

**ITD Global Conference on Taxation of  
Small and Medium Enterprises  
Buenos Aires, Argentina  
16<sup>th</sup>- 19<sup>th</sup> October 2007**

Tax Administration Strategic Reforms  
Moving Towards a Single Tax Administration Directorate  
The Case of Malta

August 2007

Dr Emanuel Camilleri  
Director General (Strategy and Operations Support)  
Ministry of Finance  
Malta

## Introduction

In the 2007 Pre-Budget document, the Government of Malta instituted an Inter-Departmental Working Group (IDWG) to explore ways of establishing closer working relationships and to create increasing synergies between the multiple tax administration directorates, namely the Inland Revenue Department, Value Added Tax Department, Customs Department, and the Tax Compliance Unit.

The work of the IDWG was carried out over an eight month period and resulted in a comprehensive study that consisted of a strategic analysis of the multiple tax administration directorates and suggested an optimal organisational model that Government may adopt to ensure practical and effective synergy between the relevant revenue earning functions. The study was based on extensive research into the trends of tax administrations of a number of European Union (EU) Member States and other countries that are considered to be international benchmarks for best practice. These international trends provided a sound basis for a proposed organisational model to be recommended.

The IDWG consisted of representatives from each of the multiple tax administration directorates and had the following terms of reference:

- (a) Evaluating Government's tax administration policy objectives and research best practices in this area;
- (b) Formulating concrete proposals for a closer working relationship and/or amalgamation of the multiple tax administration directorates;
- (c) Identifying an optimal organisational operational model that would cater for local needs and circumstances, and international tax administration obligations;
- (d) Identifying and quantifying the resource requirements that may be necessary for the proper implementation of the recommended proposals;
- (e) Recommending amendments related to tax administration legislation with a view to implementing the strategic recommendations.

The IDWG reported on a regular basis to the Permanent Secretary, Ministry of Finance and finalised its work within a ten month timeframe.

## Strategic Principles

In carrying out its work the IDWG was guided by a number of specific strategic principles:

- *Enhancing taxpayer service.* An important aim is to promote a service-oriented mind set that is focused towards enabling voluntary compliance and the reduction of involuntary errors. The taxpayer service to the business community, particularly to the small and medium enterprises (SMEs), is to be a quality value added service so as to have a positive effect in real terms on their entrepreneurship capabilities and hence be an important source for the creation of wealth and jobs.

- *Providing a customer friendly service.* Given the continuous updating of tax administration legislation (VAT, Income Tax and Customs) the need is felt to provide taxpayers with assistance, and clear and accurate information. This is best achieved by assessing the needs and preferences of taxpayers by business sector and size, and a decision model developed to prioritise service initiatives. A major aim is to provide an effective seamless customer service.
- *Introducing a structure which facilitates the simplification of tax law.* Simplifying tax administration legislation is viewed as reducing unintentional errors caused by a lack of understanding. Simplification is viewed as reducing the opportunity for intentional tax evasion and makes it easier for the tax administration to manage its tax policies.
- *Lowering compliance and administrative costs.* An essential objective is the reduction of taxpayer compliance costs and decreasing tax administration cost. This aim may be achieved by implementing information resource management concepts through strategic data sharing principles thus achieving value added information services.
- *Collaboration with partners and stakeholders.* Close collaboration between local and foreign tax administration directorates is seen as essential to formulating information sharing and compliance strategies. Close collaboration is also needed with practitioner organisations, including accounting organisations and associations to maintain and improve mechanisms that ensure consultants give appropriate tax advice to taxpayers.
- *Reducing opportunities for evasion.* An organisational model that focuses on specific objectives using systematic techniques is seen as an effective way of reducing tax evasion opportunities and improving the efficiency in tax administration.
- *Better cash control management.* An organisation model that has a centralised function for the collection of payments and other cash related decision-making processes is viewed as permitting the tax administration process to have a more effective cash management mechanism in place.
- *Facilitating debt collection.* Having a centralised debt collection process is seen as consolidating this time consuming tax administrative function, thus releasing resources to focus on compliance and enforcement.
- *Minimising the potential burdens of compliance strategies.* An organisational model that fosters economies of scale is viewed as minimising tax administration costs that would otherwise be borne by all classes of tax payers.
- *Integrating the main processes across organisational boundaries.* The application of business process management principles are to be heavily used in designing improved processes that optimise the use of electronic technology and eliminate processes that do not contribute towards optimising tax revenue and service to tax payers.
- *Benefiting from expertise and availability of human resources.* An effective organisational model is viewed as being able to provide the potential for greater flexibility in the management and utilisation of human resources.



