

USAID/Fiscal Reform Project
Workshop on IT Systems & Revenue Management in Developing and Transition Economies
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Workshop Proceedings Summary – Day 2

John Reece, Chairman and CEO, John Reece & Associates, LLC
U.S. IRS: Modernization Experience (Income Tax)

In this session, John talks about where IT should be in most enterprises and how IT should function and provide service. He provides an overview of IRS modernization and uses this as the jumping board for how IT modernization relates to the overall enterprise modernization effort.

Where IT needs to be: We don't think about IT people as change agents. Other than the CIO, nobody can better figure out IT purposing. We need to repurpose the IT function, and make it operate as contributing greatest possible value to an organization.

The IRS experience: In the 1990s, at the outset of its modernization program, the U.S. IRS looked at classifications of its 100,000+ workers. By segmenting them, the IRS could bring better toolsets and capabilities to each segment. One was the 14,000 revenue agents in the field: laptop vs. desktop was a huge debate. Staff needed portable printers, cell phones, etc. depending on the function. For the person answering the phone in the call center, on the other hand, it was more appropriate to have a desktop. Value needs to be considered in these terms: What tools do people need to do their job?

The old way of thinking among CIOs was that IT efficiency should be paramount. Today, we need instead to try to maximize mission that IT serves, and think about IT's overall contribution to how the business operates. Most CIOs let budgets drive investment, rather than considering resource productivity (getting the most for the least). Technology tends to be the principal issue, more so than how the enterprise actually functions (getting Total Value from Operations (TVO); business processes, IT applications and all technical toolsets). The main objective should be to maximize individual worker effectiveness and mission achievement across the enterprise.

IRS Modernization Program – The Barriers to TVO: Despite being an organization with bright, hardworking, totally dedicated people than the IRS; the modernization program faced many barriers from the outset:

- There were 43 'beehives' in the IRS (district & regional offices across the country); very people-driven; had many of their own local systems; and ran pretty independently.
- Each had their own view of how things should not be changed. They wanted to keep doing it this way because it was what they knew. It was hard to convince people to change.
- People were not thinking about the chain of activities in aggregate.
- Legacy system built in 1963; became one of most complex systems in the world.

In short, operations and systems were decentralized, independent and people-driven. Resistance to change was strong. People were not able to think about the chain of activities in the aggregate. And, legacy systems dating back to the 1960s were difficult to overcome.

IRS – new commissioner came in with objective of creating a new, friendlier IRS

The modernization strategy focused on three things:

- Organizational modernization
 - Centralized policy and enforcement
 - Taxpayer segmentation
- Balanced measures (Performance indicators must be quantifiable)
- Business systems modernization
 - Process reengineering
 - New technology

IRS –Dimensioning the Change: Modernization was considered from the viewpoint of business systems. Big changes were introduced. The agency moved to a dynamic, taxpayer-centered system that was citizen needs-driven and computer-assisted. Funding went from year-by-year to program. Systems design moved from IRS-built to integrated “best of breed”. Security and privacy moved from bolted on to fully integrated. The IRS made also made a huge shift from a predominantly mail / phone interface to an online interface.

Example: IRS – toward optimized worker productivity: There are very few CIOs who look at their workers and ask whether they’ve been given the right tools. Value can be maximized through segmenting workers, streamlining and simplifying procedures, configuring toolsets, tailoring services and support, setting performance measures, and monitoring and measuring payoffs.

IRS / Deploy Technology-Rich Worker Toolsets: There are great capabilities out there to let us pick toolkits and adapt them to workers. Need to first map functions, and then determine which high tech tools can innovatively support these functions.

IRS future – integrate vertically and horizontally: We will increasingly be partners in a global environment; we will find that people, stakeholders, customers go online, and they expect to be able to buy anything—they’ll have the same expectations for paying their taxes.

<p>Scott Peterson, Executive Director, Streamline Sales Tax (SST) Governing Board U.S. States’ Modernization Experience: Streamlined Sales Tax Update</p>

The big difference between the IRS and the SST: there is no Queen Bee. However, the IRS and SST are all trying to do the same thing. The IRS’ advantage—they had someone at the top directing that effort. What we have are a group of interested parties who are concerned about their ability to administer a sales tax; that is vital to their governments’ operation. The other key difference between the IRS and states is that the IRS largely deals with one tax (income tax), whereas states have many, radically different taxes.

In the US, the Sales Tax is the number one revenue generator - more than income.

The Streamlined Sales Tax project is an effort to simplify sales and use tax administration. We tried to do this for 2 different sets of people: current collectors and remote sellers. Why? Businesses need a better system—particularly retailers. States systems were completely separate and didn’t work well together.

