

Improving The Tax Administration In Transition Countries

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Introduction

It is almost not necessary to mention Kaldor's statement (1980) that the efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is almost the most important precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as good is the tax administration. Jenkins (1991) emphasizes that the tax system can never work better than its tax administration, but even the best tax administration would certainly fail to turn a bad tax system into a well-operating one. He also warns that many ambitious tax reforms failed because of the inefficient tax administration. Without the permanent reorganization of the tax administration and almost daily improvements in methods of its management, it is impossible to expect that tax reforms could be realized successfully (Quintana, 1986). In tax reforms there is a close correlation between successful tax policy and efficient tax administration. In other words, there is no good tax policy without efficient tax administration (Jenkins, 1994).

Countries in transition

In the transition to market economy, along with privatization, liberalization of prices, and the restricting of the impact of the government on the economy and all other necessary activities, it is very critical to develop a modern tax system. This is also reflected to a great extent in changes of work and organization of tax administration (Chu and Schwartz, 1994). Edwards (1992) points that the establishing of the efficient and comprehensive tax system, in which the tax administration holds an important role, is one of the most complex and serious macroeconomics problems that transition countries are faced with.

All transition countries had a very huge fall of GDP, which, with serious limitation of tax administration, resulted in an alarming revenue gap. Moreover, in all countries, revenues from taxes collected from big, mostly state firms, declined, and were not replaced with increased taxes collected from private, mostly small enterprise. This has created pressure to increase tax rates and introduce new, very often *ad hoc* taxes. These diversities, which are called "patches" in the tax system, are to a great extent a result of the inefficiency of the tax administration in collecting the existing taxes. This situation would lead to a permanent need for new taxes, changes in the tax system and almost never-ending tax reforms. In transition countries income tax is gaining on importance. Taxpayers are not used to this form of taxation and when they are faced with it for the first time, they will obviously regard it as a burden. As Kornai (1990) explains the citizens in these countries are not used to paying taxes at all. The tax administration and bodies which produce political decisions have to foresee the attempts to evade taxes and have to design a tax system that will not question the loyalty of its citizens.

Politically it is very hard to decrease budget expenditures in countries where they were huge and where people are used to a range of services and protective measures from the state. Economic growth *per se* will not be enough for the assurance of the government revenues. Despite rapid economic growth in China, its decline in revenue over the reform period was equally dramatic: from 34 % of gross national product (GNP) in 1978 to 17 % in 1994. China's sharp decline in government revenues highlights the need for a coherent tax strategy in a pursuit of market reforms and in the development of an efficient tax administration that did not exist until 1994. (World Bank,

1996). In newly established conditions, the tax administration has to significantly change the way of collecting the revenues. The shift from a relatively simple system of redistribution of money from state firms to state budget to much more complex and challenging activities of compliance and enforcement, requests from the staff of tax administration completely new knowledge and skills, and tax administration acceptance of completely different operative strategy (Casanegra de Jantscher; Silvani and Vehorn, 1992). These changes are further complicated, because tax administration and its staff still have everyday duties in determining and collecting public revenues according to the existing rules and tax system (Mansfield, 1990).

Heavy tax distortions in transition economies come from various sources. First, base rates are often high. Base rates in profit tax are: in Bulgaria, Poland and Slovak Republic 40 percent; in Austria 34 percent, in Finland 25 percent; and in Great Britain from 25 to 35 percent (IBFD Publications, 1995). In transition economies with many fledgling small enterprises and weak tax administration, high tax rates are likely to encourage already widespread tax evasion and participation in informal economy. Second, many countries still rely heavily on payroll taxes to finance social expenditures. If payroll taxes are levied mainly on employers (as is the case in the great number of transitional economies) this can discourage entrepreneurial efforts, disincentive formal hiring and push economic activity underground. Third, and as World Bank estimations as the most important, the many exemptions and special tax rates in parts of the economy often coexist with higher tax rates on other activities, undermine revenue performance, complicate tax administration and distort revenue allocation. The key precondition for efficient tax administration is tax structure with minimizing distortions, strictly tax exemptions and elimination of the differences in tax treatment of particular parts of economy. This will mean extending the VAT to all but a few goods and services (notably export, which should be zero - rated, and banking and insurance services, where it may be difficult to determine the amount of value added to be taxed).

