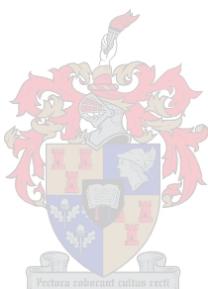


**Semi-autonomous revenue authorities for successful implementation of  
tax administration reform**

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## DECLARATION

I, the undersigned, hereby declare that the work contained in this assignment is my own original work and that I have not previously in its entirety or in part submitted at any university for a degree.

## **Abstract**

There is a growing tendency towards the establishment of semi-autonomous revenue authorities to collect taxes on behalf of the government. This is necessary for the efficient tax collection by which the state finances its administrative organs. Tax administration as part of the general civil service has suffered due to budget restrictions, inefficiency and corruption resulting from the mere characteristics of the field of public administration.

As a remedy, modern tax administrations are now introducing the principles and methods used in the private sector. The trend in public administration, thus, seems to be towards autonomy and professionalization. Strengthening tax administration is thus critical to the successful implementation of the whole tax system. Tax administration, to be successful, needs the simplification of tax policy, commitment at the political and managerial level, and the existence of a comprehensive set of strategies. There is evidence that the creation of semi-autonomous tax authorities has enabled some developing countries to dramatically increase tax revenue.

These semi-autonomous revenue authorities are created with the aim of generating additional revenue, improving the tax system and ensuring more equitable taxation. The revenue authorities' model keeps the better employees by better compensation, is flexible in human resources management, integrates tax operations, and is flexible in budget management. Despite their similarity in objective there are some variations of organizational design of revenue authorities from country to country, with differences in their legal foundation, governance structures, staffing, funding basis, and internal organization.

However, there are arguments against semi-autonomous revenue authorities and that they are not a panacea of tax administration. The arguments against the revenue authorities' model are higher costs, discontent of the wider civil service (because of inequities of salary), risks involved in the autonomy, potential for corruption, sustainability and necessity. Nevertheless, the advantages of revenue authorities weigh more than the disadvantages. To overcome the disadvantages of semi-autonomous revenue authorities, there should be a clearly defined relationship between the government and the revenue authorities, there should be an appropriate regulatory framework and public accountability, and the structure should be as simple as possible.

## Opsomming

Daar is 'n groeiende tendens na die totstandkoming van semi-outonome inkomste owerhede om belasting namens die regering in te vorder. Dit is nodig vir die doeltreffende invordering van belasting deur middel waarvan die staat sy administratiewe organe finansier. Belasting administrasie, as deel van die algemene staatsdiens het gely deur begrotingsbeperkings, ondoeltreffendheid en korruksie wat voortvloeи uit die blote kenmerke van die gebied van die openbare administrasie.

As 'n remedie, is moderne belasting administrasies besig om die beginsels en metodiek wat in die privaat sektor gebruik word in te voer. Die tendens in publieke administrasie is dus gerig op outonomiteit en professionalisme. Die versterking van belasting administrasie is dus krieties vir die suksesvolle implementering van die hele belastingsisteem. Belasting administrasie, om suksesvol te wees, benodig die vereenvoudiging van belasting beleid, verbondenheid op politieke en bestuursvlak en die bestaan van 'n omvattende stel strategieë. Daar is getuenis dat die totstandkoming van semi-outonome belastingowerhede het sekere ontwikkelende lande in staat gestel om dramaties die belasting inkomste te vermeerder.

Hierdie semi-outonome inkomste owerhede is tot stand gebring met die doel om addisionele inkomste te genereer, die belastingsisteem te verbeter en om meer billike belastingte verseker. Die belastingowerhede model behou die beter werknemers deur middel van beter kompensasie, is buigsaam t.o.v. menslike hulpbronbestuur, integreer belastingsprosesse en is buigsaam in begrotingsbestuur. Neteenstaande hul eendersheid t.o.v die doelwitte, is daar wel variasies van organisasie ontwerp van belastingowerhede van land tot land, met verskille in hul regsgrondslag, "governance" strukture, personeelvoorsiening, basis van bevondsing en die interne organisasie.

Daar is wel argumente teen semi-outonome belastingowerhede en dat hulle nie die wondermiddel vir belasting administrasie is nie. Die argumente teen die belastingowerhede model is dié van hoer kostes, ontevredenheid van die breë openbare administrasie (weens die onbillikheid van salaris), die risiko verbondce aan die outonomiteit, die potensiaal vir korruksie, volhoubaarheid en noodsaklikheid. Desnieteenstaande, die voordele van belastingowerhede weeg sterker as die nadade. Om die nadade te oorkom, moet daar 'n duidelike uiteengesette verhouding tussen die regering en die belastingowerhede wees, daar moet 'n toepaslike regulerende raamwerk en openbare toerekenbaarheid en die struktuer moet so eenvoudig moontlik wees.

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## Chapter One

### 1. Introduction

There is a general consensus in modern societies that governments have to collect taxes so as to finance public administration and the provision of economic and social services (Gildenhuys, 1997:211). This shows that collection of taxes by governments is necessary and unquestionable. What is questionable is by what administrative process and structures the taxes should be collected. Should governments collect the taxes themselves or just make sure that adequate taxes are collected? In the past governments have collected taxes themselves.

In the words of Savas (as quoted in Osborne and Gaebler, 1992:25), "the word government is from a Greek word which means 'to steer'. The job of government is to steer, not to row the boat. Delivering services is rowing, and governments are not very good at rowing". In the case of collection of taxes or tax administration, tax administration was the exclusive responsibility of the state under a Ministry of Finance. Recently, however, countries have begun to adopt semi-autonomous Revenue Authorities.

The established semi-autonomous revenue authorities are empowered with legal, personnel and financial independence. The establishment of these authorities is deemed necessary to make the administration of taxes efficient and effective and thus allow the collection of more taxes. Where the collection of taxes was previously carried out by government, the new market-friendly environment requires a number of organizational changes with a view to separating and more clearly defining responsibilities for policy and planning, regulation, and service provision.

The developing world, especially countries in Africa and Latin America, has been at the forefront of this trend. In Africa many countries, starting with Ghana, are creating revenue authorities to reform their tax administration (Devas et al., 2001:211-212). In this paper, arguments for and against revenue authorities and the organizational design of the revenue authorities established in many countries are discussed in detail. In addition, this paper studies the literature to determine whether revenue authorities are the right vehicles for successful tax administration reform.

### **1.1. Motive/rationale**

As Tanzi (in Bird and Casanegra de Jantscher, 1992:iii) noted, while there are many books and journal articles written about tax reform, it is amazing to see how little research has been done on the ways to improve tax administration. Less attention was paid to the need to improve the tax administration so as to support the overall tax reform (World Bank, 1991:8). In practice any tax reform, which ignores improvement in the tax administration, is doomed to failure. In addition, a poorly administered tax system weakens the effectiveness of the desired tax structure and raises distortions (World Bank, 1991:27).

Therefore tax reform should address the issue of tax administration and tax structure simultaneously as they are dependent on each other. The objective of this paper then is to study the semi-autonomous revenue authority model and its contribution in reforming the tax administration. Thus the contribution of this paper is to help to fill the gap in the literature on tax reform by reviewing the revenue authority model.

## **1.2. Problem Statement**

Tax administration reform can take place by improving the following: Taxpayer identification and records, assessment procedures, payment and collection systems, legal instruments, enforcement action against defaulters, accounting and auditing systems, and the application of information technology and so on (Devas et al., 2001:211).

Although it is not intended to cover all the above improvements within the scope of this paper, it is possible to consider the organizational options by which the above improvements can take place. One such organizational option is the semi-autonomous revenue authority. The organizational approach of the revenue authority is claimed to have a positive impact in the tax administration reform. Based on this assumption the problem to be investigated is:

**Are revenue authorities appropriate vehicles for successful implementation of tax administration reform?**

In this problem there are two variables, a dependent variable and an independent variable. The dependent variable is tax administration reform and the independent variable is the revenue authority.

## **1.3. Hypothesis**

The hypothesis of this study is that the establishment of a revenue authority improves tax administration.

## **1.4. Research design and methodology**

The study is exploratory and descriptive. To test the hypothesis a literature research is undertaken. That is, existing literature in the area is reviewed. These are books, journal articles, and data from the Internet.

## **1.5. Structure of the assignment**

The assignment has four chapters. Chapter One provides the introduction to the study. In this section the motive or rationale of the study, the problem statement, research design and methodology are discussed.

