STRATEGIC PLANNING AND MANAGEMENT – AN OVERVIEW

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Introductions

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  - Assistant Secretary, Revenue, Irish Tax and Customs

- Louis Kasekende
  - Chief Economist, African Development Bank
Welcome to All

- Botswana
- Gambia
- Ghana
- Kenya
- Lesotho
- Malawi
- Mauritius
- Namibia
- Rwanda
- Seychelles
- Sierra Leone
- South Africa
- Swaziland
- Tanzania
- Uganda
- Zambia
Purpose

The seminar will provide:

- The principles for strategic management in tax administration
- A model for bringing sufficient discipline in the process to ensure that program decisions are strategic and will lead to improvement in tax compliance
- Practical examples of how specific countries have implemented the principles discussed
- An opportunity to exchange ideas about the application of strategic management principles with the leaders of other tax administrations
Agenda

- Opening Session and Introductions
- Global Economic Crisis and Revenue Mobilization
- Mission, Values, Vision
- Goals and Objectives
- Strategic Assessments and Risk Management
- Priority Setting and Resource Allocation
- Performance Measurement
- Business Planning and Execution
- Balanced Scorecard
- Country Presentations (Kenya, Zambia, South Africa)
- Team Presentations
Context of Strategic Management: Profile of Revenue Administration in Anglophone Africa
Outline

- Background
- Financing the national budget
- Overview of revenue administration reform developments
- Some Observations on the Reform Developments
Background (1)

- 19 countries
- Broad geographic groupings:
  - Southern Africa – Botswana, Lesotho, Mauritius, Namibia, Seychelles, South Africa, Swaziland, and Zimbabwe;
  - Eastern Africa – Kenya, Malawi, Rwanda, Tanzania, Uganda, and Zambia;
  - Western Africa – Gambia, Ghana, Liberia, Nigeria, and Sierra Leone.
Background (2)

- General characteristics and observations:
  - most, but not all, have a British colonial legacy or heritage
  - prevalent use of the English language for business and government purposes
  - several countries emerged from national or regional conflicts in recent or earlier years (Liberia, Rwanda, Sierra Leone)
  - others are endowed with significant natural resources (Botswana, Nigeria, Namibia, Liberia, Sierra Leone, South Africa, Zambia)
  - new oil and gas discoveries (e.g. in Ghana, Rwanda, Sierra Leone, Tanzania, Uganda, Zambia)—curse or blessing?
Financing the National Budget (1)

- How much does national revenue mobilization contribute to national budgets?
  - Revenue (tax and non-tax) as a percentage of GDP
  - Total expenditure and net lending as a percentage of GDP
  - The revenue gap!!
Financing the National Budget (2)

Top 10 countries (Index of Economic Freedom)

<table>
<thead>
<tr>
<th>Name</th>
<th>Total Revenue to GDP Ratio</th>
<th>Total Expenditure to GDP Ratio</th>
<th>Percent Expenditure funded by Domestic Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>22.2</td>
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<tr>
<td>Singapore</td>
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## Financing the National Budget (3)

### Anglo African countries

<table>
<thead>
<tr>
<th>Name</th>
<th>Total Revenue to GDP Ratio</th>
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<th>Percent Expenditure funded by Domestic Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mauritius</td>
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<td>South Africa</td>
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<td>Uganda</td>
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<tr>
<td>Namibia</td>
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<td>Swaziland</td>
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<td>Kenya</td>
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<tr>
<td>Tanzania</td>
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<td>Ghana</td>
<td>23.0</td>
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Financing the National Budget (4)

Anglo African countries cont/d...

<table>
<thead>
<tr>
<th>Name</th>
<th>Total Revenue to GDP Ratio</th>
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<th>Percent Expenditure funded by Domestic Revenue</th>
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<td>Gambia, The</td>
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<td>Nigeria</td>
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<tr>
<td>Zimbabwe</td>
<td>4.2</td>
<td>8.1</td>
<td>51.9</td>
</tr>
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</table>
Financing the National Budget (5)

Tax Structure

- What tax structure results from the design and compliance management effort of the revenue agencies?
  - What are the dominant tax categories and why?
    - Highly formalized economy
    - Large industrial base
    - High levels of employment (income levels and consumption)
    - Large service industry (including credit institutions—credit dependency)
**Financing the National Budget (6)**

**Tax Structure**

Top 10 countries (IEF)—period averages 2002-2006

(source: IMF databases)

<table>
<thead>
<tr>
<th>Name</th>
<th>Total Revenue</th>
<th>Income and Profits Taxes</th>
<th>Taxes on Goods and Services</th>
<th>Taxes on International Trade</th>
<th>Other taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
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<td>61.8</td>
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<tr>
<td>Simple avg top10 IEF</td>
<td>100.0</td>
<td>54.7</td>
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## Financing the National Budget (7)

### Tax Structure

### Anglo African countries

<table>
<thead>
<tr>
<th>Name</th>
<th>Total Revenue</th>
<th>Income and Profits Taxes</th>
<th>Taxes on Goods and Services</th>
<th>Taxes on International Trade</th>
<th>Other taxes</th>
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## Financing the National Budget (8)

### Tax Structure

### Anglo African countries cont/d...

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<th>Other taxes</th>
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<td>19.8</td>
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<td>Sierra Leone</td>
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<td>11.3</td>
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<tr>
<td><strong>Simple avg Anglo-Africa</strong></td>
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<td><strong>37.6</strong></td>
<td><strong>30.3</strong></td>
<td><strong>26.9</strong></td>
<td><strong>5.3</strong></td>
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17
Financing the National Budget (9)

Tax Structure

Tax Structures--Anglo Africa and Select World Countries

<table>
<thead>
<tr>
<th>Tax category</th>
<th>Total revenue contribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income and Profits Taxes</td>
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<tr>
<td>Taxes on Goods and Services</td>
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<td></td>
<td>26.9</td>
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<td>10.5</td>
</tr>
<tr>
<td></td>
<td>5.3</td>
</tr>
</tbody>
</table>

Simple avg top10 IEF

Simple avg Anglo-Africa
Overview of revenue administration reform developments (1)

- Tariff reform and the introduction of VAT have been two developments that provided the impetus for revenue administration reform
  - Regional and wider trade integration including preferential or free trade areas and customs unions
  - VAT was a major indirect tax reform accompanied by tariff reform
    - 14 out of 19 countries have a VAT
    - Seychelles’ sales tax/VAT needs refinement
    - Sierra Leone and Swaziland soon to introduce VAT
Overview of revenue administration reform developments (2)

- Semi-autonomous Revenue Authorities (RA) is a significant development within Anglophone Africa
  - With the exception of Ghana, Liberia, Nigeria, Namibia
  - Ghana in the offing
  - Most RAs include both tax and customs
  - South Africa and Zimbabwe integrate tax and customs operations—not distinct program entities

- Segmentation of the taxpayer population being implemented to address compliance issues of particular taxpayer categories (large, medium and small taxpayer categories)
Overview of revenue administration reform developments (3)

- Functional organizational delivery structures slowly taking hold across Anglophone Africa
  - (registration, taxpayer services and education, returns and payments processing, revenue accounting, collection enforcement, taxpayer audit and investigations, dispute resolution)

- Effective information technology (IT) systems are increasingly becoming mission-critical features in Anglophone Africa—due to large volumes of transactions and information
Overview of revenue administration reform developments (4)

- Customs administration automation is dominated by ASYCUDA
  - 10 of the 19 countries are using ASYCUDA
  - 4 are at the development stage (Lesotho, Seychelles, Sierra Leone, and Swaziland)

- Integrated tax administration systems are in use or being developed
Some Observations on Reform Developments (1)

- Revenue results in GDP terms mixed
  - from the mid-1990s to around 2004, revenues were up in 13 countries, down in five (Botswana, Gambia, Seychelles, Swaziland and Zambia) and unchanged in one (Kenya)

- The dominant RA model has not fully delivered the desired reform outcomes
  - the 1990s thrust towards the RA model appeared primarily designed to improve the HR environment and the productivity of revenue administration staff, rather than tackle more comprehensive reform (this appears to be changing)

- A clear vision of the desired end-state of a modernized revenue administration has not been evident in the early years of reform
  - overriding focus on revenue targets (not as a consequential objective) may account for the slow speed of reform and the mixed results; piecemeal and often fragmented reform efforts are not the best use of scarce resources
Some Observations on Reform Developments (2)

- Reform governance arrangements are still nascent—they are a critical element in managing the reform program.
- Segmentation and applying different compliance strategies to the high risk groups is a still relatively underdeveloped concept in customs administration.
- Strong headquarters (head office) functions (operational policy) are still elusive—day-to-day program management:
  - Design/planning
  - Monitoring
  - Evaluation
  - Ensuring timely remedial/value-adding action is taken.
- Fragmented tax administration IT systems are still the norm.
Conclusion

Question...

“Are revenue agency statements of vision, mission, goals and values consciously being used to drive qualitative performance improvement?”
The Strategic Management Cycle

Mission, Values and Vision

Strategic Goals
Strategic Objectives

Strategic Assessment

Priority Setting & Resource Allocation

Business Planning

Program Execution

Program Evaluation

Program Measurement Monitoring & Management
Organizational Foundation

- Includes the Mission, Values, and Vision
  - The mission and values anchor the administration’s vision for the future
  - The vision drives the development of its strategic objectives
- Provides for clear understanding of the purpose of the organization and its direction
- Shared understanding of these concepts helps to ensure that
  - all staff pull in the same direction
  - builds taxpayer and stakeholder confidence and trust in the tax administration
Mission

- While a tax administration’s mandate is derived from its legal authority, its mission statement provides a concise indication of purpose and business activity

- Brazil: “Provide the State with revenue in order to guarantee the social welfare; provide excellent services for society; provide security, confidence and facilitate international trade.”

- USA: “Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.”

- Canada: “To administer tax, benefits and related programs and to ensure compliance on behalf of governments across Canada, thereby contributing to the ongoing economic and social well-being of Canadians.”
Values

- Values are beliefs that members of the administration hold in common, and endeavor to put into practice.
- They need to be modeled by leaders with the goal of having all staff demonstrate them in their day-to-day behavior.

- Canadian Revenue Administration (CRA) values:
  - integrity
  - professionalism
  - respect
  - cooperation
Vision

- The vision defines the organization’s view of success
- Its formulation is the responsibility of leaders
- It is future looking and should inspire others across the organization to realize the vision
- Vision statements typically have a medium- to long-term horizon

- **Vision of the Inland Revenue Authority of Singapore (IRAS)**
  - The leading tax administration in the world
  - A partner of taxpayers in nation building
  - An eXcellent team of competent and committed people

- **Australian Tax Office’s aspiration:** To work with the community in the fair administration and effective management of the tax system to add value to our nation.
Develop Broad Support

- Internally:
  - Seek concurrence and input from Ministry of Finance
  - Involve the “top team” in drafting the mission, vision, and values
  - Give managers and employees opportunities to comment and provide input and raise concerns

- Externally:
  - Circulate to taxpayer and industry groups, tax professionals (i.e., accountants and attorneys) for comment
  - Solicit views of key elected officials

- Maintain visibility:
  - Go back to the groups that provided input with the final result
  - Link actions to the mission, vision and values as often as possible
The Strategic Management Cycle

1. Mission, Values and Vision
2. Strategic Goals
   - Strategic Objectives
3. Strategic Assessment
4. Priority Setting & Resource Allocation
5. Business Planning
6. Program Execution
7. Program Evaluation
8. Measurement Program Monitoring & Management

Flowchart:
- Mission, Values and Vision to Strategic Goals
- Strategic Goals to Strategic Assessment
- Strategic Assessment to Priority Setting & Resource Allocation
- Priority Setting & Resource Allocation to Business Planning
- Business Planning to Program Execution
- Program Execution to Program Evaluation
- Program Evaluation to Measurement Program Monitoring & Management
- Measurement Program Monitoring & Management to Mission, Values and Vision
Strategic Goals & Objectives

- Mission answers why the administration exists
- Vision answers where the administration wants to head
- Strategic goals and objectives are driven by the vision and form the heart of the strategic plan
  - **Strategic Goals** are long-term outcomes that help the organization achieve its mission
  - **Strategic Objectives** are broad based outcome statements that support achievement of strategic goals by providing more specificity and clarity
- In turn, they drive the initiatives and actions that will lead to improved tax administration
Strategic Goals and Objectives - USA

**Example**

- Discourage non-compliance with emphasis on corporations, high-income individuals & other contributors to the tax gap
- Ensure attorneys, accountants & practitioners follow the law
- Deter financial criminal activity

**Mission Statement**
Providing America’s taxpayers top quality service by helping them understand and meet their tax responsibilities by applying the tax law with integrity and fairness to all.