- Estonia\* Single directorate in Ministry of Finance
- Ireland Unified semi-autonomous body
- Spain Unified semi-autonomous body
- Sweden Unified semi-autonomous body with board

#### Non EU Member States

- Iceland Unified semi-autonomous body
- Singapore\* Unified semi-autonomous body with board

\* Non OECD Countries

These countries provided a mixture of operating environments thus providing a holistic snapshot of the global tax administration operating environment.

## Internal Environment

The analysis of the individual tax administration multi-directorates generally suggests that the directorates have very complex systems and have embarked on and made rapid and continuous reforms in their operational set-ups since their inception. However, the analysis indicates that the reforms have been made as a reaction to changing circumstances rather than a proactive stance in anticipation of the changing environment.

The findings of the analysis show that the respective directorates had to align themselves with EU directives in a relatively short space of time with very limited resources. This indicates that the reform process within these departments has kept pace with the changing economic environment but the change process has been a painful one and primarily focused on the EU accession membership status. The analysis of the departmental processes suggests that these departments have reached a stage where the rate of reform progression is limited by the competencies and resources available to each respective individual department. Furthermore, an in depth analysis of the departments' operational functionalities indicate that many of their functions are similar, except for some very specialised and technical processes within the Customs Department.

The general conclusion from the internal environment points to the fact that reforms have continuously occurred within each tax administration directorate but there is a great need for a change of focus towards the client, where the service provided must abide by the concept of seamless management. Furthermore, the rate of change enjoyed in previous years cannot be sustained by having multiple tax administration directorates with separate operational policies. The analysis of the internal environment indicates that a great leap forward in the reform process is possible without increasing the operational pressure on the available resources, particularly human resources, by the extensive integration of the operational functions through a single tax administration directorate.

Extensive integration of the multiple tax administration directorates is possible due to the similarities of the operational processes within each directorate. It is argued that extensive integration will result in attaining synergies at unprecedented levels. It will enable the resulting emerging organisation to take a proactive stance thus keeping with or ahead of the economic setting rather than being reactive and always striving to keep in pace.

## External Environment

The external environment is basically an analysis of the trends of three major elements, namely, the various countries selected for study; the political, economic, social and technological tendency; and the identification of the relevant factions that have a vested interest in the proposed reform process and their magnitude interest.

*First element – country trends:* Seven countries were selected for analysis, with each respective country being considered as applying best practice in tax administration. Moreover, relevant documents published by the OECD itemising various country trends and OECD recommendations were taken into account in the overall analysis.

The country trend analysis and OECD recommendations indicate a tendency towards a single tax administration directorate. The major reasons cited by these countries for the integration process are mainly related to enhancing uniformity, efficiency and flexibility. For instance, Singapore specifically views the integration process as enhancing economic development and nation building through being a partner with the taxpayer. Furthermore, the integration process is viewed by many as a way of implementing the New Public Management concept of doing more with less. For instance, Swedish management were given a specific target to reduce its human resources by 35% over a five year period.

Generally, the country trend analysis suggests extensive integration of the revenue earning departments. However, the organisational trends are somewhat different in that there is a variation in the overall set-up, ranging from having a government department to an autonomous agency. The management set-ups also differ in that some have a single person responsible for the organisation, such as a Commissioner reporting to the Permanent Secretary, while others have a Board as the ultimate management reporting body.