Chapters Two and Three review the literature. In Chapter Two the broad area of tax administration reform is reviewed and topics like the modern public and tax administration, the trend in tax administration and the prerequisites for tax administration reform are discussed. Chapter Three deals with the literature related to the 'organizational approach' of reforming tax administration. Special attention is given to issues like the origin of revenue authorities and the motive behind the establishment of revenue authorities. In addition reasons for and against revenue authorities and the organizational design of various revenue authorities are reviewed in detail. Finally chapter Four is devoted to conclusion.

## **Chapter Two**

### **Tax administration reform**

#### **2.1. Introduction**

"Modern democratic societies need a modern, democratic public administration which will satisfy the public's requirements in the best possible manner. Public administration must continually undergo change and adjustment if it is to satisfy two opposite requirements. On one hand, it must be effective and efficient, which is achieved by implementing the same methods used in modern company management. On the other, it must satisfy the democratic requirements, fairness and justice and, defend the achievements of civilisation" (Ott, 1998:1).

To achieve the above often-opposing objectives at the same time reform has been taking place in the area of public administration. That is, the effort to make government more efficient and effective has been going on for the last two decades. According to Pollitt and Bouckaert (2000:6) Management reform results in producing cheaper, more efficient government with higher quality services and more effective programmes. Furthermore, it also results in improved political control, free managers to manage and makes government more transparent. That is why today public management reforms are sweeping many countries. Tax administration is one area of Public Administration, which is being affected by this reform.

This chapter discusses the issue of modern public administration in general and tax administration in particular. Furthermore the trend in tax administration and the reason why the improvement of the tax administration is necessary are discussed.

## 2.2. The distinctiveness of Public Administration

There are certain characteristics that make Public Administration peculiar. Caiden (1982, 14-16) identifies seven characteristics: First, one cannot avoid Public Administration. One may not need to go to church, or buy a particular product or join any interest group or give to charities. These can be dependent on the willingness of individuals. Public Administration, how ever, cannot be evaded. The will of the public must be done. Even death is not a solution, for one needs a death certificate to be allowed to discontinue one's public duties!

Second, it expects compliance. Other organizations must employ the machinery of Public Administration - the law courts, police system, prisons and militia, while public administration has the monopoly of coercive power.

Third, it has priority. "... public administration accepts the moral responsibility of being present at all times with sufficient reserves to meet most contingencies. This in turn, impels it to demand high safety margins, more than enough to be certain, something that the community may not be able to afford."

Fourth, it is exceptionally large. So as to be able to supply the public with the required goods and services, Public Administration has the largest single multipurpose organizations outside multinational organizations and universal churches. This has its own advantages and disadvantages. The advantages are that it can exploit the economies of scale (standardization, professionalism, routinization, and specialization). The disadvantages are related to size and complexity, which in the absence of competition can be inefficient, time consuming and ineffective.

Fifth, the top management of Public Administration is political. That is, it is managed by politics and not by business insight or scientific precision. According to Cloete (1998, 91) this is what makes Public Administration primarily different from the management of business organizations.

Sixth, it is difficult to measure its performance objectively. Security, safety, health, peace, education, justice, prosperity, equality and liberty are vulnerable to objective measurement. What constitutes adequate performance differs based on subjective opinions and expectations.

Seventh, more is expected of public administration. That is to say what is expected of public administration is limitless.

This being what makes public administration distinct from the private sector, there is now a new role being played by modern public administration.

### **2.3. Modern Public and Tax Administration**

Modern Public Administration is somewhat different from traditional Public Administration. According to Ott (1998:1) Public Administration is becoming more and more specialized in the process of providing services to the public. The time that public servants can work as a generalist in any area of public administration has gone.

Jenkins (1994:75) states that today Public Administration is playing a new role in a democratic society. This role is represented by the two principles mentioned below:

- 1) Public Administration is an entity whose main function is to render services to its citizens. This view abandons the thinking that deemed Public Administration as an organization vested with vast powers and privileges which

- could act irrespective of the needs and interests of the public;
- 2) Public Administration is a series of differentiated functions that have different organizational needs, interests and working methods. This requires that we abandon the 19<sup>th</sup> century view that Public Administration is a set of more or less homogenous functions where the generalist can move easily between functions or departments (Jenkins, 1998:75).

## **2.4. Trends in tax administration**

Tax administration has always been part of the bigger Public Administration (Jenkins, 1994:76; Ott, 1998:2). As outlined in Section 2.2 of this chapter, Public Administration is generally characterized by inefficiency and ineffectiveness. Tax administration as part of the general civil service has suffered due to budget restrictions, inefficiency and corruption resulting from the mere characteristics of the field of public administration.

But if tax administration is to be successful it must collect revenues due to the government and at the same time offer an optimum public service. It must also lower the administrative and compliance costs of taxation. To achieve these objectives tax administrations are now introducing the principles and methods used in the private sector. The trend in tax administration, thus, seems towards autonomy and professionalisation (Jenkins, 1994:76; Byrne, 1995:13; Ott, 1998:2).

According to Jenkins (1994:76) autonomy of tax administration can be achieved by following the example of central banks, making tax administrations financially and administratively autonomous. One option in which this autonomy can be achieved is by the creation of revenue authorities. How the

revenue authority model can achieve the efficiency and effectiveness sought by many tax administrations is discussed in Chapter 3.

## **2.5. Why improve tax administration?**

Tax administration is of paramount importance to those who are concerned with the key role that increased tax yields can play in restoring macroeconomic balance and to those concerned with the tax policy and its impact on the economy. Tax administration has, indeed, a great impact in determining the real or effective tax system (Bird and Casanegra de Jantscher, 1992:1). That is why Casanegra de Jantscher (as quoted in Bird and Casanegra de Jantscher, 1992:1) equated the tax administration with the tax policy. In his own words "tax administration is tax policy."

This is to say that good tax policy without good tax administration is useless. If what the law intended to achieve and the actual implementation differ, distortions in the economy and reduced revenue yields will be the outcome of the tax policy (Jenkins, 1994:75). Strengthening tax administration is thus critical to the successful implementation of the whole tax system (World Bank, 1991:51).

## **2.6. Prerequisites for successful tax administration reform**

There are certain prerequisites that must be fulfilled if tax administration reform is to be successful. According to Bird and Casanegra de Jantscher (1992:3-4) these are:

- Simplification of the tax policy or system;
- Commitment at both the policymaking and managerial level; and

- The existence of a clearly and comprehensively set strategy.

### **2.6.1. Simplification of the tax policy**

Bird and Casanegra de Jantscher (1992:3) state that it is senseless to try to improve the tax administration without simultaneously improving the tax structure so that it is easy to administer. According to Gillis (as cited by Bahl and Martinez-Vazquez, 1992:83) there is a belief held by tax analysts that a simplification of the tax structure leads to the ease of the tax administration.

Various reasons are furnished to prove why simplification of the tax policy is an important prerequisite for tax administration reform. According to the World Bank (1991:51) one of the main contributing factors to weak administration is the excessive complexity of tax laws and the burden this places on the limited enforcement capacity of most tax administrations in developing countries.

The complexity of the tax laws leads to non-compliance on the part of the taxpayers. The fact that the tax law is complex makes it both more difficult for taxpayers if they want to comply with the tax law and easier for them to evade if they want to evade (World Bank, 1991:26). In addition complex tax laws increase the burden of tax administration by increasing the cost of auditing and litigation. Therefore based on these facts one can conclude simplifying the tax law is crucial and a prerequisite to make tax administration simpler and more efficient (World Bank, 1991:51).

### **2.6.2. Commitment at policymaking and managerial level**

Commitment at both the policy making and managerial level is another prerequisite of tax administration reform. According to Bird and Casanegra de Jantscher (1992:4) even the simplest tax law and the best reform strategy are doomed to failure if there is no any political will at the top to implement it.

There must also be local expertise, although initial support can be acquired from foreign experts. The existence of a committed managerial team with the full support from those holding political office is also of paramount importance to improve the quality of tax administration. Otherwise any tax administration reform effort will remain in vain (Bird and Casanegra de Jantscher, 1992:4).

### **2.6.3. The existence of a strategy**

The existence of a clearly and comprehensively set strategy is a third and necessary ingredient for a successful tax administration reform. Since there is no single strategy that is appropriate for all countries, countries should adopt strategies that are tailored to their needs (Bird and Casanegra de Jantscher, 1992:4). One of the recently adopted strategies for reforming tax administration is the creation of semi-autonomous revenue authorities (Devas et al., 2001:211-212). This is discussed in detail in the following chapter.

## **2.7. Chapter summary**

In this chapter the concept of tax administration reform was discussed. The distinctiveness of the field of public administration was first considered and then focused on how the modern public administration is evolving. It was shown that

public administration in general and tax administration in particular is changing by introducing the principles and methods used in the private sector. The trend in tax administration is thus towards autonomy and professionalisation.