**Strategic Goals**

**Improve Taxpayer Service**
- Improve service options for the taxpaying public
- Facilitate participation in the tax system by all sectors of the public
- Simplify the tax process

**Enhance Enforcement of the Tax Law**
- Discourage non-compliance with emphasis on corporations, high-income individuals & other contributors to the tax gap
- Ensure attorneys, accountants & practitioners follow the law
- Deter financial criminal activity

**Modernize the IRS Through Its People, Processes and Technology**
- Increase organizational capacity (employee engagement / productivity)
- Modernize information systems
- Ensure safety & security
- Modernize business processes

**Taxpayer Burden**
- Customer Satisfaction
- Accuracy

**Tax Gap**
- Taxpayer Compliance (Payment, Filing, Return Accuracy)

**Employee Engagement**
- Benchmark IT to Private Industry
Supporting strategies, actions, and initiatives - US

**Mission:** Providing America’s taxpayers top quality service by helping them understand and meet their tax responsibilities by applying the tax law with integrity and fairness to all.

**Strategic goal:** Improve taxpayer service

**Strategic objective:** Improve service options to the public

**Supporting strategies, actions, and initiatives:**

- Expand community coalitions and partnerships to enhance taxpayer education, tax preparation assistance and self-sufficiency for improved taxpayer compliance
- Offer products and services to address the needs of limited-English-proficient taxpayers
- Increase the rate of electronic filing
## Strategic Goals and Objectives – Tanzanian Example

### Mission Statement
An effective and efficient Tax Administration which promotes voluntary tax compliance by providing high quality customer service with fairness and integrity through competent and motivated staff.

### Strategic Goals

<table>
<thead>
<tr>
<th>Increase revenue collection in a cost effective way</th>
<th>Modernize TRA operations</th>
<th>Provide high quality and responsive customer service</th>
<th>Promote voluntary tax compliance</th>
<th>Enhance staff performance management system</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Broaden tax base</td>
<td>- Introduce electronic operations</td>
<td>- Enhance TRA quality management system</td>
<td>- Enhance risk management model</td>
<td>- Improve staff appraisal system</td>
</tr>
<tr>
<td>- Strengthen domestic tax revenue</td>
<td>- Enhance Customs Administration system</td>
<td>- Improve customer service</td>
<td>- Enhance tax knowledge</td>
<td>- Strengthen management controls</td>
</tr>
<tr>
<td>- Improve tax structure</td>
<td>- Enhance Domestic Tax Administration system</td>
<td>- Enhance trade facilitation</td>
<td>- Provide support to local government authorities</td>
<td>- Improve staff capacity</td>
</tr>
<tr>
<td>- Enhance system for monitoring cost of revenue collection</td>
<td>- Strengthen data production and management</td>
<td></td>
<td></td>
<td>- Improve staff welfare and motivation</td>
</tr>
</tbody>
</table>

### Measures
TRA has key performance indicators that measure nature and scope of operations, efficiency, and effectiveness of the tax administration. Including operational indicators, perception indicators, and monitoring and evaluation.
Supporting strategies, actions, and initiatives - Tanzania

**Mission:** An effective and efficient tax administration which promotes voluntary tax compliance by providing high quality customer service with fairness and integrity through competent and motivated staff.

**Strategic goal:** Increase revenue collection in a cost effective way

**Strategic objective:** Strengthen domestic revenue operations

**Supporting strategies, actions, and initiatives:**

- Train tax auditors in specialized sectors, i.e., financial institutions, telecommunications, tourism, mining, and transfer pricing
- Assess implementation of taxpayer segmentation in selected regions
- Automate key TRA operations in all regions
- Establish database of taxpayers receiving offshore income
The strategic plan provides direction for the next three to five years and typically contains:
- statement of the mission, values, vision and strategic goals of the administration
- corporate strategies and objectives
- performance measures for those strategies

Serves as an internal and external communication tool:
- to facilitate the staff’s understanding of the organization’s goals and priorities
- to inform taxpayers, politicians and other stakeholders of the tax administrations intended directions of provide
- to ensure transparency and accountability
The Strategic Management Cycle

Mission, Values, Vision, Principles

Strategic Goals
Strategic Objectives

Strategic Assessment

Priority Setting & Resource Allocation

Business Planning

Program Execution

Program Evaluation

Measurement
Program Monitoring & Management
An annual review is undertaken that will lead to the setting of strategic priorities.

Includes the impacts that political, economic, social, technological and business trends may have on the vision, strategic objectives and priorities.

International practices in tax administration, and compliance trends are also assessed.

Generally, there is a business-line review of performance as well as an assessment of strengths, weaknesses, opportunities and threats.

Organizational (internal) threats are assessed, as well as compliance (external) threats.

This leads to a confirmation of the strategic objectives, and proposals for future actions.

The initial Strategic Assessment is far more time-consuming than subsequent annual updates. Full scale assessments are only performed periodically.
Outline

- Environmental Assessment
- Organizational Risks
- Compliance Risks
- Risk ranking and SWOT Analysis
- Proposals for Change
Factors To Consider

- **The political landscape** – possible change of government, priorities, policies impacting on tax administration
- **The economic landscape** – performance of the economy and impacts on underground economy
- **Social trends and attitudes** – public attitude toward compliance and toward government in general
- **Technology** – opportunities to make efficiency / effectiveness gains because of new technology
- **Demographic trends** – population trends relating to language, culture, age that may impact on service needs
- **Legal / Legislation** – legislative changes and court challenges
Organizational Risk

Organizational risk may exist in a number of major categories, such as:

- Human resources
- Information technology
- Business processes
- Governance framework
- Tax policy and/or tax procedures
Examples of Organizational Risk

- **Human resources**
  - Do staff have the skills necessary to do their jobs effectively?
  - Are there adequate resources to handle work demands?

- **Infrastructure**
  - Are staff equipped to do their jobs efficiently?

- **Legislative**
  - Does the legislative framework have gaps or allow unintended interpretations?
Examples of Organizational Risk (con’t)

- Governance
  - Are there clear lines of accountability for all key business processes in the organization?
  - Is the organizational structure adequate to achieve the administration’s goals and objectives?

- Business Processes
  - Are the right business processes in place? Are they effective? Are they efficient?
  - Are the processes for identifying compliance risk adequate?
  - Are compliance actions risk-based?
  - Is there a business resumption plan in case of disaster (e.g., earthquake, flood, terrorism)?
Examples of Organizational Risk (con’t)

- **Partnerships**
  - Are external partnerships (e.g., industry groups, accountancy and legal boards) used to support the goals of the administration?

- **Financial Control**
  - Are there adequate controls to ensure integrity in the stewardship of the administration?

- **Information Technology**
  - Is the technology infrastructure adequate? Are the necessary computer systems in place?
  - Are the computer systems thoroughly tested to ensure that processing is accurate?
  - Are the computer systems and databases adequately backed up in case of a disaster?
Compliance Risks

- Are estimates of the informal economy increasing?
- Is the public attitude towards paying taxes changing? For better or worse?
- Are there changes in registration, filing, reporting, or payment indicators?
- Are high-risk segments growing (self-employed, large taxpayers, high-net-wealth individuals)
- Are patterns of tax avoidance, evasion and fraud changing?
# Risk Ranking Matrix

<table>
<thead>
<tr>
<th>Risk: Likelihood</th>
<th>Consequence</th>
<th>Serious</th>
<th>Prejudicial</th>
<th>Minor</th>
<th>Negligible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Almost Certain (~95%)</td>
<td>Critical</td>
<td>Severe</td>
<td>High</td>
<td>Major</td>
<td>Significant</td>
</tr>
<tr>
<td>Probable (~80%)</td>
<td>Severe</td>
<td>High</td>
<td>Major</td>
<td>Significant</td>
<td>Moderate</td>
</tr>
<tr>
<td>Possible (~50/50)</td>
<td>High</td>
<td>Major</td>
<td>Significant</td>
<td>Moderate</td>
<td>Low</td>
</tr>
<tr>
<td>Unlikely (~20%)</td>
<td>Major</td>
<td>Significant</td>
<td>Moderate</td>
<td>Low</td>
<td>Trivial</td>
</tr>
<tr>
<td>Rare (~5%)</td>
<td>Significant</td>
<td>Moderate</td>
<td>Low</td>
<td>Trivial</td>
<td>Trivial</td>
</tr>
</tbody>
</table>
Risk Management

- Risks can be accepted, mitigated, covered or transferred
- Residual risk is the level of risk that remains after risk mitigation actions have been taken
- When residual risk remains unacceptably high, it becomes a candidate for further action
- Competing risks must be evaluated and prioritized for further action
## Modified SWOT Analysis Results

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increasing revenue</td>
<td>• Inadequately staffed headquarters</td>
</tr>
<tr>
<td>• Successful reorganization</td>
<td>• Weak arrears collection authorities and lack of modern debt collection processes</td>
</tr>
<tr>
<td>• Growth of e-filing and e-services</td>
<td>• Lack of national risk-based audit case selection system</td>
</tr>
<tr>
<td>• Organizational ability to deal with new challenges (e.g., assumption of non-tax related responsibilities)</td>
<td>• Tax law complexity creates excessive taxpayer and administrative burden</td>
</tr>
<tr>
<td>• Increasing resources to deal with major non-compliance issues</td>
<td>• Difficulty in reassigning staff to new positions or new locations</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Use of technology to reduce costs</td>
<td>• Tax fraud poses serious challenges (fake VAT invoices)</td>
</tr>
<tr>
<td>• Simplification of administrative requirements</td>
<td>• Informal economy undermines voluntary compliance</td>
</tr>
<tr>
<td>• Movement of staff from less productive work (processing paper tax returns) to higher value-added activities (service and compliance)</td>
<td>• Growing complexity of tax avoidance schemes</td>
</tr>
</tbody>
</table>
Strengths, Weaknesses, Opportunities, Threats

- **Business line review:**
  - Leaders assess areas of responsibility and make proposals for improvement
  - Evaluate program effectiveness, what went right, what went wrong and ‘what keeps them up at night’
  - Supported by information supplied by the ‘bottom-up’ view of front-line operations

- **Organization-wide review**
  - Brings together the business-line views and seeks to identify any gaps
Strategic Assessment Results

- The results of the strategic assessment are first used to validate the vision and the strategic objectives.
- These results can and do periodically alter the strategic objectives.
- Only when the new objectives have been confirmed, can the process for determining what initiatives and actions would be most important to achieving those objectives proceed.
Proposals for Change