*Second element – PEST Analysis:* The political aspect indicates that moving towards a single tax administration directorate may be a contentious issue. There are two major concerns: (i) public perception in terms institutional trust; and (ii) consensus by the social partners. Having an agency in contrast to a government department may be viewed as eroding the level of trust that currently exists within Maltese society. The basic reason for this is that having an agency in administering tax matters is a completely new concept. Therefore, the type of organisational set-up for the hypothesised single tax administration directorate may be a source of disagreement with the social partners. However, the risk of conflict may be reduced by having a department within the Public Service rather than an autonomous or semi-autonomous agency. Furthermore, it is essential that a broad communications strategy is implemented which defines in clear terms the reforms that may be proposed with the objective of gaining wide consensus to the proposed concept.

The analysis of the international economic aspect indicates that due to the rapid economic growth in China and India, stimulating the demand for natural resources, the economic perspective will remain turbulent. Hence, the revenue earning administrative process necessitates efficient, flexible and effective administration. This is also confirmed by the country analysis. The contemplated reform in tax administration should focus on the client with the objective of lowering the compliance effort. Furthermore, a distinction must be made between the citizen and the business community. With regard to the citizen the reformed tax administration processes must be aimed at making the citizen's responsibilities easier to carry out and if possible eliminate the need for them to submit

returns. With regard to the business community, particularly SMEs, the processes must be aimed at reducing the compliance cost and helping them to increase their competitiveness through the reduction of government bureaucracy.

The analysis of social factor implies that tax administration is to be based on equity and integrity. Whilst these values are not new, the proposed organisational model must aim at ensuring that everyone pays their proper dues. A single tax administration directorate is viewed as addressing tax evasion and avoidance more aggressively by removing the current constraints that the multiple tax administration directorates functionalities are currently imposing on the system, particularly information sharing.

Finally, the analysis of the ICT aspect indicates that technological trends will continue to have a major impact on the operational processes of government. eGovernment will help to mitigate some of the issues raised in the economic and social aspects above. The analysis suggests that ICT will facilitate the single tax administration directorate integration process by providing the possibility of having a one-stop-shop concept for all taxpayers irrespective of whether they are a citizen or a member of the business community.

*Third element – Stakeholders’ Analysis:* The stakeholders’ analysis identified those sections of society that have an interest in the reform process. The major stakeholders include: citizens, government, accounting associations, tax paying community, business community, administrative staff, and trade unions. It should be noted that the magnitude of interest between the identified stakeholders differ, with some being of more influence. The overall conclusion of the stakeholders’ analysis is the need of communicating in clear terms the resultant benefits from the proposed tax administration reforms in terms of efficiency, effectiveness, and fairness. Furthermore, it is essential that major reforms are backed by adequate legislative changes that provide any proposed organisational model with the appropriate authority to conduct its function without undue bureaucratic hindrance for the benefit of all stakeholders.

In general, the analysis of the external environment suggests that there is a tendency towards a single tax administration directorate. Furthermore, a comprehensive change management strategy before, during and after any reforms take place is a prerequisite to mitigate any internal and external resistance to change and to harmonise the cultures embedded within the respective multiple tax departments.

## **Strategic Alternatives**

The internal and external environmental analyses provide the basis for the strategic alternatives. Basically, four initial options were considered:

- (a) Do nothing, that is, continue with having multiple directorates operating as separate entities. This option was removed outright from the final proposals. Furthermore, the internal environment analysis indicates that the vast majority of functions within each of the current multiple tax administration directorates are very similar. Although it is recognised that a number of useful reforms have been introduced over the years by the respective departments, the benefits from the synergies offered through closer integration would not be realised.