The reason why it is important to improve tax administration and the prerequisites for successful tax administration were also discussed. Simplification of the tax policy or system, commitment at both the policymaking and managerial level and the existence of a clearly and comprehensively set strategy are identified as the three main ingredients of a successful tax administration reform.

The next chapter deals with the revenue authority model in depth as one strategy of improving tax administration.

## **Chapter Three**

### **Revenue authorities**

#### **3.1. Introduction**

"Contemporary public administrators often look forward to the opportunity to expand their horizons, to deal with other people and cultures, to surf the Internet and other telecommunications and information technology global highways, to eliminate unnecessary constraints on creativity, and to explore new organizational and interjurisdictional structures" (Cooper et.al, 1998:10).

It was stated in Chapter Two that an organizational approach that has received recent attention in the area of tax administration, is the creation of semi-autonomous revenue authorities. From the beginning, this form of organizational model appears to have worked well in many developing countries in increasing administrative efficiency and effectiveness. In Africa the revenue authority model has been adopted in Ghana, Kenya, Malawi, Tanzania, Uganda, Zambia, South Africa and Rwanda (Polidano, 1999:6; Devas et al., 2001, 213).

The creation of these revenue authorities has enabled many governments in the above-mentioned countries of Africa to raise wages, get rid of poor performers and hire better-qualified staff, offer bonuses in return for meeting revenue targets, and operate on a self-financing basis. According to Polidano (1999:6) the amalgamation of customs and income tax departments under the revenue authorities is a particularly noteworthy African trend.

Devas et al. (2001, 213) state that in some countries revenue authorities have dramatically increased tax revenue. In Ghana, for example, the revenue authority known as Ghana's National Revenue Secretariat (subsequently replaced by Revenue Agencies Governing Board) brought revenue intakes up from

4.6 to 17 per cent of GDP between 1983 and 1994. Similar results are recorded in Uganda where the Ugandan Revenue Authority increased its tax revenue from 7 per cent of GDP in 1990/1 to 11 percent in 1995/6, despite reductions in tax rates.

That is why the revenue authority model is becoming popular in many countries, especially those in the developing world. In this chapter the revenue authority model is discussed in detail. Its origin, the arguments for and against revenue authorities, its governance structure and other issues are examined based on the literature.

### **3.2. Revenue authority defined**

As explained in the introductory section, the creation of semi-autonomous revenue authorities is recently gaining momentum. But what is revenue authority? Before defining the terminology, it is worthy noting that the term revenue authority is not used in the same way universally. In different countries different names are used to denote the term revenue authority as used in this paper. For instance, Revenue Service (South Africa), National Revenue Secretariat (Ghana from 1986 to 1998) Revenue Agencies Governing Board (Ghana from 1998 onwards), Revenue Board (Jamaica) and Revenue Authority (Zambia, Uganda and Kenya). Thus in this paper Revenue Authority is used as a generic word to represent all revenue authorities in different countries.

Semi-autonomous revenue authorities are defined as “tax administrations that have greater than usual autonomy along several organizational design dimensions, including: legal character, financing, governance, personnel policy, procurement policy, and accountability relationships” (World Bank, 2002).

Thus the term revenue authority can be used to mean a form of organization, which is vested with legal, personnel and financial independence to collect the revenues of a given country. Revenue authorities being a particular form of organization, they could be public organisations, public organisations outside the civil service or a corporate body (World Bank, 2002).

### **3.3. Origins of the revenue authority model**

According to Devas et al. (2001:211) the revenue authority model originated from the executive agency model that was popular in many developed countries in the 1980s. But what are executive agencies? Caulfield (2002:211) states that agencies are a particular form of public organizations that are used as an instrument in unbundling bureaucracy and creating more flexible and performance oriented public organizations.

In fact, executive agencies have served as a tool in the modernization objectives of governments in several countries in both the developed and developing worlds. The argument in favor of executive agencies is that they can be administered in a private-like form of managing public sector organizations in quest of improved efficiency and effectiveness in regulation and service delivery (Caulfield, 2002:211).

According to Caulfield (2002:211) agencies, being task-oriented, carry out functions of government as entities separate from their parent ministries. Caulfield (2002:211) outlines four prominent characteristics of the executive agency form:

- ❖ Decentralized management (including limited financial autonomy);
- ❖ Task specialization;
- ❖ Outputs focused;
- ❖ Performance contracting.

Executive agencies and Revenue Authorities are similar in that both are managed in a business like mentality. The difference between the two is that executive agencies can be any form of public organizations that are performance oriented while Revenue Authorities are specifically designed to collect revenues (Caulfield, 2002:211).

### **3.4. The motive behind the creation of revenue authorities**

The rationale behind the creation of semi-autonomous revenue authorities varies in different countries. In Ghana and Uganda the motive was primarily the serious financial position of the governments and the need to improve the inefficiency in the existing revenue administration system (Devas et. al, 2001:213). Terkper (1999:171) outlines the reasons behind the establishment of the Revenue Agencies Governing Board of Ghana as follows:

- To raise the efficiency of assessment and collection with a view to increasing revenue;
- To increase the level of taxpayer services and voluntary compliance;
- To improve coordination among, and supervision of, the revenue agencies; and
- To contribute to a relatively more effective formulation and implementation of revenue and fiscal policy.

Thus in most countries, as in Ghana and Uganda, the main purpose behind the establishment of the revenue authorities is the need to increase revenue yields (Devas et. al, 2001:213).

In some countries, mainly Kenya and South Africa the motive was not to generate additional tax revenues (or at least, increasing the tax/GDP ratio). The aim was to make the system

of the tax administration more efficient and effective so as to relieve the tax burden on the economy and ensure more equitable taxation (Devas et. al, 2001:213).

As can be seen from Table 1 an interesting finding is that even though generating additional revenue was not the primary motive for the establishment of SARS, revenue has gradually increased since SARS was established. And the increase is partly attributed to the establishment of SARS (Devas et al., 2001:213). According to the World Bank (1991:17-18) the tax-GDP ratio in itself, however is not an adequate measure of revenue performance. That is incremental changes in the level of taxation should reflect the benefits derived from incremental changes in the public expenditure program and the relative costs of financing it by means of taxation or nontax revenue.

**Table 1: South Africa- Tax Revenue as a percentage of GDP**

Year	Tax Revenues at current prices (Billions of Rand)	GDP at Factor Cost (Billions of Rand)	Tax Revenue Percentage of GDP
1994	103.3	385.1	26.8%
1995	118.4	430.9	27.5%
1996	154.4	484.1	28.4%
1998	174.4	529.6	29.2%
1999	188.7	-	-

Source: Devas et al., 2001:213

### 3.5. Arguments for a revenue authority model

If revenue authorities are created with the aim of generating additional revenues, improving the tax system and ensuring more equitable taxation, then it follows that there must be certain advantages that make the revenue authority model

attractive. In this section we will see some of the justifications provided for adopting the revenue authority model.

### **3.5.1. Compensation**

One of the main advantages of the revenue authority model is related to compensation. Generally, in most countries the pay rate in the civil service is too low in comparison with the private sector. This is especially true in developing countries. This makes recruitment and preservation of competent staff difficult for tax departments within the civil service (Byrne, 1995; Devas et. al, 2001:214).

The point is well caught in the following quotation from Jenkins (1994:76):

A serious impediment to change in the tax administration of many countries is that revenue institutions have traditionally been part of the general civil service. In many countries this has resulted in salaries that are too low to recruit and retain the quality of skills needed for the efficient operation of a revenue system.

Schlemenson (1992:358) identifies three main factors that affect worker satisfaction in the area of tax administration.

These are

- Compensation
- The work itself and the opportunities it affords for the exercise of individual ability and judgment.
- Development, advancement and career opportunities.

According to Schlemenson (1992:360-361) problems related to compensation are among the main reasons why competent employees are lost to the private sector, which usually provides a better salary than the tax administration within the general civil service. Schlemenson (1992:361) is of the view that to improve the effectiveness of the tax administration, its wage policy must be revised. The World Bank (World Bank, 1991:53)

also suggests as an option increasing the pay scale of tax employees to above that of the general civil service. One way, in which this view can be implemented, is through the revenue authority model.

Devas et al (2001:214) states that the low pay rate is not the only drawback to the recruitment and retention of qualified staff. The narrowness of the range between top and bottom grades also creates a problem. In addition, it is difficult, if not impossible, to pay staff within the civil service an incentive bonus based on performance.

