MODELS OF ORGANIZATIONAL AND FUNCTIONAL STRUCTURES IN THE FIELD OF TAX ADMINISTRATION

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***Abstract**: A modern tax administration that provides adequate and timely public revenue, allowing the state to provide goods and services to citizens to increase their living standards and ensure economic prosperity, can only function with clear regulations on the way the tax administrations are organized and operate. This paper presents models of organizational structures of tax administrations, models used in international tax practice that address comparative aspects of these traits in some countries of the world. A fiscal framework for organization and operation should be considered as central at the core for effective compliance co-operation program. Modernization reforms of tax administrations should be supported by a coherent organizational structure for the administration of national taxes.*

***Key words**:* international practices; organizational models; fiscal efectiveness.

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1. INTRODUCTION

The way in which tax administrations are organized and operate has an important influence on the efficiency and dynamics of collecting revenue tax, reducing tax evasion and increasing voluntary compliance of taxpayers. Tax administrations need to adapt to the tumultuous changes in the world. The approach adopted seems to be more determined by the larger public sector responsibilities than by the specific tax approach.

This article highlights the best international practices on the organization and functioning of tax administrations around the world in order to achieve higher tax performance. Understanding these processes leads to increased efficiency and effectiveness of tax administration. The challenge for tax bodies will be to ensure the organizational and functional framework for implementing policies and practices in ways that support fiscal certainty and minimize the burden of compliance for taxpayers.

The organizational structure of the tax administration is a key component in the efforts of governments in finding ways to improve skills and operational outcomes. Transparency and accountability must be the defining features in the modern approach to management issues, and the structural elements of organization and functioning affect the degree of efficiency and innovation, as well as the attitudes and behaviors of employees at work.

Without an adequate organizational structure, tax administrations can not function effectively, and their revenue collection efforts will not be expected, and modernization reforms would be inefficient.

As in devising strategy, designing an effective structure requires making trade-offs. In addition there is never a single best structure for any company or function. All structures have inherent strengths and weaknesses, and all companies have different capabilities and strategic positions, as observed in PriceWaterhouseCoopers (2009).

2. TRENDS IN THE ORGANIZATION AND FUNCTIONING OF TAX ADMINISTRATIONS

Structural organization is a way of arranging some organizational subdivisions in a predefined configuration to achieve the objectives. The result of the structural organization is the organizational structure that is a group of people, organizational subdivisions and the relations between them, so designed and dimensioned that they ensure the achievement of the objectives in terms of efficiency (Marinescu, 2003).

Tax structures are impacted by a range of factors that can vary significantly from country to country:

1. policy choices regarding the extent of reliance on direct taxes (e.g., personal income tax) vis-a-vis indirect taxes (e.g., a general consumption tax such as a VAT and excise taxes);
2. policy choices concerning whether to establish a regime of social security contributions to fund specific social needs (e.g., unemployment and health insurance, and old-age pensions), or to fund such requirements from general taxation revenue and/or non-taxation sources of revenue;
3. the scope of taxing powers of subnational governments and how those powers are applied in a revenue raising context;
4. the extent of taxes raised from natural resources, especially oil and gas;
5. the availability of non-taxation sources of revenue (e.g., sales of mineral resources and real property, and investment income).

The headquarters of a country's tax administration is designed to plan, support and regulate subordinate structures for all its operations. The organization of tax administration is usually done around a headquarters and several territorial directorates. Regional departments are organized only in countries with a large number of taxpayers and employees of tax administration.

For the success of any tax administration, the central staff's role in determining tax policies and transposing them into operational procedures is essential. For this reason, this category of staff should be given special attention. The development of easy-to-use administrative methodologies and procedures by staff at all levels contributes to ensuring transparency and predictability in the tax system. The main role of the territorial staff is the achievement of the annual work plans developed at headquarters level. Regional directorates should monitor, control and evaluate the implementation of the work plans by territorial directorates. The staff at the three levels of the organization should have clear contact points for communication on a particular subject and, especially at the headquarters, there should be a central point for forming an administrative policy for a particular core function.

Centralization of staff is another practice of modern tax administrations to provide adequate staff to a limited number of tax departments with headquarters. The central geographical headquarters throughout the country must be accessible to a high percentage of taxpayers in each tax jurisdiction, while ensuring that taxpayers in a larger geographical area are aware of and feel "the presence of tax authorities in the vicinity." (USAID, 2013). Internet connection in all locations of centralized databases allows taxpayers to provide taxpayer services anywhere in the country.

