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REPUBLIC OF POLAND

Tax Administration Modernization Challenges and Strategic Priorities

April 23, 2015

Juan Toro, Allan Jensen, Mick Thackray, Maureen Kidd, and Barrie Russell

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Fiscal Affairs Department

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ABBREVIATIONS AND ACRONYMS

CASE	Center for Social and Economic Research
CEO	Chief executive officer
CEZRF	Professional Education Centre of the Ministry of Finance
CIT	Corporate income tax
CRM	Compliance Risk Management
EC	European Commission
FAD	Fiscal Affairs Department (of the IMF)
HQ	Headquarters
HR	Human Resources
IT	Information Technology
LTO	Large Taxpayer Office
MOE	Ministry of Economy
MOF	Ministry of Finance
MOJ	Ministry of Justice
NAP	National Action Plan
NIP	Unique identifier
OECD	Organisation for Economic Co-operation and Development
PESEL	Unique personal identification number
PIT	Personal income tax
PLN	Polish Zloty
PwC	PricewaterhouseCoopers
RA-GAP	Revenue Administration Gap Analysis Program (from FAD)
RMU	Risk management unit
SSC	Social Security Contributions
TAS	Tax Administration Service
TAXUD	Taxation and Customs Union, European Commission
VAT	Value-added tax

PREFACE

In response to a request from Mr. Jacek Kapica, Undersecretary of State at the Ministry of Finance (MOF), a Fiscal Affairs Department (FAD) technical assistance mission visited Warsaw during the period November 12–25, 2014 to advise the Ministry of Finance on selected areas of the tax administration's modernization strategy. The mission was led by Mr. Juan Toro (Assistant Director, FAD) and comprised Messrs. Allan Jensen, Michael Thackray (both FAD), Barrie Russell, and Ms. Maureen Kidd (both FAD external experts).

The main purpose of the mission was to undertake a broad diagnostic of the tax administration and provide recommendations to improve its efficiency and effectiveness. The mission focused specially on determining whether the tax administration has in place (1) appropriate governance and organizational structures; (2) an effective compliance management approach; (3) strong business processes and effective methods to establish operational targets and measure the delivery of these targets; and (4) an adequate approach to develop, manage, and implement the tax administration's modernization strategy.

Meetings were held with Messrs. Jacek Kapica, Janusz Janowski (Director of the Tax Administration Department at the MOF), and deputy directors and senior officials from the Tax Administration Department, and key department directors at the MOF. The mission visited the Tax Office of the Mokotow District, the First Mazowiecki Large Taxpayer Office, and the Fiscal Control Office, all in Warsaw. The mission also held meetings with representatives from the private sector, accounting firms and private sector associations.

This report, which has been reviewed by IMF headquarters and incorporates comments from the authorities, represents the final version of the aide-mémoire that was submitted to the authorities in November 2014. It consists of an Executive Summary and the following five sections: (I) Tax Collection and Compliance Trends; (II) Current Modernization Initiatives; (III) Institutional Reform for Tax Administration; (IV) Managing Core Tax Operations; and (V) Managing Compliance Risks.

The mission expresses its gratitude for the outstanding support and cooperation received from the Ministry of Finance staff during its stay in Warsaw.

EXECUTIVE SUMMARY

This report provides advice on the modernization of the tax administration in Poland. The report addresses selected issues concerning (1) the tax administration institutional reform; (2) the administration and delivery of core tax administration operations, including for the largest taxpayers; and (3) the approach to managing compliance risks to the tax system. To set the context, the report first discusses collection performance of the main taxes in recent years and the approach to tax administration modernization.

Collection performance deteriorated significantly during the crisis and has not recovered. Combined collection of personal income tax (PIT), corporate income tax (CIT), and value-added tax (VAT) in Poland yielded around 16 points of GDP in 2008 and fell to 14 points in 2009. Collections remained stable some years, but then declined to 13.1 in 2013; the projection for 2014 is 13.5 points of GDP. This weak performance contrasts with other countries in Europe that have recovered to pre-crisis collection levels in GDP terms. Tax compliance has also deteriorated. According to a recent study published by the European Commission (EC), evasion of VAT, the main tax in Poland, increased from 18 percent of potential VAT collections in 2010 to 25 percent in 2012.

To improve tax administration efficiency and effectiveness the MOF has spearheaded several initiatives. Institutional reforms have included: strengthening direct reporting of local tax offices to tax chambers (at the provincial level); consolidating administrative support into tax chambers; increasing the focus on taxpayer service; developing competencies in specialized centers; enhancing management and accountability frameworks; and revamping information technology (IT) systems. On taxpayer compliance management, changes have aimed at strengthening risk-based approaches; improving planning and monitoring; standardizing core operations; and enhancing IT support tools.

Most initiatives go in the right direction but are not part of a cohesive and overarching modernization strategy for tax administration and do not address structural weaknesses. Despite the current initiatives, the tax administration organization in Poland will remain fragmented at both the central and operational levels. The draft tax administration act currently under development maintains split responsibilities for tax administration across several departments in the MOF. Therefore, it will not deliver a single headquarters (HQ) to act as the tax administration business owner across the country. Fragmentation will also be maintained at the operational level as the sixteen tax chambers will retain a separate organizational status. Deeper institutional reform is needed.

Formulating and systematically implementing a cohesive modernization strategy is critical to achieve the needed efficiency and effectiveness gains. The strategy must set the vision of the tax administration in 5–10 years from now and prioritize reform initiatives that have the potential for achieving breakthrough improvements in performance. In formulating the modernization strategy, a fresh picture of the current state and end-state of the tax administration must be developed and opportunities and constraints clearly identified.

