Thriving in the "New Normal" for Tax Administration

This paper discusses how tax agencies can identify specific revenue collection initiatives and begin to build the business case for IT modernization while developing a framework, and the momentum, to achieve short-term and long-term goals.

INTRODUCTION

Public sector revenue growth rates have reached a "new normal" that is well below historical averages. This has caused agencies to operate with fewer staff, reduced spending authority and continued pressure to reduce costs while continually maintaining, if not enhancing, customer service.
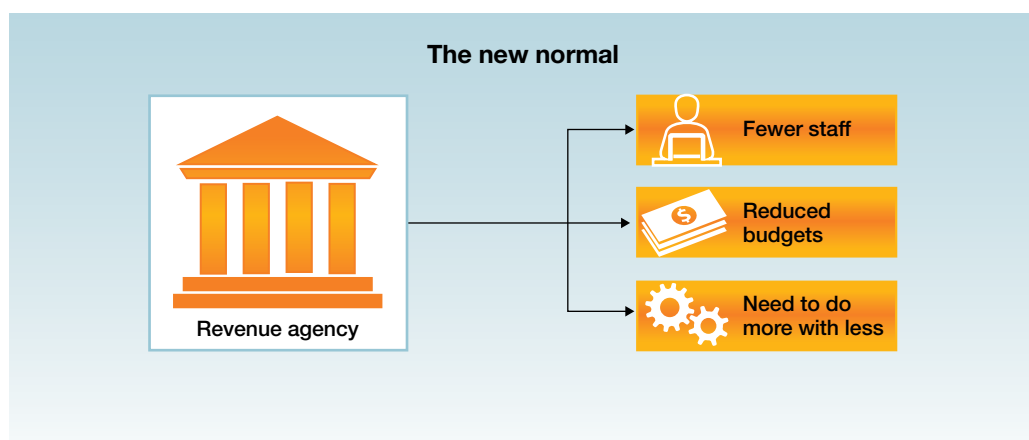
To help mitigate these challenges, tax and revenue agencies can play a unique role by improving their ability to collect more monies that are owed to government. Yet, many opportunities to enable better revenue administration performance—such as data utilization, process automation and taxpayer self-service—will require investments in modern information technology (IT).

Stakeholders are more willing to support investments in IT projects where there is an immediate payback. When traditional funding is not possible, however, tax agencies can help address these gaps through managed services and benefits-funded approaches.

This paper discusses how tax and revenue agencies can identify specific initiatives that collect more dollars already owed the government and begin to build the business case for a complete agency modernization while developing a framework, and the momentum, to achieve strategic goals.

The new normal

IDENTIFYING REVENUE COLLECTION OPPORTUNITIES: A UNIQUE ABILITY TO MAKE A DIFFERENCE

As with most other agencies, tax and revenue agency budgets are frequently being reduced. The difference is that a tax agency has a unique ability to help government retain or increase funding by implementing initiatives that in fact collect additional revenues. Typically, such initiatives focus on making it easier for taxpayers to self-comply and on improving the identification and collection of revenues from non-compliant taxpayers. Tax agencies can also improve effectiveness and efficiency through initiatives designed to:

• Reduce the cost to collect each tax dollar

• Increase enforcement of existing tax statutes, without overly intruding in the affairs of non-compliant taxpayers

• Build a workforce within the agency that is capable and empowered to quickly resolve taxpayer issues

• Provide 24/7 online service capabilities.

Identifying opportunities to improve collections can begin with an Operational Review of existing programs and practices. The review can be done at an enterprise level or by reviewing a single function, such as collections, taxpayer assistance or audit.

The Operational Review identifies problems in and impediments to both voluntary compliance and existing revenue agency compliance programs. While compliance improvements usually provide the most tangible benefits, compliance initiatives must fit within the overall agency strategy.

The magnitude and specific characteristics of operating problems vary from agency to agency. However, common challenges faced by all revenue agencies include:

- Technology limitations that prevent the use of 24/7 online customer service to allow taxpayers to more easily meet their obligations
- Lack of availability and quality of relevant data to identify non-compliant taxpayers
- Delinquent collection policies and procedures that prohibit financially distressed taxpayers, who are willing to comply, from complying
- Manually intensive business processes that limit the ability to address known, non-compliant taxpayers
- Inability to meet user needs because tax administration applications are supported by legacy IT infrastructure that is expensive to maintain and difficult to modify
- Requirement to augment existing agency budgets for the cost of new, enabling technology to address known business problems.

