2 Responsibilities and collection

This chapter looks at the performance of tax administrations in discharging their primary role of collecting taxes. In this respect, it provides information on the aggregate net tax revenues collected as well as other key figures related to the activities of the administrations covered in this publication.

Introduction

The primary purpose of a tax administration is the collection of tax revenue to fund public services, but over time, many tax administrations have also been tasked with other responsibilities. This chapter provides an overview of the net tax revenues collected as well as some other key figures related to tax administration performance, and looks at the wider role tax administrations are playing in driving change across the whole of government.

Ongoing impact of the COVID-19 pandemic

Confidence in the proven ability of tax administrations to deliver complex administrative processes on a large scale was undoubtedly a key driver behind many governments giving their tax administrations additional responsibilities during the COVID-19 pandemic. While the 2021 version of the International Survey on Revenue Administration (ISORA) did not have detailed questions on additional responsibilities, interested readers may wish to consult Chapter 2 of *Tax Administration 2021* (OECD, 2021[1]) for a more detailed overview of the wider roles that tax administrations took on during the pandemic.

This highlighted that many of these new responsibilities often went beyond the functions normally provided by tax administrations and, typically, involved:

- **Financial assistance**, providing support to citizens and businesses, whether closely targeted or on a more universal basis;
- **Providing services**, using tax administration staff or services to support wider government COVID-19 responses; and
- **Information assistance**, supporting government by sharing information or using the administration's data analytics capabilities.

The reasons for turning towards tax administrations during the COVID-19 response included that tax administrations have:

- pre-existing close connections with citizens and businesses;
- long experience of operating at scale;
- skilled and specialised staff that interact with citizens on a daily basis;
- extensive data sets along with the analytical resources and experience in handling and sharing data.

Whilst many support measures remain in place, consideration is turning to the post pandemic environment. This is seeing many of the new ways of working undertaken in the rapid implementation of pandemic support schemes being integrated into business-as-usual practices. Tax administrations report that this has led to a number of longer-term shifts in the way they manage their business.

Box 2.1. Examples – COVID-19 changes

Indonesia – Managing service demand

The COVID-19 pandemic caused the Directorate General of Taxes (DGT) to innovate in their service provision, and this included the creation of an application to manage visits to tax office, named Kunjung Pajak. Services available through the app include an Integrated Service Counter, various consultations on tax matters as well as the Voluntary Disclosure Program.

Taxpayers access this service online and it allows DGT to manage the number of visitors according to the capacity of each unit, with quotas adjusted to meet the requirements of the pandemic. Tha app also allows taxpayers to select the type of service and the time of arrival at the tax office. This not only helps improve tax services, but it also helps to prevent the spread of COVID-19. This is creating a digital archive of taxpayers who have interacted with DGT, including data on the type of service.

Romania - New electronic services offered to taxpayers

As part of their response to the pandemic, the National Agency for Fiscal Administration (NAFA) created a range of new electronic services to support taxpayers, and allow them to continue to interact with the tax administration. These included the creation of electronic filing of double taxation relief forms, video identification so that taxpayers could access a virtual private space, Virtual Private Space applications, an online booking tool to manage the capacity of meetings with NAFA as well as an online chat service.

United States - Advancements to the Remote Work Environment

Due to COVID-19, an evaluation of key examination activities that could not be conducted in a remote environment was made. As a result, Large Business and International (LB&I) implemented three key solutions: service wide guidance that allows for acceptance of a broad range of digital signatures; allowing password encrypted attachments to be transmitted to/from taxpayers; and a virtual closure process that allowed LB&I examiners/case processors to transmit case closing documents via email.

LB&I continues to collaborate across the organisation including with the Small Business/Self Employed Division on Centralized Case Processing to implement the mandatory 100% paperless case file closing process. There is also currently a pilot program for implementation of paperless case closings of returns with unique situations. Other initiatives such as various allowable digital signatures and encrypted password protections in transmission to/from taxpayers are expected to continue.

While the goal of these initiatives was to continue service during the pandemic, these improvements are expected to continue to improve the efficiency for taxpayers.

Sources: Indonesia (2022), Romania (2022) and the United States (2022).