- Agreed actions must be anchored and aligned with strategic objectives
- Initiatives may provide efficiency gains, effectiveness gains, or both
- Inputs to new programs include human resources and operating budgets.
- Funding decisions should be made during the priority setting process (e.g., reallocating or shifting resources from other lower priority programs)
Proposals for Change

- Proposals should include a multi-year analysis of the costs, benefits and expected results.
- Both assumptions and dependencies should be provided with the proposal.
- The strategic assessment can then proceed to the next step – priority setting and resource allocation decisions.
Compliance Risk Management

Strategic Management

Compliance Risk Management
Outline

- Introduction
- Compliance Risk Management Model
  - Identifying risks
  - Assessing and prioritizing risks
  - Analyzing compliance behavior
  - Developing Treatment Strategies
  - Evaluating results
Benefits of Compliance Risk Management

- Structured basis for strategic planning
- Balanced and customized approach to compliance improvement
- Method for reserving the harsher compliance tools for the more non-compliant taxpayers
- Allocation of resources to identified risk levels
- Defensible approach to compliance choices
- Foundation for evidence-based evaluation
- Improved program outcomes
RISK MANAGEMENT CYCLE

(OECD MODEL)

Operating Context

- Identify risks
- Assess and prioritise risks
- Analyse compliance behaviour (causes, options for treatment)
- Determine treatment strategies
- Plan and implement strategies

Monitor performance against plan

Evaluate compliance outcomes
- Registration
- Filing
- Reporting
- Payment
Compliance Risk

- **Three Key approaches**
  - **Macro-level**
    - Socio-economic indicators
    - Trends in public attitudes including views related to registering, filing, reporting and remitting
    - Tax gap measures
  - **Systems-based**
    - Non-registration and fraud
    - Non-filing
    - Underreporting revenues, taxable incomes, and taxes owing
    - Non-payment and collections
  - **Market Segmentation**
    - Used to create homogeneous grouping that allows for easier detection of risk
    - By tax type (e.g., VAT, income tax)
    - By size (e.g., Large, Medium, Small, and Micro)
Many sources of information

- Economic and demographic trends
- Behavioral information
- Business results
- Third party information
- Employees and managers
- External groups (e.g., tax professionals)
- Other countries
- Data mining/Compliance studies
Macro-Level

- Economic indicators
- Trends in public attitudes including views related to registering, filing, reporting and remitting
- Tax gap measures
GST revenues are tracking in line with consumer expenditures, indicating stable compliance levels.
Canadian Example: Public Attitudes to Compliance

CROP Survey on Compliance Attitudes and Behaviours

<table>
<thead>
<tr>
<th>Compliers</th>
<th>1. Altruistic compliers</th>
<th>30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2. Deferent compliers</td>
<td>27</td>
</tr>
<tr>
<td>Contingent Non-compliers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Pseudo-compliers</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>4. Situational non-compliers</td>
<td>13</td>
</tr>
<tr>
<td>Non-compliers</td>
<td>5. Potential non-compliers</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>6. Rebels</td>
<td>8</td>
</tr>
</tbody>
</table>
Random Audit Programs

- Make statistically valid measurements of non-compliance
- Quantify the “tax gap”
- Measure evasion among different groups of taxpayers to develop or validate audit selection models
- Identify emerging trends or new forms of evasion
- General deterrent to non-compliance
USA INTERNAL REVENUE SERVICE
TAX YEAR 2001 FEDERAL TAX GAP
($ in Billions)

Gross Tax Gap: 345
(Noncompliance Rate: NCR = 16.3%)

Non-filing*
27

Underreporting
285

Underpayment
33

Individual Income Tax
197

Employment Tax
54

Corporation Income Tax
30

Estate & Excise Taxes
4

Large Corporations
25

Small Corporations
5

FICA & Unemployment Taxes
15

Self-Employment Tax
39

Gross Tax Gap: 345
(Noncompliance Rate: NCR = 16.3%)

Status of the Estimates
- Actual Amounts
- Updated Estimates
- Dependent on Older Estimates

Estimates in Bold Boxes Have Been Updated Based on Detailed TY01 NRP Analysis

* Updated using Census tabulations
Market Segmentation

- Used to create homogeneous grouping that allows for easier detection of risk
  - By tax type (e.g., VAT, income tax)
  - By size (e.g., large business, medium, small, and micro)
  - By sector (e.g., farming, professions, industries)
Function-based Risk Identification

- Designed to identify risks by major tax administration processes
  - Registration
    - False registrants
  - Filing
    - Non-filers, late filers
  - Underreporting
    - Unreported income, over-statement of deductions
  - Payment
    - Late payers, non-payers
Desired result: Three different levels of risk – and emerging risk - identification

- **Strategic**
  - Environmental scans
  - Tax gap measures, demographic and economic trends, behavioral analysis
  - Tax population profiles

- **Tactical**
  - Groups (e.g., professions, trade sectors, and industries)
  - Functions (e.g., registration, filing, reporting, and payment)
  - Major tax issues

- **Operational (Taxpayer)**
  - Case selection within each area

Requires a top-down / bottom-up flow of information
Possible Risks

- Growth in service sector
  - Small cash-based businesses
  - Limited cash flow
- Risky taxpayers
  - Younger males
  - High-net-wealth individuals
- Risky sectors
  - Construction, taxis, bars and restaurants
- Potential high revenue loss
  - Large taxpayer tax-avoidance strategies
Assessment and Prioritization

☐ Goal is to answer two questions:
  ■ Is the risk serious?
  ■ Should you do anything about it?
Assessment and Prioritization

☐ Is the risk serious?

☐ Considerations:

   ▪ Likelihood of the risk occurring
   ▪ Frequency and vulnerability
   ▪ Risk to revenue
   ▪ Risk to public confidence
   ▪ Impact on achieving organizational goals both now and in the future
Assessment and Prioritization

- Should you do anything about it?
- Consider:
  - Internal capability
  - Effectiveness of any proposed treatment
  - Risk rating
  - Return on investment
  - Risk of infection
  - Public perception
Problems - Causes

☐ Identify patterns
  ■ Are there sectoral or geographic differences?

☐ Systematic or organized evasion
  ■ Are fraudsters exploiting legislative or administrative weaknesses?

☐ Identify different causes
  ■ Which ones are possible to influence?

☐ Trend
  ■ Is the problem increasing or decreasing?
Prioritization

- Goal is to choose which risks will be treated with available staff and capabilities
  - High revenue impact
  - Cost to benefit ratio
  - Impact on taxpayer perceptions
  - Impact on tax administration’s goals (high, medium, low)
  - Focus on OUTCOMES not outputs

- Prioritized analysis of compliance risks feeds into the Strategic Assessment
Data, Information and IT Systems

- Risk identification and assessment depend on accurate data, data analytics to evaluate risks, and systems to deliver high priority taxpayer casework.

- Build capability over TIME!
  - Business registration – ranking of new registrants for fraud potential
  - Informal economy
    - Third-party data matching
    - Other public data
Data, Information and IT Systems (con’t)

- Tax return data, including financial statements
- Benchmark data – financial ratios, trade sector profit ratios
- Cross-program matching – payroll, VAT, import and export data, corporations and major shareholders
- Identification of non-filers
- Audit and collection risk-scoring systems
- Data mining
- Automated workload selection tools
Sweden: Taxpayer selection

- Central and local queries preset each year
Seeing the Whole Taxpayer

☑ Cross-Program Client Compliance Profile (Canada)
  ■ History of all compliance/enforcement actions, including those related to registration, filing, reporting, remitting
  ■ History of risk assessment results
  ■ Links to associated accounts

Ensures that taxpayers’ compliance behaviors affect their business relationships with the tax administration.
Canada: Compliance Measurement, Profiling and Assessment System (COMPASS)

- Allows auditors to:
  - Gain quick point-and-click access to high-risk workload in a Windows-like environment
  - View comprehensive taxpayer compliance profiles to make audit workload selections
  - Test compliance theories by using individually established criteria to detect new areas of non-compliance and fraud
  - Examine risk characteristics at an aggregate level across economic sectors, geographic areas, etc., in order to target workload more strategically
Risk Analysis by Industry Sector
Developing Compliance Strategies (OECD Model)

Factors influencing taxpayer behaviour
- Business
- Industry
- Sociological
- Economic
- Psychological

Taxpayer

Attitude to compliance
- Have decided not to comply
- Don’t want to comply, but will if we pay attention
- Try to but don’t always succeed
- Willing to do the right thing

Compliance strategy
- Use the full force of the law
- Deter by detection
- Assist to comply
- Make it easy

Our strategies aim to create pressure down
Understanding taxpayer behavior?

WHAT is occurring?

WHO is doing it?

WHY are they doing it?

e.g., under-reporting of income, over-claiming expenses,

Characteristics of the taxpayer

e.g., lack of knowledge, cost of compliance, perceived inequity, dishonesty
Potential reasons for non-compliance

- **Equity**
  - Is the taxpayer treated fairly
  - Does the government make good use of the tax revenue

- **Opportunity for non-compliance**
  - Cash based businesses

- **Individual differences**
  - Risky taxpayers (e.g., younger males)

- **Social norms**
  - Every body does it...

- **Dissatisfaction with revenue authorities**
  - Is the tax administration fair and efficient
Treatment options

- Make obligations clear and make it easy to comply
  - Understandable legislation and tax returns, readily accessible help, proactive education
- Reduce the scope for error
  - Use third-party information
- Use escalating sanctions
- Provide incentives
- Publicize service and enforcement activities
Treatment Strategies

- Link the strategy to the underlying cause.
  - Canadian taxpayers owning rental properties showed a lack of understanding of the difference between a capital expense and a current expense. An education strategy worked well in improving compliance levels.
  - The United Kingdom provided information on common misunderstandings relating to deductible expenses against business income to self-employed individuals who prepared their own tax returns and had been identified as ‘at risk’.
Treatment Strategies

☐ Reduce the opportunity for error through increased visibility and transparency:

- In Australia, withholding of tax was required of construction subcontractors, along with information reporting by the contractor. This brought greater visibility to work transactions that were not previously transparent.
USA Internal Revenue Service: Effectiveness of Third-Party Reporting

- Substantial info reporting & withhold: $11B, 1.2%
- Substantial information reporting: $9B, 4.5%
- Some information reporting: $51B, 8.6%
- Little or no information reporting: $110B, 53.9%

Net Misreporting Percentage:
- $110B, 53.9%
Treatment Strategies

- Sweden developed a four-pronged audit strategy:
  - Concerted effort to catch the big evaders
  - Preventative approach that involves auditing new businesses even when the risk potential would appear low
  - Follow-up on taxpayers who had substantial non-compliance in the past
  - Focus on ‘hot spots’ for the public – evaders who claim social benefits.
Treatment Strategies

The U.S. developed a comprehensive approach to address tax shelters that included:

- Expedited guidance identifying abusive transactions;
- Improved disclosure requirements to provide greater transparency;
- Increased audits of tax shelter promoters as well as thousands of audits of high-income individuals and corporations who entered into potentially abusive transactions; and
- Legislation to limit abusive transactions and increase penalties.
Remember: The goal is not to find non-compliance; it is to prevent non-compliance
Plan for evaluation

- Develop evaluation criteria when the treatment strategy is chosen
  - Key questions:
    - Were the right risks identified?
    - Were they analyzed correctly?
    - Was the right treatment selected?
    - Was the risk reduced?

- Is outside help needed?
  - Legislative changes
  - Additional resources
Evaluation

- Look beyond outputs to outcomes – changing behavior
- Are the trends moving the right way over time
  - Taxpayer surveys
  - Filing and paying rates
  - Correct reporting
  - Registration rates
  - Tax gap measures
EU Evaluation model

- Effectiveness
  - Quantity/quality
  - Productivity/efficiency
Evaluating compliance is difficult, but…

What gets measured - gets done!