The establishment of a single, unified, national tax administration should be the key component of the modernization strategy. Effective control of the tax system in Poland will remain problematic if the modernization strategy does not address the most significant structural weakness: the lack of a unified national tax administration. The fragmented organization structure and lack of a single head of the tax administration result in blurred accountabilities and complex lines of command and make effective governance of the tax administration overly complex. This severely limits the chances of achieving improvements in efficiency and effectiveness in tax administration. Establishing a national tax administration is therefore essential.

Pending the establishment of a unified tax administration, priority actions need to be undertaken to improve tax administration's efficiency and effectiveness.

Appointing an empowered leader of the modernization program supported by a high level reform committee. The scale of the tax reform program in Poland demands political commitment and sustained support. A strong and empowered reform program leader will be needed to manage across departmental boundaries in the MOF and drive the changes necessary to implement the modernization strategy. Reform management arrangements need to be substantially strengthened, including by appointing a dedicated reform program team.

Strengthening both the tax administration at the central level and core business functions. Successful tax administrations allocate at least five percent of total staff resources to the HQ function. Staffing of the HQ in Poland falls well short of this benchmark and needs to be addressed promptly. Core business functions should also be strengthened without delay.

Addressing declining tax revenues, especially for VAT and CIT. Immediate steps should be taken to launch coordinated compliance projects for the high risk industries identified in the National Action Plan; develop an overarching strategy for addressing the informal economy; and consolidate VAT risk analysis using national databases of individual taxpayer data and a much broader range of external data. For CIT, coordinated audits should be undertaken of a range of genuinely large taxpayers selected centrally and based on risk.

Improving compliance risk management. Full responsibility for all tax related audits and investigations should be consolidated into a single MOF department reporting to the Undersecretary responsible for revenue administration—tax and customs. Field audit resources should be regrouped into provincial level teams and geographic jurisdictional restrictions removed. Early action should be taken to establish a genuine Large Taxpayer Office (LTO) responsible for managing compliance of the largest 1,000 taxpayers—they account for around 50 percent of tax revenues. All taxpayer service functions should be consolidated under a single manager and a comprehensive taxpayer service strategy developed. In the medium term, the tax administration should transition to a comprehensive approach to managing compliance risks.

The mission's key recommendations are summarized in Box 1.

Box 1. Summary of Key Recommendations

Build a new vision for tax administration in Poland—it should be completed in early 2015.

- Formulate *a comprehensive tax administration modernization strategy*—set out a vision of how the tax administration should look in five years from now. A key goal should be the establishment of a *unified National Tax Administration* as a single entity (headquarters and operational levels) reporting to the MOF and in charge of all matters related to tax administration in Poland.
- Appoint a modernization leader (and support team) with full powers to develop and implement the strategy. This leader could become the head of the Tax Administration Service (TAS) when it is created.
- Appoint a high-level government reform committee to support the strategy implementation.

Enhance the various initiatives to progress the modernization agenda—prioritize initiatives that will achieve breakthrough improvements in performance; and that will support a unified tax administration.

- **Deepen institutional reform**
  - Immediately articulate roles across departments dealing with tax administration matters at the MOF to create a 'notional' single HQ.
  - Increase the staff dedicated to HQ functions, aiming to achieve not less than 5 percent of the total staff in tax administration in the medium term.
  - Strengthen governance, particularly in performing HQ functions, by creating management committees across key areas.
  - Undertake a review to remove legal impediments to more efficient and effective tax administration by mid 2015.
  - Initiate a program to further consolidate functions from tax offices to a regional level. This program should consider in the medium term rationalizing the large number of tax offices.
- **Improve management of core tax operations**
  - Immediately articulate roles, accountabilities and reporting lines for core tax functions and implement standard performance measurement across all departments.
  - Consolidate during 2015 tax audit and investigation responsibilities into one department.
  - Initiate the increase of the audit workforce to achieve 25 percent of total staff by end 2015.
- **Strengthen taxpayer compliance management**
  - Take urgent action to close the VAT gap by developing (1) industry-based compliance projects; and (2) a strategy against the grey economy, supported by improved revenue and risk analysis.
  - Create promptly a single/specialized LTO for the 1,000 largest taxpayers, focus *only* on national taxes.
  - Take a more strategic approach by developing HQ-driven customized strategies for managing the compliance risks posed by different taxpayer segments.

I. TAX COLLECTION AND COMPLIANCE TRENDS

1. **This section analyses the effectiveness in collecting taxes under the responsibility of the tax administration in Poland.**[1]

A. Tax Collection in Poland Compared with EU Countries

2. **Tax collections in Poland as a percent of GDP are lower than those found in larger EU member states.** Table 1 shows tax collections of the three main taxes collected by the tax administration in Poland in selected medium and large EU member states in 2012—excises and social security contributions (SSC) are not collected by the tax administration in Poland, but by the customs and SSC administrations respectively. Poland collects less tax revenues than similar countries in the region. As is generally the case for neighboring countries that acceded to the EU in the last decade, VAT has the largest share of tax collections in Poland, excluding SSC collections. Excise collections in Poland, 3.7 percent of GDP, are in the normal range for large EU countries, as are SSC collections, at13.0 percent of GDP.

Table 1. 2012 Tax Collections as a Percent of GDP in Selected EU Countries

Country	PIT	CIT	VAT	PIT+CIT+VAT	Excises	SSC	Other taxes	Total tax revenue
Bulgaria	3.1	2.0	9.2	14.3				
Czech Republic	3.8	3.6	7.3	14.7	4.0	15.6	1.2	35.5
France	8.2	2.5	7.0	17.7	3.5	17.0	7.1	45.3
Germany	9.6	1.8	7.3	18.7	3.0	14.4	1.5	37.6
Hungary	5.3	1.3	9.7	16.3	4.9	12.7	5.0	38.9
Italy	12.1	2.9	6.1	21.1	3.9	13.5	5.9	44.4
Romania	5.9	2.2	8.2	16.3				
Slovak Republic	2.7	2.5	6.0	11.2	3.0	12.4	1.9	28.5
Spain	7.4	2.2	5.4	15.0	2.7	11.8	3.4	32.9
United Kingdom	9.7	2.9	7.4	20.0	3.7	6.8	4.7	35.2
Poland	**4.5**	**2.1**	**7.1**	**13.7**	**3.7**	**13.0**	**2.6**	**33.0**

Source: Prepared by the mission based on IMF data; Organisation of Economic Co-operation and Development (OECD) Revenue Statistics—comparative tables, and from Eurostat.