The next very important issue is the efficiency of tax administration. Effective tax administration in a market economy is based on voluntary compliance by a large number of decentralized taxpayers. Most transition economies have only recently started to address compliance

issues and build up a modern tax administration with better overall revenue performance. A first step is restructuring how the work is organized. In transitional countries, tax administration can be organized respecting the functional principle (collecting, recording, auditing, enforcement) according to: a) the type of taxpayers, or b) the type of taxes, or c) type of enterprises in economy. Tax administration should develop around activities (such as recording or auditing), as in Hungary, rather than according to the type of tax and taxpayers. More generally, tax payment needs to be assessed, collected and recorded more efficiently. Current procedures are rarely up to the job of dealing with a growing number of taxpayers, many of which - particularly private businesses and service enterprises - are tricky to tax at best. The government might start by assigning an identification number to all taxpayers, focusing its efforts on large taxpayers who generate the bulk of revenue, and withholding wage tax at the source. This, however, does not mean that results of successful monitoring of large taxpayers can be excused for neglecting medium and small taxpayers. This can lead to the decrease of their compliance, resulting with lower total revenue. Next should be improved auditing and follow-up actions against those who fail to file returns or make payment. Latvia, for example, has issued regulations for an improved taxpayers' register: every taxpayer must register with the State Revenue Service; financial institutions will not be allowed to open accounts for any business or individuals without a taxpayer code.

Most transitional economies are in the midst of a comprehensive reform of their government (that include the tax administration) and tailor them to the changing needs of a market environment. In that task they can use the experiences from West European countries and from countries that have recently realized tax reforms as a stepping stone to further development and/or as a challenge and incentive for reaching a higher level of efficiency and success (Musgrave, 1991). The reform of tax administration in these countries is a part of a complete transformation of public administration, so there are no reasons to be too optimistic about the speed of change and about expected results (Hesse, 1993).

Poland

Poland's present tax system is a reflection and consequence of the shift, started in 1989, from a centrally controlled to a market economy. Changed national perceptions resulting in a switch to a market economy, have made it necessary to reform the fiscal system, particularly in the area of taxing incomes and trade. This reform has to accommodate the following circumstances: devolution of control over economy; the need for equity of treatment of all taxpayers, meaning elimination of privileged tax status enjoyed earlier by the public sector; progressive privatization of all economic sectors; elimination of those system features which reflected the earlier ideological policy, particularly the high progression of income taxation, and adaptation of rules to standard applied in market economy countries (Polish Tax Policy and Tax Administration, 1996).

The Tax Administration in Poland is divided on three levels. At the lowest level are 344 tax offices in the whole country. The tasks of a tax officers are: assessment and collection of taxes and other liabilities to the State Budget, except combined pecuniary liabilities and local taxes and fees; registration of taxpayers for tax purposes; carrying out tax audits to control and assess tax liabilities; investigation of penal tax cases; deflections at the first level on tax cases; enforcement of taxes and fines as regulated by the Penal Code and Fiscal Penal Law. The Head of tax office has important responsibilities: definition of the organizational mode according to predefined models; definition of the contest of employees; management of the budget of the tax office. He is supported by one or two deputy-heads of the tax office (according to its size) and by a chief accountant. The second level consists of 49 tax Chambers (one per voivodship). Fiscal Chambers coordinate and control the action of attached tax offices and is an appeal level for decisions on tax cases made by the tax offices of the voivodship. The Fiscal control Act of 28. September 1992 has created 49 Offices of Fiscal Control (one per voivodship). These offices are in charge of: the control of veracity of the tax bases declared and the correctness of utilization of budgetary subsidies; the control of compliance of utilization and disposal of State property with the law. A special section within the Ministry of Finance is in charge of auditing tax offices and tax chambers. The action of Fiscal Control Inspection is supervised by the general Inspection of Fiscal Control being directly under the authority of the Minister of Finance. The

supreme body of tax administration is the Ministry of Finance. Its responsibilities include: the development of the income tax system for natural and corporate persons and the collections of taxes and other monetary payment to the State Treasury.

Republic of Slovenia

The Tax Administration (TA) of the Republic of Slovenia was founded on 1 July 1996. The TA consists of the Head Office, the Special Tax Office (STO) and tax offices for individual tax areas. The TA is run by the Director of TA who also runs the Head Office. He is responsible to the Minister of Finance (Republic of Slovenia, Ministry of Finance, 1998). The tasks of the Head Office are: to organize the work of tax offices and secure the uniform implementation of tax and other regulations; to carry out direct supervision of the work of tax offices; to establish and organize the management of a unified tax register; to develop and determine the contents of the tax information system; to propose the design and contents of tax forms; to organize the performance of tax supervision; to take decisions in tax procedures in the second instance; to define and implement programs for the professional and technical improvement of the Tax Administration's activity; to carry out professional improvement and training programs for Tax Administration employees; to perform other tasks provided by law or other regulations.

