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CGI

Reshaping Tax Administration during Tough Economic Times

WHITE PAPER

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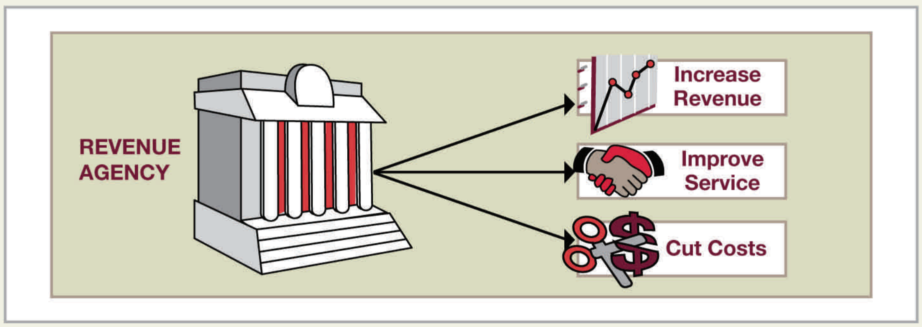
FACING A NEW CHALLENGE

The recent changes in our economic climate have caused the pendulum to shift toward projects increasing revenues collected and agency efficiency and away from projects solely focused on customer service. Government must find ways to reduce the overall burden on taxpayers while simultaneously increasing the ability of their revenue agencies to collect the taxes legally owed.

This paper will discuss how tax agencies can turn the current crisis into an opportunity to address near term challenges while providing a framework, and the momentum, to achieve greater strategic goals.

With government at every level facing unprecedented fiscal challenges, revenue agencies today are under significant pressure to increase revenues and reduce costs while remaining accountable for providing strong customer service. Determining the best strategy to move forward in these challenging times is imperative. As government revenues decline and critical citizen services are cut, tax and revenue agencies are working hard to develop solutions to weather the crisis.

The challenge of revenue agencies



It's not "business as usual" anymore.

What is becoming clear is that simply doing more of the same is not a strategy that will meet the diverse expectations of government tax administration stakeholders. Tax administrators must consider these actions:

- Increasing enforcement of existing tax statutes without overly intruding in the affairs of compliant taxpayers
- Reducing the cost to collect each tax dollar
- Building a workforce within the tax agency that is capable and empowered to quickly resolve taxpayer issues
- Providing 24/7 online service capabilities.

Meeting all these expectations would be a difficult task even in the best of times. Today's tough economic environment makes the challenge even greater. Compounding the challenge, tax administrators must also consider the following realities:

- Significant retirements of key staff are expected to continue over the next five years, although perhaps at a slightly reduced pace than previously expected due to the impact the stock market has had on retirement investment portfolios
- The recruitment and retention of new staff with the right skill sets will likely present challenges given the changing career expectations of generation “Y”
- Many opportunities to improve performance will require a significant capital investment in new IT capabilities, that must quickly pay for themselves

Despite these realities, today’s financial crisis actually creates a unique opportunity for tax agencies to transform how they accomplish their mission and to make long term and enduring improvements in tax administration. Stakeholders generally see tax agencies as part of the solution and may be willing to revisit agency investments if they can see how doing so will help shrink existing revenue shortfalls.

“When written in Chinese, the word "crisis" is composed of two characters—one represents danger, and the other represents opportunity.”
- John F. Kennedy

In that spirit, this opportunity should not go to waste. Tax agencies must implement fixes and revenue enhancements quickly, and while they are doing that, they can also develop long-term plans that will allow agencies to not only survive, but to thrive. Through this review and planning, an agency can develop a recommended approach to transform tax administration in a manner that meets both short and long-term stakeholder expectations. Without that long-term vision, the agency risks implementing tactical wins that do not position the agency for long-term success.

The recent changes in our economic climate have caused the pendulum to shift from customer service to a focus on increasing collected revenues and staff efficiency. However, states cannot simply get tough on taxpayers to get through the current situation. Taxpayers are going through their own tough times, and a strategy of beating up on the taxpayer does not meet the goals of government. Rather, governments must find ways to reduce the overall burden on taxpayers while simultaneously increasing the ability of their revenue agencies to collect the taxes legally owed.

This paper describes how tax agencies can shift the current crisis to an opportunity to address near term challenges while providing a framework, and the momentum, to achieve greater strategic goals.

The remainder of this paper will cover

- Revenue Generating Initiatives for Challenging Times – a discussion of initiatives that could fit within a tax agency's strategic plan that would provide immediate benefits.
- Strategic Planning – An argument in favor of strategic planning and a framework for accomplishing it.
- Solving the Funding Issue – Defining procurement options and an argument for benefits funded procurements.