It is also believed, although not substantiated by evidence, that staff who are paid low salaries, are prone to corruption (Byrne, 1995; Devas et al, 2001:214). This view is also shared by Chand and Meone (1997:4). They state that, if officers in the tax departments are poorly paid, or an adjustment strategy like wage control in the context of massive price increases forced them to be so, they are more likely to engage in corruption.

This has been clearly stated by Jenkins (1994:76) "... hiring practices become part of the political patronage system where the main remuneration of an employee arises from the person's given ability to extract compensation for favours given, or is based on a person's ability to use information obtained while working in the public sector to his private profit either immediately or later. There are few places in the public sector where there are greater opportunities for these kinds of remuneration than in the tax administrations. In such a situation the tax administration will be perceived as being inefficient, incompetent and corrupt."

Given the above problems, which arise from the low pay rate in the tax departments within the general civil service, the creation of revenue authorities is seen as a solution. Revenue

authorities can have their own compensation scales outside the civil service. And, thus, have the ability to pay salaries based on performance, attract qualified staff and retain them once trained (Vehorn and Brondolo, 1999:501; Devas et al, 2001:214). The compensation scales, used in revenue authorities' differ from country to country.

The creation of a revenue authority also provides an opportunity to consolidate a range of allowances paid to staff some of which can be non-monetised and tax free while some of which can be regular, taxable salary based on classification which is determined by performance (Devas et al, 2001:214).

### **3.5.2. Flexibility in human resource management**

Human resource management is critical for the development of any organization. Effectiveness and efficiency are a daydream without appropriate human resource management. That is why appropriate human resource management is desirable in tax administration. According to Jenkins (1994:76), an important factor that determines the efficiency of the tax administration is the accessibility and retention of qualified human resource. This view is also shared by Schlemenson (1992:343).

It is imperative that the human resource of a tax administration be managed in a flexible manner to achieve the desired efficiency and effectiveness in tax administration. The move to a revenue authority model provides the opportunity to achieve this flexibility in the way human resources are managed. Devas et al. (2001: 214) state that in some countries, the main reason for creating the revenue authority is to get rid of the constraints imposed by the civil service rules, rather than the level of compensation. The civil service rules makes hiring and firing of employees difficult.

Staff employed in the tax departments can remain there, even if they are found to be incompetent, inefficient and corrupt. This is just because the civil service rules in many countries protect employees from being fired (Vehorn and Brondolo, 1999:501; Devas et al., 2001: 214). This is best explained by the old saying: "government workers are like headless nails: you can easily get them in, but you cannot get them out" (Osborne and Gaebler, 1992:126).

The regulations governing the public service also create a problem in hiring. Managers cannot use the normal process followed in the private sector and hiring of new employees usually takes too long. This results in positions remaining unfilled for a long period of time (Devas et al., 2001: 214).

The revenue authority model provides the tax administration with a solution to curb the above problems and manage its human resources with a private sector mentality. Vehorn and Brondolo (1999:501) noted that "under an independent revenue board, following the lines of the central bank model, free of civil service rules, staff could be compensated on the basis of merit and more easily fired if found guilty of incompetence and corruption. It is also easier to undertake a large staff retrenchment programme, which is badly needed by some overstaffed tax administrations."

However, even with the establishment of the revenue authority there are certain constraints. Any organization, no matter whether it is public or private, works within the legal and political environment of a given country. The retrenchment of staff is therefore influenced by the legal and political environment. In South Africa, for instance, the legal framework that established the South African Revenue Authority requires it to consult the trade unions in all matters concerning staffing. This is the result

of the power that South African trade unions have (Devas et al., 2001: 214).

### **3.5.3 Integration of tax operations**

The integration or amalgamation of the tax operations under one revenue authority is another advantage of the creation of the revenue authority model. In the majority of countries tax administration is divided between two or three organizations: Customs and Excise, Inland or Internal Revenue and Sales tax/VAT. Sales tax/VAT is sometimes attached to Customs and Excise or Inland or Internal Revenue (Devas et al., 2001: 215; Vehorn and Brondolo, 1999:500).

In such kinds of diffused revenue collection systems, one Department, namely Customs and Excise is vested with the power of collecting taxes at the border. The inland or internal revenue collects the domestic or internal taxes (Vehorn and Brondolo, 1999:500). The above practice of collecting taxes by different diffused departments has its own disadvantages. First, since each department tends to focus on its own priorities without giving much attention to the economies of scale that could be achieved through integration or even coordination of common processes and procedures, efficiency suffers (Vehorn and Brondolo, 1999:500).

Second, the opportunity for information sharing among the departments, which could be achieved by having a common taxpayer's identification number (TIN), is lost. Third, the opportunity to coordinate auditing in the departments is wasted (Vehorn and Brondolo, 1999:500).

From the perspective of tax administration, integration of tax operations improves efficiency and effectiveness of collection by curbing the above three problems. That is, information

sharing can be facilitated by establishing a common taxpayer's identification number (TIN). By developing a master file that contains data on all the taxes paid by taxpayers a comprehensive auditing strategy can be executed. And, most importantly, by having the so-called "one-stop service centers" compliance costs of taxpayers will be reduced (Vehorn and Brondolo, 1999:500).

This view is also shared by Devas et al. (2001:215). According to Devas et al., (2001: 215) the integration of tax operations under one revenue authority offers the tax administration the capacity to structure revenue collection by function rather than by taxes and to gain economies of scale and information.

### **3.5.4. Flexibility in budget management**

Another advantage of the creation of the revenue authority is the flexibility revenue authorities achieve in managing their budget, without constraints of public service budgeting regulations (Devas et al., 2001:215). According to Ott (1998:2), since tax administrations are part of the wider public administration they suffer from budget restrictions. The budget restrictions have their own consequences: Employees of the public administration earn less salary than their counter-parts in the private sector. The low salaries in turn result in failure to attract qualified employees and in the exodus of qualified employees to the private sector.

### **3.6. Arguments against the revenue authority model**

Everything has an advantage and a disadvantage. The revenue authority model is no exception. The disadvantages or weaknesses will be described below.

#### **3.6.1. Higher costs**

The cost that is incurred with the establishment of the revenue authorities is one of the disadvantages cited against the revenue authority model. While the ability to pay staff a salary, which is competitive in relation to the private sector is presented as the main argument in favour of the revenue authority model, it is argued that it leads to higher costs. These higher salaries may be offset by reducing the number of employees, and by getting rid of corrupt and inefficient employees. However, in the majority of cases, costs related to paying higher salaries will increase. This argument can be rendered invalid if revenues increase as the result of the establishment of the revenue authority since the ratio of collection costs to tax yield would be maintained (Devas et al., 2001:216).

The only argument, then, is whether costs, including wider economic and social costs, which are greater than necessary to accomplish the increase in tax revenue, are imposed on the society. This could occur because the revenue authority is paying more than is necessary to recruit staff, particularly to those at the top, and uses its budgetary flexibility to indulge in costly offices and other overhead costs. This argument has a strong pragmatic basis where a revenue authority is allowed to retain and use a percentage share of tax revenues (Devas et al., 2001:216).

Having seen the rise in costs, as one of the main arguments against the revenue authority model the question is that whether costs have increased or not in practice. This is because an assessment of what has occurred is incomplete without an analysis of the total cost of operating the revenue authority model. According to Devas et al (2001:216) even though it is difficult to obtain information on costs because of less transparency, costs have certainly increased with the establishment of the revenue authorities. But this is not surprising since it is necessary and costly to address those sectors and tax payers, which were difficult to tax.

### **3.6.2. Impact on the wider civil service**

One of the negative consequences of the executive agency model is the fragmentation of the public service. With the adoption of the revenue authorities certain problems are likely to appear. One is that the fact that employees in the revenue authority are paid higher salary than those in the other public organizations creates jealousies and as a result there is reluctance to cooperate. This is especially true on the part of those with whom the revenue authority has to work: The Ministry of Finance, the police, and the courts. In addition, the performance of the revenue authority can be frustrated because of the weaknesses of the above public organizations. The problem is also aggravated by the pay differentials (Devas et al., 2001:217).

As experience has shown in the case of Uganda the increase in compensation in the revenue authority may contribute to pressure for increased salary in the rest of the civil service. But experience in Ghana has also shown that the increase in tax revenue yield that resulted with the adoption of the revenue authority is used to increase compensation throughout the civil service, lubricating wider civil service reform. But this is not

always the case as fragmentation may hinder the over-all reform of the civil service (Devas et al., 2001:217).