The tasks of tax offices are: tax assessment and collection and maintenance of prescribed records; decision-making in tax procedures in the first instance; control and inspection of taxpayers; tasks relating to the maintenance of the tax register; recording information relating to assessed and paid taxes and fines; exaction of taxes and fines; refunds of excess paid taxes; other tasks provided by the law and other regulations. STO performs the tasks of a tax office over the whole territory of the Republic of Slovenia for banks, insurance companies, companies organizing classic and special games of chance, stock exchanges, fund management companies, investment companies and clearing deposit companies. STO also performs tax office tasks for large commercial companies involved in the production and import of, or wholesale trade in, oil and oil products, tobacco and tobacco products, and the production of alcohol and alcoholic drinks. Branch tax offices perform operational and

technical tasks relating to recording in the tax register, the control and assessment of tax liabilities, and providing taxpayers with information.

Republic of Croatia

As the previous taxation system did not satisfy the demands of the Republic of Croatia and did not allow its integration in West Europe system, tax reform was realised through the acceptance of The Income Tax Act and The Profit Tax Act (official gazette 109/93) at the beginning of 1994. The Tax administration was reorganized as a precondition for successful tax reform. Tax administration was founded according The Tax Administration Act that determines its organization, activities and working processes. The organization of the Central Office, Regional offices and their branch offices, as well as the general number of employees are determined by The Decree of Internal Organization of the Ministry of Finance, and in a more specific way by The Book of Rules of Internal Order of the Ministry of Finance. In accordance with the above mentioned rules modern Croatian Tax Administration has worked since January 1st 1994. Tax Administration is united and independent administrative organization incorporated in the Ministry of Finance. The advantages of the united model that is accepted in the Republic of Croatia are: uniform treatment of taxpayers; less coordination problems; lower functional costs (more taxpayers of one type of tax involved; one informational system; better use of human resources); impossibility, or important lower possibility of influences and impacts of local political bodies upon work of the Tax Administration.

The Tax Administration in the Republic of Croatia is organized as a united tax administration for the whole state (one Central Office of Tax Administration) that incorporates Regional offices and their branch offices. The organizational model gives a quality base for the work of the Tax Administration. In the realization of this model Tax Administration is organized on three levels: Central Office of Tax Administration, Regional offices and branch offices. In the Tax Administration there are 20 Regional offices and 108 branch offices. Regional offices are organized for each county in the Republic of Croatia, except for the City of Zagreb and Zagreb County that have one Regional office. Regional offices have their branch offices for cities or more municipalities. That is the reason

why branch offices vary very much in their size, so the number of employees is from 5 to 91 (exception is the Regional office for the City of Zagreb that has 465) employees.

The Tax Administration in the Republic of Croatia is organized as an independent administrative organization incorporated in the Ministry of Finance. This independence is declaratory given in The Tax Administration Act. The Act determines that the Tax Administration can pursue registration of tax payers, carrying out audits to control and assess the revenues for the bodies of local governments, social funds and other public funds and revenues. For the realization of these activities The Tax Administration can charge fees. That means that Tax Administration can earn its own income and have its own account. The independence can be seen in two important facts: organizational and financial independence. The organizational independence raises a question whether the tax administration is incorporated in the Ministry of Finance, or is it an independent government body that is directly responsible to the Government. The financial independence means that tax administration is financed from the budget or it can get a part of collected tax and how far it is independent in using those means.

In the future it is necessary to employ more personal with college and university education and fewer with higher school qualification. Also, it is worth to continue in-service training of the tax officers, but not necessary to increase their number. In the tax Administration in the Republic of Croatia 46.2 per cent of tax officers are engaged in tax assessment. Only 19.5 per cent of them are engaged in control activities even though the majority of tax officers should, in the normal course of taxation be engaged in this activities.

The functioning of the Tax Administration is open to public scrutiny. The data on actual tax bases, levying and collection of taxes, paid and non-paid taxes in amount reported by taxpayer, or those determined in process of assessment, levying and control are open to public. The other information, known by official staff of the Tax Administration about business activity of taxpayer in process of assessment, levying and collection of taxes, are the official secret. The Tax Administration in its activities cooperates with other government organizations authorized for assessment, levying and collection the taxes and revenues.