B. Effectiveness in Collecting Value-Added Tax in Poland

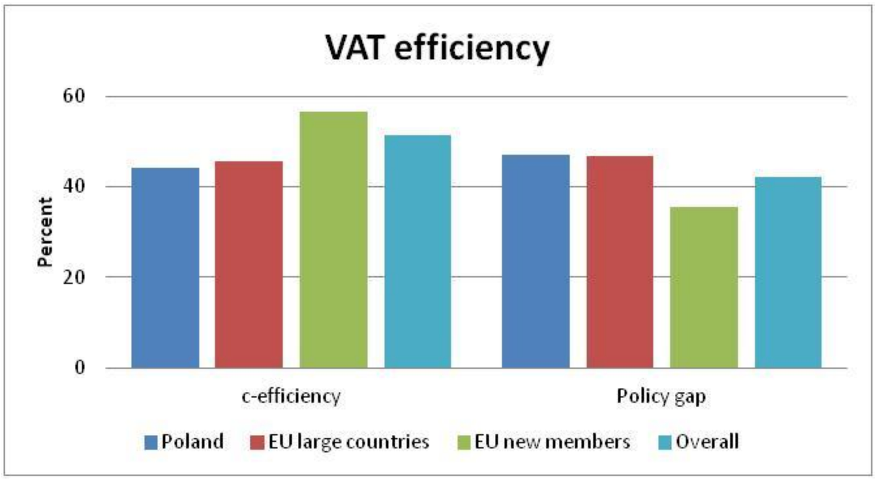
3. **The efficiency of the VAT in Poland is lower than neighboring countries that acceded to the EU at around the same time.** C-efficiency[2] is a commonly used indicator to

[1] PIT, CIT, and VAT.

[2] C-efficiency is defined as the ratio of VAT receipts to final consumption and government investment, all divided by the main VAT rate. For further discussion, see *"The Anatomy of the VAT,"* Michael Keen, IMF 2013.

measure the efficiency of a VAT in different countries. This measure suggests that Poland is collecting less of potential VAT than other countries in Europe—see Figure 1. However, observed c-efficiency is affected not only by losses from noncompliance, but also by the coverage of reduced and zero rates and exemptions—commonly referred as the 'policy gap.' In the case of Poland, the policy gap is relatively high, which will partly account for the relatively low observed c-efficiency. Higher policy gaps impact the management of taxpayer compliance by creating a more complex policy framework that tax administrations have to deal with.

Figure 1. Efficiency of Value-Added Tax Collections in Poland (2012)



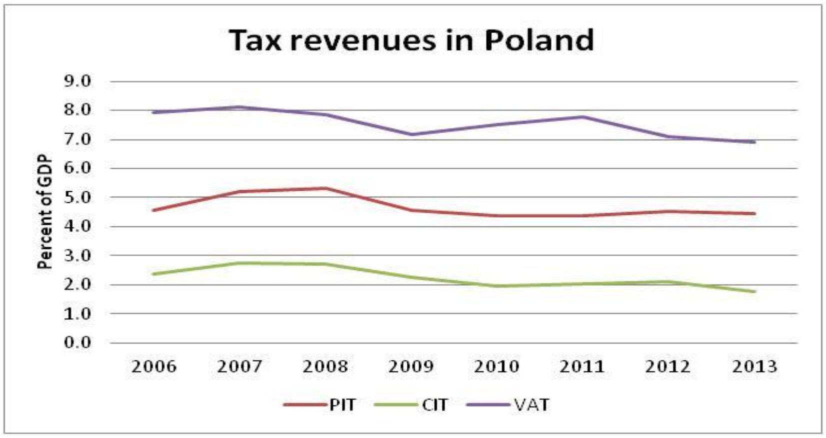
Source: Prepared by the mission based on IMF data.

4. **Despite an increase in VAT rates in 2011, net VAT receipts have declined significantly in Poland since 2007.** This is a concern because VAT is the largest tax in Poland (excluding SSC). In common with other medium-sized and large Eastern European countries acceding to the EU since 2004 (Bulgaria, Czech Republic, Hungary, Romania, and the Slovak Republic), VAT receipts in Poland grew strongly over the years around 2004, but then dipped in the financial crisis of 2008/2009. However, while its neighbors' VAT recovered after 2009 to reach pre-crisis levels, Poland's VAT receipts have declined further. Despite an increase in VAT rates in 2011, they are now 1.2 percentage points of GDP lower, equivalent to 15 percent of VAT revenues, than their peak in 2007 (Figure 2). This fall is despite an increase of one percentage point in VAT rates in Poland in 2011, indicating that tax collected as a proportion of the VAT tax base has declined still further.

5. **CIT revenues as a percent of GDP have also declined in Poland since 2008** (see Figure 2). The percentage decline in CIT collections is larger than the decline in VAT, 33 percent, equivalent to 0.9 percent of GDP since 2007. However, CIT revenues are generally more volatile than VAT revenues over the medium term (because profits are generally more volatile than consumption). Moreover, the decline observed in Poland has

also been observed in other European countries. Nonetheless, the continued decline in CIT is substantial and could indicate possible growth in compliance risks.