### **3.6.3. Risks of autonomy**

The fact that giving an organization greater autonomy from the civil service carries risks is given as another reason against the creation of the revenue authority. Civil service rules and regulations are justified in terms of protecting public resources and the public from abuse. The problem, however, is the conflict between procedures that are slow, rigid and leave no scope for innovation and entrepreneurship and the need for flexibility to achieve targets and respond to immediate conditions. The argument is that greater autonomy and independence can be abused unless it is checked by the tax policy itself. Therefore it is argued that autonomy still requires an appropriate regulatory framework within which it is to be exercised, which in turn requires appropriate targets and performance measures and their application (Devas et al., 2001:217).

### **3.6.4. Corruption**

Revenue authorities are usually vested with greater autonomy and the power to administer their personnel and finance. But this has resulted in corruption. A case in point is the Ugandan Revenue Authority. In Uganda the autonomy that was intended to protect the organization from political interference and which allowed management to improve performance also allowed the re-emergence of corruption (Devas et al., 2001:217).

### **3.6.5. The question of the sustainability of the revenue authority**

The sustainability of the newly created revenue authorities can also be considered one of the disadvantages of revenue authorities. Autonomy that was first enjoyed by the newly minted revenue authorities in Bolivia, Peru, Venezuela and Mexico was later jeopardized (Taliercio, 2001:2-20).

### **3.6.6. The question of the necessity of the revenue authority**

Another argument against the adoption of the revenue authority centres on the necessity of the revenue authority to address the problems facing tax administrations. Is a semi-autonomous revenue authority really necessary to improve tax administration? This is a question that is raised by those who argue against the revenue authority model. Devas et al. (2001:216) argue that the creation of the revenue authority model works best when the financial position of a country is dire and the civil service pay scale offers little reward to those with the necessary skills.

## **3.7. Organizational design for revenue authorities**

The organizational design applied by revenue authorities is not the same in all countries. There are some variations from country to country. In this section an outline of key organizational design features, focusing on legal foundation, governance framework, funding basis or financing, personnel, and internal organization will be presented.

### **3.7.1. Legal foundation**

The legal foundation upon which revenue authorities are created varies from country to country. According to the World Bank (2002) the differences emanate from different legal forms since different countries have different constitutions and public administration laws that they can use to create more or less autonomous agencies.

The legal foundation of the revenue authority defines its legal character and its ability to own assets. The issue of whether or not the revenue authority has its own separate legal character is a fundamental design characteristic. Revenue authorities that lack their own legal character are more subordinate to Ministries of Finance.

As can be seen from Table 2 below different revenue authorities have different kinds of legal framework. Peru's National Tax Administration Superintendency (SUNAT) is established by legislative law, while Venezuela's National Integrated Tax Administration Service (SENIAT) is created by presidential decree. Both the South African Revenue Service (SARS) and Kenyan Revenue Authority are established by an act of parliament (See Table 2). Likewise in Ghana the Revenue authority Governing Board (RAGB), which replaced the National Revenue Secretariat (NRS), is established by an act of parliament (Terkper, 1999:173).

When it comes to the legal form of the revenue authorities Peru's National Tax Administration Superintendency (SUNAT) is a decentralized public organization, while Venezuela's National Integrated Tax Administration Service (SENIAT) is an autonomous institute. The South African Revenue Service (SARS) is a public sector organization outside the public

service, while the Kenyan Revenue Authority (KRA) is a corporate body (World Bank, 2002; RSA, 1997).

The right to own assets is also an important determinant of autonomy. A revenue authority that can own assets is more autonomous in that it is less dependent on the Ministry of Finance for the use of physical infrastructure and supplies (World Bank, 2002).

Mexico's Tax Administration Service (SAT), for example, is dependent on the Ministry of Finance for permission to use assets and is subject to ministerial decisions to revoke user rights or reassign assets within the ministry. The lack of property rights weakens the managerial autonomy of the revenue authority and subjects it to uncertainty in the use and availability of physical assets (World Bank, 2002). Similarly Venezuela's National Integrated Tax Administration Service (SENIAT) cannot own its assets. In contrast, Peru's National Tax Administration Superintendency (SUNAT), South Africa's Revenue Service (SARS), and Kenya's Revenue Authority (KRA) can own their assets (See Table 2).

Thus from this one can conclude even though there are similarities between revenue authorities, there are certain differences based on the legal framework on which the revenue authorities are established.

**Table 2: Legal framework of diverse revenue authorities**

	SUNAT	SENIAT	SARS	KRA
Legal Foundation	SUNAT Law (1988)	SENIAT Decree (1994)	SARS Act (1997)	KRA Act (1995)
Legal Form	Decentralized Superintendency	Autonomous Service	Revenue service outside the public service	Corporate body with perpetual succession
Legal Character	Separate Legal Character	No Separate Legal Character	Separate Legal Character	Separate Legal Character
Patrimony	Can own assets	Cannot own assets	Can own assets	Can own assets
Creation	Legislative Law	Presidential Decree	Parliamentary Act	Parliamentary Act
Type of Autonomy	"Functional, Economic, Technical, Financial, and Administrative"	"Functional and Financial with its own human resource system"	Not specified	Not specified

Source: Adapted from World Bank, 2002.

### 3.7.2. Governance structures

According to the World Bank (2002) the governance structure, which determines to a large extent the effective level of autonomy, is perhaps the most basic issue of organizational design. There are certain issues that must be considered in the governance structure.

These are first, whether the revenue authority is dominated by the Minister of Finance or not. This is crucial since structures in which the Minister of Finance dominates the governance process yield less autonomy. The second issue, according to Jenkins (1994: 78), is related to the criterion for membership on the board. That is, whether there should be private sector representation on the board, and, if so, whether private sector positions should be fixed in the legislation or open to the

discretion of the minister. The third issue is whether the CEO should be appointed to a fixed term (World Bank, 2002).

In the literature there is no unanimous consensus on the representation of the private sector on the revenue board. Some are in favour of representation of the private sector in the revenue board for it is assumed that it ensures that the interests of the private sector are protected against the perceived arbitrary decisions of the public servants. Some are against the idea of having representatives of the private sector on the board. The reasons given are: One, having a representative of the private sector in the board can give the impression that tax laws are not enforced fairly and can raise questions on the credibility and integrity of members. Two, members from the private sector will have inside information and might use this for their private gain. Three, their membership would be viewed with suspicion and concern and could raise questions when members or their clients tax decisions are made (Jenkins, 1994:78; Vehorn and Brondolo, 1999:501; Terkper, 1999: 174; Devas et al. 2001:217-218).

Revenue authorities are characterized by two general governance models: a chief executive officer (CEO) model, used only in Latin America, and a board of director's model, used mostly in Africa and Asia. In Latin America it is only in the case of Mexico that the board of directors model is used (World Bank, 2002).

There are fewer variations between CEO-based models and board-based models. The main organizational design difference observed within CEO-based models is the appointment of the CEO. Venezuela's SENIAT is managed by a Superintendent and Adjunct Superintendent, both of whom are appointed and removed by the Minister of Finance. SUNAT's superintendent, on the other hand, is named and removed by the President of

the Republic, on the suggestion of the Minister of Finance with the approval of the Council of Ministers. The appointment of the Superintendent by the President is a mechanism that seems to increase revenue authority autonomy (World Bank, 2002).

### **3.7.2.1. Responsibilities of the Revenue Board**

In the African cases a board of directors is responsible for overseeing the management of the revenue authority. This seems natural as revenue authorities are established to be run with the mentality of the private sector. These boards vary from country to country in size, composition, and their relation to the commissioner-general (CG) (World Bank, 2002).

Jenkins (1994:77) states that the mission of a revenue board should be to “promote voluntary compliance to the highest degree possible; to continuously improve the administration of the tax laws by ensuring the nation’s revenue is collected and to ensure the tax laws are administered fairly, efficiently, and effectively with a high degree of integrity.”

Jenkins (1994:77) further identifies some responsibilities that the revenue board should fulfil so that it will be able to accomplish the objectives of the organization. These are:

- Ensure that the tax laws are enforced with the highest degree of integrity;
- Ensure that the departments (customs, excise and income) coordinate and share information when and where there is a need;
- Establish an overall pay and classification structure;
- Provide guidance and direction in resource allocation (make sure the resources are allocated properly between and among the various functions of the departments);

- Ensure that appropriate personnel and programme management practices are in place and carried out (this would include such things as training, programme management and personnel evaluations and corrective actions taken if appropriate);
- Recommend to the Minister of Finance legislative changes needed to improve the administration of the tax laws;
- Establish an internal audit function staffed by professional auditors who would be responsible for determining whether or not the policies of the board are being carried out properly (the annual audit plan should be approved by the board);
- Provide the Minister of Finance with revenue estimates on existing and proposed tax laws; and
- Establish and implement a written code of conduct for all employees in the departments and the board.