The experiences with successful reforms of tax administration

The major administrative reforms undertaken in different countries in South America like Bolivia, Chile, Columbia and Uruguay, or in Europe, Spain and Portugal provide encouraging examples. In each case, a new management was instituted with a new organizational structure and a more professional staff. These improvements resulted in the successful implementation of the tax reform program and in a dramatic improvement in tax collection. Such successes show that under the right conditions, the efficiency of the tax administration can be increased in a relatively short period of time. Moreover, as these countries have demonstrated, with the higher efficiency of tax administration, revenues can be maintained and even increased while at the same time reducing excessively high tax rates and diminishing inequities through more adequate enforcement of taxes across different taxpaying groups. Auditing, prosecution, and enforcement in Mexico, for example, have been used to increase the number of taxpayers from 1,7 million to 2,8 million between 1988 and 1991. Between 1989 and 1991 in Mexico there were more than 200 recorded offenses for fiscal evasion while between 1929 and 1988 there were only two (Aspe Arnella, 1993). In Argentina the monitoring of large taxpayers played a significant role in a recent huge increase in tax revenues. This began with a pilot system that monitored the 800 largest taxpayers. The system is now used throughout the country, and is capable of monitoring about 100, 000 taxpayers (Silvani, 1993).

It is necessary to stress that realized reforms of tax system and tax administration in South America are important because they were performed in countries where tax laws are not democratic and not progressive, and the greatest part of budget revenues were collected from indirect taxes and where the highest rates of tax income were much lower than in developed countries. The basic democratic principle of tax equity was highly infringed because there were huge tax evasion in income and profit taxes. Among the law breakers there were multinational companies, that used many loopholes and very often overestimated their costs as a measure to evade taxes (Budge and McKay, 1994). This contributed to South America's becoming the part of the world with the lowest percentage of

budget revenues in GDP, only 11.2% 1988 in comparison with 23.8% in Africa and 32.8% in industrial countries (IMF, 1990).

In reform of tax administration the importance of tax structure is clearly reflected, because tax administration and tax structure are interconnected and they have to be improved simultaneously in the tax reforms (The World Bank, 1991). One of the most important lessons from the experiences of the different countries is that, as a rule, an essential precondition for reform of tax administration is the *simplification* of tax system to ensure that it can be applied effectively in the generally "low-compliance" context of transitional countries. Badly conceived or unnecessarily complicated tax structure greatly complicates the operating function of the tax administration, while simple and transparent tax structure could affect it in the opposite way. So, the increase of efficiency of the Tax Administration in Bolivia could be attributed mainly to the simplification of the tax system. Tax administration cannot change legislation as a means for improvement of tax structure, but could propose necessary changes in laws that can improve tax structure and / or could aid in application of the law (Mansfield, 1990). These efforts could be directed to broadening the base of the income tax instead of existing indirect taxes and customs that are usually used as resources for budget revenues. As Bahl & Martinez-Vazquez stress (1992), using Jamaica, there is no reason to reform the tax administration without simultaneously reforming the tax structure. Although the experiences of Chile (Harberger, 1989) and Colombia (McLure and Pardo, 1992) clearly confirms that improvements in tax administration can be achieved without drastic changes in the tax system — sometimes it is quite satisfactory to perform smaller, simpler and cheaper changes. The removal of exemptions, loopholes, and concessions can simplify administration and reduce evasion. Taking a systematic view of the tax system, rationalization, simplification, and the removal of anomalies should have the effect of reducing the administrative costs of identification, assessment, auditing and enforcement. The administrative simplicity of "tax handles", however, while influencing tax policy, should not be allowed to dictate it. Concentrating on just a few handles can lead to highly distortion structures (Burges and Stern, 1993). As measures for easier accounting, many countries drastically simplified tax forms, decreased or canceled subventions, and reduced requests for additional documentation.

These administrative improvements increased the compliance of taxpayers and raised budget revenues (Silvani, 1993). This does not mean that improvements in functioning and efficiency of tax administration are an easy and simple task, one that could be done over night. In practice, tax administration reflects a whole range of social and economic factors and conditions, like the education and knowledge of staff, the distribution of income, the attitude regarding the authority of government etc.

If the corruption is widespread in society, it is not possible to expect that the tax administration is an isolated island of honesty. A good tax structure could prove to be a great help in securing against corruption and cheating. The acceptance of VAT does not mean the complete eradication of these activities, but it would make their realization much harder (Jenkins, 1992). Once corruption gets into tax authorities it is not easily eliminated. Those who are supposed to root it out can themselves be corrupt or threatened. In principles, raising penalties on officials and increasing the probability of detection can improve performance but that is easier said than done. Raising wages and salaries in the tax authorities at the same time as increasing the likelihood of dismissal can lead to improvement, as the experience of Ghana in the 1980s appears to have shown (Burgess and Stern, 1993).