The impact of COVID-19 on net revenue collections

As noted earlier, the information from the survey analysed for this chapter is showing the first impacts of the COVID-19 pandemic on revenue collection, which has seen revenue collections decreasing in more than three-quarters of administrations (see Table 2.1). Reasons for these falls include:

- **Decrease in economic activity**: COVID-19 related lockdown measures were introduced by many governments. The forced closure of many businesses will have negatively affected the taxable income and sales of many businesses and may have led to a temporary increase in business insolvencies and bankruptcies.
- **Increases in unemployment**: the decrease in economic activity may also have impacted on employment levels as businesses lay-off staff or pause recruitment.
- **Policy support measures**: To support consumption and the health system, many jurisdictions introduced temporary reductions in standard and reduced VAT rates. (OECD, 2020[2])
- **Administrative support measures**: Many tax administrations have taken measures to ease the burdens on taxpayers and to support businesses and individuals with cash flow problems or with difficulties in meeting tax payment obligations. Measures introduced include the extension of payment deadlines, deferral of tax payments and easier access to debt payment plans as well as the extension of plan duration.[1] While in many cases this may lead to timing differences in the receipt of tax payments due, in some cases the additional debt built up may become unrecoverable.

Table 2.1. Change in total net revenue collections between 2018 and 2019 as well as 2019 and 2020

Percent of administrations

Change in total net revenue collections	Between 2018 and 2019	Between 2019 and 2020
Increase	98	21
Decrease	2	79

Source: Table A.2 Net revenue collected by the tax administration: Total.

Responsibilities of tax administrations

With few exceptions, jurisdictions have unified the collection of direct and (most) indirect taxes within a single body for tax administration. (See Table 2.2 for the revenue types for which the tax administrations participating in this publication have responsibility.)

Table 2.2. Revenue types for which the tax administration has responsibility, 2020

Percent of administrations that have responsibility for the following revenue types

Personal income tax	Corporate income tax	Value added tax	Excises - domestic	Motor vehicle taxes	Real property taxes	Wealth taxes	Estate, inheritance, gift and other taxes	Other taxes on good and services	Social security contributions	Customs
98	100	93	60	48	45	22	52	50	40	45

Source: Table A.1 Revenue types for which the administration has responsibility and employer withholding.

However, as found in previous editions of the Tax Administration Series, governments have given tax administrations other areas of responsibility (including shared responsibility in some areas) in addition to their traditional tax roles.

Typically these may be to provide financial benefits to taxpayers (for example, welfare-type benefits) or to collect loans or debts owing to government (for example, student loans or child support). In other situations, the role/function is less directly related to the tax system, for example oversight of certain gambling activities or population registries. Some tax administrations report that following their successful implementation of COVID-19 support schemes, additional responsibilities are being given to them on a more permanent basis.

Box 2.2. Examples - New responsibilities

Australia - Introduction of Director ID register

The Australian Taxation Office (ATO) is the lead agency for the Modernising Business Registers (MBR) program in Australia. The MBR program aims to streamline how businesses register, view, and maintain their business information with government by bringing together multiple aged business registers onto a modern registry platform. This will make it easier for businesses to meet their registration obligations, make business information more trusted and valuable, and improve the efficiency of registry service interactions.

The first milestone in the program was the recent introduction of a director identification number (director ID) – a unique identifier that a director will apply for once and keep forever. An individual must confirm their identity to be able to receive a director ID. Director ID assists in identifying and eliminating director involvement in unlawful activity, such as illegal 'phoenixing' which is estimated to cost the Australian community between AUD 2.9 billion and AUD 5.1 billion every year. Director ID also helps prevent the use of false and fraudulent director identities and make it easier for government regulators to trace directors' relationships with companies over time.

United States - Child Tax Credit Update Portal

The American Rescue Plan of 2021 temporarily expanded eligibility for the Child Tax Credit (CTC) benefit and provided advance monthly payments of the tax credit to be sent to all eligible families. The Internal Revenue Service (IRS) was tasked with not only distributing over USD 94 billion of Advance CTC payments during 2021, but also providing new digital tools to assist taxpayers in managing their payments.

IRS launched the CTC Update Portal in June 2021. This initial launch was completed in 98 days and allowed families to check eligibility for advance payments, view monthly payment amounts, and un-enrol from advance payments to receive a lump sum in their 2021 tax refund. Over the following six months, the IRS developed this further and included major firsts for IRS digital capabilities such as functions to: update bank account, update mailing address, update household income as well as Spanish language browsing.

During 2021, the CTC Update Portal served 7 million unique users across 40 million total site visits. By providing these services online, IRS was able to not only provide improved customer service, but also create internal operational efficiencies.

Sources: Australia (2022) and the United States (2022).

Revenue collections

This section looks at the net revenue collection of tax administrations as well as a number of other key figures related to their activities.