TURNING PROBLEMS INTO SOLUTIONS

Opportunities to increase collections generally can be found in the following categories:

- **Data utilization:** Expanded access to data can help identify assets or revenue not claimed by the taxpayer, locate non-registered taxpayers, and locate assets or other information to support the collection process.
- **Business process design and automation:** Process improvements can enable "no touch" collections or involve agency staff only when intervention is really needed.
- **Taxpayer self-service:** Self-service channels can increase compliance by making it easier for taxpayers to comply, and allow agency staff to work more cases that cannot be resolved through the self-service channels.
- **Managed services:** Specific functions of tax administration, like IT implementation and management, can be done less expensively and more efficiently by using third-party managed service providers.

Revenue collection solution categories

Data utilization

Business process design and automation

Taxpayer self-service

Managed services
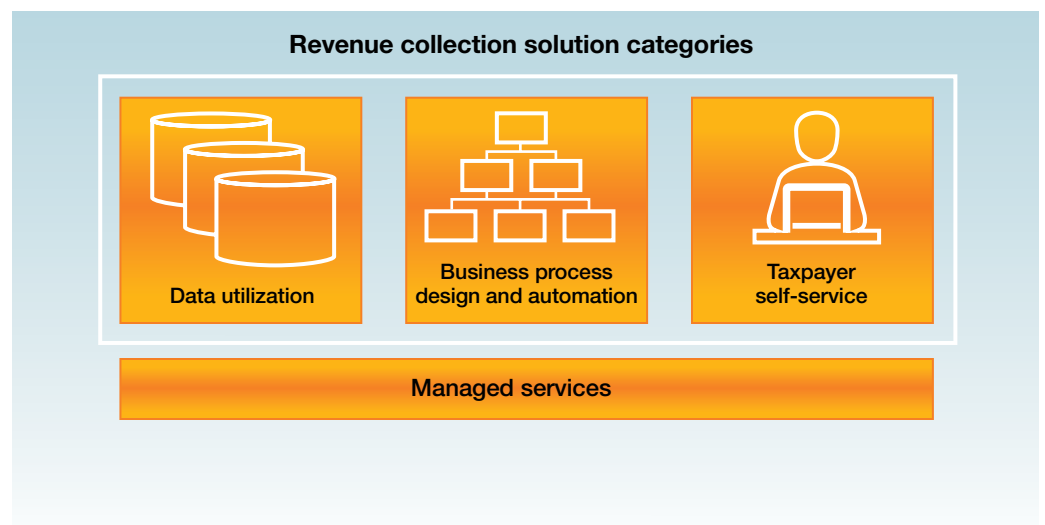
The nature of specific initiatives within these categories will vary significantly. Some variables that affect each initiative include: length of time to implement, current technology in place, existing business processes, lack of agency staff, or timeframe required to generate benefits

Data utilization
Improvements in tax administration can be achieved through the expanded use of relevant taxpayer data. Better data utilization addresses the accuracy, type and ease of access to relevant information. Expanding the quality and availability of data can help agencies increase revenues by:

- Improving the validation and accuracy of returns as they are initially processed to identify errors in a timely manner (proactive return validation and processing)
- Identifying returns with a high probability of change in tax due
- Identifying fraudulent returns before their associated refunds are issued
- Assessing the risk of non-payment on outstanding obligations
- Evaluating and improving the effectiveness of existing business processes
- Eliminating the assignment of unproductive cases to compliance resources.

Examples of initiatives to improve data utilization include:

- Automating the capture of taxpayer return data
- Expanding the mandatory use of electronic filing and data exchange
- Centralizing and consolidating the storage of data in a data warehouse and eliminating multiple data repositories maintained in specific business program areas
- Expanding the use of third-party information including other agency data
- Investing in decision analytics tools that allow for statistical prediction of non-compliance (predictive and behavioral modeling)
- Expanding the availability of asset information to improve collection program effectiveness
- Obtaining accurate address data to improve effectiveness of agency notices and correspondence.

Business process design and automation
Many revenue agencies remain saddled with business processes that require far too many manual activities to accomplish routine tasks. Further, because many legacy applications provide only limited functionality, and since it often is difficult for multiple systems to communicate with one another, revenue agencies are implementing techniques and solutions such as:

- Service oriented architecture (SOA) to enable integration that is product agnostic, highly scalable, extensible and configurable
- Business process management (BPM) and externalized business rules to increase flexibility and speed of changes tailored to unique client needs
- Master data management (MDM) to integrate all forms of data and images and immediately make them available throughout the enterprise.