Spain

In 1991, Spain established the State Agency for Tax Administration (*Agencia Estatal de Administracion Tributaria - AEAT*) that began working the year after. Its purpose is to grant special services to taxpayers in realization of the planned goals of tax administration. *AEAT* is a public body that functions as a legal entity. Its most important task is efficient application of tax laws. Its duties comprise of levying, auditing and collecting. *AEAT* was formed as result of the required improvement of the tax administration involving certain problems connected with the reform of the tax system of the 1980s. These problems were an inconsistent staff employment policy in the tax administration, inadequate budget and financial system, and the inadequacy of the authoritative bodies (Jenkins, 1994).

Peru

Peru is a dramatic example of a state where reformation of the tax administration The Superintendencia Nacional de Administracion Tributaria - (*SUNAT*) was established in 1988, but real reform took place in 1991. Between March and September of that year, *SUNAT*'s workforce was reduced from over 3000 to 800. This downsize was achieved through voluntary resignation (with monetary incentives) and competency tests. The "new" *SUNAT* implemented higher standards and salaries competitive with private sector. *SUNAT* now is a place where recent university graduates aspire to work. *SUNAT* has hired many new people to replace those who departed. Notwithstanding their lack of experience, the investment in new personnel appears to be paying off: revenues as a percentage of GDP nearly doubled in the first three year of the new institution (Byrne, 1995). *SUNAT* is a decentralized public services that has a position of legal entity, and its own financial, administrative, technical and functional autonomy. It is among other bodies authorized for creation of tax policy, management, assessment, levying and collecting of taxes and for performing the drafts of tax laws. *SUNAT* is also in charge of cooperation with *Banco de la Nacion* that is authorized for making contracts with other financial institutions.

Chile

The highest authority of the Service is the Director, designed by the President of the Republic and has his exclusive trust. He has the authority, powers and tasks inherent to the position as the Superior Chief of the Service. The National Office consists of nine Divisions, of which the Sub-directors are in charge, who act as delegates of the Director in the evaluation and the execution of the work programs within their respective areas and they counsel him in matters of their specialty. According to the Law, they should recommend him the norms and submit to his approval the instructions that they consider convenient for the service. Furthermore, they shall program, direct,

coordinate and supervise the functioning of the Departments. The Chilean experience helps to answer many questions about distribution of tax burdens, incentives to invest, price stability, elasticity of the tax system and functioning of tax administration. As regards the tax administration, major efforts succeeded in modernizing the structure and the operational system of the tax department, which had an important role in successful tax reform. All mentioned caused that instead of dramatic changes in rate of GDP and changes in the level of prices, the shares of taxes income tax did not change in GDP (Bird and Oldman, 1990). Chile has perhaps the most cost-effective tax administration of the Latin American region, which is almost the only one that can successfully combat tax evasion- the major failure of the other tax administrations throughout Spanish- or Portuguese-speaking nations of the American continent (Vazquez-Caro, 1996).

The Internal Revenue Service, through the Internet, recently created the possibility to get all information regarding the taxes and compliance. The new technological requirements make it imperative to constantly bring officials up to date, so that they can make efficient use of computer techniques and modern communications. Different educational courses are organized in duration from 5 weeks to do 5 months dedicated to: team work, decision-making and stress, time administrative, assertiveness workshop, communication and personal development workshop and similar. In 1995 more than 100,000 hours spent in training covered 2,500 trained persons. Recently was accepted the Strategic Plan with Strategic Goals: to improve the efficiency and productivity in the Service's permanent labor; to encourage the professional and personal development of the officials, their motivation and loyalty to the Service, to reduce the levels of tax evasion and tax avoidance; to simplify the tax compliance and improve the services for the taxpayer; to watch over the judicial equity and exactness in the application of tax laws; to support and develop a bigger capacity in order to fulfill the mission of the Service, specially before the economical and technological change (Servicio de Impuestos Internos, 1998).

Colombia

Colombia reformed its tax system and tax administration 1974, but this did not fulfill the expectation because of the judicial overthrow of critical administrative package. So decreased the tax revenues in GDP and increased evasion (Bird, 1990). Because of that the second reform was performed in 1986-88 where besides simplification of the tax system and broadening the tax base was improved tax administration and reduced a huge evasion. The tax structure was simplified, many deductions and exemptions were canceled which also contributed to enforcement of tax administration and collection of more budget revenues (Burges and Stern, 1993).

The National Tax Direction (*Dirección de Impuestos Nacionales*) was established in 1991. It is organized as independent administrative unit adjoined to the Ministry of Finance, with special personal decisions and systematization of working places, financial resources, wages, and employment policy. In the same year was established a special fund for financial aid, dedicated mostly to the modernization of tax administration and rewarding the employees according to the results of their work.