Revenue-Generating Initiatives for Challenging Times

There are many ways that revenue agencies can help their jurisdictions through these challenging times. Like all other government agencies, revenue agencies are seeing their budgets reduced and are being asked to control costs. Revenue agencies are unique, in that they can increase revenues through initiatives that focus on increasing compliance by making it easier for taxpayers to self-comply, improving the agency's ability to identify and collect revenues from noncompliant taxpayers.

The identification of revenue-generating opportunities can begin in many ways. One proven method is an Operational Review of existing revenue agency programs and practices. This could be done at an enterprise level or by reviewing one area of the agency, such as collections, taxpayer assistance, or audit. The Operational Review identifies problems and impediments that inhibit both self-compliance by taxpayers and the effectiveness of existing revenue agency compliance programs.

While the magnitude and specific characteristics of identified operating problems will vary from agency to agency, there is great similarity to the challenges faced by all revenue agencies:

- Unintended non-compliance due to the complexity of existing tax laws
- Current methods to provide taxpayer assistance are cumbersome, expensive and does not meet the needs of taxpayers
- Identification of noncompliant taxpayers is constrained by the availability and quality of relevant taxpayer data
- Delinquent collection policies and procedures may not give enough flexibility for taxpayers who are in financial distress but want to comply
- Revenue agency's capacity to address known non-compliant taxpayers is limited due to inefficient, manually intensive business processes
- Infrastructure of IT applications that support tax administration does not fully meet the needs of users and is expensive to maintain and difficult to modify

- Cost of new enabling technology to address known business problems requires augmentation to existing agency budgets.

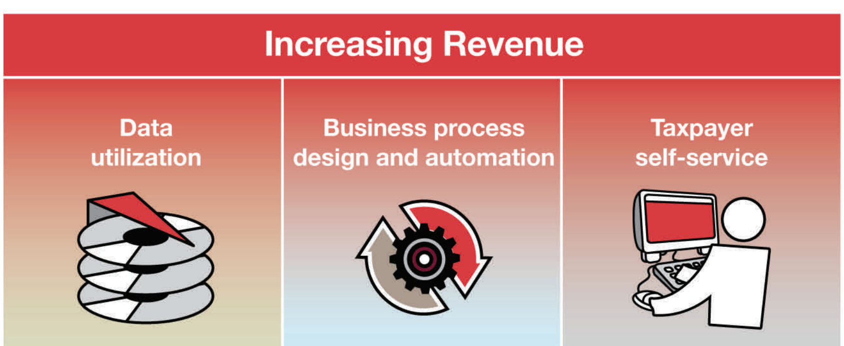
Turning Problems into Opportunities

Developing long-term solutions to the above challenges requires a significant investment in time, money and tax agency resources. Not all issues can be addressed simultaneously and an agency's capacity for change is limited. Further, it is difficult to obtain funding for such projects. The good news is many of the initiatives that address these problems produce a high return on investment and can be structured to begin producing new revenues within a few months of their initiation. This would allow an agency to get necessary funding by promising an immediate return on investment for the government. Rather than taking on all of these challenges, the agency can prioritize and begin to fix the most pressing issues almost immediately.

Solutions to the above described business problems can be grouped into three broad categories:

- Data utilization—Through the expanded use of data, agencies can identify assets or revenue not claimed by the taxpayer, they can locate non-registered taxpayers, and they can locate assets or other information to support the collections process.
- Business process design and automation—Through process improvements, agencies can increase both their efficiency and effectiveness.

Revenue producing solutions can be grouped into three broad categories:



- Taxpayer self-service—Through self-service channels, agencies can allow staff to work additional cases and can increase compliance by making it easier to comply.

The nature of specific initiatives within these categories will vary significantly. Some of the variables that affect the nature of initiatives can include the length of time to implement, the current state of technologies, existing business processes, agency staff, the timeframe required to generate benefits, current tax administration policy or legislation, and the project cost.

Data Utilization

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

- Improving the validation and accuracy of returns as they are initially processed to identify errors timely (get the data right the first time)
- Identifying returns with a high probability of tax change
- Assessing the risk of nonpayment on outstanding obligations;
- Evaluating and improve the effectiveness of existing business processes
- Eliminating the assignment of unproductive cases to compliance resources.