There is a need to simplify state tax administration; a need to improve compliance (and to lower the tax gap—which is in the billions of dollars); a need to spend time on criminals, not just people making mistakes; and a need to solve the problem of remote sales tax collection. States do not have customs at their borders. The only solution is to convince people it's the right thing to do.

This SST project is important for businesses because it reduces their costs of doing business; reduces audit burden; and addresses multi-state issues.

The good news with the IRS, they only have one tax. States have many, radically different taxes.

The tax gap is between \$21-33 billion in uncollected state and local sales tax by 2008. This presents serious equity problems. Who is bearing the tax burden?

How does the SST project get states' buy-in to harmonize and simplify their tax systems? Today there are 44 states and 24 local governments working on these persisting issues:

- Single administration of state and local sales and use taxes (can't force retailers to go to more than one institution to get answers)
- Need identical tax bases between state and local (e.g. clothing)
- Uniform point of sale;
- Uniform definitions; half the states exempt groceries, half do not; half tax candy, half do not. Is a Twix bar a candy or a cookie? States disagree on how to code these things.
- Simplified exemption processing:
- Rate simplification: most states had multiple rates (cars, shoes, etc.)
- State funding of technology:

New technologies that are simplifying tax systems:

- Central registration system (web-based; businesses don't appreciate having to notify all states that they have a new corporate officer; this system obviates that). Walmart has 3 people on staff who do nothing but keep state registration systems updated with their corporate information.
- Database matching tax rates to local jurisdictions
- Database of boundary information, posted to state websites and downloadable.
- Taxability matrix: A state database that tells sellers what is and what is not taxable; sellers are not liable for errors in how something is taxed if they follow what is in the taxability matrix.
- Certified technology for sellers: We are in process of looking for companies to provide sales tax administration software to sellers at state expense. There are two versions of certified technology: A) certified service provider (CSP); allows a company to outsource this function; not free; states will share in the cost; you integrate your accounting systems with the tax system; third party is responsible for filing your tax; b) certified automated systems (CAS); you're responsible for filing the return and paying the tax.
 - What makes a CSP and CAS valuable for the state? We know that the system is accurate. CAS is exactly the same concept, except it is inside your firewall. Companies can opt for this if they do not want to share their sales information, for example.

If customers use the middle three bullets (if they use the technology) and there is an error, the state is liable. Retailers are immune from these liabilities. Why? Because the technology is SST-certified.

There's no reason why sellers need to be in the sales tax administration job. That is the state's job, and the state should pay to do that. We think this technology eases the burden—both on states and businesses.

Discussion

Q/ Does anybody see a regional (i.e. more than one country) application for this?

A/ The Caribbean is a good example. If you take each country in isolation, they have small populations but all the trappings of government institutions. However, you still have privacy, competition and parochial rivalries to contend with.

On the government side, some of this is happening already. On the business side, there is a lack of tax practitioner experience (e.g. in Nigeria, no licensed practitioners). Nigeria has roughly 10,000 VAT payers, but no certified agents to help file tax returns. The costs of compliance are, therefore, high. One model would be to introduce this type of system only for large taxpayers.

In the EU, there are fairly harmonized VAT laws and free movement of goods. The EU also manages common systems on behalf of the member countries. Does CARICOM have the same teeth? Maybe not, but they might have the same business pressure. Tax Administrations can also drive this; you do not necessarily need a regional body to drive this.

If you believe that there might be a regional solution, and it might have to do with IT, who in the world is going to design the certification standards (and cope with certification systems, and upgrade certification capabilities, etc.)? Maybe this is a good entry point for USAID/IMF/World Bank.

There are many common examples of standardization of this kind: international public sector accounting standards; international civil service commission, etc. For revenue collection, standardization would make both the governments' and businesses' lives easier.

Comment/ This discussion is focusing on finding ways to help enterprises through immensely complex systems rather than making the system simpler. For developing countries, we are trying to make these systems simpler. Having vastly complex systems does not help the enterprise.

**Richard Ainsworth, Professor, Boston University, and Tax Counsel, Taxware
Digital VAT and Development**

E Solutions: Which way for developing countries? Should we adopt/ recommend completely vertical solutions (solutions that resolve all issues from largest to smallest taxpayers, where the problems are commonly that solutions work for large taxpayers like Chevron, but what have difficulties when applied to small business) or should more horizontal solution be adopted/ recommended (solutions that apply to large taxpayers across a whole region)?