Singapore

In 1992, Singapore reorganized the Inland Revenue Authority of Singapore (*IRAS*). IRAS's functions are mainly provided by 12 separate divisions and their respective branches (Inland Revenue Authority of Singapore, 1998). Taxpayer Services Division performs services front-line taxpayer esquires through correspondence, telephone, and walk-ins across different tax types - income tax, property tax and GST, with a view to providing one-stop taxpayer service; provides automated telephone service in different languages. Tax Processing Division is responsible for the identification of taxpayers and the expeditious processing of returns and issuance of tax assessments through IRIS pipeline system; carries out manual assessments of cases which are not processed directly through the pipeline system. Specialized Assessment Division handles more complex corporate cases (including all public-listed companies) clubs, etc.; deals with taxation of trust income and the registration of charities. Taxpayer Investigation Division identifies and investigates cases of tax evasion and GST

fraud with a view to obtaining evidence to mount a successful prosecution in court. Enforcement Division is responsible for the recovery of various taxes through various means e.g. issue of reminders, letters of composition, warrants of attachments, suits for tax, bankruptcy and auction of immovable properties; provides revenue estimates; accounts for the collection of such taxes and processes refunds and adjustments. Taxpayer Audit Division maintains an audit presence among taxpayers in various industries and groups so as to achieve the highest level of voluntary compliance; helps taxpayers to avoid common errors through dialogues and brochures. Technical Services Division provides rulings and interpretations on income tax and GST issues; interfaces with the Ministry of Finance on the annual Budget proposals; implements guidelines and legislation relating to tax incentives; negotiates and implements tax treaties; administers in-house taxation training programs and the library. Policy Planning & Research Division provides secretarial support to the IRAS Board; carries out corporate reporting, tax revenue forecasting, research and analysis; corporate planning and policy formulation. Corporate Services Division is responsible for various corporate-wide functions including budgeting and finance, personnel policies and management, public relations, administrative and logistics support and Revenue House matters. Information Technology and Systems Division supports IRAS through improvements in work processes and methods; develops implements and maintains the IRIS and other computer systems; responsible for new network design, data administration and security and on-going IRIS training and education. Property Valuation and Assessment Division assess properties for property tax purposes; provides valuation services to government bodies such as the Land Office; licenses housing agents; numbering of properties. Law Division renders legal advice on issues relating to the tax laws administered by IRAS; represents IRAS in cases before the tribunals and courts; drafting of tax legislation; prosecutes tax offenses; issues summonses for non-submission of returns; institutes processes to recover unpaid taxes.

Republic of Korea

The foundation for a more permanent contribution of tax policy to the development process were laid in the disruptive 1961-64 period. The tax share of GNP fell from 12 percent in 1960 to 7.2 in 1964. After that the government had started the intervention policy that lasted in next 25 years in period of strong development of the Korean economy. During that time the government gave some companies and sectors of economy credits with negative interest rates and tax deductions. This "not normal" situation on financial and fiscal market produced many illogical solutions which due to habits and sluggishness survive to the period where there were no reasons for such strong state influence and started the cancellation of the intervention policy. The government had ample opportunity to reshape the tax structure in a short period of time, among others with the creation of the Office of National Tax administration (ONTA) which resulted in fairly quick and marked improvement in tax administration. intervention policy (Burgess and Stern, 1993). Today, National Tax Administration (NTA), external organization of the Ministry of Finance and Economy (MOFE) is in charge of the assessment and collection of internal taxes (Ministry of Finance and Economy, Republic of Korea, 1998).

Preconditions for successful reform and functioning of the tax administration

A very important precondition for effective work of tax administration is canceling all additional duties out of the process of taxation. In the majority of countries in transition, tax administration also performs many analyses and realizations of forecasting, which are in completely inconsistent with its duties in countries with ground economies. Furthermore, the tax administration was responsible for the distribution of means between governing bodies on various levels. Until recently, the tax authority in Poland, in accordance with the accepted agreement, transferred tax "a" from company "b" to the governing body "c" for use "d" (Casanegra de Jantscher, Silvani and Vehorn, 1992). The third task which doesn't is in normal range of tax administration is covering the issued subventions. In Hungary tax bodies spent much time and efforts in auditing the usage of subvention and reporting it.