Aim for the best outcome
The Strategic Management Cycle

Mission, Values, Vision, Principles

Strategic Goals
Strategic Objectives

Strategic Assessment

Priority Setting & Resource Allocation

Business Planning

Program Execution

Program Evaluation

Measurement
Program Monitoring & Management

Mission, Values, Vision, Principles
Priority Setting and Resource Allocation
Priority Setting & Resource Allocation

- The strategic assessment provides the basis for proposals to improve performance of the tax administration.
- The proposals must be prioritized to ensure that effort is directed to the most important areas.
- There are a variety of techniques for this, as well as some challenges that must be managed.
- Funding is an issue when setting priorities and several options should be considered.
There is need to align the organization’s resources and their allocation to the desired business direction.
The Scenario (1)

- Increasingly being asked to do more with less resources
- Relatively good success of revenue agencies (systems) has resulted into being saddled with more non-core collection activities, e.g. appropriations-in-aid with no additional funding
- Have the revenue agencies adjusted? Mixed results!!
The Scenario (2)

- Recurrent expenditure profile of revenue agencies in Anglophone Africa
  
<table>
<thead>
<tr>
<th>Cost centre</th>
<th>Percentage composition</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff costs</td>
<td>60 – 85</td>
<td>More acute for infant agencies</td>
</tr>
<tr>
<td>Other operational</td>
<td>15 - 40</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

- Examples staff costs: 2007– SARS = 60%; Rwanda Rev Auth = 80%; Mauritius Rev Auth = 69%
- Staff costs usually “ring-fenced” at expense of “operations”
- Required: streamlining and prioritization—various methodologies and techniques
Therefore, there is need to ...

- Decide
  - What to spend on or invest in
  - How much to spend/invest
  - When to change spending or investments

- Based on an agency’s
  - Goals
  - Agreed strategy
  - Total resources available to spend/invest
  - Changing conditions (external and internal)
Competition for resources often creates tension, which, if not properly managed, often begets chaos ...

- Frequent reactions
  - Constituents of expenditure candidates competing for resource allocation exhibit adversarial behavior

- As the number of initiatives a resource is assigned increases, focus is diluted and progress typically slows or quality suffers

- It can look right on paper but expected results are undermined by insufficient resources and organizational politics
Major Steps in Prioritizing Spending

1. Identify broad mix of what you choose to spend on
2. Identify initiatives that will
   - accomplish strategies
   - "keep the doors open"
3. Complete a “score card” for all initiatives
4. Prioritize spending based on scores
5. Translate assets into money terms and people
   - How many of the highest priority initiatives can we resource?
   - Executive understanding, discussion and final decision
6. Approve initiatives/projects to launch into the portfolio (an agreed plan)
7. Implement the selected initiatives
8. Regularly review the portfolio and make decisions on which to keep, stop, start or help
Leverage strategic planning to identify potential initiatives/projects by introducing selection criteria...
Scorecard criteria

Generic categories of criteria – assessment of initiatives/project viability

☐ Regulatory requirement
☐ Agency goal/strategy alignment
☐ Key stakeholder expectations (government, taxpayers, employees)
☐ Risks - probability of success, complexity, capability
☐ Resource availability (internal capacity)
  ■ Financial, e.g. ROI, NPV
  ■ Human (persons and skills)
  ■ Logistics and infrastructure
☐ Competitive threat (including outsourcing the operation)

Turn subjective assessments into quantitative ratings so unlike initiatives/projects can be compared.
Internal: Goal/Strategy Alignment (impact)
To what extent do the initiatives PROMOTE the agency’s goals/strategies?

Goal
- Increase revenue collections;
- Improve taxpayer services and trade facilitation;
- Enhance taxpayer compliance;
- Simplify laws, regulations, systems and procedures;
- Increase the application of modern risk management approaches;
- Increase security of systems, processes and property;
- Improve staff skills and productivity;
- Fight corruption;
- Enhance corporate social responsibility; and
- Meet national, regional or international obligations (includes political and appeasement goals).

Goal/Strategy enabling - scores
- High = 9
- Medium = 6
- Low = 3
- None = 0
Quasi-External: Stakeholder Expectations

To what extent do the projects Satisfy key stakeholder expectations?

<table>
<thead>
<tr>
<th>Expectations</th>
<th>Satisfaction of stakeholder expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government</strong></td>
<td></td>
</tr>
<tr>
<td>Increased economic competitiveness</td>
<td>High = 9</td>
</tr>
<tr>
<td>Increased local and foreign investment</td>
<td>Medium = 6</td>
</tr>
<tr>
<td>No corruption</td>
<td>Low = 3</td>
</tr>
<tr>
<td>Increased national revenue</td>
<td>None = 0</td>
</tr>
<tr>
<td>Lower consumer costs</td>
<td></td>
</tr>
<tr>
<td><strong>Taxpaying community/clients</strong></td>
<td></td>
</tr>
<tr>
<td>Faster, predictable and efficient service</td>
<td></td>
</tr>
<tr>
<td>Transparent appeals procedure</td>
<td></td>
</tr>
<tr>
<td>Greater facilitation for compliant taxpayers</td>
<td></td>
</tr>
<tr>
<td>Lower business costs</td>
<td></td>
</tr>
<tr>
<td><strong>Revenue Agency Staff</strong></td>
<td></td>
</tr>
<tr>
<td>Clear and transparent operational guidelines</td>
<td></td>
</tr>
<tr>
<td>Protection from corruption</td>
<td></td>
</tr>
<tr>
<td>Skills development and professionalism</td>
<td></td>
</tr>
<tr>
<td>Career progression and job security</td>
<td></td>
</tr>
</tbody>
</table>
Internal: Necessity of Initiative/Project
If we do **NOT** implement the initiative/project, to what extent are the agency’s goals **COMPROMISED** or **DENTED**?

<table>
<thead>
<tr>
<th>Goal</th>
<th>Without the initiative/project, probability of compromising/denting goals – scores</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High = 9</td>
</tr>
<tr>
<td></td>
<td>Medium = 6</td>
</tr>
<tr>
<td></td>
<td>Low = 3</td>
</tr>
<tr>
<td></td>
<td>None = 0</td>
</tr>
</tbody>
</table>

Goal
- Increase revenue collections;
- Improve taxpayer services and trade facilitation;
- Enhance taxpayer compliance;
- Simplify laws, regulations, systems and procedures;
- Increase the application of modern risk management approaches;
- Increase security of systems, processes and property;
- Improve staff skills and productivity;
- Fight corruption;
- Enhance corporate social responsibility; and
- Meet national, regional or international obligations (includes political and appeasement goals).
Internal: Implementation Risks (1)

IF WE WERE TO IMPLEMENT the initiative/project, what RISKS are we LIKELY to FACE

Risks (1)

- Initiative/project outside the legal mandate of the organization
- Not understanding why the organization needs the initiative/project
- No management commitment
- Lack of strong sponsor or sponsor not at high enough level to get people motivated
- Sponsor leaves the initiative/project
- Unrealistic schedules
- Inadequate funding—capital or recurrent budget too small
- Lack of proper skills and experience—untrained staff
- Staff not available when you need them
- Poor project management
- Not properly designed/architected

Implementation risks – negative scores

- High = -9
- Medium = -6
- Low = -3
- None = 0
Internal: Implementation Risks (2)

If we were to implement the initiative/project, what risks are we likely to face?

Risks (2)
- Exceeding the organization’s existing capabilities
- Inappropriate organization structure
- Scope creep
- Changing requirements
- Changing priorities
- Requirements underestimated
- Suppliers inconsistent and unreliable
- New technology not understood
- Unrealistic user/project deliverables expectations
- Users not involved in the requirements and development process
- Users not available when you need them
- Squabbles among and within organizational units
- Absence of or very loose procedure to settle misunderstandings

Implementation risks – negative scores
- High = -9
- Medium = -6
- Low = -3
- None = 0
Internal: Resource availability
(also reflected in the RISKS)

- Financial adequacy
  - Capital budget
  - Recurrent budget
- Human Resource availability
  - Numbers
  - Skills/quality
- Infrastructure
- Equipment and incidental items
  - Hardware
  - Software
Sample Scorecard

- **Sections**
  - **Goals/Strategic Outlook**
    - To what degree does this initiative/project enable our goals and strategies?
  - **Key stakeholder expectations**
    - To what extent does this initiative/project meet key stakeholder expectations?
  - **Risk**
    - If we do **not** implement this initiative/project, to what extent would our goals be compromised?
    - If we implement this initiative/project, what are the risks—and if we decide to implement the initiative despite the risks, how do we mitigate them and at what cost?
Select what you can resource based on an agreed strategic direction ...

**Strategic Planning**

**Portfolio Management**

Selecting what you can resource

Execution of initiatives/projects

Vision → Mission → Goal → Strategy → Project 1, Project 2, Project 3...

Portfolio of Projects

Resource Capacity “Pipe”

Opportunity Evaluation Process
Benefits of prioritized resource allocation to initiatives that will yield the highest return on investment ...

- **Foundation for strong governance**
  - Transparent decision-making
  - Clear linkages between goals & allocation of organization's resources
  - Understood by all stakeholders (internal and external)

- **Goal-oriented culture**
  - Employees see the value of their work
  - Employees are focused and fast (previously dragged down in multiple, simultaneous initiatives/projects of various values)
  
  "Let's do a great job on this one and move on to the next important initiative/project to move this organization forward."

- **Strategic communications**
  - Discussions aren't just about how much an initiative/project will cost, but also about its anticipated risks and returns in relation to other initiatives/projects. This way, entire portfolios can be assembled to produce the highest returns based on existing conditions.
Prioritized selection of initiatives synchronizes the organization

- For delivery of an accelerating flow of valuable initiatives/projects through the pipeline and to the bottom line
  - People **sleep** at night
  - Each initiative/project is clearly **visible** and its contribution to the portfolio measured
  - **Focus** - achieves organizational **priorities**
  - **Faster** initiatives/projects (but fewer)
  - **Optimize resources**
  - Flexibility to **redirect** resources **quickly**
  - Achieve **laser clarity** to reach decision, to allocate resources directly to strategies and objectives, to **measure and knowingly achieve “the right things”**

- There must be a custodian (FOCAL POINT) of the prioritization methodology in the organization; and ALL initiatives should be filtered through the agreed methodology
Examples

Kenya Customs
- Original understanding was 25 initiatives/projects
- 185+ initiatives “discovered” using methodology
- Settled on priority of about 40 “defendable” and resourced priorities

Malawi Revenue Authority
- Had in sight about 40 initiatives
- Identified a total of 124
- Settled on 29 key initiatives
The Strategic Management Cycle

Mission, Values, Vision, Principles

Strategic Goals
Strategic Objectives

Strategic Assessment

Priority Setting & Resource Allocation

Business Planning

Program Execution

Program Evaluation

Measurement
Monitoring & Reporting
Performance Measurement, Analysis and Reporting

**Why measure performance?**

- Compare actual to standards and expectations
- Accountability
- Improve the bottom line—service or revenue in the face of resource pressure or competition
Measurement of Performance

Measures of performance affect behaviour. Choosing the right measure will support the achievement of the strategic outcome. Choosing the wrong measure may result in an unintended outcome.
Agree performance standards that incorporate best practices and aim at quality service delivery ...