Examples of initiatives that will improve the utilization of data include these:

- Automating the capture of taxpayer return data
- Expanding the mandatory use of electronic filing and data exchange
- Centralizing the management and storage of data in a data warehouse and eliminating multiple repositories of data maintained in specific business program areas
- Expanding use of third party information including other agency data
- Investing in decision analytics tools to better manage business processes and assess taxpayer compliance
- Expanding the availability of asset information to improve collection program effectiveness
- Obtaining expanded 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. Many of these processes were developed for the processing of paper and should be redesigned for today's computer and Internet-based environments. Further, because many legacy applications provide only limited functionality and it is often difficult for multiple systems to communicate with one another, revenue agencies are considering Service-Oriented Architectures (SOA). Through this approach, reusable functions (services) are implemented to efficiently perform common tasks, allowing agencies to be more flexible, and grow more easily over time. The transition to SOA can be challenging but the rewards are significant.

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

- Reducing the transactional costs of business processes and eliminating unnecessary or ineffective activities
- 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 up the timing of core business processes such as return processing and validation including refund creation
- Increasing agency capacity without staff augmentations
- Improving the productivity of compliance resources

Redesigning or automating business processes might include initiatives that reduce operational costs, increase delinquent collections, or increase compliance revenue with more general improvements.

Reducing Operational Costs

- Using optical recognition or 2D bar coding technology to capture data from paper returns
- Using Imaging solutions to improve the accuracy of data entry
- Providing electronic filing solutions that reduce the cost of data entry

Increasing Delinquent Collections

- Assigning underworked productive cases to specialized workgroups

- Expanding the capacity and reach of collection program activities by leveraging outside collection agencies for certain types of delinquent receivables
- Implementing streamlined processes to authorize low risk taxpayers additional time to pay off existing debts

Increasing Compliance Revenue with more General Improvements

- Introducing expanded new tax clearance and/or license revocation programs to foster compliance
- Matching data to identify possible compliance issues
- Investing in new workflow systems that can centrally manage multiple business processes in multiple business areas to reduce the cost of maintaining duplicative redundant applications
- Routing inbound taxpayer contacts to agency resources based upon the risk of noncompliance
- Automating the population of relevant taxpayer data, such as listings of assets and phone information, on user interface screens for the collection staff.

Taxpayer Self Service

Today's over-burdened revenue agencies do not typically possess the capacity to adequately respond to every taxpayer inquiry during peak demand periods. This leads to taxpayer frustration, unintentional errors, and delays in resolving outstanding issues and unnecessary compliance costs. Many taxpayers expect 24/7 online access for all interactions. However, while many revenue agency Web sites have a significant amount of information, they do not offer the capability for taxpayers to conduct their business. Expanding online self-service capabilities to taxpayers will result in multiple benefits:

- Reduced operating costs
- Increased self-compliance
- Better data upfront
- 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 are these:

- Providing On-line taxpayer registration, filing and payment
- Providing On-line access to taxpayer-specific account information such as prior filings and payments

- Providing taxpayers the ability to conduct transactional business on-line, such as updating addresses or responding to revenue agency inquiries; and,
- Providing self-service payment arrangements via the internet and IVR applications.

Revenue Generating Initiatives – How to get started?

Positive changes in any of these areas can result in increased efficiency, revenue increases and cost savings. An Operational Review is an excellent first step that can help determine a strategy that is best for each agency. Through the review, agencies can identify specific revenue-generating initiatives and begin to build the business case for a complete agency modernization. An operational review for a specific area of the agency can be as short as two days, or a comprehensive review of the agency's functions can be carried out over three to four months.

The Operational Review is an important first step to determine a strategy that is best for each agency. Through the review, agencies can identify specific revenue-generating initiatives and begin to build the business case for a complete agency modernization.

A Strategic Approach to Improving Tax Administration

The previous section listed some initiatives that have proven successful. It is important for an agency to determine the specific changes that should 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.

It is also important to remember that improving tax administration is not just about 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 citizens. Agencies must therefore create people-focused solutions that enhance business processes, improve employee skills, and provide efficiencies in order to take an organization securely into the future.

While the specific steps a revenue agency can take to strategically plan to transform and improve its operations can and will vary, there are a few key elements of an effective strategic planning effort that should not be overlooked:

- Confirm that your organization has a shared common vision of what you would like your organization to look like in the next five to ten years.
- Document the "current state" of your existing organization to ensure that you have a thorough understanding of your current operations.

- Develop a “future state” document that will describe your core business processes in the future.
- Identify the existing “gaps” that are keeping you from achieving your future vision.
- Identify strategic initiatives that will offer you the opportunity to address existing business problems and support the achievement of your future vision.
- Develop an implementation plan that can be successfully managed and accomplished by your agency.

The development of a Strategic Plan does not negate or undermine the need to move quickly to implement tactical initiatives. What a Strategic Plan allows you to do is assess and quantify the value of individual tactical initiatives in relationship to your longer-term strategic goals.