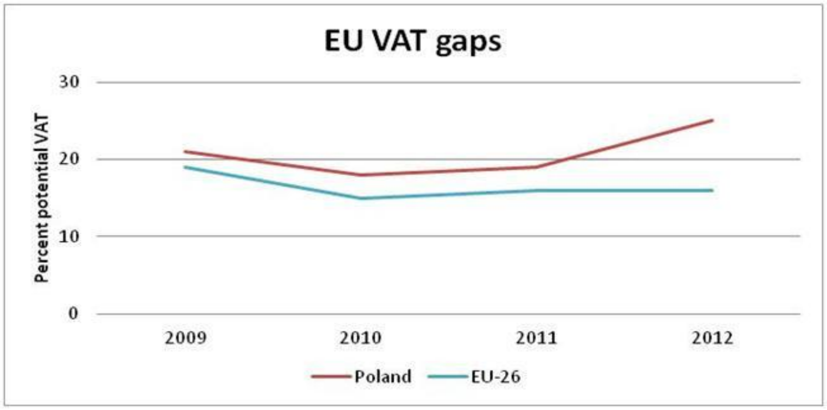
Figure 2. Tax Collections in Poland 2006–13



Source: Prepared by the mission based on Eurostat data.

6. **An independent study of VAT evasion in member states commissioned by the EC[3] found strong growth in the Polish VAT gap.** The study found that the VAT gap in Poland had grown from 9 percent of potential liabilities in 2005 to 24 percent in 2012—see Figure 3. This finding is consistent with both the PricewaterhouseCoopers (PwC) report (below) and falling VAT revenues.

Figure 3. Value-Added Tax Gaps in EU Member States 2009–2012



Source: Prepared by the mission based on the EC-CASE study.

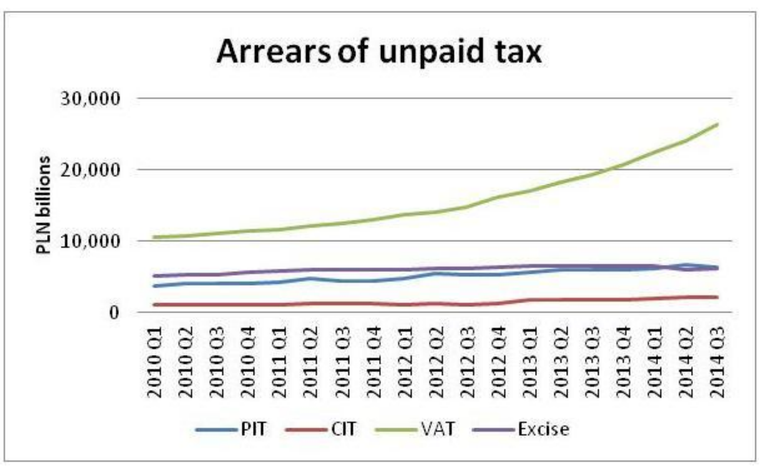
[3] "*2012 Update Report to the Study to quantify and analyze the VAT Gap in the EU-27Member States,"* Center for Social and Economic Research (CASE) for the EC Taxation and Customs Union (TAXUD), 2014, TAXUD/2013/DE/321 FWC No. TAXUD/2010/CC/10.

7. **A recent report specifically for Poland also found growing VAT evasion in Poland since 2007**. The report prepared by PwC[4] was originally commissioned by a private sector business concerned at growing criminality in the metals commodity market in Poland. It has since been shared with the MOF, and published. It found that the compliance gap in VAT in Poland grew from a range of Polish Zloty (PLN) 7.1–23.7 billion (0.6–2 percent of GDP) in 2007 to PLN 36.4–58.5 billion (2.3–3.7 percent of GDP) in 2012. This growth is consistent with the observed decline in VAT revenues relative to GDP.

8. **The PwC report found that VAT fraud in Poland was the key element in the growing VAT gap.** The report's evidence for this included recurring indictments in VAT fraud investigations, suggesting it had penetrated several industries, and EC reports of endemic refund fraud across the whole EU. In particular, the report found that 'carousel' refund fraud, a highly corrosive variant of Missing Trader Intra-Community fraud, which exploits EU rules on the intra-community movement of goods, had a significant presence in the following sectors: scrap metal; construction steel; fuels; electronics (mobile phones, computer parts); agricultural goods (oils, sugar); wood industry.

9. **The fall in net VAT receipts is largely attributable to increasing refunds while payments have been suppressed by growing arrears of unpaid VAT** (Figure 4)**.** VAT refunds in Poland have increased more in recent years than gross VAT payments, rising by 37 percent from 2010 to 2013 compared to 16 percent growth in gross payments over the same period. The impact of this represents a loss of some PLN 12 billion, equivalent to around 11 percent of net VAT collections 2010. The number of refunds has also increased, from 1.6 million in 2011 to 1.8 million in 2013, an increase of 16 percent.

Figure 4. Arrears of Unpaid Tax 2010–13



Source: Prepared by the mission based on Ministry of Finance data.

[4] *'Straty Skarbu Państwa w VAT maj 2013 roku,'* PricewaterhouseCoopers, 2013.

10. **Overall, the available evidence suggests that the VAT compliance gap has risen sharply in recent years, likely due to big increases in missing trader fraud.** Both of the above studies estimated the VAT gap by comparing actual VAT collections against estimated potential collections using a methodology that takes into account the composition of GDP and the current policy framework. This methodology takes a similar approach to that used by FAD in its Revenue Administration Gap Analysis Program (RA-GAP).[5] However, it provides only aggregate estimate of the gap. Instead, RA-GAP program determines a more granular estimation of the gap, including by identifying causes of the gap that could then be addressed through compliance activities. In this context, the simultaneous strong growth in both refunds and arrears of VAT indicates a risk of strong growth in missing trader frauds[6]. Such frauds are not only an endemic risk in EU VAT regimes but have been increasingly reported in the results of compliance operations and risk assessments by the Tax Administration Department; Fiscal Control Department; and Customs Control, Tax Inspection, and Gambling Department.

