

Poverty Reduction and Economic Management
Public Sector and Governance Group

AN INTEGRATED ASSESSMENT MODEL FOR TAX ADMINISTRATION

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INTEGRATED ASSESSMENT MODEL FOR TAX ADMINISTRATION A DIAGNOSTIC AND BENCHMARKING TOOL

1. *The World Bank Group’s portfolio of support for enhancing capacity in tax policy and revenue administration has been growing.* Taxation has taken center stage at the international level mainly as a result of the economic and financial crisis. This increased visibility of tax issues also stems from a growing recognition of the key role that tax systems play in boosting development and promoting good governance and state-building. Strengthening domestic resource mobilization is not just a question of raising revenue: it is also about designing a tax system that promotes inclusiveness, encourages good governance, matches society’s views on appropriate income and wealth inequalities and promotes social justice.

2. In this context, the agenda of multilateral organizations should aim at helping tax systems and tax administrations respond to the challenges of a new global environment, promote development cooperation in tax matters, and foster dialogue with all relevant stakeholders with a special focus on civil society. The World Bank Group’s (WBG) support for tax policy and revenue administration is significant, as evidenced by the number of active and pipeline projects and technical assistance activities provided by both the WBG and the International Finance Cooperation (IFC).

3. *Despite some isolated efforts, a comprehensive model for assessing tax administration performance is not available to international organizations, regional networks, cooperation agencies and donors providing technical assistance for tax administration reforms.* The need for a comprehensive model that covers all or the most important dimensions of tax administration is a pressing issue. The Integrated Assessment Model for Tax Administration (IAMTAX) responds to the increasing need to help policy makers in developing countries in reforming tax policy and administration systems.

4. *IAMTAX is a comprehensive model and is built upon a systematic and holistic approach.* The model seeks to assess the overall performance of tax administration by analyzing a wide array of elements encompassing three levels of analysis: (i) legal and regulatory framework including substantive tax laws and complementary regulations (procedural features); (ii) institutional set up/capacity building; and (iii) core business functions (operational level). The actual performance of a given tax administration would be analyzed and assessed based primarily on key data and information gathered from the tax administration under the three levels of analysis as outline above, during the diagnostic study.

5. *The model analyzes administration of the tax system within an integrated framework that is embedded in a specific environment.* While the model is built on a *benchmarking analysis*, it recognizes the fact that no one-size fits all. As a result, the model places strong emphasis on a country’s context and its evolving nature by proposing *an evolving framework* to better accommodate changes in the country’s environment.

6. *The diagnostic tool and the measurement framework are the two main elements of the IAMTAX.* The diagnostic tool is intended to provide project teams with guidance for undertaking a sound diagnostic review of the existing status of tax administration at the early stages of the

project preparation process. It is also intended to guide the establishment of a baseline for the full set of indicators against which the performance of the tax administration agency would be monitored and assessed throughout the project cycle and beyond. Thus the diagnostic tool of the IAMTAX would inform future engagement in tax policy and revenue administration reform projects by providing useful inputs to project teams across regions to:

- *assess the current situation of a given tax administration in the preparation stages of a project; and*
- *establish the baseline for the entire set of indicators against which the progress of tax administration would be assessed throughout the project cycle and beyond.*

7. *The proposed measurement framework has been developed around a reference system that consists of fourteen core analytical dimensions widely recognized to be key features of modern tax administrations.* These core analytical dimensions are linked to a set of good practices (GP), outcome indicators (OI), and high level intermediate indicators (HLII). The reference system ultimately centers on a new paradigm of tax administration that focuses *on encouraging compliance and broadening the tax base, client orientation, and equity and certainty in the application of tax laws.* Core analytical dimensions include:

- i. tax legislation and regulation;
- ii. client/taxpayer orientation;
- iii. encouraging of compliance and broadening of the tax base;
- iv. use of Information and Communication Technology (ICT);
- v. market segmentation;
- vi. risk-based approach to control of compliance;
- vii. strategy and use of information;
- viii. human resource management;
- ix. international dimensions of taxation;
- x. equity in tax administration;
- xi. moving to a process oriented tax administration that has a significant level of autonomy to conduct its operations in a business-like manner and putting strategic planning at the core of this approach;
- xii. business processes;
- xiii. analytical work and its use in strategy and policy making; and
- xiv. external communications and stakeholder consultation.