- **Simple tax laws and regulations** that facilitate easy compliance and administration
- **Services to taxpayers** that enable them to understand and meet their obligations, including binding rulings and interpretations for consistency and predictability
- **Simple and convenient filing and payment procedures**
- **Collection enforcement** mechanisms that ensure non-compliant taxpayers are promptly identified and action is taken to secure returns and arrears
- **Effective but selective taxpayer audit** to detect and act against non-compliance
- **Penalties** that are effective for deterrence and punishment, with a clear distinction between punitive penalties and interest for the time value of money
- **Access to independent review of decisions**
...and geared towards achieving targeted outcomes ...

- Improving taxpayer voluntary compliance
  - Reducing compliance costs to the taxpayer
  - Minimizing tax evasion
- Widening the tax base
- Reducing administrative costs of enforcing tax laws (collection)
- Collect all tax revenue legitimately due
Also need ...

- Key performance indicators (KPIs)
  ... *KPIs represent the measures that an organization relies on to monitor* and *drive* business performance...

- KPIs needed at all levels
  - Strategic
  - Operational
  - Tactical (the coal-face)
Need to know ...

☐ What the facts are—what is happening
☐ Why is it happening that way – linkages, relationships or influences
☐ How does it compare and impact on the strategic direction of the organization (vision, mission, goals)
☐ What remedial action is required
☐ When the remedial action should be taken
☐ What is required to take the remedial action
☐ Who is responsible for taking the remedial action
Iteratively ...

1. Performance

1.1. What happened--the facts?

Why did it happen that
1.2. way--causes/factors?

1.3. What do we do next?

1.4. When do we do it

Who is responsible for
1.5. implementation?

current period ...
compared to past period(s) ...
compared to standards/targets ...
what are the future prospects with current trends?

endogenous
exogenous
within control
outside control

remedial
sustain
enhance
immediately
short-term
medium-term
long-term

strategic level
operational level
tactical level
Example: Key Performance Indicators – Mauritius Revenue Authority

<table>
<thead>
<tr>
<th>Key Performance Indicators</th>
<th>Targets</th>
<th>2007-08 Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registration of taxpayers</td>
<td>3 days</td>
<td>3 days</td>
</tr>
<tr>
<td>Income Tax refunds</td>
<td>90 days</td>
<td>89% of refunds effected within 90 days</td>
</tr>
<tr>
<td>VAT repayments</td>
<td>10 days for fast-track cases</td>
<td>Within 7 days</td>
</tr>
<tr>
<td>Issue of Tax Residence Certificates</td>
<td>Within 1 week</td>
<td>Less than 7 days</td>
</tr>
<tr>
<td>Issue of tariff rulings</td>
<td>3 days</td>
<td>3 days</td>
</tr>
<tr>
<td>% of returns filed electronically</td>
<td>LTD: 100%</td>
<td>LTD: 82.9%</td>
</tr>
<tr>
<td></td>
<td>MSTD: 100% increase</td>
<td>MSTD: 150.8%</td>
</tr>
<tr>
<td>Time taken to determine objections</td>
<td>Within 4 months</td>
<td>Within 4 months</td>
</tr>
<tr>
<td>Average dwell time for cargo (Green channel)</td>
<td>Sea: 4 hrs</td>
<td>Sea: $4\frac{1}{3}$ hrs</td>
</tr>
<tr>
<td></td>
<td>Air: 1 hr</td>
<td>Air: 7/8 hr</td>
</tr>
<tr>
<td>Exports clearance time</td>
<td>8 mins</td>
<td>Sea: 8 mins</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Air: 50 mins</td>
</tr>
<tr>
<td>Cost of collections as a % of receipts</td>
<td>Not more than 2% of revenue receipts</td>
<td>1.6% of revenue receipts</td>
</tr>
</tbody>
</table>
What to Measure in a Revenue Agency

2.1. Client-base indicators

2.2. Service delivery indicators

Compliance management

2.3. indicators

Dispute resolution

2.4. indicators

2.5. Staff productivity indicators

Revenue collection

2.6. indicators

2.7. Cost of collection indicators
Client-base Indicators

2.1. Client-base Indicators

- Movements in taxpayer register
  - Total number—beginning period
    - Total number—end period
    - New registrations
  - Collection center/offices

- Geographical distribution of taxpayers
  - Region
    - District
    - City/town

- Sectoral distribution of taxpayers
  - Agriculture, hunting, forestry, fishing
  - Mining, manufacturing, utilities
  - Construction
  - Wholesale, retail trade, restaurants and hotels
  - Transport, storage and communication
  - Other activities

- Segmented distribution of taxpayers
  - By entity type
    - By ownership
      - By annual turnover
        - By size of payroll
        - By number of employees
  - By tax eligibility
    - Employment tax (e.g., PAYE)
      - Profits tax
      - Excise taxes
      - Sales taxes/VAT
      - Import duties
      - Other
Service Delivery Indicators

2.2. Service delivery indicators

- activity-based indicators
  - total enquiries received
  - resolved enquiries
  - outstanding enquiries
  - number of enquiries per officer
  - percentage of opinions disputed

- output-based indicators
  - number taxpayers complying using opinion issued
  - taxpayer satisfaction
  - comprehensive annual survey results
  - issue-based surveys results

- employee satisfaction & accountability
  - job satisfaction
  - accountability & sanctions
  - staff turnover statistics
Compliance Management Indicators
Dispute Resolution Indicators
Staff Productivity Indicators

2.5. Staff productivity indicators

- Volume/quantity indicators
  - Number of returns/declarations to total revenue agency staff complement
  - Transactions attributable to staff deployed in

- Revenue collections/monetary indicators
  - Collections to total revenue agency staff complement
  - Collections attributable to staff deployed in
Revenue Collection Indicators

- total collections (net)
- by geographical source
- by major responsibility centers
- by major tax heads
- tax exemptions/expenditure
- refunds of tax
Cost of Collection Indicators

- Revenue to total expenditure
- Revenue to recurrent expenditure
- Revenue by collection center/office expenditure
The revenue agency would then have a holistic view of ...

- What is happening
- Why it is happening that way
- How results compare with the strategic and quality direction
- What to do about it

The challenge?
... weak headquarters/head office function that designs, monitors, evaluates and quality assures performance ...
Performance Measurement—putting it together

South African Revenue Services (SARS)
Revenue Growth

Tax Revenue collected increased from R417.3 Billion in 2005/06 to R405.5 Billion in 2006/07

SARS Modernisation Agenda
- Modernisation Strategy adopted
- Modernised assessment process for 2007/08 Filing Season
- New strategic direction defined for Customs

eFiling
- R53.7 billion VAT revenue collected via eFiling
- R26.7 billion PAYE revenue collected via eFiling
- 599,480 eFiling registrations

Improved compliance
- R17.7 billion debt collected
- 60,270 audits conducted
- 447 guilty verdicts attained
- Outstanding Returns Book reduced by 6% to 5.9 Million
- Debt book reduced by 3.75%

Employment Equity
- 14,709 employees
- 26,626 training interventions delivered to 10,384 employees

Volume growth
- 8,2 million Taxpayers
- 15,2 million assessments processed
- 4,2 million calls received

Service Charter
- 89% IT returns processed within 90 days
- 81% IT refunds processed within 30 days
- 83% VAT refunds processed within 21 days
- Dedicated Taxpayer Education Unit established
- 2,755 workshops held where 115,777 taxpayers were trained
- Practitioners Unit established

Customs
- Customs Border Control Unit established
- Lead agency at ports of entry and chair of the BOOCC
- 4,706 anti-smuggling seizures
- R354 million worth of counterfeit goods seized
- R260 million worth of cigarettes seized
### South African Revenue Services Performance (2)

**Figure 5.4: Detailed budget revenue performance for 2006/07 against Estimates**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes on income and profits</td>
<td>245 816</td>
<td>274 300</td>
<td>279 991</td>
<td>34 175</td>
<td>5 691</td>
</tr>
<tr>
<td>Personal Income Tax including interest</td>
<td>133 245</td>
<td>140 000</td>
<td>141 397</td>
<td>8 152</td>
<td>1 397</td>
</tr>
<tr>
<td>Corporate Income Tax including interest</td>
<td>96 321</td>
<td>115 850</td>
<td>120 112</td>
<td>23 791</td>
<td>4 262</td>
</tr>
<tr>
<td>Secondary Tax on Companies</td>
<td>13 850</td>
<td>15 700</td>
<td>15 291</td>
<td>1 441</td>
<td>-409</td>
</tr>
<tr>
<td>Tax on Retirement Funds</td>
<td>2 400</td>
<td>2 750</td>
<td>3 191</td>
<td>791</td>
<td>441</td>
</tr>
<tr>
<td>Value-Added Tax</td>
<td>131 200</td>
<td>134 562</td>
<td>134 463</td>
<td>3 263</td>
<td>-99</td>
</tr>
<tr>
<td>Customs Duties</td>
<td>23 200</td>
<td>23 500</td>
<td>23 697</td>
<td>497</td>
<td>197</td>
</tr>
<tr>
<td>Fuel Levy</td>
<td>21 800</td>
<td>21 750</td>
<td>21 845</td>
<td>45</td>
<td>95</td>
</tr>
<tr>
<td>Excise Duties</td>
<td>16 616</td>
<td>16 100</td>
<td>16 369</td>
<td>-247</td>
<td>269</td>
</tr>
<tr>
<td>Skills Development Levy</td>
<td>5 600</td>
<td>5 850</td>
<td>5 597</td>
<td>-3</td>
<td>-253</td>
</tr>
<tr>
<td>Other taxes and duties</td>
<td>12 554</td>
<td>13 600</td>
<td>13 553</td>
<td>999</td>
<td>-47</td>
</tr>
<tr>
<td><strong>TOTAL TAX REVENUE</strong></td>
<td><strong>456 786</strong></td>
<td><strong>489 662</strong></td>
<td><strong>495 515</strong></td>
<td><strong>38 729</strong></td>
<td><strong>5 853</strong></td>
</tr>
<tr>
<td>Non-tax revenue</td>
<td>9 320</td>
<td>11 346</td>
<td>10 649</td>
<td>1 329</td>
<td>-697</td>
</tr>
<tr>
<td>Less: SACU payments</td>
<td>19 744</td>
<td>25 172</td>
<td>25 195</td>
<td>5 451</td>
<td>23</td>
</tr>
<tr>
<td><strong>TOTAL BUDGET REVENUE</strong></td>
<td><strong>446 362</strong></td>
<td><strong>475 836</strong></td>
<td><strong>480 969</strong></td>
<td><strong>34 607</strong></td>
<td><strong>5 133</strong></td>
</tr>
</tbody>
</table>
South African Revenue Services Performance (3)

![Figure 5.5: Breakdown of revenue collected](image)