Tax concentrations (context)

- 10% of firms = 90% of turnover (Ebrill, 2001)
- On average, 1% taxpayers = 50% of revenue (Baer, 2002); (though we still don't know what *kind* of revenue)

- On average 55% VAT = Border collection.

Here is what we need to know: How much of VAT was collected by large taxpayers? The answer is: In most cases between 65-86%.

Both customs and VAT are highly automatable taxes. Businesses are currently calculating indirect (transaction-based) taxes using some kind of commercially available software.

Opportunity: We are going to wander into corporate governance now. Enron (in the US) is not the whole story of the recent corporate governance failures. In Australia, HiH and OneTel; in Europe there were failures at Vivendi (France), Parmalat (Italy) and Ahold (Netherlands). In each case the governance failures occurred because the governance systems were not sufficient to demonstrate control over internal financial processes. There needed to be better solution for promoting better governance. As a result, most developed countries are undergoing corporate regulatory reforms.

What does this mean for the developing and transitional economies? It means that the major foreign investors [corporations like Chevron, Exxon, Honda, Toyota, IBM, Mercedes Benz, Volkswagon etc.] who are present in the developing and transitional economies are being placed under tighter regulatory controls by their home governments. The corporate regulatory reforms have focused significantly on the verification of corporate cash flows. Internal controls over cash flows are required to be certified. CEOs and CFOs face harsh penalties if their cash flow systems are not transparent and fully compliant. As a result, companies are developing automated, third-party certified, automated systems to manage cash flows.

Because the VAT and RST are all about cash flow, the compliance capabilities of these companies are exceptionally well tuned. CEO's and CFO's are anxious to enter into advanced agreements with governments about their compliance. Because VAT collection run about 20% of gross sales offers to certify internal VAT compliance systems are welcomed. Developing and transitional countries only need to find ways to verify the compliance.

The OECD sees an opportunity here to improve corporate compliance and ease tax burdens. They have produced a set of guidance notes that propose the beginnings of an international certification standard for automated systems within major corporate enterprises. OECD will lead this effort.

Software opens the door of opportunity. The EU saw this when they had a problem with digital sales into the EU from non-EU-established businesses. Companies like Amazon were selling products into EU, had obligations to collect the VAT, but were not always compliant. Thus the EU changed the rules for compliance, and selected a fully digital option (the Digital Sales Directive). The EU changed the place of supply. The new solution involved registration without establishment in the EU. Businesses were offered the opportunity to e-register, and complete all transactions with local tax administrations digitally. One return was used for compliance in 25 countries. The return was filed in the country of your choice and in the language of that country. However filing was required to be fully electronic. **This is a regional solution. It is the kind of digitally developed regional solution that could easily be adopted within discrete business segments in developing and transitional economies.**

Argument:

- Large taxpayers in developing countries have a high concentration of VAT;
- Technology is proven for fully automated VAT compliance, (e-registration, e-filing, e-payment, and e-reports);
- There is a global inclination among the largest companies to move towards automated, certified solutions; -- CEOs and CFOs welcome certified VAT compliance systems because they reduce risk.

This is a developing and transitional country's leverage – the CEO and CFO of a multi-national corporation are very, very concerned about having good controls, good (transparent) financial over customs and VAT compliance.

Proposal: In the EU, a digital VAT is elective for taxpayers not mandatory. The proposal for developing countries would be to make digital VAT mandatory. This would include:

- Digital invoices.
- Certification of automated systems.
- CSP/CAS/CPS structures as in the Streamlined Sales Tax in the US
- Uniform product and service codes: you can either adopt your own, or model it off some of the existing.
- Automated (third-party) Remission of Funds:
- Compensation structures that either function through sharing the float or through direct payments by state or government; this is not free, but it is not that expensive either;
- Large corporations would then be in compliance with global governance regulations that require verified, certified systems (including tracking VAT).

Conclusion

Developing countries have an opportunity. Many of the major companies operating within their countries already have the software and automated systems in place that will easily move toward a fully “digital” VAT compliance model. Some governments might need funding assistance to help with the certification of corporate systems within their borders so that assurance that the corporate software works and calculates the tax correctly. It may be best for a developing or transitional country to start with the largest taxpayers before moving to other parts of the tax population, or to seek solutions that involve region-wide certified systems.

Discussion

Q/ We should not underestimate the lack of infrastructure in many developing countries.

A/ In this proposal we are stepping away from the prevalent analysis of technology in the tax system – the approach that looks at the use of technology WITHIN the tax administration. Here we are looking at the problem (or more accurately the solution) from WITHIN the existing technology infrastructure of the company. If a third party can assure calculation accuracy, and can secure the tax revenues from the company, deposit the funds and complete the returns in whatever format (paper or electronic) that the tax administration requires, then we have a new solution to a very difficult problem.