Effectiveness of tax operations

11. **Performance indicators of tax administration operations also seem to indicate deterioration on taxpayer compliance.** Detailed indicators are provided in Appendix 1.

12. **There is a large number of taxpayers in Poland.** There are over 20 million registered taxpayers in Poland, the vast majority of whom are PIT taxpayers—all PIT taxpayers are required to register and file tax returns. New registrations and de-registrations are broadly in line with demographic norms for Europe. The number of taxpayers controlled by the LTO is very large; this is discussed later in this report.

13. **Late filing of PIT and CIT returns is a concern, but nonfiling is at relatively low levels.** Data supplied by the Tax Administration Department of the MOF shows high—though fairly steady—late filing rates for PIT and CIT returns over the period 2010—2013 of between 25–30 percent. Late filing of VAT returns is lower, at around 15 percent, but a high

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[5] RA-GAP is an FAD technical assistance service to support monitoring taxpayer compliance though tax gap analysis. RA-GAP measures potential revenues, compares them to actual revenues and analyzes the difference. Measuring compliance provides a basis to improve effectiveness in raising revenue, promote perceived fairness among taxpayers, and build trust in the tax system.

For countries that have comprehensive statistical data available, estimates are provided for the overall tax gap, with breakdowns into compliance gap, policy gap, collections gap, and assessment gap. The gap is also decomposed by sector of activity and size of taxpayer, and factors contributing to the gaps are identified.

[6] Most variants of missing trader fraud in VAT produce a growth in refunds claimed and arrears outstanding. The refunds are generated as fraudulent operators seek to claim input tax credits against output tax declared by associated taxpayers, who go missing before making any payment—generating arrears of VAT not paid.

number of VAT returns claiming refunds will have reduced this rate (international experience suggest that refunds are rarely claimed late). The nonfiling rate for all three taxes is much lower, at around 5 percent.

14. **Arrears of unpaid tax have grown for all four main tax types since 2011, with particularly strong growth in VAT arrears**. As noted above, the growth in VAT arrears in recent years has been much stronger than in PIT and CIT (Figure 4) collected by the Tax Administration Department. Growth in excise arrears (under Customs responsibility) has been relatively low. Overall, arrears have grown from 9.2 percent of collection in 2011 to 13.8 percent in 2013. Most of this growth has come from VAT arrears, which grew from 14.0 percent to 22.4 percent, which could indicate widespread missing trader frauds. Write-offs of uncollectable arrears are low; less than 1 percent of collections overall for all taxes. Whilst this indicates strong diligence of write-offs by the Tax Administration Department at the MOF, it is also possible that the growth in debt as a percent of collections partly reflects growing levels of uncollectable debt that should in fact be written off. There is some evidence for this in the distribution of debts (statistical appendix 1, Table 14) in data supplied to the mission by the Tax Administration Department.

15. **Audit assessments in the tax administration have increased from 2011 to 2013; however, collectability is unknown.** Overall, the number of audits has fallen, from 123,000 in 2011, to 93,000 in 2013. However, the total additional taxes identified has risen from PLN 1.1 billion to PLN 2.2 billion, with most of this increase coming in 2013, when audit assessments almost doubled. This might suggest more effective targeting of audits and/or more effective audits; however, there is a risk that the improved additional assessments are also due to an increase in the incidence of noncompliance and could mainly relate to uncollectable assessments. The great majority of the increase in additional taxes identified in audits comes from audits of taxpayers not controlled by the LTOs. The sharp rise in additional tax identified in audits in 2013 seems likely to have come from a relatively low number of very large cases, as both the percentage of audits with results and the number of audits are largely unchanged.

16. **Around 40 percent of taxpayer appeals in Poland are successful**. The total number of appeals was around 15,000 in both 2012 and 2013, of which around 40 percent were successful, around half of those at the court level. The total amount appealed increased by about 20 percent from 2012 to 2013.

C. Tax Revenue and Performance Analysis

17. **The tax administration in Poland has established a large number of performance indicators for local tax offices and tax chambers.**[7] The performance indicators agreed

[7] Broadly, tax chambers are regional offices governing a number of local tax offices and specialized offices. They are discussed further in Section II.

between local tax offices and tax chambers, and tax chambers and the Tax Administration Department in the MOF are described in Appendix 2. These performance indicators are discussed further in Section III, but it is noteworthy that there are around 90 regional indicators compared to only 13 central indicators.

18. **Aggregate receipts, arrears and compliance indicators are monitored and reported internally within the MOF by various departments.** The Analysis and Reporting unit of the Tax Administration Department at the MOF is responsible for compiling quarterly performance indicators from aggregate totals of data uploaded from local tax offices and tax chambers to a central data warehouse. This unit does not have direct access to micro taxpayer data, except for arrears cases. The tax policy departments of the MOF[8] also use data and analysis provided by the Analysis and Reporting unit, to assess policy impacts. The State Budget Department of the MOF reports monthly receipts progress against budget forecasts separately, for publication on the ministry's website. The Macroeconomic Policy Department of the MOF produces the budget forecasts, and monitors monthly collections against those forecasts, in consultation with the tax policy departments, for internal reporting purposes. They also reconcile annual outturns against forecasts for Parliament and produce annual Convergence Program reports for the EC. In addition to these reports, the Fiscal Control Department of the MOF receives monthly VAT refunds aggregates from their own data warehouse, using data downloaded from local office and tax chamber databases.