The various components of the tax administration are strongly connected vertically, from the point of view of working arrangements, reports, evaluations, etc. In fact, “modern functional tax administrations rely heavily on a system of in-chain authority delegations” (USAID, 2013). Tax administrators at various levels, with sufficient authority, are capable of promptly executing operational activities regularly monitored through internal audits.

The direct contact between taxpayers and tax officials in terms of tax activity should be limited as much as possible. Tax administrations should explore the possibilities for providing taxpayer services so their visits to the clerk’s desks are as short as possible. International practices show that “more and more tax administrations choose for taxpayers' information and assistance through web sites, call centers and "single" taxpayer service centers”. (Jacobs, 2003)

The efficient functioning of modern tax administrations must be based on the following aspects:

- there are clear tasks descriptions for the employees of each level of organization and functioning of the tax administration;
- directing most of the staff and financial resources to the basic functions of the fiscal units;
- there is communication between representatives of tax administrations and the economic environment, but also with taxpayers;
- the record of taxpayers and their tax obligation is constantly updated;
- there is a system of delegating authority to all tax operations;
- computer systems and data networks are being implemented;
- professional training programs are developed and career development opportunities for retaining the qualified workforce in the system.

Success in performing any function of a modern tax administration involves the use of efficient use of a computerized integrated fiscal information system that involves the efficient use of computing, automation and data networks. In order to carry out their activities efficiently, tax administration staff relies heavily on information, so they must be complete.

The outsourcing of activities to the private sector or other public institutions has somewhat become a trend among tax administrations around the world. Frequently, activities related to information technology but also activities in the field of fiscal compliance in the private sector, in the hope of increasing tax revenues and improving compliance (for example, in Hungary the fraud investigation function was outsourced to a police department and in the United States some cases of tax arrears were outsourced).

A trend in developing countries (especially in Latin America and Africa) is that tax administrations, usually through legislation, become *semi-autonomous revenue authorities* (SARAs)[1], hoping that this agreement will lead to more funding appropriate to higher wages and other benefits. There are almost 40 SARAs worldwide, grouped largely in Africa and Latin America. The oldest SARA was set up in Peru in 1988 (Kidd, 2006) and Argentina, Barbados, Bolivia, Colombia, Dominican Republic, Ecuador, Guatemala, Guyana, Mexico and Peru had tax authorities since 2010 (USAID's Collecting Taxes database).

The SARA model, established as a semi-autonomous entity outside the Finance Ministery, has been studied by many experts in the tax and customs administration. SARAs are tax administrations that have "a greater autonomy than the usual one across multiple organizational design dimensions, including: legal nature, finance, governance, staff policy, procurement policy, and responsibility relationships." (World Bank, 2005). Many tax experts see SARA as "a solution not only for

[1] SARA is the acronym of Semi-Autonomous Revenue Authority.

inadequate budgets and salaries but also for low tax rates, inefficient tax administration and corruption." (USAID, 2013)

Although there are many variations around a similar basic theme, the main features include: personnel systems outside the public service domain; self-financing mechanisms (usually with a certain percentage of the collection) and board of directors usually formed by representatives of the Ministry of Finance, representatives of other key ministries and the private sector.

Arthur Mann (2004) examined the arguments in favor of and against the establishment of SARA and came to the conclusion that "provides estimates of overall performance by analyzing indicators such as tax reports and tax collection measures. He strongly recommended that SARA be "set up under parliamentary acts to give SARA a lasting legal and political legitimacy."

The International Monetary Fund listed several common arguments for setting up SARA, including easier reform, targeting public service rewards, reducing corruption, autonomy against political motivations, and so on. However, the International Monetary Fund added that, except for "autonomy over political motivation", the expected benefits were not realized. Conclusions of the International Monetary Fund suggest caution on this issue and may be summed up to the following conclusions: they may be costly, may take a long time and may not improve the effectiveness of revenue management; tax administrations should clearly identify and articulate problems and shortcomings and take into account reform and modernization strategies based on best international practices.

The SARA model can not lead without a serious commitment and a good reform plan to improve the effectiveness and respect of the taxpayer. Change in many countries of semi-autonomous revenues. SARA aims both to reduce the risk of political interference in tax collection and to limit the attraction of corruption within the civil service.

3. TRADITIONAL ORGANIZATIONAL STRUCTURES IN THE FIELD OF ADMINISTRATION

In the practice of tax administration, four traditional types of organizational structures were identified:

- organization by type of taxes collected (e.g. tax administrations with departments responsible for income tax, value added tax, excise duties and other taxes);
- organization by function (e.g. tax administrations with taxpayers responsible departments, collection of tax arrears and other functions);
- organization by type of taxpayer (e.g. tax administrations with departments responsible for large companies, small / medium enterprises, individuals etc.);
- combinations of two or more types of organizational structures above.