Q/ What will the third party do that the ERP system is not already doing?

A/ The third party will be certified. This proposal concerns the integration into a business's accounting system of verified software systems that will ensure that nothing the business does escapes being collected. As compared to the EU this proposal would also automate the refund process, something that is not part of any automated VAT compliance system currently in use.

**Jean Gurunlian, CEO, Webb Fontaine Holding S.A. and Government Executive Vision
Customs Modernization: IT Developments and Integrity – The Future**

Technology is a catalyst for reform, but it is not a panacea. In the first two countries where UNCTAD introduced ASYCUDA some 30 years ago — Mauritania and a neighbor country— the same team of experts was operating in the two countries. After two years, the neighbor country was not producing significant results; while in Mauritania, Customs revenue increased by 300%. Lesson learned: It is the willingness of the country to adopt the necessary reforms that is the key to the success of the system.

Leading edge IT developments in revenue systems

Still, technology is integral to success. Do you need this complex technology? Yes it is needed in Africa and the developing world. The new technologies that are coming *are* the technologies that these countries need. The corruption problems are such that there is a need for additional control; these new technologies offer these controls. Telecoms will be available in Africa and elsewhere – we should not assume otherwise.

Objectives: The main objectives of customs modernization revolve around increasing government revenue; enhancing transparency and control; and, improving trade facilitation and security.

Key prerequisites: for achieving these objectives include:

- Valuation and risk analysis
- Staff training
- Procedures – linked to the kind of system you are going to use
- Audit body
- Infrastructure – IT and telecom
- Management commitment to modernization and curbing corruption

We cannot just think about customs. We must look at every step of the trade chains. All actors count today and with this in mind we need to visualize a *Single-window* portal for trade efficiency:

- One portal for business (SME, MNCs), citizens, employees, and governments
- Access to services based on user needs
- Secure transaction online (payments)
- Digital signature transactions

What users want is an access to all e-government available services through a single Web system. In order to have a modern system, you must be able to respond to the needs of two types of clients: big MNCs and small enterprises. It is important to be aware that big MNCs will certainly not use the Web single window. They will instead use XML messages to link their internal systems to the government systems. Smaller companies will definitely use the web single window in so far as interfaces are user friendly and simple.

The Government Executive Vision (GEV) is a system that works as a layer on top of most existing Customs automation system. It mainly works on real-time intelligence; tracks all transactions; produces alerts when there is a problem somewhere; centralizes information on people, etc.; and provides information to help manage administration. The system is currently under implementation – it is not a prototype.

Within this system, you need to differentiate between large multinational clients and small businesses, as their needs and the complexity of their transactions can be very different. Clearly, the interface for small businesses needs to be very simple.

GEV System Architecture: The GEV system provides a single window portal to agencies across government, offering separate Internet interfaces for managing and monitoring Customs transactions (declarations, goods in clearance, etc.), as well as for the information needs of key agencies (Ministries of Trade, Finance, Interior, Tax Administration, Central Bank, Anti-corruption cells, etc.).

GEV Data Warehouse: A centralized GEV data warehouse stores all data entered into the system, provides easy access to information in the system to all users, and allows for real-time data mining and real-time alarm triggers that allow Customs authorities to take action before the goods are moved out of customs. For example this cross-cutting architecture of the system better enables the government to identify potential cases of collusion, or identify a truck that comes into the country “in transit” but will in fact unload its goods without declaring them and many other issues of this type. The tax administration will also have access to customs data, and will be able to pinpoint the smuggler/evader and provide necessary notifications to customs authorities.

The GEV system also assists in the monitoring of trade facilitation—for example, in providing necessary information to deal with a slowdown at a particular port or an excessive delay in inland transit. For every step, the system can record the time that has elapsed, and can use GPS to track goods. Furthermore, a customs officer can readily obtain information on reasons for the delay and take immediate action to speed the process up.

It manages internal customs administration issues, such as managing staff allocation and monitoring office performance. It also provides an efficient electronic conduit for real-time revenue reporting, trade statistics and other data relevant for government economic planning.

The GEV system features biometrics. The system will automatically display the list of services / programs a particular individual is allowed to access at the time of log-on. There are also benefits for individual traders / users. For example, a trader can easily enter information about what he wants to declare, and then receive e-mail or SMS alerts when the goods have cleared.

In the GEV system that we are currently in the process of implementing, wireless devices are also available for anti-corruption agents in the field. This is very much “big brother,” but it is needed in some countries, at least at the outset to deal with unusually high levels of corruption.

