many believe there is a compelling case for increased autonomy for revenue administration because it is the source of revenue for the whole of government.[3] It is recognized that the problems addressed by increased autonomy affect the entire government but, it is argued, such problems are felt much more acutely in revenue administration as compared to most other public sector activities, largely on account of the specialized skills needed and because of its revenue-producing role. This “uniqueness” argument may not be as strong as its proponents believe, especially in the context of world-wide public service reform and good governance initiatives.

[2]See *Revenue Authorities: Issues and Problems in Evaluating their Success* IMF Working Paper WP 06/240, Maureen Kidd and William Crandall, October 2006

[3]See Taliercio, Robert, Jr., 2004, “Designing Performance: The Semi-Autonomous Revenue Authority Model in Africa and Latin America,” World Bank Policy Research Working Paper 3423 (Washington: World Bank).

III. What are the key measures of autonomy in revenue administration?

Generally speaking, the autonomy given to a revenue administration depends on many factors including the system of government in place and the state of development of a country's public sector administration, as well as the institutional or governance model adopted. As noted earlier, increased autonomy brings with it a prospect of increased efficiency and effectiveness, but it has proven difficult to produce clear evidence of such outcomes in practice.

Autonomy for a revenue administration is reflected in:

- ✓ provisions in the revenue laws (including tax procedures codes and references to institutional or governance issues)
- ✓ its reporting relationships (to the minister of finance, to the financial secretary, etc.)
- ✓ its ability to design and implement operational policy, and
- ✓ its organizational structure and operational responsibilities.

The 2008 OECD tax administration survey[4] provides useful information on the issue of autonomy. This survey contains data for 43 countries - 30 OECD and 13 non-OECD. Of these 43 countries, 19 are described as single or multiple directorates within the ministry of finance, and 24 as a unified semi-autonomous body (with or without a board). Against this background, the survey identifies powers (autonomy) of the respective administrations in the following areas (inter alia):

- *Organization and planning*: Responsibility for internal organization structure, including the size and geographical location of operational offices (some exceptions), and the authority to formulate and implement strategic and operational plans.
- *Budget management*: Discretion to allocate/reallocate budgeted funds across administrative functions to meet emerging/changed priorities.
- *Performance standards*: Discretion to set its own administrative performance standards (e.g. for taxpayer service delivery).
- *Human resources*: The ability to set academic/technical qualification standards for categories of recruits, and to recruit and dismiss staff, the ability to establish and operate staff training/development programs; and the ability to negotiate staff remuneration levels (often in accordance with broader public sector-wide policies and arrangements).

The results of the survey for these areas, split between directorates within the ministry of finance and unified semi-autonomous bodies, are presented in Table 1.

A number of conclusions can be reached based on these data:

- the degree of autonomy of surveyed revenue administrations varies significantly; the powers least frequently devolved are: (i) to design internal structure (5 countries); (ii) budget discretion (7 countries); and (iii) to negotiate staff remuneration levels (13 countries).

[4]Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series (2008)

Table 1. Authorities held by revenue (tax) administrations

		Structure of revenue (tax) administration					
		Directorate(s) within MoF	%	Semi-autonomous body	%	Total	%
Authority to establish organization and office networks		17 of 19	89	21 of 24	88	38 of 43	88
Authority to allocate/re-allocate budget		14 of 19	74	22 of 24	92	36 of 43	84
Authority to determine performance standards		19 of 19	100	24 of 24	100	43 of 43	100
Human Resources authorities	Fix levels/mix of staff	15 of 19	79	21 of 24	88	37 of 43	86
	Influence staff recruitment criteria	19 of 19	100	24 of 24	100	43 of 43	100
	Hire and dismiss	14 of 19	74	23 of 24	96	37 of 43	86
	Negotiate staff pay levels	10 of 19	53	20 of 24	83	30 of 43	70

- In general, revenue administrations enjoy many powers that were probably not delegated to them a decade or two ago; hence, autonomy has increased in all areas.
- The semi-autonomous bodies clearly have greater autonomy, but in many cases the margin is not significant.

It is to be noted that with these increases in authority/autonomy come commensurate increases in accountability, including requirements related to transparency and oversight. It is beyond the scope of this note to delve into these complex areas of revenue administration.

IV. What is a Revenue Authority and what are its general characteristics and features?

The practice of establishing a dedicated separate organization for revenue administration (tax and customs), separate from formal internal structures of the MOF (or its equivalent) and with a broad range of autonomous powers mirrors the broader development in public sector administration sometimes described as the executive agency model. The model, in a revenue administration context, is called a Revenue Authority.

The arguments for the executive agency model relate primarily to effectiveness and efficiency: (i) as a single purpose agency, it can focus its efforts on a single task; (ii) as an autonomous organization, it can manage its affairs in a businesslike way, free of political interference in day-to-day operations; and (iii) being outside the civil service proper, it can execute its own human resources strategy - recruiting, retaining (or dismissing) and motivating staff.