8. *The measurement framework outlined above can be used as a benchmarking tool based on the scoring system.* Based on data collected on tax administration and on a good knowledge of the broader institutional and political environment, the diagnostic tool would allow the team to put in context and adjust the menu of good practices and performance indicators to the particular circumstances of the country. In order to assess performance of a given tax administration in terms of alignment with proposed GP of the reference system, “fixed benchmarks” or “range of values” are assigned to the extent possible to OI and HLII. The overall score of a given tax administration would be the sum of scores of each core analytical dimensions. Final score of each dimension is given by the average of all corresponding OI, GP, and select HHII according to the following formula:

$$CDIM_i = \frac{\sum \left(\frac{OI_i}{n} + \frac{GP_i}{n} + \frac{HLI_i}{n} \right)}{3}$$

CDIM	Core Dimension
OI	Outcome Indicator
GP	Good Practice
HLI	High Level Intermediate Indicator

9. The model can also determine how a given tax administration scores respectively in good practices, outcome indicators or the intermediate indicators as well as a particular area or function e.g tax audit, revenue arrears management. Moreover, it can assess the performance of a tax administration in a specific level or sub-level of analysis, by calculating the respective scores.

10. *Performance of tax administrations would be scored but not ranked.* The scoring system would allow us to compare a given tax administration's performance against the desired standard in each of the proposed core analytical dimensions as well as progress over time. Comparisons with other tax administrations can be made in the understanding that the model does not intend to rank tax administrations but to provide countries with a rough picture of where its tax administration stands both in relation to a so-called gold standard and to other tax administrations with similar key characteristics and context.

11. *The measurement framework can also be used as a tool to measure performance of tax administration over time.* In the preparation stages of a project, the upstream diagnostic of the tax administration would help the task team assess the actual performance of the tax administration within the context in which it operates and establish the baseline for the full set of indicators. The baseline would be used to assess and monitor progress of tax administration through the project cycle and beyond by: (i) identifying to the extent possible underlying factors that impact the operational effectiveness of the tax administration together with key capacity constraints; (ii) determining the impact of the project on improved levels of performance of tax administration; (iii) distilling lessons for the future; and (iv) establishing the roadmap for a tax administration reform strategy aimed at achieving specific goals and agreed levels of performance.

12. *No scoring system is applied when the measurement framework is used to measure performance of tax administration over time.* When it comes to Project Development Objectives and Key Performance Indicators (KPIs) of a project with tax reform or tax administration component, they can be selected from the performance framework according to their relevance and adequacy to the objectives of each component. Irrespective of this selection, it is advisable to apply the entire measurement framework to the tax administration to monitor its overall progress over the implementation.

13. Thus the measurement framework of the IAMTAX would contribute towards achievement of two main objectives:

- *identify and assess performance gaps of tax administration by comparing the actual performance against a set of desirable benchmarks and good practices; and*
- *assess and monitor performance of the tax administration over time.*

14. *Good practices and corresponding indicators are likely to vary significantly across countries.* Despite the fact that good practices, fixed benchmarks, and ranges of values have been established to the extent possible from existing comparative analysis, other benchmarking exercises, analytical work and results from the extensive experience of both the WB and the International Monetary Fund (IMF), there are still some concerns about the reliability and accuracy of this assessment. In some cases subjective judgment is involved to some extent while in others values/ratios make sense only in the context of a given tax administration, level of capacity and development constraints, or once specific factors impacting on the values/ratios have been taken into account.

15. *Implementation of the model would be critical to refine the methodology, and eliminate to the extent possible the degree of subjectivity contained in the measurement framework.* If differences across countries are not recognized accordingly in the assessment model, the dynamics of indicator sets, ratings, and good practices, may lead countries to produce too many, too sophisticated indicators and studies and emulating practices that they cannot attain. Instead scarce resources should be focused on a smaller set of simple, achievable, and realistic practices and indicators. Implementation of the model would help shape the measurement framework to the best-fit by tailoring and classifying good practices and corresponding indicators to different levels of capacity, political contexts, and development challenges. Additionally, it would try to align the proposed model with the Customs Assessment Trade Toolkit (CATT) that the WB has recently developed with the ultimate goal of providing a complete package in performance management for both customs and tax administration.

16. *The ultimate goal is to build a professional consensus over the IAMTAX and to enhance its buy-in and to turn it into a tool that can be widely used by both tax administrations and donors.* The assessment model will be shared with the tax administrations and the donor community in many discussion panels and workshops in order to build a professional consensus over it. Once the model is widely disseminated and implementation progressed, the ultimate goal is to turn into a tool that can be widely used by both tax administrations and donors to assess and monitor performance of the tax administration over time, and to identify performance gaps by comparing the actual performance against a set of desirable benchmarks and good practices.