**Table 3: Governance Structure of Revenue Authorities**

Governance Model	SAT Board of Directors	SUNAT CEO (Superintendent)	SARS Board of Directors	MRA Board of Directors
Appointment	<ul style="list-style-type: none"> <li>- Minister appoints two members and SAT president appoints two high level SAT employees to Board</li> <li>- President of republic appoints SAT President.</li> </ul>	<ul style="list-style-type: none"> <li>-President of Republic appoints and removes superintendent on suggestion of Minister of Finance</li> </ul>	<ul style="list-style-type: none"> <li>- Board consists of up to eight persons appointed by Minister of Finance, Commissioner, and two senior SARS employees named by Commissioner</li> <li>-Minister of Finance appoints Commissioner.</li> </ul>	<ul style="list-style-type: none"> <li>-Board consists of Secretaries of Treasury and Commerce and Industry, Accountant General, Governor of Reserve bank, representatives of the society of Accountants and chamber of Commerce, and two private sector representatives appointed by Minister</li> <li>-Board appoints Commissioner for four year term.</li> </ul>

Source: Adapted from World Bank (2002)

### 3.7.2.2. Size of the Revenue board

Another issue in the governance structure is the size of the revenue board. According to Jenkins (1994:78) the size of the revenue board is an important factor in the efficient functioning of the board and thus the revenue authority. Jenkins (1994:78) advises that the size of the board should be kept to the minimum for the reasons cited below:

- A large board makes it difficult to schedule meetings and come to a consensus;
- The larger the board the more difficult it may be to locate individuals that do not have outside interests and who will be perceived to have a conflict of interest; and

- The larger the board membership the less individual accountability. Too few may not provide sufficient support or overall experience to carry out the board's responsibilities.

The size of the revenue board varies from country to country. As can be seen from the governance structure in Table 3, the SARS board consists of up to eight persons named by the Minister of Finance, the commissioner, and up to two senior SARS employees named by the commissioner. Currently, business people, consultants, and academics sit on the board. The Minister of Finance names the SARS commissioner, after screening the choice with the cabinet and the board. In Kenya the board consists of a chairman appointed by the president, the CG, high level civil service officers from the Ministry of Finance, the Attorney-general, and six other persons appointed by the Minister. The KRA's CG is also appointed by the minister.

The Zambian Revenue Authority (ZRA) board has nine members. Unlike most of its regional counterparts, the ZRA board consists in part of private sector representatives, including the association of chambers of commerce and industry, the bankers' association, the institute of certified accountants, and the law association (these representatives are nominated directly by their organizations, as specified in the ZRA Act) (Jenkins, 1994:80; World Bank, 2002).

In Mexico the SAT's board of directors is composed of the following members: the Minister of Finance, two representatives from the ministry as designated by the minister, the President of the SAT, and two senior SAT employees designated by the president. Membership on the SAT's first board consisted of the undersecretary for revenue, and the director of the tax policy unit for the ministry and the chiefs of legal affairs and audits for

the SAT. The SAT president is appointed directly by the president of the Republic (World Bank, 2002).

From the above discussion one can see that the size of the revenue board is not the same in all revenue authorities. The size and composition of the revenue board varies from country to country. Jenkins (1994:78), however, is of the view that the size of the revenue board should be between five and nine.

### **3.7.3. Staffing**

The other important issue in the organizational design is staffing. According to Devas et al., (2001:219) there are two approaches in which staff can be appointed in a newly established revenue authority. One approach is to advertise all jobs. This means that even the staff in the existing tax departments will be required to apply and compete like any other applicant. The other approach is to appoint all staff (perhaps with few exceptions) of the existing tax department as employees of the established revenue authority.

Experience has shown that both approaches are used by revenue authorities in different countries. Uganda has used the first approach that is advertising all jobs to all including the employees of the existing tax departments. This approach has the advantage of getting rid of corrupt and inefficient staff. In contrast, in Kenya the second approach namely transferring staff to the new organization is used. The latter approach has an advantage and a disadvantage. The advantage is that it is politically easier to implement while the disadvantage is that the opportunity of getting rid of corrupt and inefficient employees is lost. In South Africa, generous redundancy packages were given prior to the establishment of SARS and many people were encouraged to leave. But this has the disadvantage of

losing competent staff as has occurred in the South African Customs and Excise (Devas et al., 2001:219).

What is explained above is how staff is appointed when the existing tax administrations are replaced by the newly established revenue authorities. There is also the question of who appoints the staff. In the case of the KRA, the commissioner-general (CG) appoints all staff members, except the commissioners of customs and excise, income, and value added taxes, who are appointed by the revenue board. The terms and conditions of employment are determined by the revenue board (World Bank, 2002). In the case of South Africa, the law that sets the SARS requires the board to determine the terms and conditions of employment after consulting the trade unions that are powerful in South Africa. Then the commissioner appoints the staff (RSA, 1997; Devas et al. 2001:214; World Bank, 2002).

In Latin America SUNAT has a great deal of control over its staffing system in comparison to the other revenue authorities in Latin America and the rest of the world. The president of Peru granted SUNAT the authority (by issuing a separate decree based on a legislative enabling law) to adopt a non-public sector personnel regime. Therefore unlike SARS in the case of South Africa, SUNAT has the authority to hire and fire its employees without the need to consult with any other public sector entity. In addition, SUNAT is vested with the power to set its own salary structure, if its budget allows this. So the only limitation is its budget. SUNAT must, however, not set salaries that exceed the maximum amount set by the ministry's Office of State Institutions and Organizations (OIOE), although in practice this does not seem to be a binding constraint (World Bank, 2002).

**Table 4: Staffing in Revenue Authorities**

	SAT	SENIAT	SUNAT
Personnel Policy Unit	Fiscal Career Service Commission	Human Resource Department	Human Resource Department and Institute for Tax Administration
Legal Foundation	Fiscal Career Service (regulations issued by board of directors)	Professional Human Resource System (presidential decree)	Internal regulations (issued by presidential decree)
Non-System Employees?	Yes (percentage undetermined)	Yes (only superintendent and adjunct superintendent)	Yes (less than 3% of total staff)
Range of Autonomy	Board must have decisions approved by Ministry of Finance	Complete autonomy (initially)	Complete autonomy

Source: Adapted from World Bank (2002)

### 3.7.4. Funding Basis

The issue of funding is also fundamental to the effective functioning of the revenue authority. There are two funding approaches or mechanisms. One is fixed, the other variable. The fixed budget approach is an approach in which a certain amount of the budget is allocated to the revenue authority. In the variable approach the budget is a function of the tax revenue collected. This means that the revenue authority is allowed to retain a percentage of the tax revenue collected (Devas et al., 2001:219; Taliercio, 2001:4; World Bank, 2002).

Both approaches have an advantage and a disadvantage. The advantage of the fixed budget approach is that it is easy to make corrections on the budget based on the previous year budget. The advantages of a variable budget approach are: One, it gives the revenue authority more autonomy as it is not required to submit its budget to the Ministry of Finance for approval. Two, it can motivate the revenue authority towards

better performance for rewards are based on the tax revenue collected (Devas et al., 2001:219).

Along with the advantages of each approach described above there are also their respective disadvantages. One disadvantage common to both approaches is the difficulty of setting the level of the budget, as budgets set are not in any way related to the resources actually required to run the revenue authority. This disadvantage being shared by both approaches, the variable budget approach has additional disadvantages.

These are: One, tax revenue is not only the function of the performance of the revenue authority. Tax revenue can increase not only by good performance of the revenue authority but also by changes in tax policy, changes in tax rates or exemptions and changes in the economy. This is what happened in Zambia. The initial arrangement allowed the Zambian Revenue Authority to retain a percentage share of the total tax revenue collected. But later on it became clear that tax revenues were increasing significantly for reasons unrelated to the performance of the revenue authority prompting the initial arrangement to be replaced by a negotiated budget allocation (Devas et al., 2001:219).

Second, the revenue authority may focus on an easy to tax sectors and tax payers in an effort to collect more taxes while other goals like identifying tax defaulters, tackling arrears, accelerating trade and controlling banned goods are ignored (Devas et al., 2001: 219-220).