In many countries there is a range of different taxes that bring very small budget revenue, usually equal or smaller than costs for their collection. As Sandford (1994) stresses, collecting small amount of tax from numerous low income person is disproportional costly to administration. So in the analysis of tax structure and tax regulation it is very important to evaluate the existence of these taxes and presume the possibility of their canceling. If this is not realized, there is danger of real flourishing of tax administration, what is accompanied with high costs. Kaldor (1980) believes that there is no any other subject where bureaucracy can be so extensive and absurd as in administration of taxes. The status of revenue institutions in the public sector is one of the major factors affecting their inability to specialize and respond adequately to changes in economy. The constrains are mainly due to the almost universal attachment to the idea that revenue institutions ought to be placed under strict supervision of Ministry of Finance because of the political nature of their operations (Terkper, 1994). The resources needed for the effective operations of these institutions are denied, and tax administration will get it after consistent persuading about the complex nature of its work. However, the fact is that for fiscal institutions excessive political interference affect the objective implementation of government policy. There is clear evidence to suggest that this policy has adverse consequences on the efficiency of tax administration in many countries. So one of the very preconditions for reform of tax administration and improvement in its the efficiency is reaching its necessary institutional and financial autonomy (Goode, 1990).

Schiavo-Campo (1996) stresses that for the improvement of the work of the work of employees in tax administration very important are objective public and professional recognition and awards, entrusting more complicated and more responsible tasks, the possibilities of professional training and education, professional advances. Additional efforts in improving the position, working conditions and wages and salaries of employees in tax administration surely will allow the increase of public revenues that will be much bigger than costs of this improvements (The World Bank, 1991).

The requests from those employed in tax administration are today high, and in the future they will be higher. There is a need for a highly skilled and trained workforce which has multifunctional talents. There will be fewer low skilled employees (James and Wallschutzky, 1995). It is very

important to develop self-disciplined and efficient offices with good human relation. This recognizes that to improve voluntary compliance on the part of taxpayers, the revenue authorities should act in fair and impartial way and their work should be disciplined, cheerful and efficient. With the right attitudes, taxpayers find it easier to approach the tax authorities. The National Tax Administration in Japan aims to establish a consistent and sound environment for compliance (National Tax Administration, 1992).

Recent experiences show that two requirements must be met if change is to become institutionalized. The first is political will. Deep-seated change is not possible without iron-clad political will on the part of the authorities and public consensus on the need to improve taxpayers compliance. The second requirement is human resources. In all successful reforms, a cohesive and highly trained group of men and women committed to change were responsible for carrying out the work (Silvani, 1993). For performing the reform of the tax administration except the benevolence of the people that are in charge (Colder, 1980), it is also very important to accept global strategy about further development of basic tasks and duties and to determine the priorities in reforms of tax administration. (Cassandra de Jantscher, Silvani and Vehorn 1992). Experience shows that there is no general strategy that could be applied to all countries and all conditions. In Bolivia is, for example, huge macro-economic imbalance almost completely ruined tax system and tax administration, so shock-therapy was needed. In other countries like Columbia and Uruguay gradually approach was successful. The introduction of new taxes - specially VAT - in some countries has not required broader preparations, while in other (for example in Trinidad and Tobago) detailed preparations and applications were demanded for obtaining success. In accordance with that Tait (1988) emphasizes that the introduction of VAT is usually the greatest change in tax system of a country and that is also a possibility to perform the reform of tax administration.

Many transitional economies face serious problems in their tax system or in their tax administration. For example, policy-makers in Hungary complicated their new tax laws by allowing special preferences to certain vested interest groups. Later they were considering a second round of reform to reduce the number of distorting tax preferences created in the first round of reform (Tanzi,

1991). It would be better for countries in transition to adopt simple taxes - with a broad base and low rates - to give the tax administration the chance to adjust to the new system. Although needed organizational and technical aid could be easily obtained from foreign experts, for successful reform of the tax administration is necessary "critical mass" of domestic experts that would be better acquainted with the domestic conditions and situation.

Instead of the conclusion

In the realization of successful tax system, the issue of tax administration is surely one of the most important. Without the important changes in the tax administration it was impossible to reach the expected benefits. Many tax reforms treated tax policy and tax administration as independent phenomena, so their results were mostly bad. The reform of tax administration is certainly possible, but as with all other public services it is not an easy and simple task, one that can be realized in short time. The improvement of tax administration requires the action of three sides. Beside the simplification of the tax structure, establishing and accepting appropriate strategy that will be adjusted to the moment, situation and conditions of the country where the reform is done, there is very important issue of the hard political resoluteness for the improvement of tax administration. A further obstacle to efficient tax administration can arise from political interference. Problems caused by political interference cannot be resolved without a credible commitment from the highest governing bodies. Otherwise the best intentions and the best formulated efforts would give partial or bad results (Casanegra de Jantscher and Bird, 1992). The possibility of obtaining such a commitment may seem remote, but it can happen, as in Chilean administrative reform.