By understanding and leveraging this technology, reusable functions (services) are implemented to efficiently perform common tasks. Data is exchanged and managed using modern integration management and functionality. The accurate association of all this data relies on the matching of records to a single taxpayer using an MDM tool. The management of that taxpayer identity is handled through the creation of a single golden record which allows for a single taxpayer view across multiple legacy applications.

These capabilities allow agencies to be more flexible, and grow more easily over time. Such transitions should be part of the strategic IT planning process to ensure that implementing new services improves the agency's IT maturity posture and creates the most immediate, significant and important return on investment.

Automating manual processes or redesigning existing ones will result in many advantages to revenue agencies, such as:

- Reducing the transactional costs of business processes and eliminating unnecessary or ineffective activities, freeing resources for priority work
- Allowing better alignment of higher priority activities to resources with the right skill set to process the work
- Increasing the likelihood of resolving taxpayer issues on the first contact
- Eliminating backlogs
- Speeding core business processes such as return processing and validation, including refund creation, to make billing more current and collectible
- Increasing agency capacity without staff augmentations
- Improving the productivity of compliance resources.

Redesigning or automating business processes must include initiatives that reduce operational costs, increase delinquent collections or increase compliance revenue with more general improvements. Examples of these are provided in the following table.

Sample business process improvements		
Reduce operational costs	**Increase delinquent collections**	**Increase compliance revenue**
Use optical recognition or 2D bar coding technology to capture data from paper returns	Assign underworked productive cases for proactive treatment	Match data between disparate data sources to identify possible non-compliance issues
Use imaging solutions to improve the accuracy of data captured and assure easy image retrieval for taxpayer services	Implement automated collections tools to allow the collection system to perform tasks that previously required staff action	Automate the clearance/revocation process
Provide electronic filing solutions that increase data accuracy and eliminate the need for data capture	Provide consolidated data and predictive models to allow for automated decision making that places the right case with the right resource at the right time	Invest in new workflow systems that can consolidate and coordinate compliance activities to increase revenues and reduce the cost of compliance activities
Provide self-service channels to allow taxpayers to complete tasks that previously required staff intervention	Implement streamlined processes to authorize low-risk taxpayers additional time to pay existing debts	Route inbound taxpayer contacts to the most appropriate agency resource based upon the risk of non-compliance and the complexity of the tax issue

Taxpayer self service

Over-burdened revenue agencies do not typically have the capacity to adequately respond to every taxpayer inquiry during peak demand periods. This leads to taxpayer frustration, unintentional delays in resolving outstanding issues and unnecessary compliance costs. At the same time, based on the service they receive from private sector companies, most taxpayers expect 24/7 online access for all of their interactions.

Many taxpayers are willing to comply if they understand how to do so, and it is relatively convenient. Offering self-service options is a valuable method for making taxpayer obligations easier to understand and meet. The most common way to make self-service available is through agency web sites. While many revenue agency web sites have a significant amount of information, most do not offer the capability to conduct business online.

Expanding online self-service capabilities to taxpayers will result in multiple benefits:
- Reduced operating costs
- Increased self-compliance
- Better data quality
- Greater stakeholder satisfaction
- Reduced demand on more traditional public service channels, thus increasing the timeliness and availability of taxpayer assistance resources.

Examples of self-service initiatives include:
- Online taxpayer registration, filing and payment
- Online access to taxpayer-specific account information such as prior filings and payments
- Ability to conduct transactional business online, such as updating addresses, filing returns, making payments or responding to revenue agency inquiries
- Completion of self-service payment arrangements via the Internet and Interactive Voice Response (IVR) applications.

In today's evolving technology environment, more people also expect to use their mobile devices to conduct these same types of transactions, increasing the technology and security challenges of the revenue agency.

Managed services

There is a growing appreciation that using a managed services approach to system modernization and operation can provide many benefits to government organizations. For example, a managed services model transforms government's leadership role from controlling inputs to driving outcomes. IT managed services are being used to achieve:
- Greater cost predictability and scalability
- Access to expert talent and next generation tools and capabilities
- Increased productivity
- Increased options for business processes
- Faster implementation timeframes
- Enhanced flexibility
- Risk mitigation
- Ability to refocus government resources on core mission activities
- Better ROI for government

Retirement of key staff is expected to continue over the next three to five years. This, combined with the complexity of new technology and the inability to retain critical resources, will drive technical skills shortages for government. The recruitment and retention of new staff with the right skill sets will also present challenges given the changing career expectations of "Generation Z."