Setting up Revenue Authorities for tax and customs administration has been part of the trend for more than 20 years towards increased autonomy in the public sector. The term Revenue Authority can be used to describe a *governance regime* for an organization engaged in revenue administration that provides for more autonomy than that afforded a normal department in a ministry. There are close to 40 Revenue Authorities around the world clustered largely in Africa and Latin America. Generally, revenue administrations in these regions were faced with the need for massive reform, and the creation of a Revenue Authority was seen by some as a launching point for this work. Development agencies of some national governments have at times actively promoted Revenue Authorities as a solution to poor performance (e.g., DFID, USAID) and international organizations have also played a role in this field. Private sector consulting firms have honed and marketed their expertise in this area and had a strong presence in Africa through the 1980s and 1990s.

There is no single governance model that applies everywhere. Each Revenue Authority embodies a series of *policy choices* that determines its autonomy, accountability and other characteristics. Revenue Authorities exist along a continuum, with some remaining close to the civil service while others enjoy greater autonomy. A Revenue Authority is not an end in itself and should be a means for implementing reforms and improving performance. If used effectively, it can be a catalyst to enable broader revenue administration reform.

Based on the IMF survey, the typical features of Revenue Authorities (RAs) are:

- A legislative instrument (law or decree) was used to establish the RA in all cases.
- About 80 percent of RAs have separate legal status.
- Almost all RAs have the mandate of ***assessing and collecting tax and duties and administering and enforcing the revenue laws.*** In addition, almost all have a further mandate to provide ***advice*** on tax laws to the minister of finance.
- In all cases, the minister of finance (or equivalent minister) is considered to have at least general supervision and oversight of the RA.
- About 70 percent of RAs are outside the normal public service.
- Different funding arrangements exist for RAs:
  - Normal budget and appropriation funding only (PEM)—40 percent.
  - Normal budget and appropriation funding with an option for a percentage of revenue above target as incentive payment—30 percent.
  - Funding based on a percentage of tax collection—30 percent.
- All RAs have arrangements in place for external audit, usually by the auditor general.
- About 75 percent of RAs have boards, and all of these are empowered management boards[5] with specific responsibilities and oversight functions.
- The boards range in size from 5 to 15, and all have private sector representation.
- Of the 15 RAs with boards, the chair of the board is named by the government in ten cases, the chair is specified in the legislation in four cases, and in one case the board elects its own chairperson.

[5]An empowered management board is a board that is more than advisory, which has real powers under the law (usually for matters related to human resources, finance, and administration, and other non-operational matters).

- In all cases except one, the CEOs (commissioner-general or director-general) of the RAs are fully vested with the powers established in the revenue laws, with authority to delegate these powers.
- In most cases, the CEO is appointed by the government; in some cases, the appointment is made by the government on the recommendation of the board; and in a few cases, the board itself makes the appointment of the CEO.
- All RAs administer income tax and a value-added tax.
- Almost all RAs administer some other types of tax, including stamp tax, gaming tax, property tax, as well as a combination of various other taxes, including motor vehicle licensing and transport fees.
- RAs generally include customs administration.

A country needs to have a framework to consider the policy choices it must make when establishing a revenue authority. In recent years, it has come to be accepted that this framework will encompass the following components: degree of autonomy; governance framework; accountability; and scope.

In almost all cases, the framework spans a range of possibilities from which the government must choose just one. Box 1 illustrates the design characteristics that need to be considered.

As noted earlier, there is usually a common set of considerations for most countries as they assess whether a revenue authority is a reasonable option to pursue. The decision is clearly not taken lightly as the implementation process can consume as much as two years (and often more) of the time of senior officials and political leaders.

Before making any decision to proceed with the establishment of a Revenue Authority, governments should ask themselves certain critical questions as a background for cost/benefit analysis:

1. Are the problems facing revenue administration known?
2. Is there a reform and modernization strategy in place?
3. Is there a risk that creating the RA will overwhelm other reform efforts?
4. Are the benefits and downsides of revenue authorities well understood?
5. Are the experiences of other countries relevant?
6. Is a lengthy timeframe acceptable?
7. Are requisite skills and other resources available?
8. Is the government prepared to deal with possible labor relations upheaval in a move to a revenue authority?
9. Are there any reasonable and practical alternatives?
10. Are the conditions for success and sustainability present?

Box 1: Design considerations for a Revenue Authority

1. Degree of autonomy

The range of possibilities for the following specific areas needs to be assessed:

- ***Legal form and status***—from an agency relatively close to a normal government organization, to a corporate body with considerable independence.
- ***Funding***—from normal funding via parliamentary appropriations to direct retention of a percentage of collected revenues.
- ***Budget flexibility***—from limited flexibility to the complete flexibility of a one-line budget.
- ***Financial policies*** (such as accounting, asset ownership and management, procurement)—from a situation where the RA is subject to standard civil service laws and regulations, or as determined by "corporate body" status (i.e. not part of the government's accounting entity).
- ***Human resources***—from being within the civil service control framework, to being outside it.
- ***Operational autonomy***—from a situation where the minister has day-to-day authority to one where there is no involvement on the part of the minister in operational decisions.