<table>
<thead>
<tr>
<th>Year (R millions)</th>
<th>PIT</th>
<th>CIT</th>
<th>STC</th>
<th>VAT</th>
<th>Fuel Levy</th>
<th>Customs</th>
<th>Other</th>
<th>Total Tax Revenue</th>
<th>GDP</th>
<th>Total Tax as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001/02</td>
<td>90 976</td>
<td>42 979</td>
<td>7 163</td>
<td>61 057</td>
<td>14 923</td>
<td>8 632</td>
<td></td>
<td>252 298</td>
<td>1 048 755</td>
<td>24.1</td>
</tr>
<tr>
<td>2002/03</td>
<td>94 924</td>
<td>56 326</td>
<td>6 326</td>
<td>70 150</td>
<td>15 334</td>
<td>9 331</td>
<td></td>
<td>282 210</td>
<td>1 198 455</td>
<td>23.5</td>
</tr>
<tr>
<td>2003/04</td>
<td>99 220</td>
<td>61 712</td>
<td>6 133</td>
<td>80 682</td>
<td>16 652</td>
<td>8 479</td>
<td></td>
<td>302 508</td>
<td>1 288 952</td>
<td>23.5</td>
</tr>
<tr>
<td>2004/05</td>
<td>111 697</td>
<td>71 629</td>
<td>7 487</td>
<td>98 158</td>
<td>19 190</td>
<td>12 888</td>
<td></td>
<td>354 980</td>
<td>1 430 711</td>
<td>24.8</td>
</tr>
<tr>
<td>2005/06</td>
<td>126 416</td>
<td>87 326</td>
<td>12 278</td>
<td>114 352</td>
<td>20 507</td>
<td>18 303</td>
<td></td>
<td>417 334</td>
<td>1 579 242</td>
<td>26.4</td>
</tr>
<tr>
<td>2006/07</td>
<td>141 397</td>
<td>120 112</td>
<td>15 291</td>
<td>134 463</td>
<td>21 845</td>
<td>23 697</td>
<td></td>
<td>495 515</td>
<td>1 787 431</td>
<td>27.7</td>
</tr>
</tbody>
</table>
South African Revenue Services Performance (4)

<table>
<thead>
<tr>
<th>Year</th>
<th>PIT %</th>
<th>CIT %</th>
<th>STC %</th>
<th>VAT %</th>
<th>Fuel Levy %</th>
<th>Customs %</th>
<th>Other %</th>
<th>Total Tax Revenue %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001/02</td>
<td>36.06</td>
<td>17.04</td>
<td>2.84</td>
<td>24.20</td>
<td>5.91</td>
<td>3.42</td>
<td>10.53</td>
<td>100.00</td>
</tr>
<tr>
<td>2002/03</td>
<td>33.64</td>
<td>19.96</td>
<td>2.24</td>
<td>24.86</td>
<td>5.43</td>
<td>3.31</td>
<td>10.57</td>
<td>100.00</td>
</tr>
<tr>
<td>2003/04</td>
<td>32.80</td>
<td>20.40</td>
<td>2.03</td>
<td>26.67</td>
<td>5.50</td>
<td>2.80</td>
<td>9.79</td>
<td>100.00</td>
</tr>
<tr>
<td>2004/05</td>
<td>31.47</td>
<td>20.18</td>
<td>2.11</td>
<td>27.65</td>
<td>5.41</td>
<td>3.63</td>
<td>9.56</td>
<td>100.00</td>
</tr>
<tr>
<td>2005/06</td>
<td>30.29</td>
<td>20.92</td>
<td>2.94</td>
<td>27.40</td>
<td>4.91</td>
<td>4.39</td>
<td>9.14</td>
<td>100.00</td>
</tr>
<tr>
<td>2006/07</td>
<td>28.54</td>
<td>24.24</td>
<td>3.09</td>
<td>27.14</td>
<td>4.41</td>
<td>4.78</td>
<td>7.81</td>
<td>100.00</td>
</tr>
</tbody>
</table>
Figure 5.7: % Contribution to Tax Revenue 2006/07

- PIT 28.54%
- CIT 24.24%
- STC 3.09%
- FUEL LEVY 4.41%
- VAT 27.14%
- CUSTOMS 4.78%
- OTHER 7.81%
6. OPERATIONS: Enhancing Efficiency

Highlights
- Improved the processing of assessments by 2.4%.
- Improved turnaround times for income tax returns by 10%.
- Grew the tax register by 8%.
- Processed 81% of income tax refunds and 83% of VAT refunds within 21 days.
- Processed 96% of income tax and PAYE payments within five working days.
- Collected Tax Revenue of R495.5 billion at a cost of 1.04 cents per rand.
South African Revenue Services Performance (7)

Figure 6.8: Cost to collection ratio 2000/01 to 2006/07

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Revenue Collected</th>
<th>Cost as a % of Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000/01</td>
<td>220 330</td>
<td>0.87%</td>
</tr>
<tr>
<td>2001/02</td>
<td>256 520</td>
<td>0.91%</td>
</tr>
<tr>
<td>2002/03</td>
<td>290 770</td>
<td>0.99%</td>
</tr>
<tr>
<td>2003/04</td>
<td>302 500</td>
<td>1.16%</td>
</tr>
<tr>
<td>2004/05</td>
<td>354 980</td>
<td>1.21%</td>
</tr>
<tr>
<td>2005/06</td>
<td>417 330</td>
<td>1.23%</td>
</tr>
<tr>
<td>2006/07</td>
<td>495 510</td>
<td>1.04%</td>
</tr>
</tbody>
</table>
## 16. SARS SCORECARD 2006/07

### 1. Strategic Objective: Optimise revenue collection

**Outcomes:**
- Optimise collections
- To advise on appropriate tax policy and legislative interventions

<table>
<thead>
<tr>
<th>Deliverables</th>
<th>Target 2006/07</th>
<th>Achievement</th>
<th>Annual Report reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Collections (R’million)</td>
<td>R489 662 000</td>
<td>R495 515 000</td>
<td>Page 17</td>
</tr>
<tr>
<td>Cost as a percentage of total revenue</td>
<td>1.06%</td>
<td>1.04%</td>
<td>Page 37</td>
</tr>
<tr>
<td>Due debt as a percentage of total revenue</td>
<td>14%</td>
<td>12.88%</td>
<td>Page 84</td>
</tr>
</tbody>
</table>
2. Strategic Objective: Better taxpayer and trader experience

Outcomes:
- Targeted communication, taxpayer education and engagement
- Enhanced service processes and responses to queries
- Perform against SARS Service Charter
- Effective, easily available and efficient channels
- Efficient dispute resolution

<table>
<thead>
<tr>
<th>Deliverables</th>
<th>Target 2006/07</th>
<th>Achievement</th>
<th>Annual Report reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of achievement against SARS Service Charter</td>
<td>85%</td>
<td>94%</td>
<td>Page 40</td>
</tr>
<tr>
<td>Call Centre – 80% of calls answered within 20 seconds</td>
<td>80%</td>
<td>71%</td>
<td>Page 40</td>
</tr>
<tr>
<td>Branch Office Walk Ins – attended 95% of visitors within 15 minutes of arrival (during off peak times) and 90% during peak times</td>
<td>Off Peak – 95% (March – June) Peak – 90% (July – February)</td>
<td>Off Peak – 96.5% (March – June) Peak – 93.9% (July – February)</td>
<td>Page 40</td>
</tr>
<tr>
<td>Correspondence – respond within 21 working days to 80% of all correspondence</td>
<td>80%</td>
<td>80%</td>
<td>Page 34</td>
</tr>
</tbody>
</table>
### 3. Strategic Objective: Improved compliance and risk reduction

**Outcomes:**
- Understand and segment the tax base and develop appropriate compliance strategies
- Improve compliance culture
- Assess and mitigate risk

<table>
<thead>
<tr>
<th>Deliverables</th>
<th>Target 2006/07</th>
<th>Achievement</th>
<th>Annual Report reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage increase in compliance behaviour</td>
<td>9% yearly target</td>
<td>Indicators of increase in compliance:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increase of 17% in active register</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Decrease of 6% in Outstanding Return book</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Decrease of 3, 75% in debt book</td>
<td></td>
</tr>
<tr>
<td>Increase in effective tax rates per selected</td>
<td>Improvement by 5%</td>
<td>The focus has been on the improvement of compliance levels across all</td>
<td></td>
</tr>
<tr>
<td>industry/sector</td>
<td></td>
<td>industry sectors. This will be addressed further through the</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>modernisation programme</td>
<td></td>
</tr>
<tr>
<td>Due debt collected (Enforcement Revenue</td>
<td>R17 039 804 676</td>
<td></td>
<td>Page 79</td>
</tr>
<tr>
<td>banked)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage success in risk based audits</td>
<td>70%</td>
<td></td>
<td>Page 80</td>
</tr>
<tr>
<td>Total Audit coverage across tax types</td>
<td>66 000</td>
<td></td>
<td>Page 79</td>
</tr>
<tr>
<td>PIT</td>
<td>21 721</td>
<td></td>
<td>Page 81</td>
</tr>
<tr>
<td>CIT</td>
<td>10 359</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VAT</td>
<td>27 738</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PAYE</td>
<td>6 182</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>69 270</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>26 267</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>13 453</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>24 603</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4 947</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
6. Strategic Objective: Greater operational efficiencies

Outcomes:
- Optimise throughput
- Maintain / enhance quality
- Establish an operational management system
- Optimise processes
- Improve cost efficiency / value for money

<table>
<thead>
<tr>
<th>Deliverables</th>
<th>Target 2006/07</th>
<th>Achievement</th>
<th>Annual Report reference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Tax Returns</strong></td>
<td>Non-Peak period: 80% within 34 working days (March – June) &lt;br&gt; Peak period: 80% within 90 working days (July – February)</td>
<td>Non-Peak period: 61% within 34 working days (March – June) &lt;br&gt; Peak period: 88% within 90 working days (July – February)</td>
<td>Page 30 - 31</td>
</tr>
<tr>
<td>VAT Returns</td>
<td>80% within 21 working days</td>
<td>92% within 21 working days</td>
<td>Page 31</td>
</tr>
<tr>
<td>PAYE Returns</td>
<td>80% within 21 working days</td>
<td>86% within 21 working days</td>
<td>Page 31</td>
</tr>
<tr>
<td>Percentage accuracy of assessments</td>
<td>92%</td>
<td>91.2%</td>
<td>Page 31</td>
</tr>
<tr>
<td>Percentage reworked as a result of own error</td>
<td>4%</td>
<td>2.7%</td>
<td>Page 33</td>
</tr>
<tr>
<td>Maintaining success rate in the litigation of appeals in the Tax and higher courts in line with international benchmarks</td>
<td>65%</td>
<td>80% (Revenue Litigation) 84% (Custom Litigation) 82% (Average)</td>
<td>Page 98</td>
</tr>
</tbody>
</table>
Balanced Scorecard
An Alternative Measurement System
Alternative Measurement System: The Balanced Scorecard

- Use of a balanced scorecard (BSC) methodology can drive positive and focused improvements across critical areas
  - Performance measures are developed along four key dimensions
    - Financial results
    - Internal operations,
    - Innovation and learning
    - Customer satisfaction
  - Ensures that each area receives appropriate attention
Inland Revenue Authority of Singapore
Balanced Scorecard Framework

- BSC framework adopted to measure performance along 4 dimensions
  - Financial
  - Customer
  - Internal
  - Learning & Growth

- Key Performance Indicators (KPIs) set up at 2 levels
  - Organisational level
  - Divisional level

Financial
To be cost-effective in tax administration taking taxpayers’ compliance costs into account

Customer
To enhance customer service & compliance

Internal Processes
To enhance operational efficiency

Learning & Growth
To enhance staff competence & satisfaction
IRAS Balanced Scorecard
Strategy Map

LONG-TERM COST EFFECTIVENESS

Financial Perspective
- Reduced Compliance Costs for Taxpayers
- Improved Cost Effectiveness in Administration

Customer Perspective
- Enhanced Customer Service
  - Channel Strategy for Service Delivery
  - Excellent Contact Centre
- Enhanced Compliance
  - Timely & Proactive Education
  - Reform & Deter Errant Taxpayers

Internal Perspective
- Operational Efficiency
  - Leverage on Appropriate Technology
  - End-to-End Accountability for Complex/Manual Cases
  - Simplify Rules & Procedures
- Information Management

Learning & Growth
- Enhanced Staff Competence & Satisfaction
  - Excellent Leadership & Management
  - Knowledgeable Workforce
- Enhanced International Standing
  - Corporate Branding Strategy
**IRAS Balanced Scorecard**