- (b) Having full integration as a single government tax administration directorate, with the unique Customs functions being a division within the proposed model. This option is aligned with the findings of the internal and external environment analysis. The extent of the functional similarity between the respective multiple tax administration directorates suggest full integration. Furthermore, the external environment analysis indicates that integration is the prevailing trend and provides maximisation of benefits particularly related to the social and economic environments.

Establishing the single tax administration directorate as a government department is viewed as reducing the risk of alienation in terms of trust by the public in general and the business community in particular. Furthermore, a government department is likely to attract consensus by the social partners. Moreover, the stakeholders' analysis suggests that for this option to be fully successful, comprehensive communication and change management strategies are to be in place to mitigate the likely resistance to change from both internal and external forces.

- (c) Have full integration as a single autonomous tax agency, with the unique Customs functions being a Division within the proposed model. This is similar to option (b). The only difference being that the organisation would be established as an autonomous agency instead of a government department regulated by public service regulations. The concern with this option as indicated by the external environment analysis is the weakening of the perception of trust by the general public and the business community with the consequence that consensus by the social partners would be more difficult to attain. Furthermore, the communication and change management strategies would need to be more complex and costly to implement for mitigating the likely resistance to change from both the internal and external forces.
- (d) Have full integration except for the unique Customs functions, thus the unique customs functions would not form part of the organisational model. This option would result in realising most of the benefits and concerns under the integration options defined in (b) and (c) depending on whether the organisational set-up is a government department or autonomous agency. However, the additional major concerns with this option are: (i) where to organisationally fit the unique Customs functions; and (ii) the perceived uncertainty and anxiety of the Customs employees. If the unique Customs functions form part of an existing department within a different Ministry then the identity of Customs would likely be lost which would in turn create difficulties with staff retention and the resultant consequential loss of highly specialised and technical customs expertise. Furthermore, if the unique Customs functions are formed as a new department this would result in higher operational costs and duplication of administrative effort.

After considering the arguments for and against each option, the Inter-Departmental Working Group concluded that a single government tax directorate is the optimal solution. It should be recognised that the preferred option would need to be refined in practice to fit the long-term needs of the single government tax directorate. Furthermore, there are a number of factors that weigh in favour of the proposed solution. The setting up of an autonomous or semi-autonomous agency, although having the advantage of being more independent to achieve its strategic objectives, is viewed as entailing additional set-up costs. Moreover the establishment of an agency outside the Public Service may create the perception that the new organisation is seeking far greater autonomy than is actually

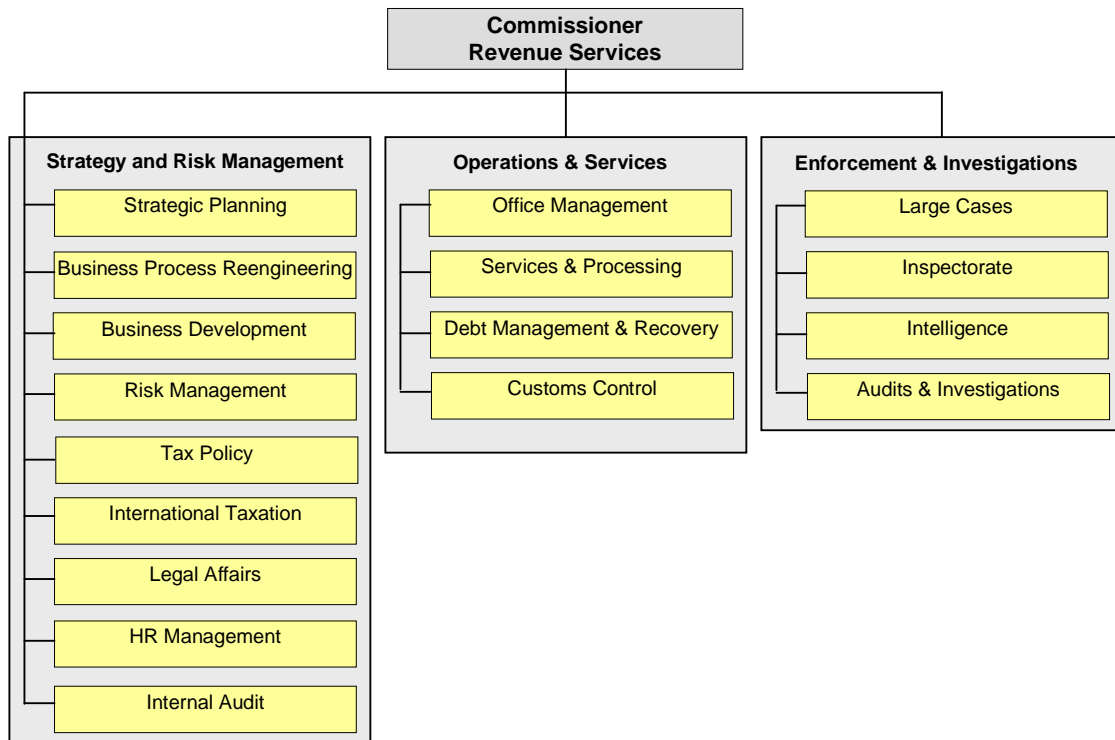
necessary and desirable. This might create a negative reaction from the general public that may taint the trust or sense of obligation which now exists towards civil servants.