Discussion

Q/ Where is this being implemented?

A/ Nigeria. This has generated a tremendous interest among other countries as well and other contracts are being signed.

Q/ Political will? Corruption?

A/ The Head of State surrounded himself with a strong team of Ministers and a Comptroller General of Customs working hard to wipe out corruption at all levels. Corruption cannot be eliminated completely – it is not even the case in developed countries-, but it can be reduced to an “acceptable” level, particularly with the mix of modern technologies and political will.

The people who have made money off the present system – particularly in the private sector- have made millions. The resistance to change of those who benefit of the present situation is very important.

To change this, you need to punish firmly the importers using these methods. The problem of the low wages of the staff also needs to be addressed.

Q/ To get results from IT, all of this other stuff (wages, capacity, anti-corruption, etc.) needs to get done. Please address.

A/ The real question is, what do you do with the data identifying problems areas? Measures have to be taken against offenders and it can be done at different levels.

Q/ If you find that salaries are totally inadequate, how do you move forward?

A/ Customs is now being given 7% of the revenue; (This is generous, relatively.) I understand some of this may be used to address low salaries & other issues.

Q/ In Georgia, salaries were raised in the tax area, and it did make a difference in the level of corruption, but because they did not also do so in customs, corruption did not stop. Another factor: bringing in more women as inspectors; they may be less prone to be corrupted.

A/ The question of women has not been raised at all, because Nigeria has not been allowed to recruit since 1999. A number of young people need to be recruited and trained.

Q/ How is risk captured? Are mathematical models trustworthy? Are they too deterministic? How can they be monitored, evaluated, and retooled?

A/. The risk assessment system involves a number of criteria that all experts worldwide use and they maybe somewhat deterministic. But the criteria are continuously and often automatically adjusted locally on the basis of experience and the risk assessment models remain the best way to identify risk. For more details you may need to ask our expert on this subject.

<p>Peter Richer, General Manager, South Africa Revenue Service (SARS) South Africa: A Decade of Transformation and Achievement</p>
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The Challenge of 1994: South Africa’s democratic transition required massive institutional reform. The country went from autocratic states (balkanized by the previous administration) to one democratic state. It had to deal with the legacy of disparities in rights and wealth created by the old regime. The country set out to create a wide number of institutions that would begin to guarantee the rights set out in its constitution, to create a modern, vibrant public sector.

Among the institutional challenges that the government faced in this transition, several tax administrations had to be merged into one. SARS was created as a state agency, responsible for both inland tax and customs. SARS’ creation led to a professionalization of the tax service, changing it from a pedestrian civil service organization to something modern and successful.

In 1994, the government embarked on the establishment of a comprehensive social security system. Between 1994 and 2004, the number of beneficiaries rose from 2 million to 7 million, and expenditures on income grants rose from 10 billion Rand to 37 billion Rand. Major additional public expenditures were required for housing, shelter, water and sanitation, electrification, health care, and education.

In the 12 years since the reforms began, government expenditures rose significantly, yet at the same time deficits fell and tax rates dropped. While a vibrant economy and strict fiscal and monetary policies contributed to the strong fiscal performance, SARS deserves much of the credit. Specifically, it was because SARS was able to raise levels of compliance in the country that the government was able to accomplish the other changes.

Many other dev countries have had to borrow heavily, resulting in an increased deficit; South Africa has not had to face that.

The SARS Act of 1997 gives following mandate: Collect all revenue that is due; ensure maximum compliance with legislation; and provide a customs service that maximizes revenue collection, protects our borders and facilitates trade.

This can be a double-edged sword: The country is two economies in one. We need to:

- a) Raise levels of compliance in the First Economy
- b) Facilitate the transformation of the Second Economy via tax relief; and
- c) Build a national culture of fiscal citizenship.

We see this as a political mission. We have gone back to original ideas that paying tax is a citizen's right and obligation.

In 1999, we embarked on a transformation called Siyakha (means "we are building"). South Africa has 11 official languages. We went from a situation in which every tax administration had their own tax registration; their own systems; their own IT systems for each tax type. We needed to bring all that together to a single point of registration. We needed quicker turnaround and greater simplicity. We have been through various reforms to simplify the tax system, by removing the complexities of deductions. We have reduced the tax rate to compensate.

We have identified convenient channels, like using SMS. We had to make allowance for people that had access to high technology, and those who had no access at all. We needed also to professionalize the tax service from pedestrian civil service to something modern and successful.

SARS faced the challenge of a dual economy in South Africa. On the one hand, it had to raise levels of compliance in the "First Economy," and on the other, it had to facilitate the transformation of the "Second Economy" via tax relief. SARS also had to work to build a national culture of fiscal citizenship, based on the concept that paying tax is both a right and an obligation.