A well-developed strategic plan will provide the business case and roadmap for your future technology initiatives with an articulated cost/benefit that ties back to your agency’s mission and objectives.

Solving the Funding Issue

As discussed above, your 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 experience of many states, agencies can often achieve their success through the implementation of projects that both increase revenues while simultaneously moving the agency towards a long-term vision. In addition, with creative contracting approaches, these projects can be approved, even in the most challenging of times.

There are a number of contracting approaches that can be used to obtain approval for modernization programs. Chief among them are these three:

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

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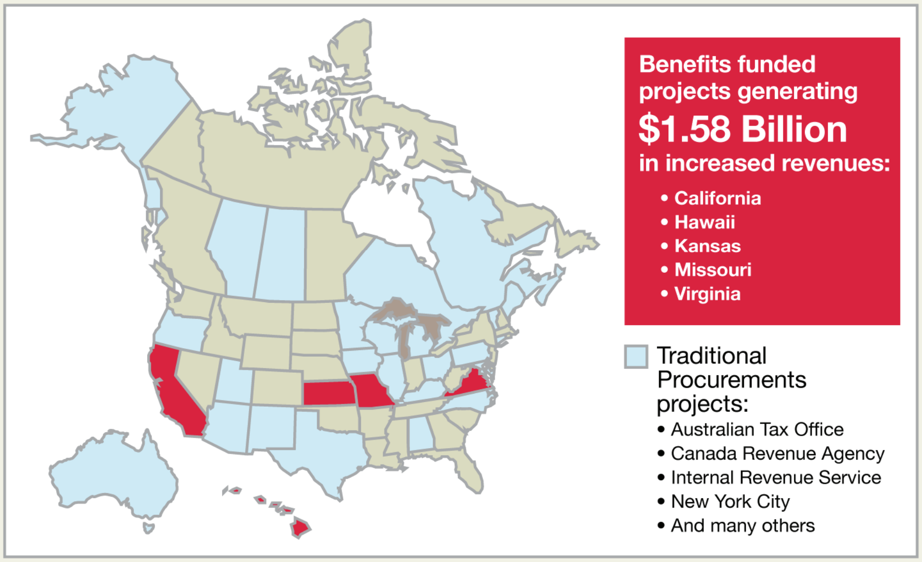
CGI footprint in revenue agencies



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 up-front expenditures, while offering solutions that enhance revenue and improve service to taxpayers— all without raising taxes.

With this fixed price approach, your private business 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 vendor receives payment only as additional revenues are generated, 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 and performance-based contracts reduce risk, ensure that the agency gets what they need, and make the increased revenue available to fund other initiatives.

REAL WORLD SUCCESS:

CGI has a proven approach that enables many tax agencies to address their needs and to meet funding challenges.

Through our proven benefits funded approach alone, states have certified an increase of $1.58 Billion, and counting. It is important to note that this figure which has been independently audited and has gone through a certification process is only a fraction of the increased revenue realized.

Alternative Funding using Existing Legislation

Most states have statutes authorizing them to hire Private Collection Agencies (PCAs) to bring in existing delinquent collections. Some of these statutes are written broadly enough to be used for the types of technology projects discussed in this paper. One state, for example, has contracted for technology and business process improvement services simply by using its authority to hire a firm to collect delinquent taxes. While the authorization may have been written for PCA, in the technology project, a private firm was hired to make improvements within the agency and as such, the agency (and the state) collects more delinquent taxes.

This approach allowed this agency to proceed without an appropriation, since the private firm was paid only out of increased revenues, and, as with a PCA, funds for the vendor were paid as new revenues were received, before the revenues were deposited in the state's general fund. This approach allowed the agency to begin the project quickly, and within the first year the project generated over $30 million, of which the state kept two-thirds and the vendor one-third. This project was implemented through a fixed price contract, so once the vendor's fixed price is paid, the state retains all increased revenues.

Traditional Procurements

Some agencies are not able to take advantage of benefits-funded procurements, or do not need an alternative approach to convince their legislatures to fund well-conceived projects. Traditional procurements typically focus on deliverables, but during these challenging times, there is now a greater emphasis on Return on Investment. With a focus on ROI, agencies are changing their traditional procurements from those that simply replace technology, and are now evaluating vendors through new criteria, like these:

- A vendor's ability to perform Business Process Reengineering
- A vendor's ability to estimate and deliver Return on Investment
- A vendor's methodology for estimating and delivering Return on Investment

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

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Real-World Successes

CGI has a proven approach that enables many tax agencies to address their needs and to meet funding challenges. The exhibit above shows those jurisdictions where CGI has provided business outcomes to tax and revenue agencies. The benefits that have been certified and independently audited as part of a benefits funded project are also highlighted below.