Managed services engagements give agencies access to critical talent and reduce the upfront capital necessary to realize modern technology. In addition, operational, maintenance and upgrade costs can be consolidated into a single predictable monthly or annual cost.

IT support organizations often find that 60-80 percent of their resources are consumed simply to support current organizational processes. This leaves very limited capacity to build, test, implement and support new requirements, many of which have been back-logged for years. It also leaves few resources to modernize aging IT systems that support the agency's most important business processes.

With a managed services approach, new business processes and support systems can be implemented in just months, compared to years in a traditional large systems implementation. In addition, applications and third-party software, along with the underlying technical architecture, can be kept current throughout the life of a managed services agreement, further reducing the problem of technology obsolescence which can occur in a multi-year implementation project.

A number of managed services are in use today in tax and revenue agencies, from development and maintenance, to hosting and full business process outsourcing. Examples of functions supported through managed services include:

• Common support services such as:
  – E-mail
  – Help desk ticket tracking
  – Document management
  – Human resources
• Third-party collections agencies
• Streamlined sales tax rates and boundaries database
• Third-party international fuel tax agreement (IFTA) and motor fuel tracking systems
• Third-party IT infrastructure security testing and certification
• Third-party electronic vaulting of data
• VoIP services to replace existing telephone and PBX systems
• Further consolidation of infrastructure support, particularly related to disaster recovery.

TAKING A STRATEGIC APPROACH WHILE REALIZING "QUICK WINS"

There is no question that revenue-generating initiatives should be implemented quickly. Yet, if a tax agency does not have a long-term vision, it risks implementing tactical wins that do not position it for long-term success. The "new normal" offers an opportunity for tax agencies not only to survive, but to thrive, by conducting a strategic review and planning process to transform tax administration in a way that meets both short-term and long-term stakeholder expectations.

The previous section described several initiatives that have proven successful. It is important for an agency to determine the specific changes to be adopted into its strategic plan. By following a series of logical steps, agencies can uncover the information and insights needed to determine the best strategies. Simply choosing from a menu of likely alternatives that have been successful in other states may not provide an agency with the same results and vision of the future that is required.

Developing long-term solutions requires some investment in time, money and tax agency resources. It also requires a commitment from an agency's senior management to create a culture of change. Not all issues can be addressed simultaneously, and an agency's capacity for change is limited. Further, it is difficult to obtain funding for all projects.

The good news is, many of the initiatives to address these problems can produce a high return on investment (ROI) and be structured to begin producing new revenues within a few months of their initiation. Such "quick wins" can help an agency get necessary funding by promising an immediate ROI. Rather than taking on all of these challenges at once, the agency can prioritize and begin to fix the most pressing issues almost immediately.

However, the agency should refrain from simply implementing the quick wins without regard to the "bigger picture" of where the agency wants to go. Likewise, it must guard against external stakeholders such as legislative bodies pushing them to implement the quick win and then doing nothing more to modernize the agency as a whole.

It is important to remember that improving tax administration is not just about implementing technology. Organizations also depend on processes, and business decisions always depend on people, regardless of the amount of automation implemented. Without changing the underlying business processes, gains from newer technology may not improve the quality of tax administration for staff or its citizens. Agencies must therefore create people-focused solutions that improve business processes, employee skills and efficiencies to take an organization securely into the future.

KEYS TO STRATEGIC PLANNING SUCCESS

While the specific steps to transform an agency can and will vary, several key elements of an effective strategic plan should not be overlooked. These include:

- Confirm that the organization has a shared vision of what it will look like in the next five to ten years
- Document the "current state" of the organization
- Develop a "future state" document that will describe the core business processes in the future
- Identify the existing "gaps" that are keeping the agency from achieving its future vision
- Identify strategic initiatives that will offer the opportunity to address existing business problems and support the achievement of the future vision
- Develop an implementation plan that can be successfully managed and accomplished by the agency.

The development of a strategic plan does not negate or undermine the need to move quickly to implement tactical initiatives. A strategic plan allows an agency to assess and quantify the value of individual tactical initiatives in relationship to its longer-term goals. A well-developed strategic plan will also provide the business case and roadmap for future technology initiatives with an articulated cost-benefit that ties back to the agency's mission and objectives.