Net collections by tax administrations averages 21% of jurisdiction GDP

Through its Global Revenue Statistics Database (OECD, 2022[3]) the OECD generally seeks to publish internationally comparable data on the tax revenues of its members as well as a number of other jurisdictions for all levels of government. As the information contained in the Global Revenue Statistics

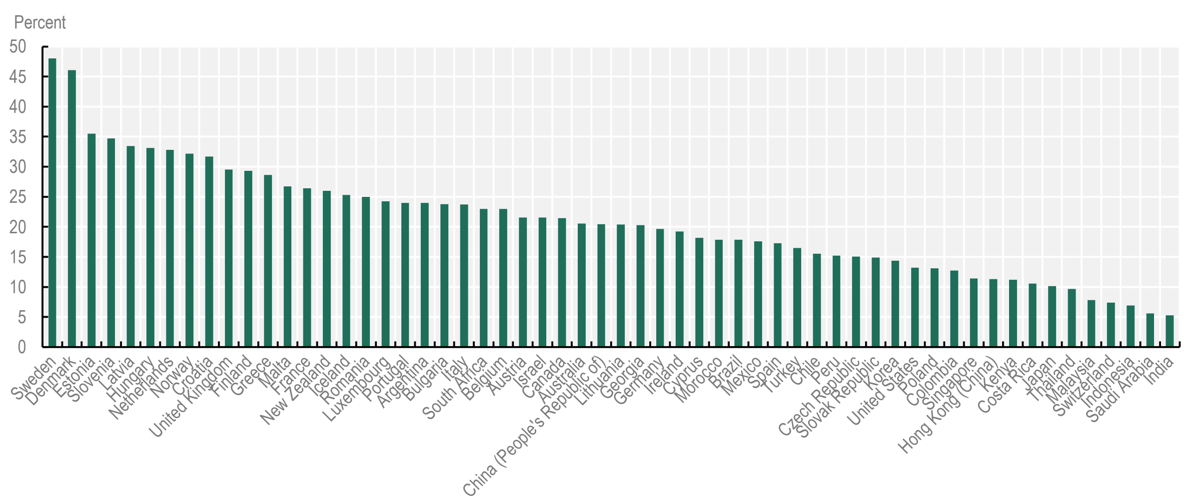
Database reports data at a jurisdiction and not an administration level, tax administrations were asked in the ISORA survey to provide a range of information on their revenue collection activity. This information aptly demonstrates the importance of tax administrations to the respective economies.

Net revenue collected by tax administrations participating in this report, as a percentage of gross domestic product (GDP) in 2020 ranges from less than 10% to reach more than 30% in the case of Croatia, Norway, the Netherlands, Hungary, Latvia, Slovenia, Estonia, Denmark and Sweden. Average net revenue collected by administrations in this report is 21% of GDP (see Figure 2.1).

Net collections by tax administrations averages 61% total jurisdiction revenue

Forty-one tax administrations report net revenue collections exceeding more than 50% of total government revenue in 2020, making tax administrations the principle government revenue collection agency in more than two-thirds of jurisdictions covered in this report. Average net revenue collected by administrations in this report is 61% of total jurisdiction revenue (see Figure 2.2).

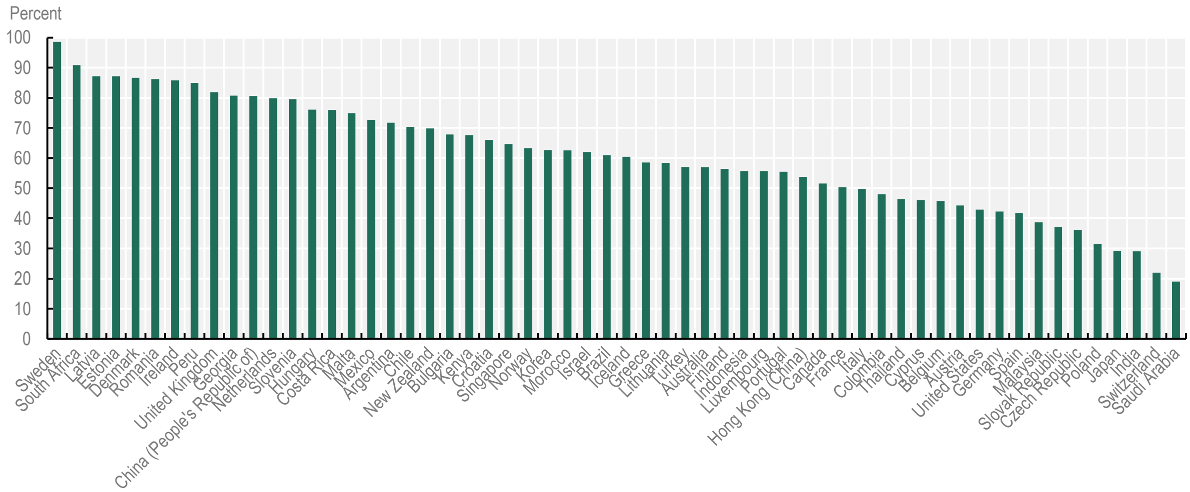
Figure 2.1. Net revenue collected as a percent of gross domestic product, 2020