Summary

At times like these, it is important to seize the opportunity to take action and to improve tax administration. To recap, the following are things that should be done immediately to start the transformation of your agency:

- Conduct a Best Practices Operational Review — An excellent first step for many agencies is an Operational Review that compares how you conduct business compared to proven successful best practices in other revenue agencies. This is informative and says where the agency is doing well and where there are opportunities for improvement. An operational review can examine any or all areas of an agency, but almost always examines compliance processes within an agency, as these improvements usually provide the most tangible benefits. The review provides insights into potential increased revenue that can be achieved through improved business processes and upgraded technology and tools. However, the needs at the agency are often more comprehensive than compliance alone, and it is important to understand where any compliance initiative fits within the overall strategy.
- Create or Refresh the Strategic Plan — If a strategic plan is already in place, it may be time to re-examine it if the current environment has fundamentally changed. At the very least, the reprioritization of initiatives may be appropriate. If no plan exists, consider creating one. It is critical to have a clear sense of your future vision and goals for your agency.
- Implement Revenue Quick Hits — With compliance and revenue generating initiatives at the forefront, the implementation roadmap should include some revenue quick hits. These will bring additional revenues into the agency, many without a significant technology investment. Experience shows significant revenues can begin in as little as 3-5 months. Quick Hits also bring excitement and credibility to the plan. Be sure to carefully measure the success of these and all other initiatives so their progress can be monitored and accurately reported. Continuous, credible measurement is critical to evaluating and revising initiatives to better meet your expectations.

Company Profile

At CGI, we're in the business of satisfying clients. For 30 years, we've operated upon the principles of sharing in our clients' challenges and delivering quality services to solve them. A leading IT and business process services provider, CGI has approximately 27,000 professionals operating in 100+ worldwide offices, giving us close proximity to our clients.

Through these offices, CGI offers local partnerships and a balanced blend of global delivery options—including onshore, nearshore and offshore expertise—to ensure clients receive the combination of value and expertise they require.

CGI defines success by exceeding expectations and helping clients achieve results.

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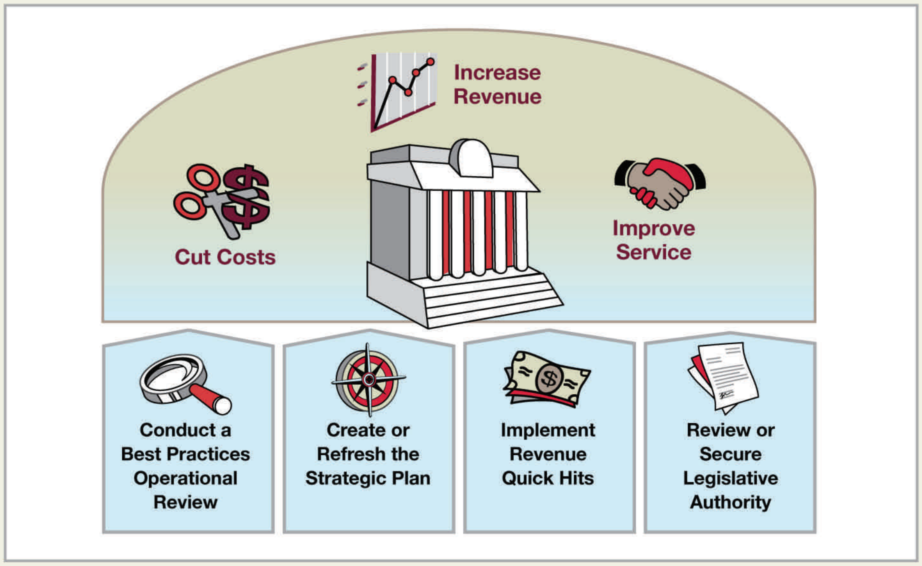
- Review or Secure Legislative Authority — Direct benefits funding or performance-based legislation is one way to alternatively procure transformative modernization. There are also creative uses of existing statutory authority to authorize the use of performance-based procurement.

Strategies to begin reshaping tax administration



Difficult times can create the energy and the opportunity to address the revenue needs of government while tackling the strategic needs that transform a tax and revenue agency, positioning it for the future. By first taking the time to understand the agency's current operational position and opportunities and combining that with a sound and up-to-date strategic plan, incremental and transformative improvements can be achieved even in difficult economic times. Many agencies have successfully implemented a variety of technological and process improvements to deliver tangible and measureable benefits to governments, taxpayers and the agency staff itself.