The option of having the specialised functions of the Customs Department (Airport and Seaport surveillance, Central Intelligence Unit, Customs Economic Procedure Unit, Tariff Quotas and Surveillance, and Duty Free Cars) excluded from the single government tax directorate is viewed as undesirable. Segregating these functions from the preferred solution would result in establishing a barrier between Customs and the Enforcement and Investigating Sections of the single government tax directorate, thus weakening the strategic significance of the preferred solution.

## Preferred Solution

Figure 1 depicts the organisation structure for the single government tax directorate, illustrating full horizontal integration between the Tax Compliance Unit, Inland Revenue, VAT, and Customs Departments. Furthermore, the specialised functions of the Customs Department are established as an identifiable division within the preferred solution. Basically, the single government tax directorate is structured into three major divisions these being Strategy and Risk Assessment; Operations and Services; and Enforcement and Investigations.

**Figure 1: Organisation Model for a Single Government Tax Directorate**



The various departments within the preferred organisation model are structured along functional lines. Client orientation is the basic philosophy for the proposed organisation model, focusing on the three primary general sectors, namely citizens as taxpayers; SMEs

who have special needs; and large enterprises who require more flexibility in carrying out their business. SMEs are recognised as an important factor in the Maltese economy hence a primary objective of the proposed organisation model is to substantially reduce their compliance cost. The magnitude of organisational effectiveness is dependent on the optimum human resource development and utilisation; and the innovative application of information technology. These two basic ingredients are viewed as essential for developing a client oriented organisational philosophy and the reduction of compliance cost. The operational benefits envisaged from the proposed organisational model include:

- (a) More efficient application of resources by eliminating duplication of functions and more specialisation. Both the International Monetary Fund<sup>1</sup> and OECD<sup>2</sup> recommend against organising administration by tax type. OECD considers that integrated tax departments organised by function rather than by tax type resolves concerns related to loss of efficiency by having duplication of functions (e.g. registration, accounting, audit, collection, training, IT, human resources) and reduced flexibility in use of staff.
- (b) Information sharing leading to more effective risk analysis by reducing data fragmentation. The organisational model would facilitate the amalgamation of taxpayer information, thereby creating taxpayer profiles that assist in investigations, tax audits and debt management procedures. Being a Government Department would mitigate having a negative perception by the general public towards a single tax directorate. Furthermore, it would facilitate in the gathering, sharing and retaining of taxpayer information, hence presenting a holistic view of the taxpayer based on common taxpayer profiling.
- (c) Reduction of tax evasion. The organisational model facilitates an integrated network of investigations and tax audits using systematic methods that include taxpayer profiling, risk assessment and analysis to reduce tax evasion opportunities.
- (d) More focus on a taxpayer-centred approach resulting in the improvement of quality standards to provide equal treatment of taxpayers, concentrating more on service principles. Integration would facilitate a taxpayer-centred approach where employees are organised principally by functional groupings and generally work across taxes. This approach would enable greater standardisation of work processes across taxes; simplify computerisation and arrangements for taxpayers; and generally improve effectiveness. These initiatives are intended to provide a standard, efficient approach to taxpayers and thus encourage voluntary compliance.
- (e) Standard and enhanced functionality for the administration of all tax types. The integration of functions together with the application of ICT is viewed as a way of reducing the compliance costs of the business community, particularly SMEs, and enhancing effectiveness through synergy. For example, a single debt collection unit would facilitate better collection of arrears, since accounts tend to be in arrears for not only one tax type but for different taxes. Through the amalgamation of functions, data can also be utilised to cross check information relating to different tax regimes.

---

<sup>1</sup> Vehorn, C.L., and Brondolo. J., Organisational Options for Tax Administration, International Bureau of Fiscal Documentation November 1999 (IMF)

<sup>2</sup> Hamilton, S. Putting the Client First: The Emerging Copernican Revolution of Tax Administration, Tax Notes International, 10<sup>th</sup> February 2003 (OECD)

- (f) Better cash control management. Having a structure with a common cash office, enforcement unit and debt management function would enhance quicker cash collection. One of the advantages of having these functions amalgamated is that it is easier to control defaulters through a centralised database. This would facilitate debt collection and eventually permit better cash control management.
- (g) Centralisation of routine processes that can be more easily automated. The integration of process facilitates standardisation and the consistent application of rulings. Furthermore, it facilitates the taxpayer monitoring and compliance process. The application of ICT to specific routine processes is likely to decrease errors, reduce administration costs and shortening the process time lag.
- (h) Improving compliance activities. The organisational model facilitates the prevention, detection and implementation of remedies related to non-compliance by having wider-scope taxpayer profiles. This is achieved through the access of a single centralisation data source instead of sharing taxpayer information from different sources with subsequent matching and cross examination.
- (i) Increasing staff collaboration and improving career opportunities for employees. The integration process has the aim of utilising human resources more effectively. This is achieved by having greater employee utilisation flexibility; ensuring sufficient staff through retraining and reallocation; restricting excess capacity in specific sectors through the elimination or automation of work process; and allowing staff redeployment to more productive functions.
- (j) Uniformity of forms and correspondence across taxes, new statements of accounts and direct electronic refunds. The organisational model envisages significant scope for the application of business process reengineering to simplify and streamline complex business processes, and achieving economies of scale through increased volumes in shared services between the different organisational divisions.
- (k) Making maximum use of electronic transactions. eGovernment permits timely client account information and facilitates the use of simple payment methods that have the potential to reduce the compliance costs for taxpayers and improve the effectiveness of the proposed organisation. Easy payment mechanisms are viewed as being negatively related to the level of client debt. In certain instances, client debts arise as a result of forgetfulness rather than cash flow concerns. Furthermore, accurate client account details may also contribute to effective risk analysis, enabling the proposed organisation to target debt management and audit interventions more effectively.

The above benefits are viewed as enhancing the revenue collection capability of Government and simultaneously achieve lower taxpayer compliance cost and a more client focused approach.