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SOLVING THE FUNDING ISSUE

As discussed above, the updated strategic plan should identify gaps between where the agency is today and where it needs to be to achieve its long-term objectives and vision. Based on the experiences of many states, agencies can often achieve success through implementing projects that increase revenues while simultaneously moving the agency towards a long-term vision. In addition, with creative contracting approaches, these projects can be easier to get approved.

A number of contracting approaches can be used to obtain approval for modernization programs. Chief among them are:

- Benefits funding
- Alternative funding using existing legislation
- Traditional procurements.

Benefits funding

Benefits funding is a proven approach used by many tax agencies to address their needs and meet funding challenges. Unlike traditional funding approaches, benefits funding does not require upfront expenditures, while offering solutions that enhance revenue and improve service to taxpayers—all without raising taxes.

With this fixed-price approach, the IT solution partner supplies the investment for new technology or process improvements, as well as the expertise that will enhance the agency's capacity to fulfill its goals. The partner receives payment only as additional revenues are collected, and therefore bears a significant burden for the financial risk and success of the project.

As the project generates revenue, a portion is used to pay back the vendor investment until the agreed-upon fixed-price contract is paid and, in effect, pays for itself. Such an arrangement is strikingly different from a typical public sector procurement, which focuses on the completion of deliverables that may or may not generate the expected business outcomes. As effective procurement models, benefits-funded contracts reduce risk, ensure that the agency gets what it needs, and make the increased revenue available to fund other initiatives.

It is important to note that benefits-funding does not require new legislation. Most states can use benefits-funding by simply placing a service level agreement into their IT contract. The service level agreement would mandate that the vendor will only be paid when and if benefits are achieved. These can continue to be fixed-price contracts, with all benefits retained after the fixed price has been paid.

Traditional procurements

Some agencies are not able to take advantage of the alternative funding procurements described above, or do not need an alternative approach to convince their legislatures to fund well-conceived projects. In most agencies, traditional procurements focus on deliverables with an emphasis on ROI. With a focus on ROI, agencies are changing their traditional procurements from those that simply replace technology, to ones that evaluate vendors through new criteria, such as:

• Ability to perform business process reengineering

• Ability to estimate and deliver ROI

• Methodology for estimating and delivering ROI

Regardless of the type of procurement, the business case remains the same, but increased revenue and other business outcomes will now be expected and measured.

NEXT STEPS

Optimized tax administration contributes significantly to the fiscal well-being of government at all levels. Agencies should seize the opportunity to both mitigate revenue shortfalls and transform their organizations.

Following are four things that can be done immediately to get started:

1. **Conduct an Operational Review:** An excellent first step for many agencies is an Operational Review that compares their current operations to best practices in other revenue agencies. The review identifies areas of strength and weakness and can examine any or all areas. It provides insight into potential increased revenue from improved business processes and upgraded technology and tools.

2. **Create or refresh the strategic plan:** If a strategic plan is already in place, it may be time to re-examine it. At the very least, reprioritizing initiatives may be appropriate. If no plan exists, creating one provides a clear sense of the agency's vision and goals.

3. **Implement revenue "quick wins":** With compliance and revenue-generating initiatives at the forefront, an implementation roadmap should include some "quick wins" that bring in additional revenues, many of which can be accomplished without a significant technology investment. Experience has shown that significant revenues can begin in as little as 3-6 months. "Quick wins" also create excitement within the agency and with external stakeholders, and add credibility to the plan. Continuous, credible measurement is critical to evaluating and revising initiatives to better meet expectations.

4. **Partner with an expert:** CGI's experienced consultants can help tax agencies assess their current processes by conducting Operational Reviews and benchmarking findings against a national best practice catalog for tax administration. CGI has been a thought leader in tax administration through numerous successful partnerships where government clients have certified more than $4 billion in increased revenues. Our creative funding models allow projects to begin when traditional funding approaches may not be an option. We would be pleased to discuss specific ways your organization can take advantage of advanced technology and best practices to evolve your operations.

Learn more at **cgi.com/tax.**

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ABOUT CGI

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CGI has been at the forefront of the evolution of tax and collections management through numerous successful partnerships with government and commercial organizations. Our solutions and services have helped public sector clients alone to certify more than $4 billion in increased revenues. We would be pleased to discuss specific ways your organization can take advantage of advanced technology and best practices to evolve your operations.