Source: Table D.1. Revenue related ratios

StatLink https://doi.org/10.1787/888934310423

Figure 2.2. Net revenue collected as a percent of total government revenue, 2020

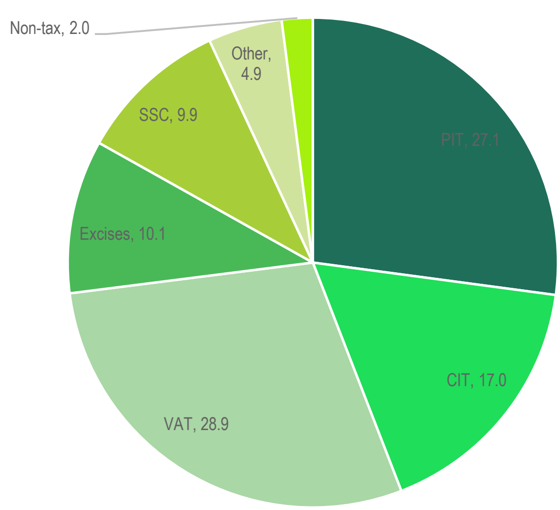


Source: Table D.1 Revenue related ratios

StatLink https://doi.org/10.1787/888934310442

Value added tax and personal income tax account for 29% and 27% of net revenue collections, respectively, and are the major tax types collected by around 40% of the tax administrations covered in this report. Corporate Income Tax (17%) and social security contributions (10%) comprise the other major revenue types as reflected in Figure 2.3 In many jurisdictions, social security contributions are not collected by tax administrations and are therefore underrepresented when looking at average net revenue collections for all jurisdictions covered in this publication. Where collected, they are often the predominant source of tax revenue (see Table D.2).

Figure 2.3. Average net revenue collections (in percent) by major revenue type, 2020



Source: Tables D.1 Revenue related ratios and D.2 Tax structure and SSC proportions.

StatLink https://doi.org/10.1787/888934310461

Streamlining collections: Withholding at source

Withholding regimes can form part of compliance-by-design approaches which support overall compliance while significantly reducing burdens for large numbers of taxpayers depending on the extent of taxpayer involvement in any post-payment adjustments that might be needed (i.e. where withholding results in under-payment or over-payment of tax). In place of self-reporting and paying, withholding taxes are taxes paid directly to the tax administration, usually by a principal who pays the net income to the recipient (for example withholding by an employer on salary paid to an employee), or by an intermediary between the payer and customer. The most common withholding tax in operation globally is income tax on employment income (so called Pay-As-You-Earn (PAYE) approaches). Other examples include withholding taxes on interest, dividends or royalties. Depending on the underlying tax regime and nature of the payments, withholding can vary from a simple system, at a universal set rate, to a more complex system that is responsive to the customer's wider circumstances.[2]

In addition to minimising burdens, withholding regimes can also reduce misreporting and underpayment as principals or intermediaries responsible for forwarding taxes to the administration have no right over the respective amounts. Of course, there remains scope for failures in such approaches by misapplication of rules or errors by principals or intermediaries where the system relies on them providing information. However, increased automation, greater cross-checking of data and whole of government approaches have the potential to reduce such issues.

To understand the importance of withholding at source for personal income taxes, the survey underlying this publication asked participating administrations to estimate the percentage of total personal income tax withheld by third parties and subsequently paid to the administration. Administrations that were able to provide this information estimate that around 80% of total personal income tax collections were withheld at source in 2020 (see Table 2.3).

Table 2.3. Average percentage of personal income tax withholding between 2018 to 2020

2018	2019	2020	Difference in percentage points between 2018 and 2020
78.9	78.6	80.2	+1.3

Note: The table shows the average percentage of personal income tax withholding for 42 jurisdictions that were able to provide the information for the years 2018 to 2020.
Source: Table D.18 Electronic payment proportions and third party withholding.

Given the importance of these taxes to overall collection rates, tax administrations are investing in new and innovative approaches that can both reduce burdens for taxpayers such as prefilling tax returns with existing data from a wide range of sources, and using sophisticated analytics to identify non-compliance risks. This is a frequent theme throughout this edition of the series, and is covered in more detail in later chapters.