SARS IT overview: SARS transformed revenue administration from multiple institutions each with its own tax registration process, its own IT systems, and separate systems for each tax type, to one agency with a single point of registration, collection, enforcement, etc. SARS installed PeopleSoft and SAP as the platform for the new, integrated system. In addition, the agency was given the authority to pay competitive salaries and adopt commercial hiring practices. As a sign of the change in organizational culture, over the transformation period, employment of females in the agency grew to more than 50%, as did the number of black employees.

Various reforms were undertaken to simplify the tax system, including eliminating certain deductions and reducing tax rates to compensate. Tax compliance was made simpler through the use of new technologies. A key area of emphasis was improving the outward connection to taxpayers, including diversifying the channels for taxpayer contact with the administration. Ten years ago, there were only

two ways to connect to the tax service: on foot or through the post. Now, SARS is working to segment the client base and provide a range of services to each segment, including SMS. Special provisions are being made for taxpayers that have access to high technology, and for those who have no access at all.

Throughout SARS' transformation, it has had to deal enormously with issues of skills and capacity building. In fact, there is ongoing debate in the organization concerning whether it has put too much emphasis on IT, as opposed to training, building management skills, etc.

The SARS operating model: The model starts with engaging, assisting, and educating the taxpayer. Next it focuses on creating interfaces and channels to enable taxpayers to communicate with the agency, and then on means for registration or licensing (in the customs environment), and enabling taxpayers to file, pay, query, and communicate. Accounting processes and risk tools inform the audit, collections, and investigation functions. There are also needs for managing appeals and litigation. SARS has kept trade administration and border security separate because these are elements of customs that are clearly different.

In implementing the operating model, SARS introduced various new services and technologies. It built and staffed inbound call centers, handling 13,000 calls and 4,000 faxes and emails daily, and outbound call centers, staffed with 170 collection agents that handle 170,000 calls per month. It introduced e-Filing, with 500,000 users and 19,000 forms captured daily. In addition, SARS bank, the agency's payment system, processes 6,000 payments daily.

Unfortunately, NITS, the home-built IT system that SARS developed about eight years ago, has failed to meet the agency's needs. Among other things, basic business processes, such as drawing a report, are slow; and, the systems for pay-as-you-earn (PAYE), the skills development levy (SDL), and unemployment insurance (UIF) are completely separate.

Where are we going? The Sunburst Model: SARS' new Sunburst Model is built on three pillars:

1. *Channels:* Delivery mechanisms include banks, Mail/email/fax, pager/PDA/cell, phone, web face-to-face, administrative systems.
2. *Applications:* Systems that must provide the business functionality: Data warehouse, third party data, transaction processing, customs management, identity management, support systems, registration management.
3. *Infrastructure:* Core foundation elements that provide a stable base off which to run all applications and systems.

The Sunburst Model is guided by the following principles:

1. ICT priorities and requirements should be business-driven.
2. "Buy, rather than build," although even buying requires a huge amount of building and customization.
3. Where applicable, technology should be open source.
4. All processes and services should be built around a 24/7 infrastructure.
5. Channel availability should be 24/7.

Each key element of the Sunburst has a champion or driver—a strategic person, not an IT person. Each key element has a detailed strategy, roadmap and budget aligned to both the business strategy and the transformation plan.

SARS is working intensively on expanding channels and developing new devices to assist taxpayers and tax collectors in doing their jobs. The agency will soon be providing free accounting packages to small businesses to help in tax filing, and is exploring cell phones and other communications media for returns submissions. Meanwhile, SARS is taking steps to add mobility and convenience to the tax collection process. A new corps of “community tax helpers” will have access to mobile devices that will help them assist small businesses and shop owners register and file for VAT. And, tax buses will be sent out to remote towns to reach taxpayers there, and will collect and feed data back to the tax administration’s systems via satellite.

In addition to the above, SARS has made achievements in overcoming the old silo’d system through Siebel, creating a unified view of taxpayers and improving the accuracy of tax accounting. Now an officer can see all data across the system, but the officer still cannot make a single change and have it impact all systems. SARS is building a data warehouse based on tera data; installing a new, automated risk profiling tool; and working to identify a new audit tool to support the audit function. All systems are being design to be interconnected. SARS is also exploring options for making the tax registry the registry for business in general, creating a “one-stop shop” for business and tax registration, yet the agency has faced challenges in marrying its requirements with those of the Department of Trade and Industry (DTI), which currently has that responsibility for business registration.