2. Governance framework

- ***Role of the minister of finance***—from direct supervision of the authority by the minister, to a more limited role such as appointment of the board or CEO only and limited broad strategic and tax policy directive powers.
- ***Role of the board***—from no board at all to one with just advisory powers to fully empowered in legislation to take management decisions.
- ***Role of commissioner general***—from a coordinating role only, to full responsibility for revenue operations with all vested powers from revenue laws.

3. Accountability

- ***Reporting to the government and parliament***—from being part of normal general government reporting, to the need to follow special requirements specified in legislation.
- ***External audit***—from being a legislated responsibility of the auditor-general, to the RA or its board selecting the external auditor as it sees fit.

4. Scope

This refers to the scope of *taxes* and *taxing agencies* to be included. Usually, the RA includes the administration and enforcement of all direct and indirect taxes at the national level, and customs (and trade) administration. The RA may also include the collection of local taxes or fees and social taxes or levies, as well as the collection of social contributions.

V. What conclusions have been reached about Revenue Authority effectiveness?

The IMF paper referenced earlier as well as other literature on the subject of Revenue Authorities generally suggest a few words of caution on the subject. Conclusions from these analyses can be summarized as follows:

- Establishing an RA should not be viewed as a panacea—creating an RA may be expensive, may take a long time, and may not actually improve revenue administration effectiveness;
- Before considering any particular governance model, revenue administrations should clearly identify and articulate problems and deficiencies, and consider strategies for reform and modernization based on international best practice. Only then should a full assessment be made of the extent to which the RA governance model might satisfy the problems and reform strategies identified;
- Whatever the governance model, it must be recognized that political commitment is of the utmost importance in establishing and sustaining a professional and effective revenue administration;
- The RA model alone does not lead to improved effectiveness and taxpayer compliance—its establishment must be coupled with a serious commitment and plan for reform.

VI. What has been the experience with autonomy in revenue administration?

Box 2 provides a brief example of the experience of Uganda with autonomy in revenue administration where a semi-autonomous agency was established, namely the Uganda Revenue Authority.

VII. Key Points for Tax Administration Design

- Governments are continuing to provide increased autonomy, along with increased accountability, to public sector bodies.
- Revenue administrations are part of this trend, whether they are part of the traditional institutional public service (a department within a ministry) or a semi-autonomous revenue authority.
- Key areas for increased autonomy and accountability in revenue administration are human resources (recruitment, training, remuneration, hiring and firing); organization and planning; budget management; and performance standards.
- A Revenue Authority (semi-autonomous agency) is one means to provide an appropriate level of autonomy for revenue administration; countries should carefully and thoroughly assess the extent to which a Revenue Authority might be suitable for their objectives.

Box 2. Experience with autonomy in Revenue Administration Uganda Revenue Authority

What was the motivation for the establishing the Revenue Authority?

In the early 1990s, administration of national taxes and duties was the responsibility of four departments in the ministry of finance. Reasons for poor performance of these departments included: (1) low staff morale and productivity—partly due to low pay and shortage of resources; (2) corruption; (3) ineffective collection of tax; (4) weak management of revenue administration; and (5) lack of a tax-paying culture—partly because taxpayers viewed the tax system to be unfair.

The argument for the Revenue Authority was that, by moving away from civil service terms and conditions of service and management practices, many of these problems would be overcome. With higher salaries, staff would not need to seek alternate sources of income and coupled with stricter discipline, corruption would reduce, morale, and productivity would increase as would revenue collections.

What is the nature of the autonomy?

The URA is a body corporate. It has human resources and budget autonomy. The URA is able to recruit and salaries and the rate of retention have improved. On funding, it receives a budget appropriation like any department of government but the minister of finance may authorize the retention of a percentage of the revenue collected. The URA has autonomy in setting all financial policies, with the exception of procurement.

What are the main results?

Established in 1991, the URA was one of the first African RAs. Results were impressive in early years, reflected by strong revenue growth in real terms that levelled off by the late 1990s. Many of the previous administration and taxpayer compliance problems gradually returned, including serious problems of corruption and inefficiency. The URA had become a fragmented organization with unclear accountabilities when a major modernization initiative was launched in late 2004. The latest reform strategy has exploited the flexibility afforded by the RA model to competitively appoint an entirely new management team and workforce, structurally reorganize by integrating tax administration with a focus on segmentation, and begin streamlining and automating operations. Thus, the RA model has been the URA's vehicle to both success and failure over the past 15 years.

TNM/10/12

International Monetary Fund
Fiscal Affairs Department
700 19th Street NW
Washington, DC 20431
USA
Tel: 1-202-623-8554
Fax: 1-202-623-6073