## Critical Success Factors

The critical success factors define the essential elements that must be in place to ensure the successful implementation of the proposed organisational model. These include:

- (a) *Logistics*: Housing the single tax directorate in a common physical location is fundamental to success without which the benefits emanating from the proposed integration would not be fully exploited. A common physical location is viewed as being feasible for a small country such as Malta. Obviously, certain Customs functions need to be housed close to the source of the work processes, such as seaports and airports. Housing the proposed single tax directorate would facilitate the use of shared physical resources and create more opportunities for staff to better organise their work and facilitate a one-stop-shop taxpayer service.
- (b) *Information Systems Integration*: Challenges of providing new services and dealing with information systems applications need to be given priority during the integration process. ICT system integration is viewed as an essential success factor for lowering the compliance costs of taxpayers and the administrative costs of the tax directorate.
- (c) *Human Resource Restructuring*: In order to ensure a smooth transition, there should be a detailed study on the impact of the integration on the current staff complement. It is important that all units are well staffed with the right balance of expertise to ensure that a seamless service is provided to the taxpayer.
- (d) *Legislative Amendments*: The recommended model would need to be supported by the appropriate legislation. Integration presents an opportunity to consider how data can best be utilised to improve risk assessment, customer service, and policymaking.
- (e) *Timing and Migration*: The integration process would need to be phased to minimise the adverse affect of the change management process and the resultant resistance to change. A comprehensive migration plan will need to be defined and negotiated with the trade unions concerned.
- (f) *Political Commitment*: The tax administration integration issue is a sensitive one as it may affect the perception of the taxpayers towards the functionality of the tax administration. Hence, the integration process should be supported by a consultative process with relevant stakeholders, particularly business associations. The consultative process with the general public may be achieved through advertising or other similar means. However, the consultative process with business associations would need to be through detailed presentations and discussions.
- (g) *National Consensus*: A high degree of consensus to this project is desirable. Therefore, effective, accurate and timely communication and consultation is of paramount importance. Feedback from all stakeholders is to be sought and discussed.
- (h) *Creation of Specific Professional Positions*: There is the need to have persons with the necessary expertise. The organisation model is based on specific professional positions that provide a greater incentive and to a certain extent greater flexibility in human resource management. The organisation should aim to serve the individual and business taxpayer effectively in accordance with the taxpayer expectations.

- (i) *Staff Recruitment Flexibility*: Employees will be expected to work in the different tax divisions upon integration and hence require extensive professional development to widen their knowledge on various tax related issues. An important aim is to attain a greater degree of professionalism in the single tax directorate.
- (j) *Change Management Programme*: A change management programme will be required to ensure a phased approach. Hence, a change management team is to be appointed to ensure that integration is accomplished to the envisaged standards.
- (k) *Organisation Culture Change*: An extensive communication strategy is required to ensure that employees are kept informed of developments. The organisation's mission and vision are to be articulated in clear and precise terms to ensure that employees understand management's expectations.
- (l) *Understanding and Meeting the Needs of the Clients*: The organisation model is to be client focused. Therefore, management and employees alike need to understand and meet the needs of the internal and external clients.
- (m) *Adequate Financial Resources*: The integration of the tax departments is a major restructuring exercise and hence requires adequate financial resources to cover various important factors such as logistics and information systems.

## **Concluding Remarks**

The proposed single tax directorate is guided by four main principles: (a) reducing taxpayer compliance costs and enhancing taxpayer service; (b) decreasing tax administration costs and maximising revenue collection; (c) equitable administration of tax laws; and (d) increasing collaboration with relevant stakeholders. It should be noted that these four principles positively affect the citizen either directly such as in the case of the reduction in compliance costs and better effective services, or indirectly by ensuring that the citizen receives value for money in how his/her tax contributions are applied in the social order.

Finally, the conceptual organisational model depicting a single tax directorate is viewed as providing an optimum solution that would need to be reviewed and refined if applied in practice to reflect the workable realities that confront any new endeavours.

**Author:** Dr. Emanuel Camilleri

**Work Address:** Ministry of Finance  
South Street  
Valletta CRM02  
MALTA

**Position Title:** Director General (Strategy and Operations Support)

**Affiliate:** Visiting Lecturer  
Institute of Public Administration and Management  
University of Malta

**E-mail:** [emanuel.a.camilleri@gov.mt](mailto:emanuel.a.camilleri@gov.mt)