19. **The monitoring and reporting of high level revenue indicators within the MOF is fragmented.** Each of the departments engaged in monitoring revenue trends reports to a different undersecretary, meaning that their respective analyses are not brought together until they reach the minister's level. This risks not only conflicting analyses, but gaps in the coverage of high-level reporting systems.

20. **There is a need for a more strategic overview of collections and fiscal risks within the MOF.** To ensure a more coherent overview of collections and fiscal risks, a single unit should be responsible for reporting collections and analyzing progress against forecasts. This unit needs to work closely with the operational units of Tax Administration Department at the MOF and other departments working in tax to be able to monitor major compliance risks, operational changes and one-off large payments or refunds, in addition to economic and other tax base risks.

21. **Given the current scale of compliance risks in VAT there is a need for a more strategic view of the compliance position, updated monthly**. There should be a monthly risk analysis process for VAT involving both analysts and operational experts to analyze the likely progress of the VAT gap in real time and review detailed time series of returns and

[8] The Goods and Services Tax, Income Tax and Tax Policy Departments.

payments data for specified taxpayer segments for potential changes in compliance levels, to allow timely and appropriate strategic responses, potentially at a national level, where necessary. These time series should include disaggregated VAT outputs, inputs, output tax and input tax, which are critical indicators of changes to the composition of the tax base, not only for monitoring compliance risks but for forecasting purposes more generally. Currently, these components of VAT are included on VAT returns, but not uploaded to the central data warehouse.

22. **Revenue analysts in the Tax Administration Department need to be able to directly access returns and payments data for individual taxpayers in analytical databases**. Currently, the data warehouse used by the Tax Administration Department at the MOF contains mainly aggregate taxpayer data uploaded monthly from local tax offices and tax chambers. The exception to this is for arrears cases, which are uploaded at the micro level. Although individual taxpayer details can be requested from the relevant local office, this lack of detailed data in the warehouse severely limits the scope for analysis at the center, both for forecasting and reporting purposes and for national risk analysis. Such a centralized database would also enable the development of performance indicators to assess the relative performance of individual operational units. The Tax Administration Department does recognize this limitation, and is planning to start consolidating the 400 individual databases into a single, national database in June 2015—starting with inheritance and gift tax, tax on civil law transactions and flat-rate income tax in the form of "Tax Card". This consolidation needs to be specified so that it delivers a relational database that can be used for data mining and systematic risk analysis techniques.

Recommendations

- Bring together the revenue analysis, currently reported separately, in a single report for tax administration.
- Create a national database of micro level taxpayer returns and payment (especially VAT) for centralized data mining, risk analysis, and revenue and gap analysis.
- Take immediate steps to address the compliance problems in main taxes—following sections discuss and recommend concrete measures.

II. Current Modernization Initiatives

23. **The MOF has undertaken a number of modernization initiatives to improve efficiency and effectiveness of tax administration.** Box 2 highlights these initiatives and demonstrates that there is a desire to deal with issues related to both the institution and to compliance management that have constrained progress in the past. These initiatives are well-targeted but are not part of any strategic approach to modernization.

Box 2. Ministry of Finance Modernization Initiatives Related to Tax Administration

Institutional strengthening

- Implementing a transformation strategy—heavily focused on IT.
- Strengthening the reporting relationship of tax offices to tax chambers.
- Consolidating administrative support.
- Increasing a service focus.
- Developing specialized competence centers.
- Enhancing management and accountability.

Compliance management enhancement

- Strengthening risk-based approaches.
- Improving planning and monitoring.
- Standardizing core operations.
- Enhancing IT support to operate and manage compliance.

24. **There is no cohesive and overarching strategy for tax administration**. Successful reform efforts usually begin with a comprehensive assessment of what needs to be improved and developing an understanding of the best way to achieve these improvements. Inter-relationships between modernization initiatives can be identified and properly managed. In the absence of a cohesive modernization strategy, it will be difficult to determine priorities and to make resourcing decisions if priorities conflict—and efficiency and effectiveness gains will remain elusive.

25. **The development of a modernization strategy should be an immediate priority**. The transformation strategy is now close to two years old and IT developments were the main focus of the document. It is now time to update this approach and to develop a vision for tax administration in Poland. Five years is often the horizon selected by many countries engaged in modernization. In this case, a strategy for 2020 could be developed that would focus on and prioritize initiatives that have the potential to achieve breakthrough improvements in performance. To do this well, the current state and end state should be clearly described and opportunities, constraints and risks identified.

26. **This report in many ways provides a road map for reform**. The advice provided on institutional reform, core business processes and compliance management provides a sound basis for discussion and inclusion into a modernization strategy.

III. Institutional Reform for Tax Administration

27. **This section analyses institutional changes taking place in tax administration and advises on an improved path for institutional reform.** The section addresses selected issues concerning (i) organization; (ii) governance, management and accountability; and (iii) the recommended way forward. To set the context for the analysis, features of modern organization and governance arrangements for tax administration are discussed first.

A. Organization and Governance in Modern Tax Administration

28. **Institutional reforms allow tax administrations to improve their organization and governance arrangements to enable better delivery of their mission.** The right organization (at central and operational levels), modernization of strategic and operational planning and performance management, proper budget and human resources management, and the development of workforce skills are all key aspect of institutional reform. Governance relates to how the organization is managed, directed and held accountable for achieving strategic and operational objectives. It is critical to ensure that a governance framework is in place, with clear management accountabilities and lines of command across the organization, that is conducive to managing the tax system effectively and efficiently, with transparency, and free of corruption and political interference. Thus, institutional reform helps create the proper conditions for efficient and effective delivery of daily operations and for supporting the reform agenda faced by most tax administrations.