SARS’ approach to e-Filing is based on incremental rollout into new areas. This year, for the first time, the agency will offer on-line income tax filing, albeit limited to those employers who submit their PAYE data electronically. SARS has been cautious not to make electronic filing mandatory, whether for a particular tax or taxpayer segment, until businesses’ systems, particularly those of small business, can support it effectively.

Key ICT and process Initiatives:

Oct 04 – March 06: Case management and tracking (incorporates ADR)

March 05-March 06: Single registration

Oct 04 – Mar 07, extension of eFiling Capability

2004-06: infrastructure upgrade

2006-7: identity management

2005: unified customer database

2004-07: data warehouse and risk differentiation mechanism

2005-08: Implementation of BPM

SARS has recently put out a tender for the replacement of its transactional processing systems—estimated at \$250 million over the next five years. This project will entail substantial process reengineering.

Discussion

Q/ Where does SARS cull third party data from?

A/ For registration, we get data from other government departments. We have built an integrated business register which pulls data from DTI, the Statistics Department and the Labor Department. We get data from withholding returns filed by employers. We get data from the insurance companies relative to retirement annuities because the tax system still provides deductions for these, and we also get data from medical sources. The plan going forward is to include bank data, but the challenge there is in overcoming client confidentiality issues.

Q/ Business registration is now performed by DTI. What benefit would SARS bring to this process?
A/ This would provide businesses with a one-stop shop. At the moment, South Africa has a national identity system for individuals; it would be ideal to have one for businesses as well.

**Hanno Klausmeier, VP Public Sector Emerging Markets Development Group, SAP
SAP on IT Systems for Revenue Administration**

I am here to provide ideas about modern systems: customized off-the-shelf (COTS) systems. There is now a clear tendency towards COTS. These systems can be used by a range of entities: the central tax revenue agency; or the revenue agencies collecting non-tax monies (like social security). Modern IT systems can help give perception to taxpayers that taxes are collected fairly.

A tax and revenue system does not only increase operational efficiency, it maximizes the voluntary compliance. The less developed a country is, the greater the opportunity to increase revenues.

The government tax management business cycle can be envisioned as having 10 stages:

1. Registration, account maintenance of taxpayer
2. Send tax declaration forms
3. Returns processing
4. Filing and processing
5. Compliance
6. Payment and Collection
7. Dispute and appeal; taxpayer case management
8. Audits
9. Debt recovery, revenue distribution, GL accounting
10. Performance benchmarking

Within this business cycle, there are four key “pains” for tax administrations:

- 1) Un-captured revenue and low compliance rates
- 2) Costly, inefficient and poor constituent service
- 3) Poorly targeted audits, long audit cycle times
- 4) Taxpayers overly burdened by having to deal with separate government offices, system, and employees for each tax and fee type.

COTS in Tax and Revenue

- COTS refers to things that one can buy, *ready-made*, from a manufacturer...It carries with it a sense of getting, at a reasonable cost, something that already does the job. *It replaces the nightmares of developing unique system components.* (Carnegie Mellon, Software Engineering Institute)
- COTS is code for “*lower risk, faster implementation, lower maintenance.*”
- Directors of tax administrations want a solution that has low TCO and fast ROI and adapts to ever-changing tax policy.

Government is one of the largest COTS purchasers. They comprise 13% of the total market for purchased software. In-house software development is declining in Government. Spending on own-built/own-use software in Government has decreased slightly as a percentage of overall spending. In

state and local governments, 56% of purchased software was own-built/own-use software. In Federal Government, however, only 33% is own-built/own-use.

A project becomes more risky, the more you develop software in-house. On the one hand, you may become dependent on a single software supplier. On the other hand, organizations can be dependent on a handful of people, who may leave or retire. The key is to ensure that you have a clear release, maintenance, support strategy. It is important not to underestimate integration costs.

Example: British Columbia Ministry of Provincial Revenue

The Revenue Management System will replace the legacy system and applications currently used by government to perform revenue management services. This process will take approximately 12 to 18 months and will enable the future centralization of revenue management for all government revenue streams, thereby expanding the reach of benefits across government programs.

Example: Florida Department of Revenue

Through SUNTAX, the Florida Department of Revenue (DOR) can support any taxpayer using a single business identifier. The SUNTAX SAP ITS is replacing dozens of standalone processing systems and databases.

Bill Trautman, Senior Economist, Compliance-Large Business Division, IRS Discussion of what ERPs can do to improve revenue management
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We in the IRS are working on resource allocation for large and mid-sized business in the US. Our key questions are: How do we specify objectives for the organization? How do we create performance measures?