A common compromise position besides the two approaches discussed above is to have either a fixed budget or a variable budget based on the tax revenue collected and then have an additional percentage of the tax collected above a specified

target. The Kenyan Revenue Authority (KRA) is a good example. The KRA retains 1.5% of the budgeted tax yield for the year and an additional 3% of any surplus above the target. But even this approach does not solve the problem of setting the percentage share and the target so as to relate funding with what the organization actually needs. In Kenya there is a view that the basic percentage is set too low hindering the development of the Kenyan Revenue Authority (Devas et al., 2001:219-220).

### **3.7.5. Internal organisation**

There are many ways in which revenue authorities can be organised. The discussion of types of organizational structure for tax administration (Vehorn and Brondolo, 1999: 502) points out three most common models of structuring the tax administration: (1) by type of tax, (2) by administrative function, and (3) by type of tax payer. The three models will be discussed below.

#### **3.7.5.1. By type of tax**

Structuring the tax administration according to type of tax, in which tax departments are set up to administer specific types of taxes, is the oldest form of organizational structure. This type of organizational structure has one key characteristic in that each department contains all functions (like assessment, collection and audit) that are necessary for the tax department to carry out its responsibilities (Vehorn and Brondolo, 1999:502).

Tax administrations, which are organised by type of tax, have advantages and disadvantages. Vehorn and Brondolo

(1999:502) identify the main advantages of the by type of tax organizational structure as follows:

- 1) It establishes clear accountability and control for each tax. Responsibility for any developments relating to a particular tax can be traced directly to the head of the relevant tax department who, in turn, has authority over a complete administrative apparatus to react to emerging problems;
- 2) It allows the tax administration to respond quickly to changing circumstances, such as when new tax legislation is introduced or collection problems are encountered;
- 3) It is particularly advantageous for countries that operate in unstable fiscal environments; and
- 4) In countries where widely different administrative procedures are used for different taxes, the tax-based approach allows the various tax departments to develop specialized programmes that are best suited to the administrative requirements of their set of taxes.

The above being the advantages, there are also disadvantages which come with organizing by type of tax. First, the system may result in high administrative cost and low staff productivity because each department supports its own network of offices independently from the other departments and thus administrative functions are duplicated. Second, the compliance costs of the taxpayers tend to be high. This is because the taxpayers find it difficult to comply with the different requirements of each tax department each of which follows its own administrative procedures. The compliance costs associated with this form of organization will certainly vary with a taxpayer's scale of operations and number of tax liabilities (Vehorn and Brondolo, 1999:502).

Third, there is a possibility for collusion between taxpayers and tax officials. Each department operates independently from the other tax departments, and staff, who perform different

administrative functions within each tax department, tend to have close contact with one another. This situation weakens the checks and balances both between and within the tax departments and encourages collusive action (Vehorn and Brondolo, 1999:502).

### **3.7.5.2. By function**

The other common organizational structure is the function-based model. The main distinctive feature of this type of organization is that staff are grouped around an organization's key functions or work processes. In tax administration this means that separate departments are established to perform each major administrative function process (processing tax returns and payments, auditing tax payers and collecting arrears) over the full range of taxes. In this type of organizational structure there is the tax administration's chief executive officer at the top and each functional department is headed by a manager who is directly under the chief executive officer (Vehorn and Brondolo, 1999:503).

Functional organizations have their own weaknesses and strengths. The main strength of the functional organization is that it helps the tax administration to improve the taxpayers' compliance with the tax laws that is one of the main problems of various tax administrations. It is possible to do so by having one department (audit, collection enforcement, and taxpayer services) that addresses each major form of non-compliance (underreporting, arrears and unintentional mistakes). What makes the functional organization improve the compliance cost is the fact that senior staff get the opportunity to manage all administrative functions across all taxes instead of managing

different functions for a single type of tax. In addition it is easy for the tax administration to conduct comprehensive compliance programmes such as joint audits of indirect and direct taxes (Vehorn and Brondolo, 1999:503-504).

A second strength of the functional organization is that it enables a tax administration to tackle one of the main disadvantages of the by tax organization. That is it reduces administrative costs and increases staff productivity. A third advantage of functional organization is that it improves the integrity of the tax administration by reducing the possibility for collusion between taxpayers' and tax officials. Furthermore a functional organizational structure can serve as a check and balance among staff and the various functional departments. Even though it is difficult to remove misconduct by merely organizing the tax administration functionally, there is a possibility of decreasing such behaviour since any collusion between taxpayers' and tax officials in one department will be detected by tax officials in other departments during the course of their normal activities (Vehorn and Brondolo, 1999:504).

Although the function-based organization provides the above advantages, it also suffers from one major weakness. The main weakness of functional organization arises from the way it is organized. In a function-based organization each functional department concentrates on a narrow aspect of taxpayers' affairs and in isolation from the activities carried out by other departments. Thus the fragmented nature of the organization causes the tax administration to carry out its duties poorly when it deals with issues that cut across departmental boundaries and leads to poor service to tax payers (Vehorn and Brondolo, 1999:504).

### **3.7.5.3. By type of taxpayer**

Another way in which the tax administration can be organized is by type of taxpayer where staff are assigned to departments that concentrate on specific groups of taxpayers'. The groups can be differentiated based on the taxpayers' scale of operation, form of ownership or economic sector (Vehorn and Brondolo, 1999:504).

Like any other form of organization this approach to organizing the tax administration has strengths and weaknesses. The first benefit is that it offers the opportunity to strengthen the accountability for achieving organizational outcomes. In this form of organization each department is responsible for a specific group of taxpayers' and thus has the ability to achieve the ultimate objectives of the tax administration like promoting compliance, improving services and increasing productivity (Vehorn and Brondolo, 1999:503).

In a function-based organisation this cannot be easily accomplished since the objectives cut across the boundaries of many functional departments. In contrast, if the organisation is structured by taxpayers it can diminish the problem by establishing a direct link between each department and its specific group of taxpayers. Thus it makes it easier to the performance and outcome of each department (Vehorn and Brondolo, 1999:505).

A second benefit of a taxpayer-based organization is that it enables the organization to allocate resources based on the risks posed by each group of taxpayers to the normal function of tax collection. The third and final benefit of the taxpayer-based organization is that it enables the tax organization to improve the compliance level by tailoring enforcement and educational programmes according to the compliance pattern of

each group of taxpayers. It thus has the potential for achieving high levels of compliance and better quality of services to taxpayers (Vehorn and Brondolo, 1999:505).

These being the strengths of the taxpayer-based organization it also suffers from many potential disadvantages. First, since common functions are being replicated across taxpayer-based departments, administrative costs might increase. Second, the model in itself is unlikely to achieve a high level of taxpayer compliance, if sufficient skilled staff are not available. On the contrary, it might even lead to a decline in compliance as the small number of skilled staff will be forced to stretch across the organisation. This shows that the achievement of a taxpayer-based organization depends not only on the model itself but also on the availability of highly skilled staff to redesign the administration's enforcement and educational programmes so that they are better suited to the circumstances of each group of taxpayers. But it is known that the shortage of highly skilled staff is a problem in many countries (Vehorn and Brondolo, 1999:505-506).

Third, since the taxpayer-based departments operate independently it might lead to seemingly inconsistent application of the tax laws across different groups of taxpayers and might make the organization vulnerable to corruption. This might cause the taxpayers to view the tax administration with suspicion and lose confidence in the fairness of the tax system. Ultimately this will lead to low levels of compliance. Thus, to avoid this situation, the tax administration must apply a strict internal audit and oversight programmes (Vehorn and Brondolo, 1999:506).

The above discussions show that a tax administration can be structured in three main organizational forms. In addition a mix of the three can also be established. Now the question is, which

one of the three types of organizational structures is applied in the already established revenue authorities? As can be seen from Table 5 below, there is no one type of organizational structure that is consistently applied by all the revenue authorities in various countries.