29. **Organization and governance design should be guided by modern features to support effective operational delivery, maximize voluntary compliance and promote a good investment climate**. Based on IMF technical notes on organization and governance and EU Fiscal Blueprint, Box 3 sets out key organization and governance features of modern tax administration**.**

B. Organization Issues in Tax Administration in Poland

30. **The current organization for tax administration in Poland comprises several units at the MOF (the central level), tax chambers and tax offices.** Figure 5 depicts the current situation.

31. **Many, but not all, key tax administration functions are the responsibility of one Undersecretariat in the MOF.** This Undersecretariat has broad responsibilities for revenue entities (tax and customs—and also gambling).With respect to *tax administration*, there are literally dozens of direct reports that are described in Box 4. There are over 40,000 employees involved in tax administration, with close to 99 percent in operational offices.

32. **With respect to customs administration, the Undersecretary has a similar set of responsibilities.** This includes 16 customs chambers and 46 customs offices as well as departments for customs duty, customs service and excise duty.

33. **The Undersecretary has several other responsibilities not related to revenue administration matters**. These include responsibilities for computerization for the entire public service, and for the management of the education center for the MOF.

Box 3. Organization and Governance Features of Modern Tax Administration

Organization

- They are unified, with all critical functions in a single organization.
- There is a strong headquarters that directs and supervises operations.
- They have a streamlined network of field offices; limited number of offices that reflects the application of modern processes and takes advantage of intensive use of technology.
- They are organized around major tax administration functions (e.g., services, returns, audit, and collections) instead of by tax type.
- The approach to taxpayer management is segmented for greater effectiveness – large, medium, small, and micro.

Governance

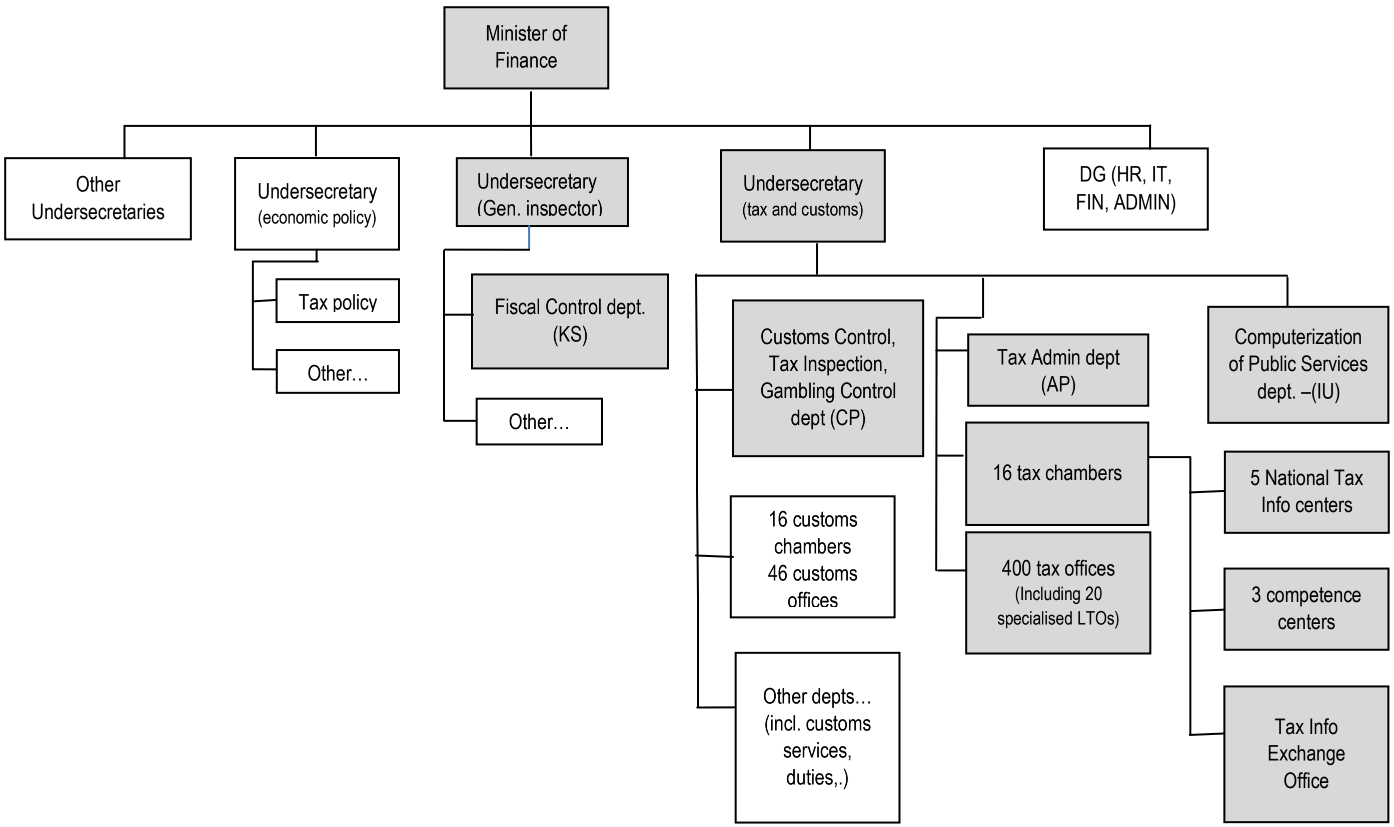
- There is a single empowered head of tax administration with the ability to delegate powers throughout the organization.
- There is a clear chain of command from headquarters to regional offices to local offices.
- They are based on a stable legal framework to ensure proper administration and enforcement.
- They are accountable for their operations and manage and regularly assess performance.
- They use modern management techniques, including a strategic management approach to run the organization; clear mission, vision and values, and structured senior management committees.
- They have structures and processes in place to identify and manage compliance risks.
- They have sufficient human resources (HR) autonomy to manage most HR aspects to meet tax administration needs.
- They are adequately resourced.
- They have management control over their own IT—full control of all aspects of IT support to tax administration.