The earliest organizational model (used by Countries such as the United States, the United Kingdom, Australia) was based mainly on the type of taxation criterion. "This criterion has led to the functioning of a multifunctional system, separating the departments and leading to their independence." (OECD, 2004)

This model as a deficiency has registered: doubling the functions of tax administration, complicating the planning and management of tax operations, limiting employee skills, increasing the complexity of tax problems and the likelihood of non-uniform treatment for taxpayers.

In view of these aspects, it was necessary to move on a new model.

In the functional model, the tax administration staff is organized through functional activities (e.g. registration, collection, audit etc.). This model has allowed standardization of working processes and simplification in general. Improving the performance of the tax administration is determined by "providing unique services, unified registration system taxpayers, payment of tax from a common accounting approach, and more efficient management of fiscal audit and debt collection functions). However, this model also has its weaknesses - job fragmentation can lead to inappropriate / inconsistent services during standardization may be inappropriate given the countless behaviors and attitudes that differ from tax compliance." (OECD, 2004).

The functional organizational structure is based "on the theory that, by grouping activities that require similar skills or specialties, the administration will achieve superior results through an increased depth of knowledge in the main areas of activity." (Kidd, 2008).

Among the advantages of this model can be enumerated: simplification of procedures, standardization of similar processes, computerization of work processes, specialization of personnel, avoiding duplication of processes, easy interactions with taxpayers, early identification of taxpayers nonconformity.

Murdoch and others (2012) describe "other benefits of organizations with a functional structure: provides component units with the ability to focus on core activities, promoting efficiency; better planning of activities facilitated by integrated taxpayer vision; the possibility of easily accepting major legislative changes, such as the introduction of a new tax (minimum organizational structure changes are required)."

A more recent trend among several developed countries was the organization around the taxpayer segments. The main reason for organizing the tax administration by type of taxpayer or taxpayer segment is that the different taxpayer groups have different characteristics from the point of view of tax compliance behavior and as such present different risks. "In order to manage these risks effectively, tax administrations need to develop and implement strategies (e.g., clarifying the law, taxpayers' education, improved services, more audits well-targeted) that are appropriate for the unique compliance characteristics and issues presented by each group of taxpayers". (OECD, 2004)

As advantages we can enumerate: specialization of tax administration staff, the allocation of human resources corresponding to the needs of each taxpayer segment, the developing unique strategies for the compliance of each type of taxpayer, better risk management. This model also has drawbacks: high administrative costs due to duplication of functions, inappropriate allocation of staff to perform the basic functions of tax administration, reducing taxpayers service programs, the possibility of inconsistent application of tax laws on different taxpayer segments.

While the application of the "taxpayer" model is still in its early stages, many countries have partially applied this approach by creating large taxpayers' units (OECD, 2004).

The advantages of this organizational model include:

- the possibility of establishing a stable management team to oversee all compliance operations and the provision of assistance services for a single taxpayer segment, which strengthens the responsibility of the staff to achieve the objectives;
- the ability to better investigate and understand the compliance issues of each segment of taxpayers;
- the ability to develop and implement single compliance strategies for each taxpayer segment, such as more targeted audits;
- better management of the different levels of single risk for each segment;
- the possibility to allocate the resources of the tax administration in proportion to the level of risk corresponding to each segment of taxpayers.

According (USAID, 2013), "functional organizational structures, with partial segmentation for large taxpayers, are the most common, but some countries have also begun to create offices for medium-sized taxpayers (generating about 10% -15% of tax revenues)".

4. COMPARATIVE ASPECTS ON THE ORGANIZATION AND OPERATION OF TAX ADMINISTRATIONS IN SOME COUNTRIES OF THE WORLD

Institutional taxation systems are generally grouped around four broad categories:

- one direction or unit within the Ministry of Finance;
- several departments or units within the Ministry of Finance;
- a unified semi-autonomous entity, in which the responsibility belongs to a Director-General subordinated to the Minister;
- a unified semi-autonomous entity with a board of directors, where the responsibility belongs to a general manager subordinated to a supervisory body / board of directors including external members.

There are also some exceptions to these categories:

- in Switzerland, responsibility for tax administration occurs largely at sub-national level, and cantons carry out a collection activity on behalf of the federal government;
- in Italy, tax administration is spread across several distinct organizations with different responsibilities;
- in Germany, regional governments (länder) are responsible for collecting taxes, while a relatively small central body has a high level coordination role.