**Table 5: Organizational structure of tax administration for selected countries**

Note: C= central level, R= regional level, L= local level, U= under Finance Ministry, O= outside Finance Ministry, P= part of tax administration, S=separate from tax administration, and \* = countries, which have established revenue authority

Country	Minister	Under		Placement			
		Finance	tax	By taxpayer	By function	Mixed	of customs administration
Albania	Yes	C		L			U, S
Argentina	Yes				C		U, P
Armenia	Yes			L	C		U, S
Aruba	Yes				C		U, P
Australia	No			C, R			S
Austria	Yes	C, R		L			U, S
Azerbaiján	No	C			R, L		O, S
Bahamas	Yes	C, L					U, S
Bangladesh	Yes			C, R, L			S
Barbados	Yes			C			U
Belarus	No	C, R, L					O, S
Belgium	Yes				C		
Belize	Yes			C			U, S
Bermuda	Yes			C			U, S
Bhutan	Yes				C, R, L		
Bolivia	Yes			R, L	C		
Botswana	Yes	C					U, S
Brazil	Yes			C			U, P
Brunei	Yes						U, S
Bulgaria	Yes				C, R, L		S
Canada	No			C, R, L			O, P
Cambodia	Yes			C, R, L			U, S
Cameroon	Yes			C	R, L		U, S
Chile	Yes			C, R			U
China	No			L	C, R		O, S
Colombia	Yes			R, L	C		U, S
Costarica	Yes			C			U, S
Croatia	Yes				C, L		U
Cyprus	Yes		L	C, R			
Czech Rep.	Yes	C, R		L			U, S
Denmark	Yes			R	C		
Dominican							
Republic	Yes			L	C		U, S
Ecuador	Yes			C			U, S
Egypt	Yes	C					
El Salvador	Yes			L	C		
Eritrea	Yes				C, R, L		U, S
Estonia	No	C		L			O, S
Ethiopía	No				C, R		O, P
Fiji	Yes		C				U, S
Finland	No			R, L			
France	Yes			C, R	L		U, S
Gambia	Yes						U, S
Georgia				C, R, L			S
Ghana*	No			C, R, L			S
Greece	Yes				C		U, S
Guatemala	Yes				C		
Haiti	Yes			C			U, S
Honduras	Yes				C		U, S
Hungary	No	R, L		C			O, S
India	Yes	R, L			C		U, S
Indonesia	Yes	C			R, L		U, S
Iran	Yes	C					U, S
Ireland	Yes	C					
Israel	Yes	C, R, L					
Jamaica*	Yes			L	C		U, S

		Under Finance		Placement of customs		
Country	Minister	By tax	By taxpayer	By function	Mixed	administration
Japan	Yes			C, R, L		U
Kenya*	No	R, L		C		O, P
Kuwait	Yes			C		O
Kyrgyzstan	Yes	C, L				U, S
Laos	Yes			C, R, L		U, S
Latvia	No			R, L	C	O, P
Lesotho	Yes	C, L				U, P
Lithuania	Yes	C		L		U
Macedonia	Yes	C, L				U, S
Malaysia	Yes			C		
Mexico*	Yes			C		U
Moldova	Yes			L	C	U, S
Mongolia	No			C	R, L	O, S
Namibia	Yes			C, R		U, S
Nepal	Yes				C, L	U
Netherlands	Yes		L		C	U, P
Neth. Antilles	Yes				C	U
New Zealand	Yes		R, L	C		
Nicaragua	Yes			R	C	U, S
Norway	Yes				C, R	
Pakistan	Yes	R, L			C	U, P
Panama	Yes			C, R		U, S
Paraguay	Yes				C	U, P
Peru*	No				C	U, P
Philippines	Yes				C, R, L	U, S
Poland	Yes	C, R, L				U, S
Portugal	Yes				C	
Romania	Yes			C, L		U, S
Russia	No				L	C, R
Rwanda*	Yes		C, R, L			U
Sao Tome & principe	Yes				C	U, S
SaudiArabia	yes					U
Sierra Leone	Yes				C	U, S
Singapore	No			C		U, S
Slovak Rep.	No	C, R, L				O, S
Slovenia	Yes				C, R, L	U, P
South Africa*	Yes	C,R,L				U, P
Spain*	Yes			C, R, L		U, P
Sri Lanka	Yes	C				U
Suriname	Yes				C	U, P
Swaziland	No	C, R			L	
Sweden	No			C		O, S
Tajikistan	No	C, R, L				O, S
Tanzania*	No	C, R		L		O, P
Thailand	Yes	C, R, L				U, S

Country	Minister	By tax	By taxpayer	By function	Under	Placement	
					Finance	of customs	
Trinidad & Tobago	Yes			C		U, S	
Turkey	Yes			L	C	O, S	
Turkmenistan	No	C			R, L		O, S
Uganda*	No			C, R, L		O, P	
Ukraine	No	C, R, L				O, S	
United Kingdom	Yes				C, L	U, S	
United States	Yes			C, R, L		U, S	
Uruguay	Yes				C	U, S	
Uzbekistan	No				C, R, L	O, S	
Venezuela*	Yes			C, R, L		O, S	
Vietnam	Yes	C, L				O, S	
Westbank/Gaza	Yes	C, R, L				U, S	
Yemen	Yes	R, L			C	U, S	
Zambia*	No	C, R, L				O, P	
Zimbabwe	Yes			C		U, S	

Source: Adapted from Vehorn & Brondolo, 1999: 499

In the above table there are 12 countries that have established semi-autonomous revenue authorities. From the table the following observations can be made. One observation is that, most of the countries with established revenue authorities are in Africa and Latin America. The second observation is that all revenue authorities do not have the same type of organizational structure. Three out of 12 countries in the table are organized by type of tax. One out of 12 countries is organized by taxpayer. Most of these countries, that is five out of 12, are organized by function. Three out of twelve countries have a mixed type of organizational structure.

The third observation is that some of the customs departments (five out of 12) are placed outside the Ministry of Finance while others (six out of 12) are placed under the Ministry of Finance. But in most of these countries the customs department is combined with the tax department. This shows the fact that in countries operating under a revenue authority the trend is toward the consolidation of the various tax departments.

A final observation is even though many countries in the table, including those operating under a revenue authority, place their tax department under the ministry of finance half of the countries, which have established revenue authority, place their tax department outside the ministry of finance favouring the current trend of more tax administration autonomy (Vehorn and Brondolo, 1999:507).

### **3.8. Chapter summary**

In this chapter the theoretical framework of the revenue authority model was discussed. From the literature it is clear that the creation of semi-autonomous revenue authorities is gaining momentum. But there is still an ongoing debate in favour of and against revenue authorities.

The argument for revenue authorities is based on the following facts: One, revenue authorities can improve the compensation scale of tax employees when they are autonomous from the general civil service. Two, they can be flexible in managing their human resource in a private sector like mentality. Three, they have the flexibility to manage their budget being independent from the ministry of finance. The fourth and most important argument for the revenue authority model is the ability to consolidate the tax functions and thus improve the efficiency of the tax administration.

The arguments against the revenue authority model are: One, the increase in costs because of the establishment of the revenue authority. Two, the fear that the revenue authority may lead to the fragmentation of the public service. Three, the risk that arises because of the autonomy exercised by the revenue authority. Four, revenue authorities being independent, they can be susceptible to corruption.

The internal organisation of revenue authorities is also discussed. It is found that there is no one type of organizational structure, which is consistently applied by all the revenue authorities in various countries. Some are organised by type of tax while some are organised by function and still others by type of taxpayer. Finally it is important to note that the revenue authority model can be well worth considering although it is not a panacea for every thing.

## Chapter four

### 4. Conclusion

The ultimate objective of tax administration should be to implement the tax system efficiently, and effectively and to fulfill the constitutional requirement that all citizens bear the burden of public expenditure according to their economic ability. To fulfill these objectives tax administration reform is taking place in many countries. In this paper the creation of revenue authorities as one strategy of improving the tax administration is discussed.

The objective of the paper is, then, to investigate whether revenue authorities are the right vehicles for successful implementation of tax administration reform. To achieve this aim an attempt was made through the use of literature review. Much of the literature on revenue authorities is descriptive, discussing the arguments for and against revenue authorities and elaborating the organizational design of revenue authorities and why they are important in today's competitive world.

Even though there are variations between countries, generally the established revenue authorities have the following key characteristics: autonomy from civil service regulations with respect to hiring and firing staff, the amalgamation of traditionally separate tax departments namely the Inland Revenue and customs departments, and flexibility in managing their budget. The amalgamation of customs and income tax departments under the revenue authorities is a particularly noteworthy African trend.

The disadvantages of the revenue authority model are: the increase in costs, the possibility that the revenue authority may lead to the fragmentation of the public service, the risk of abuse

of the public and public resources, which arises because of the autonomy exercised by the revenue authority and corruption.

To overcome the above disadvantages it is recommended that:

- One, there should be a clearly defined relationship between the government and the revenue authority so as to prevent the fragmentation of the public service. The relationship should usually be through the Ministry of Finance, which should be responsible for fiscal policy and regulation of the organization.
- Two, the autonomy granted to the revenue authority has to be matched by an appropriate regulatory framework and public accountability that sets policies and targets and monitors performance. This can prevent the public and public resources from being abused.
- Three, the tax structure should be as simple as possible so that tax officers have minimum discretionary authority and thus prevent corruption.

Finally it can be said that even though the literature on the arguments for and against revenue authorities is not conclusive, there is more evidence that the revenue authority model improves the tax administration than otherwise.

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