**Key Performance Indicators (KPI)**

- Key performance measures and targets for the organisation are developed based on strategies in the BSC Map

- Example: Financial Perspective

<table>
<thead>
<tr>
<th>Balanced Scorecard Strategy</th>
<th>KPI Measure</th>
<th>Organizational Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve cost effectiveness of tax administration</td>
<td>Operating Net Economic Value (NEV)</td>
<td>% improvement over 3 years</td>
</tr>
<tr>
<td>Reduce compliance costs for taxpayers</td>
<td>Taxpayers’ perception of compliance costs (TP survey)</td>
<td>% improvement per survey</td>
</tr>
</tbody>
</table>
Division-Level Balanced Scorecards

Divisional Key Performance Measures

- Cascaded from IRAS strategic KPIs
- Each division’s performance along the divisional KPIs contribute to IRAS’ overall performance

Corporate Strategy

IRAS Strategic KPI

% Improvement in Operating NEV

Divisional KPIs

Centralised Services
- % reduction in total costs
- % improvement in cost/$ collected

Tax Management Divisions
- % reduction in total costs
- % improvement in cost/TP
- % improvement in cost/$ collected

Corporate Services Divisions
- % reduction in total costs

Improve cost effectiveness of tax administration
# BSC for Corporate Tax Division

## Financial Perspective

### 1 REDUCE COST OF ADMINISTRATION

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce total cost</td>
<td>X% decrease over 3 years (FY04 as a base)</td>
</tr>
<tr>
<td>Reduce cost per taxpayer</td>
<td>X% decrease over 3 years (FY04 as a base)</td>
</tr>
<tr>
<td>Reduce cost per dollar collected</td>
<td>X% decrease over 3 years (FY04 as a base)</td>
</tr>
</tbody>
</table>

### 2 REDUCE TAXPAYER COMPLIANCE COSTS

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speedier issue resolution</td>
<td>XX% issues resolved in 2 years</td>
</tr>
<tr>
<td>Review &amp; simplify rules</td>
<td>100% of rules reviewed every 3 years</td>
</tr>
</tbody>
</table>

## Customer Perspective

### 1 REDUCE NON-COMPLIANCE

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promote timely payment</td>
<td>Arrears/Net tax assessed ≤ X%</td>
</tr>
<tr>
<td>Improve quality of debt</td>
<td>All debt ≤ X yrs old; 75% of debt value ≤ Y yrs</td>
</tr>
<tr>
<td>Increase audit presence</td>
<td>XXX full audits, X% of STP cases partial audit</td>
</tr>
<tr>
<td></td>
<td>X field visits per CT-LC officer</td>
</tr>
</tbody>
</table>

### 2 IMPROVE TAXPAYER SATISFACTION

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meet service standards</td>
<td>Turnaround targets for cores, tel &amp; interview</td>
</tr>
<tr>
<td>Encourage self-help</td>
<td>XX% increase in contacts through e-mode</td>
</tr>
<tr>
<td>Promote e-services</td>
<td>By FY06: ≥ % of taxpayers use ≥1 e-service</td>
</tr>
<tr>
<td>Reduce frontline contact</td>
<td>XX% decrease in contact/taxpayer by 2007</td>
</tr>
<tr>
<td>Finalize assessments early</td>
<td>≥ XX% completion</td>
</tr>
</tbody>
</table>

### 3 IMPROVE VOLUNTARY COMPLIANCE

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promote timely filing</td>
<td>x% increase in Returns filed on time</td>
</tr>
<tr>
<td>More education initiatives</td>
<td>XX% increase in number of initiatives a year</td>
</tr>
</tbody>
</table>

## Internal Processes Perspective

### 1 REDUCE GENERATION OF TAXPAYER CONTACT

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review &amp; reduce number of Returns, ECI &amp; other forms to be completed by taxpayer</td>
<td>XX% decrease in non-front-line contact per taxpayer</td>
</tr>
</tbody>
</table>

### 2 USE APPROPRIATE TECHNOLOGY

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage on STP</td>
<td>≥ XX% of corporate cases through pipeline</td>
</tr>
<tr>
<td>Use CAAT for audit</td>
<td>XX% increase in audit cases using CAAT</td>
</tr>
</tbody>
</table>

### 3 REDUCE ASSESSMENT ERRORS

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce errors identified by Internal Audit</td>
<td>≤X% and tax involved ≤ $100K</td>
</tr>
</tbody>
</table>

## Learning & Growth Perspective

### 1 IMPROVE STAFF SATISFACTION

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve quality of leadership &amp; management</td>
<td>X% improvement in staff satisfaction score for each OCS</td>
</tr>
<tr>
<td></td>
<td>X% improvement in quality of leadership score by the next OCS</td>
</tr>
<tr>
<td></td>
<td>Supervisors attend leadership courses at least once in 2 years</td>
</tr>
</tbody>
</table>

### 2 IMPROVE STAFF COMPETENCE

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encourage staff to gain accreditation</td>
<td>XX ATS in 3 years</td>
</tr>
<tr>
<td>Reduce competency gaps</td>
<td>X% decrease per Learning Needs Analysis</td>
</tr>
<tr>
<td>Encourage learning</td>
<td>XX man days per staff a year</td>
</tr>
<tr>
<td>Promote knowledge sharing</td>
<td>All to contribute to CT knowledge database</td>
</tr>
</tbody>
</table>
Revenue Ireland tried BSC

- Based on 2002
- Constructed as an index; 2002 = 100
- We fitted it to 2001 data
- Did the sums for 2003
- Index ran as follows;
  - 2001 – 99
  - 2002 – 100
  - 2003 – 103
How did we build it?

☐ It followed the 3 corporate goals in our Statement of Strategy:
  ■ Maximise Compliance with tax and customs law
  ■ Meet our external obligations
  ■ Develop a capable and effective organisation
The index

- It used 81 indicators
- Spread over the three goals
- Indicators were weighted:
  - Maximise Compliance – 75%
  - External obligations – 10%
  - Capable organisation – 15%
Some issues

- Lack of objective criteria for weightings – negotiated in good faith
- Too many indicators – no one wanted to be left out!
- Lack of all the necessary data
- Huge calculation every year
- Resource-hungry
Calculated for 2004 ...

- But not published
- What was it telling us?
- How should we act on its message?
- How could we explain it to staff and external bodies – including Ministers?
- What were we contributing to the rise of the index – was it rising due to economic growth?
So .......... we dropped the BSC!

- Developed a set of performance indicators
- Publish them monthly in our Corporate Performance Report
  - Based on hard data
  - Linked to our corporate goals
- Same data as BSC, presented simply
- But are working hard on improving our management information
The Strategic Management Cycle

Mission, Values, Vision, Principles

Strategic Goals
- Strategic Objectives

Strategic Assessment

Priority Setting & Resource Allocation

Business Planning

Program Execution

Program Evaluation

Measurement
- Program Monitoring & Management
Business Planning

- Business planning ensures organizational activities are aligned with agreed strategic priorities.
- The strategic plan, with a time horizon of three to five years, is a key output from the strategic management cycle.
- It is used to develop annual action plans and operational plans that are prepared to answer the who, what, when, where, and how questions.
- Performance management processes provide further clarity about organizational and employee responsibilities and expectations.
- It requires specialized staff, and a calendar of actions for critical planning processes.
From Planning to Implementation

Planning

Operational Plan

Action Plan

Strategic Plan

Implementation
Business Planning: Action and Operational Plans

- Action and operational plans perform different but complementary roles in the execution of the strategic plan:
  - Action plans translate strategic plans into specifics in a shorter timeframe (e.g. 1 year); while operational plans provide implementation details that support action plans
  - Actions plans will include initiatives that are supported by operational plans, for example:
    - Developing a strategy to improve compliance of high wealth individuals, will include
      - audits of high-wealth taxpayers in an operational plan
      - other activities that are not in operational plans, but are essential to success, such as outreach to professional groups and proposals for legislative changes
  - Operational plans provide detailed expectations for products or outputs at work section levels (e.g., audits, taxpayers assisted, and arrears)
Annual Action Planning

- Presents the strategic goals and sub-strategies underneath them (objectives, actions, projects, activities)
- Identifies the primary office of responsibility, partner offices and dependencies
  - detailed sub-plans by business-line are necessary
- Identifies deadlines and resource allocation
- Requires project management to ensure implementation
  - organization-wide
  - business-line and supporting functions (HR, IT, facilities)
  - individual action, such as the development of a new IT system
Translating Strategic Plans Into Action

For each Strategic Goal an action plan for delivery is drawn up and agreed by participants.

**Strategic Goal 1**

Plan for Implementation
- Activities
- Timelines
- Dependencies
- Resources required
- Outcomes incl. KPIs 2011
- Expected Savings

**DEPARTMENTAL ANNUAL BUSINESS PLAN 2009**
- 2009 Actions to Realise Strategy (Goal 1)
- 2009 Actions to Realise other Strategic Goals
- On-going Monitoring & Managing business through KPIs & targeted improvements

**DEPARTMENTAL ANNUAL BUSINESS PLAN 2010**
- 2010 Actions to Realise Strategy (Goal 1)
- 2010 Actions to Realise other Strategic Goals
- Ongoing Monitoring & Managing business through KPIs & targeted improvements

**DEPARTMENTAL ANNUAL BUSINESS PLAN 2011**
- Actions to Realise Strategy (Goal 1) completed
- 2011 Actions to Realise other Strategic Goals
- Ongoing Monitoring & Managing business including new KPI to measure success of Goal 1 implementation

Business as usual

Exceptional Activity
## Example of Annual Action Plan

<table>
<thead>
<tr>
<th>Major Strategy</th>
<th>Operational Priority</th>
<th>IT Improvement Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase compliance among small business taxpayers by enhancing compliance</td>
<td>- Focus resources and research on uncovering and addressing unreported income</td>
<td>Implement an audit case selection system using updated selection models.</td>
</tr>
<tr>
<td>techniques and targeting education efforts.</td>
<td>- Assess and impede non-filing by developing and implementing a comprehensive</td>
<td></td>
</tr>
<tr>
<td></td>
<td>non-filer strategy.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Deter growing arrears through root cause analysis and process improvements.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Assess the effectiveness of notices and redesign as appropriate.</td>
<td></td>
</tr>
<tr>
<td>Lead: Department A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partners: Offices B and C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support: Unit D</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deadline: December 2009</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Example of IRAS Annual Action Plan

<table>
<thead>
<tr>
<th>Goals</th>
<th>Agreed Strategic Directions</th>
<th>Targets</th>
<th>Action Plans</th>
<th>Action By</th>
</tr>
</thead>
<tbody>
<tr>
<td>To enhance operational efficiency</td>
<td>☐ Leverage on Appropriate Technology: Increase E-services</td>
<td>☐ E-services Targets</td>
<td>☐ STP Criteria</td>
<td>☐ CTD / IT</td>
</tr>
<tr>
<td></td>
<td>- Deliver all common transactions online to facilitate self-help</td>
<td>- IT Simple: 80% co-e-PFR</td>
<td>- Identify criteria to select cases for CT and IT, that would go through STP</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Resolve simple issues electronically e.g. filling status and payment arrangements</td>
<td>☐ STP Targets</td>
<td>- IT Simple ≥ 90% STP</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Tax information available online</td>
<td>- IT Complex ≥ 90% STP</td>
<td>- IT Complex ≥ 90% STP</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Processing Excellence</td>
<td>- Only applicable to cases which have amendments to PRF</td>
<td>- Corporate ≥ 60% by STP</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Straight-through Processing (STP) for most simple and low risk cases to improve turnaround time for assessments</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Operational Plans