The goal should be to maximize voluntary compliance. But it is hard to measure. Some of the metrics we have are biased in certain directions.

If you look at revenue per case, you are less likely to look at taxpayers with NOLs.

Key point: Be careful about how we specify objectives of the system. How can we improve the process in the future?

In my division, one measure of success is audit results. It takes a long time to audit large taxpayers (6-10 years). Data are quite old. We need to recognize and build in an adjustment for that. Taxpayer behavior may have changed.

Discussion

Q/ In COTS—would you advocate the same approach for customs? Does SAP cover that ground? Do you have web-services that face the public?

A/ Customs: Yes! COTS is good. SAP has projects underway to develop customs system. However, we are much more advanced in tax than customs. E-Government? Yes, SAP also includes that.

Q/ Something that concerns me a little bit: most of the implementations of end-to-end systems are in very small jurisdictions. Is that simply a product of the fact that in bigger jurisdictions they have such huge legacy programs that they wouldn't dare go down this route? Or is it just unfeasible?

A/ Florida is not a small jurisdiction. Right now the penetration of tax and revenue systems is deeper than penetration in central revenue authorities. Why? Typically central government agencies need much more time to decide. It is easier for a municipal mayor to take a decision. Central, federal tax and revenue authorities have more complex tax types. They have longer planning, bigger tax types, etc. I am convinced it is feasible.

Q/ COTS v. development: the biggest distinction is reusable code. What you really want is upgrades if you have a COTS system. Yet, this is still early in its infancy.

A/ Tax and revenue COTS is younger than classic ERP COTS. It depends on the size of jurisdiction and complexity of tax types. We always have open doors in our code that are clearly defined: where can customers put their own code and maintain upgradeability?

Comment / This is about IT and how it can help tax administration folks. The IRS estimates that it takes taxpayers 16 hours to file taxes by hand, and 22 hours using a taxpayer software solution. We still have some way to go.

International Panel Discussion

Leak / From the perspective of businesses, to the extent you can make tax filing more simple and uniform, that would be great.

Ainsworth / What could South Africa offer Walmart? Looking at the amount of tax Walmart pays the US government, you could probably fund most SSA countries. What services could we provide?

Richer/ One of the first things South Africa has done is build a large business center – to create a one-stop shop. This is an attempt to remove all the hassles that a big MNC or large South African enterprise faces. This provides certainty for the investor: what are their tax liabilities going to be? This year, we are rolling out an Advanced Ruling Regime which enables the taxpayer to get that certainty. We have a Real Time Audit for big enterprises. Walmart's challenge in entering South Africa has much more to do with the customs side than the tax side; the issues around importing with least hassle so you can get products on the shelves. Investors will probably come in for the domestic market; but we are also a jumping off spot for the rest of Africa. If we identified "authorized economic operators"—having met that standard in the US—they would automatically qualify in South Africa. The key will be around this operator; this will enable them to move goods into South Africa with minimal hassle.

The issue of regional conformity will be the biggest challenge. We have different tax systems. There is very little move towards any kind of regional uniformity in tax systems. As far as South Africa is concerned, we are a unitary state. There is only 1 consumption tax; it is 2-level. Things are either exempt or they are taxed.

Simplification is a feature uppermost in our minds. We are not likely to go down a road of a more complex VAT. We will not add further complexities to income tax either.

Sang Na/ The key is flexibility. If you have a system that is still COTS, when you enter a new marketplace, it will require some changes. On standardization: it would not just happen by itself; there needs to be some key pressure point. Micro-economy is the heart of international development.

Gurunlian/ Walmart would like to see standardization and harmonization. Gradually, regions are getting more integrated; and this point needs to be pushed forward.

SAP/ We are a company with subsidiaries in Colombia, Brazil, etc. External view: What are our requirements as a software vendor to provide better service to our governments? When we establish a subsidiary, we are compelled to fulfill legal requirements in those countries. Changes in legislation would make it easier for us to implement.

Ainsworth/ Large taxpayer want a) ease of interaction; and b) to know that the playing field level

Richer/ South Africa's small retailers are being severely undercut by Chinese smuggled goods. More importantly, how effective are we as an organization, as a customs or tax administration. We have a major problem with smuggling of cigarettes, clothing, motorcars, and counterfeit goods. We know that we have a long way to go. We're making a big shift to restricted and prohibited goods.

Ainsworth/ Big commercial companies have never exerted as much weight as they could. Businesses are the "queen bees" to use the expression of John Reece earlier today. They are in a strong position to make demands on government to facilitate their trade.

The next conference needs to bring together 3 groups: businesses, developing country governments, and donors/IT.