Box 2.3. Examples - Innovations in collection

Finland - Real-time tax information exchange between the Finnish and Estonian Tax Administrations

The economic relationship between Estonia and Finland is close, and has a direct impact on the respective tax administrations. In an environment where companies, individuals and money move quickly, swift access to information has become crucial. Real-time exchange of information supports both control actions and real-time audits and is especially important for detecting tax frauds. It can also improve the quality of taxpayers services.

To meet the need for real-time information, the tax administrations in both countries have implemented a unique information exchange structure that provides real-time access to predefined information held in the tax databases of the other administration. The exchanges operate through an API request and response messages are sent via interconnected secure national data exchange layer services.

The project planning started in 2020. First deployments were in 2021 when the Estonian Tax and Customs Board developed two services, VAT information and salary payments, for the use of the Finnish Tax Administration. In addition, the already existing Estonian service on tax debts was also included. The Finnish Tax Administration developed two services for the Estonian Tax and Customs Board, which were salaries received and salaries paid. More services will be developed in 2022.

Exchanges are considered as requests for information. The legal base for the exchanges is the Convention on Mutual Administrative Assistance in Tax Matters, supplemented by a bilateral Competent Authority Agreement.

See Annex 2.A for supporting material.

New Zealand - Automatic tax assessments

Planning for the 2021 automatic assessment season continued to build on lessons learnt from 2020 and 2019. New Zealand worked to get the assessments out faster to give customers certainty faster, and used the data throughout the year to help ensure people are paying and receiving the right amounts.

If deductions are accurate throughout the year, customers should have smaller refunds or bills to pay (if any) at the end of the tax year. New Zealand proactively contacted 450 000 customers and employers throughout the year to let them know that they were on unsuitable tax codes and needed to update their details.

As changes to employment and investment income reporting were introduced progressively, the year ending 31 March 2021 was the first full year New Zealand received more details, more often, about recipients of investment income. Income from portfolio investment entities—such as KiwiSaver schemes—is included in the end-of-year income tax assessment process and automated where possible.

New Zealand issued over 3.2 million assessments to customers through the 2021 process, with a 10% increase in tax assessments finalised, from 2.79 million assessments finalised in 2020 to 3.05 million in 2021.

There has also been year-on-year improvement in the accuracy of income tax assessments resulting in refunds. The average debit value decreased from NZD 559 in 2020 to NZD 454 in 2021.

See Annex 2.A for supporting material.

Sources: Finland (2022) and New Zealand (2022).

Note

[1] For a detailed description of support measures taken by tax administration, please see the 2020 note *Tax administration responses to COVID-19: Measures taken to support taxpayers* (CIAT/IOTA/OECD, 2020[5]).

[2] For further information on the withholding regimes put in place in jurisdictions, please see *Tax Administration 2019* (OECD, 2019[4]), Tables A.73 and A.74.

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OECD (2022), *Global Revenue Statistics Database*, https://www.oecd.org/tax/tax-policy/global-revenue-statistics-database.htm (accessed on 13 May 2022). [3]

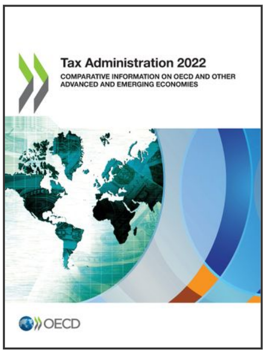
OECD (2021), *Tax Administration 2021: Comparative Information on OECD and other Advanced and Emerging Economies*, OECD Publishing, Paris, https://doi.org/10.1787/cef472b9-en. [1]

OECD (2020), *Tax policy responses to COVID-19; table with measures takes by countries*, http://www.oecd.org/tax/covid-19-tax-policy-and-other-measures.xlsm (accessed on 13 May 2022). [2]

OECD (2019), *Tax Administration 2019: Comparative Information on OECD and other Advanced and Emerging Economies*, OECD Publishing, Paris, https://doi.org/10.1787/74d162b6-en. [4]

Annex 2.A. Links to supporting material (accessed on 13 May 2022)

- Box 2.3. – Finland: Link to a presentation with more details on the real-time exchanges with Estonia: https://www.oecd.org/tax/forum-on-tax-administration/database/b.2.3-finland-real-time-exchanges-with-estonia.pdf
- Box 2.3. – New Zealand: Link to a case study looking at the outcomes of automatically issuing income tax assessments after the third year of operation: https://www.oecd.org/tax/forum-on-tax-administration/database/b.2.3-tas2022-new-zealand-year-three-of-automatically-issued-income-tax-assessments.pdf



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