- Annual operational business plans
  - ensure that core tax administration activities align with agreed organizational priorities
  - provide details at work section levels, also answering the who, what, when, where, why questions

- Operational plans require:
  - Forecasts of workloads
  - Estimates of direct staff hours available
  - Productivity standards for specific work activities
  - Output targets

- Focus is on production units and day-to-day activities (e.g., number of audits per region and per type of taxpayer)

- Operational plans provide details on inputs, expected outputs and performance measures
Setting Annual Operational Objectives

- Function Audit Plan agrees to produce 1,000 Large, 3,000 Medium and 12,000 Small Audits to Audit Quality Standard of 80% or more.
- Tax Directorate 1 (10% of national audit capacity) agrees to produce 100 Large, 300 Medium, and 1,200 Small Audits to 80%+ Quality Standard
- Audit Team 1 (25% of Tax Directorate 1 audit staff) agrees to produce 25 Large, 75 Medium and 300 Small Audits to 80%+ Quality Standard
IRAS Annual Planning Program

- External Scanning
- Customer Feedback
- Internal Stakeholders

- Feedback & Assessment
- Management Planning Session (I)
- Staff Workshop
- Management Planning Session (II)
- Cascading Down process
- Communication

Review
IRAS Annual Planning Program

- Inputs: External Scanning
  - Global trends
  - Benchmarking with other tax administrations
  - Trends & developments in information technology
  - Trends & developments in Singapore civil service

- Inputs: Customer Feedback
  - Taxpayer Survey every 2 years
  - Taxpayer Feedback Panel
  - Taxpayer Focus Groups
IRAS Annual Planning Program

- Management Planning Workshop (I)
  - Take stock of past year’s performance
  - Review inputs from customers, external scanning, etc
  - Identify key directions and challenges in the year ahead
  - Develop strategies and action plans

- Staff Workshops
  - Communicate strategies developed at the Management Planning Workshop
  - Gather feedback for Management to fine-tune strategies and action plans
IRAS Annual Planning Program

- Management Planning Workshop (II)
  - Analyse staff feedback
  - Incorporate feedback in strategic and action plans
  - Formalise key directions for the year

- Communication Plan
  - Communication to staff at all levels to keep them informed and involved
  - Mass retreats, corporate events, staff workshops, divisional briefings, Commissioner's speech, e-mails and internal web portal to communicate key directions
IRAS Annual Planning Program

- Communication to taxpayers
  - Media coverage, taxpayer education programs
The Strategic Management Cycle

Mission, Values, Vision, Principles

Strategic Goals
Strategic Objectives

Strategic Assessment

Priority Setting & Resource Allocation

Business Planning

Program Execution

Program Evaluation

Measurement Program Monitoring & Management
Even the best strategic planning is ineffective without good execution.

Program execution is difficult and complicated.

There are several challenges to successful execution.

Keys to better execution include:

- Clear roles within a well-designed organizational structure
- A commonly understood and well-articulated business plan
- A culture of performance
Program Execution as a Key to Success

- Good execution of a poor plan will not provide improvement in tax administration
- Neither will poor execution of a good plan
- Both a sound strategic plan and proper execution of the plan are necessary to make improvement
- Sound program execution requires a disciplined process that logically connects a series of integrated activities together
- Success may require early, positive intervention by managers
Successful Program Execution

There are many keys to successful program execution. Some important considerations include:

- Leadership
- Management ownership of program execution
- Clear strategic and operational plans, with well sequenced actions and inter-dependencies
- Management of change:
  - Clear, transparent communications to all levels of staff of changes
  - Reasons behind the change are important and must be articulated to encourage mindset change
  - Sequencing of changes must be explained
  - Adequate training must be provided if necessary
Successful Program Execution

- Defined responsibilities:
  - Clear understanding of who is responsible and for what
    - Different parts of the organization may be responsible for different aspects of a strategy
    - Organizational structure is important to accountability and strategy integration

- Organizational culture of achievement:
  - Incentives and recognition for effort and achievement are strong motivating factors
  - Solid system of controls, feedback, and adaptation
Monitoring and Managing Performance

To be effective monitoring takes place

- At all levels, typically:
  - Headquarters Function (e.g., audit, taxpayer service)
  - Provincial Office
  - District Office
  - Individual

- Regularly
  - Frequency of monitoring/management depends on the business activity, availability of data, importance to the business
## Monitoring – An Example

<table>
<thead>
<tr>
<th>Measure</th>
<th>2006 Actual</th>
<th>2007 Actual</th>
<th>2008 Actual</th>
<th>2009 Target</th>
<th>2009 Target 9/30/09</th>
<th>Actual 9/30/09</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Satisfaction</td>
<td>53%</td>
<td>57%</td>
<td>62%</td>
<td>65%</td>
<td>65%</td>
<td>68%</td>
<td>Green</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>81%</td>
<td>85%</td>
<td>77%</td>
<td>82%</td>
<td>82%</td>
<td>76%</td>
<td>Yellow</td>
</tr>
<tr>
<td>Quality</td>
<td>80%</td>
<td>78%</td>
<td>89%</td>
<td>90%</td>
<td>90%</td>
<td>87%</td>
<td>Green</td>
</tr>
<tr>
<td>Processing Time</td>
<td>59.7</td>
<td>60.16</td>
<td>61.44</td>
<td>58.00</td>
<td>58.00</td>
<td>61.74</td>
<td>Yellow</td>
</tr>
<tr>
<td>Number of Returns Closed</td>
<td>3,734</td>
<td>4,851</td>
<td>4,527</td>
<td>3,528</td>
<td>2,905</td>
<td>3,921</td>
<td>Green</td>
</tr>
<tr>
<td>Direct Staff Years</td>
<td>1,485</td>
<td>1,500</td>
<td>1,352</td>
<td>1,340</td>
<td>1,103</td>
<td>1,151</td>
<td>Green</td>
</tr>
</tbody>
</table>
Performance Measures

Objectives | Examples
--- | ---
- Measure the outcomes of given strategies in terms of behavioral impacts | - Voluntary Compliance Levels
- Given the strategies, measure the effectiveness of execution of particular aspects of the organization | - Business Results:
- Help identify the underlying factors that affect changes in performance measures | – Quality
- Assess how organizational measures relate to individual/managerial performance appraisals | – Quantity
- Critical job elements for employees
- Commitments for executives

Examples
- Business Results:
  - Quality
  - Quantity
- Customer Satisfaction
- Employee Satisfaction

Objectives
- Measure the outcomes of given strategies in terms of behavioral impacts
- Given the strategies, measure the effectiveness of execution of particular aspects of the organization
- Help identify the underlying factors that affect changes in performance measures
- Assess how organizational measures relate to individual/managerial performance appraisals

Examples
- Voluntary Compliance Levels
- Customer Satisfaction
- Employee Satisfaction

Examples
Challenges to Effective Execution

- A joint Wharton-Gartner research project surveyed managers on the challenges to strategy execution. Key issues included:
  - Inability to manage change or overcome resistance to change
  - Inadequate information sharing between individuals or business units
  - Unclear communication of accountabilities
  - Poor or vague strategy
  - Lack of ownership of execution plans among key employees
Planning Cycle and Staff Support
Planning Calendar

- The strategic management cycle has a calendar of events associated with it.
- While the programs for the current fiscal year are being executed, the strategic assessment and priority setting is taking place for the upcoming three-to-five year period.
- Once completed, in the form of a strategic plan, the process for developing business plans (i.e., action and operational work plans) is started, in preparation for the upcoming fiscal year.
- The following slides depict a quarterly scheduling of planning activities that involve prior year, current year and future year activity.
# Planning Calendar

<table>
<thead>
<tr>
<th>Activity</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluate last year’s performance</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Prepare the Annual Report</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Develop employee performance contracts for current year</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Execute the current year program</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepare for upcoming year:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conduct environmental scan, SWOT</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Revise strategic plan and submit budget request</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Set priorities and allocate budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop action and operational plans, and performance goals</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

### Prior Year

- Evaluate last year’s performance
- Prepare the Annual Report
- Develop employee performance contracts for current year
- Execute the current year program
- Prepare for upcoming year:
  - Conduct environmental scan, SWOT
  - Revise strategic plan and submit budget request
  - Set priorities and allocate budget
  - Develop action and operational plans, and performance goals
IRS Strategic Planning, Budgeting, and Performance Management Cycle
1. ENVIRONMENT SENSING PHASE
Gathering inputs to enable an assessment of critical strategic issues faced by the organization

<table>
<thead>
<tr>
<th>External</th>
<th>Internal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Environment, Customers, Competitors, External Stakeholders</td>
<td>Board, Employees, Status of Action Plans, Status of Corporate Goals/Strategic Directions, Current State of Strategic Risk Map and Profile</td>
</tr>
</tbody>
</table>

Analyze inputs to determine critical risks and areas for attention

2. STRATEGIC VISIONING & ANALYSIS PHASE
Reviewing and validating our Mission and Vision Formulating strategic directions and plans

- Management Planning Session (I)
- Strategic Risk Identification & Assessment
- Staff Workshop
- Management Planning Session (II)
- Communication to Staff

3. WORK PLANNING PHASE
- Translate key directions/action plans into tasks and activities
- Relevant divisions/Project Teams implementing the action plans to work out finer details
- Divisions and Branches to draw up their work plans based on key directions identified during the Strategic Visioning & Analysis Phase
- Develop the Divisional and Branch Budgets based on the work plans

4. IMPLEMENTATION, MONITORING & REVIEW OF STRATEGIES AND ACTION PLANS

ONGOING COMMUNICATION
Communicate progress of action plans to staff

Feedback obtained from staff via various consultation forums:
- Biennial OCS
- Inputs from PB/Union
- Feedback from Staff Focus Groups
- Directors’ Forum
Planning Staff’s Responsibilities

- A headquarters-based planning staff would through coordination with operations
  - develop strategic and annual plans
  - develop and administer the framework for organizational performance measurement and improvement
  - prepare internal and external performance reports
  - administer the customer satisfaction survey program
  - analyze program performance and customer survey results
Planning Function

- Business lines (e.g., audit, tax administration, and other organizational units, such as provinces) also typically have resources dedicated to planning.

- Coordination across business line planning is necessary to manage in an integrated cross-organizational fashion.

- High-level direction must come from the leader of the tax administration with the support of other senior leaders, often operating as a Strategic Planning Committee.
In IRAS, corporate planning branch is set up to guide and develop the organization towards total organizational excellence. Functions of corporate planning branch include:

- To support IRAS management in strategic planning
  - E.g. Corporate Planning Exercise 2009
- To review corporate policies and carry out corporate research
  - Set up Tax Competitiveness Forums with economic agencies and to look into long term tax strategies
- To build organization's capabilities and drive towards business excellence
  - ISO Certification
  - Singapore Quality Award (SQA)
  - People Developer (PD) Certification
- To introduce and implement new initiatives
  - Enterprise Risk Management (ERM)
  - Learning Organization (LO)
  - Knowledge Management (KM)
Research Capability

- Many tax administrations have a research function that provides information on compliance trends and evaluates the impact that particular strategic initiatives have had on compliance. Activities include:
  - Conducting market research to understand and the behavioral trends and needs of taxpayers.
  - Identifying and analyzing emerging compliance patterns among taxpayers, particularly in filing, reporting, and payment compliance.
  - Providing research decision support to the strategic assessment process.
  - Providing support in developing balanced organizational measures, including processes for gathering customer and employee input and assessing the impact of products and services.
  - Measuring the impact of products and services through internal and external research, program evaluation and analysis of customer feedback.