For efficient tax administration and successful tax reform there are additional requirements that are out of scope of tax administration. This is a well known traditional precept of public finances which is designed to make public budgets and accounts as transparent as possible, a fundamental requirement in a democracy. Taxpayers have not only the right to know how their tax bill is arrived at, but also how their taxes are being used. In the case that transparency is not realized it is impossible to

reduce, as Peacock (1991) stresses using Marxian terminology, "taxpayer alienation", what will as backlash force make great difficulties in the work of tax administration. More information to the taxpayer will suddenly produce a well-mannered dialogue between taxpayer and tax officials leading to better relations between the taxpayer and the tax authorities, what will make the work of tax administration much easier.

It could be concluded that modern tax administrations are concerned with a stronger focus on taxpayers, staff specialization, independence from the ministries of finance and privatization of those areas which could be better performed in the private sector. In order to achieve these goals, many countries have set in motion tax administrations reforms aimed at solving some of the key problems such as low salaries and the connected problems of attracting high quality personnel, corruption among tax administration personnel and complex and inapprehensible tax laws. Most reforms stress functional organization of tax administration, organizing a special customer service units and separate departments to deal with the largest enterprises. This should also reduce tax revenue collection costs and help prevent tax evasion.

It is almost not necessary to emphasize how important that tax administration is and tax payers show mutual respect and help. It is not enough that they speak the *same* language, but they have to understand each others. Although, in the history there were cases where tax collectors and tax payers spoke different languages, but resulted with very bad consequences. During the 50s of the last century the administration of Alexandar Bach employed thousands of agents that spoke only German wishing to conquer the independence movement in Hungary. But, the agents were not able to collect taxes from taxpayers that spoke another language, what almost brought the Dual Habsburg Monarchy of Austria-Hungary to the brim of financial collapse and induced the constitution reforms ten years later.

Improving the tax administration in transition countries

Summary

The efficiency of the tax system is determined not only by appropriate legal regulation but also by the efficiency and integrity of tax administration. In many countries, especially in developing ones, a small amount of collected public revenue can be explained by the inability of tax administration to fulfill its function or by corruption at high or low levels. It is generally known that tax laws and tax policy are only as good as the tax administration. In tax reforms there is some correlation between successful tax policy and efficient tax administration. In other words, there is no efficient tax policy without efficient tax administration. Major administrative reforms undertaken in different countries provide supporting examples. These improvements resulted in successful implementation of the tax reform program and in a dramatic improvement in tax collection. Such success shows that under the right conditions, the efficiency of tax administration can be increased in a relatively short period. Moreover, as these countries have demonstrated, with a more efficient tax administration, revenues can be maintained and even increased while at the same time reducing excessively high tax rates and diminishing inequalities through more adequate enforcement of taxes across different taxpaying groups. In the reform of tax administration the importance of tax structure is clearly reflected, because tax administration and tax structure are interrelated and they have to be improved simultaneously. Badly organized or unnecessary complicated tax structure impedes the operating efficiency of the tax administration, while simple and transparent tax structure could make it much easier. The removal of exemptions, loopholes, and concessions can simplify administration and reduce evasion. Taking a systematic view of the tax system, rationalization, simplification, and the removal of anomalies should have the effect of reducing the administrative costs of identification, assessment, auditing and enforcement. The administrative simplicity of "tax issues", however, while influencing tax policy, should not be allowed to dictate it. Concentration on just a few issues can lead to a highly distortive in structure. These administrative improvements contributed in a successful implementation of the tax reform program and in a dramatic improvement in tax collection.

It does not mean that the improvement in operation and increasing the efficiency of the tax administration is a simple and easy task. In the work of the tax administration a whole range of social and economic conditions and factors like education and skillfulness of employees, the distribution of income, relationship regarding the authority of government and similar are clearly influential. It is not possible to expect change over night. One of the key preconditions in the reform of tax administration and improvement in its efficiency is the attainment of a threshold level of institutional and financial autonomy. Skillful employees with adequate knowledge can be found only if their jobs have a required level of social valuation. That is reflected in their position, wages, the possibility of professional promotion and similar. It is unlikely that only money remuneration would induce employees to work better. For the improvement of the staff work in tax administration objective public and professional recognition and awards, entrusting more complicated and more responsible tasks, the possibilities of professional training and education, and opportunities for professional advances are very important. Tax administration staff currently need extremely high skilled and professional multi-disciplinary knowledge. In their additional training and retraining it is necessary encourage self-discipline, skillfulness and encourage better relations with the taxpayer.

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