Grouping of different countries of the world according to the general categories of institutional taxation systems can be found in the table 1:

Table 1. Grouping of countries according to the general categories of institutional taxation systems

Unified semi-autonomous body		Unified semi-autonomous body with board	Single directorate in minister	Multiple directorates in minister	Other forms
Australia	Japan	Argentine	Austria	Belgium	China
Chile	Latvia	Bulgaria	Brazil	Luxembourg	Denmark
Colombia	Lithuania	Canada	Costa Rica	Malta	Germany
Czech Republic	New Zealand	India	Croatia	Poland	Italy
Estonia	Norway	Malaysia	Cyprus		
Finland	Romania	Mexico	France		
Greece	Russia	Peru	Hong Kong (China)		
Hungary	Slovakia	Singapore	Indonesia		
Iceland	Slovenia	England	Korea		
Ireland	South Africa	Unites States	Morocco		
Israel	Spain		Netherlands		
	Sweden		Portugal		
	Turkey		Switzerland		

Source: OECD data processing, Tax administration 2017: Comparative information on OECD and other advanced and emerging economies, p. 43.

The approach adopted seems to be more determined by the larger public sector responsibilities than by the specific tax approach, and there is no tendency to move away from the above categories.

Tax collection, whether through a department or a unit within the Ministry of Finance or a unified semi-autonomous entity, requires a number of specific statutory skills to enable the organization to perform its role: "make or modify an assessment of the various revenues administered and collected by the tax administration, the authorization to provide interpretations, both in the form of public and private judgments, on the way in which the tax laws will be interpreted, the authorization to exercise, without addressing to another body, certain enforcement powers associated with law administration (such as obtaining information from taxpayers and third parties and imposing the amount of property rights on unpaid debts), the authorization to impose administrative sanctions (penalties and interest) for acts of non-compliance and to make such sanctions under appropriate circumstances." (OECD, 2017).

Although the way in which tax administrations are organized and operating differs from country to country, some features are found in a larger number of countries around the world. These features are highlighted in the table 2 for some countries of the world according to the main organizational structure criterion: type of tax, function, type of taxpayer or combinations of these.

Table 2. Grouping of world countries according to the main criterion of the organizational structure

Main criterion of organizational structure / country				
Tax type (T)	Function (F)	Taxpayer (TP)	Combination (C)	
Argentine	Brazil	Ireland	Australia	Japan
Luxembourg	Bulgaria	South Africa	Austria	Chorea
Switzerland	Canada		Belgium	Latvia
	Colombia		Chile	Lithuania
	Costa Rica		China	Malaysia
	Estonia		Croatia	Malta
	India		Cyprus	Mexico
	New Zealand		Czech Republic	Morocco
	Romania		Denmark	Netherlands
	Slovakia		Finland	Norway
	Sweden		France	Peru
	Turkey		Germany	Poland
			Greece	Portugal
			Hong Kong (China)	Russia
			Hungary	Singapore
			Iceland	Slovenia
			Indonesia	Spain
			Israel	England
			Italy	United States

Source: OECD data processing, Tax administration 2017: Comparative information on OECD and other advanced and emerging economies, pp. 76-77.

Functional structures are widely used in most tax administrations in developed and developing countries. The functional model, despite the significant differences in the organization of administrations in different countries of the world, is most often found for structuring their operations. Practice shows us a broad mix of criteria, including the functional one.

In other words, most tax administrations use, to a certain extent, the functional organizational structure and "it should be noted that those few national tax administrations that rely exclusively on taxpayer segmentation (organizational structure by type of taxpayer) organize the component divisions (for example, large taxpayer division) under a functional structure with components for audit, collection and taxpayer services." (USAID, 2013).

5. CONCLUSIONS

The global context in which public administrations operate continues to change at an unprecedented pace. The emergence of new technologies, analytical tools, and a vast increase in the size and scope of digital data offer significant opportunities to improve tax administration and reduce burdens, but there are challenges to achieving these benefits. These include pressures on budgets and human resources, efficient and effective operation, and the ability of tax administrations to respond quickly to rapid business models and choosing cost-effective technical solutions.

The organizational and operational models of tax administrations have made many progresses over time, with the most advanced model being the functional organizational structure with segmentation for certain types of taxpayers. The grouping of key functional activities into a unitary structure improves the overall level of tax compliance.

In order to obtain a high fiscal efficiency, the current global trend of the countries of the world in organizing the tax structure is to combine the main defining elements of the types of organizational structures.

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