Box 4. Tax Administration Direct Reports to the Undersecretary

- One *Tax Administration Department* that coordinates but does not manage or oversee tax administration and enforcement.
- One *Customs Control, Tax Inspection and Gambling Control Department* that coordinates risk analysis and tax audit activities.
- Sixteen tax chambers (akin to regional offices and 380 tax offices that report through the tax chambers but have a distinct separate organization status, are deemed to be separate employers and manage their own HR requirements).
- Twenty specialist offices that are described as LTOs but which in fact administer also small and medium taxpayers.
- Five tax information centers that handle interpretations and rulings (both general and private rulings requested by taxpayers).
- Three competence centers (for collections, administrative enforcement and risk analysis) to develop and provide guidance to tax chambers and offices as centers of excellence. They will not be responsible for standardization or consistency in operations. These offices are affiliated with a tax chamber for resourcing purposes but report directly to the undersecretary.
- One information exchange office that deals with all international tax information exchange requests, including verifying trade transactions with other EU member states.

Figure 5. Poland: Current Organization for Tax Administration

(Shaded boxes have responsibility for tax administration)



Issues

34. **Tax administration is fragmented.** There is no single and unified organization responsible for the whole of tax administration or only for tax administration. The current tax administration department at the MOF is not a unified tax service, nor does it represent the headquarters of the tax administration—it simply coordinates or acts as an intermediary between the Undersecretary and the tax chambers and offices and other specialist offices. As illustrated in Figure 5, no fewer than 11 different points in the MOF have some level of involvement in tax administration. While the Undersecretary has oversight of much of this, this is not unified tax administration. Audit, a key tax administration function, is partially conducted by a department reporting to another Undersecretary at the MOF—the Fiscal Control Department. The diffuse responsibility for tax administration is confusing for taxpayers and increases their cost of doing business.

35. **The span of control for the Undersecretary (tax, customs, gambling, and the several responsibilities not related to revenue administration matters) is enormous.** The number of direct reports is clearly challenging and complex, and senior level responsibility below the Undersecretary level becomes diffuse. At present, the Undersecretary manages close to 60 direct reports, including responsibilities for customs, excise and gambling regulation and the various other functions not related to revenue administration matters. This impacts the tax administration organization at the central level, where headquarters functions should be performed.

36. **The headquarters function is virtually absent**. As in any large business, one part of the organization is devoted to developing programs and procedures, supervising implementation through field offices, monitoring results and ensuring a proper allocation of resources. HQ should act as the brain of the tax administration, constantly focused on the core business areas, i.e., registration and service, payment and processing, compliance, audit, enforced collections, policy, and legislation and appeals. The fragmentation of several units at the central level in the MOF dealing with tax administration matters and the broad span of responsibilities of the Undersecretary translates in practice into the absence of a unified HQ, performing HQ functions. To the extent any of these functions are present they are limited, diffused and staffed by less than 1 percent of overall resources. The competence centers will attempt to address this gap to a small extent but are not intended to perform full HQ functions. Tax administrations dedicate a relatively small portion of their resources to activities that are generally described as HQ functions—but much larger than the current allocation in the case of Poland (see Subsection D). Section IV discusses the importance of HQ in more detail as it relates specifically to core business processes.

37. **There is no single IT organization dedicated to the needs of tax administration.** A further example of fragmentation is IT; responsibilities are managed by five different MOF units involving two Undersecretaries and one Director General. Nowadays, IT plays a substantial role in defining tax administration process design and delivery. Given the scale of

IT support to tax administration operations, international practice has geared towards complete control over IT resources by tax administrations—this includes both software and hardware. This has been particularly critical in using the internet for tax administration delivery to ensure high quality on line service delivery and rapid responses to risks.

38. **The field network is too large.** 400 tax offices overseen by 16 tax chambers is clearly inconsistent with more effective tax administration,[9] in which IT innovations have reduced or eliminated the need for taxpayers to present themselves at a physical office. In the case of Poland, all core business functions are currently delivered in all offices and there is no consolidation into selected offices of functions that require specialized skills.

39. **The LTOs do not focus on the largest taxpayers.** The 20 LTOs have a mix of taxpayers that do not represent the top taxpayers in Poland. This is discussed in more detail in Section IV.

C. Governance and Management Issues in Tax Administration in Poland

40. **A tax administration act is being developed**. It will create the legal notion of the "tax administration" and the position of head of tax administration. However, at present there is no intention to create a unified organization structure responsible for all aspects of tax administration. For example, the tax chambers will retain their separate employer status—see below. The draft legislation includes roles of tax chambers and offices, some HR provisions (e.g., recruitment), territorial jurisdiction, collaboration with other levels of government and focuses on service to the taxpayer. Work continues on the draft and the authorities expect that the act will be in force in early 2016.

41. **Development of the planning and monitoring functions is ongoing**. Goals are set by units related to tax administration at the MOF for implementation by the tax chambers and offices. Annual action plans are developed and employee teams work collaboratively to ensure that goals are met and a risk mitigation plan is also developed. Tax office goals are monitored monthly.[10]

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[9] Relative to its gross national income, Poland has the highest number of local offices (400) of large EU member states (France, Germany, Italy, Spain, and the United Kingdom). For example, both Spain and the United Kingdom have only about 200 or so local offices despite having much larger economies. Relative to the large member states' populations, only France has more local offices (1500). While the costs of revenue collection and the overall cost of tax administration as a percent of GDP in Poland are similar to other large countries, the large number of local offices in Poland does not appear to have a positive impact on compliance—the EC-CASE study of VAT gaps in the EU found that the VAT gap in Poland in 2012 was 25 percent, compared to an average for large member states of 17 percent.

[10] Goals for 2014 include (1) ensuring income for the state budget by increased revenue collection and reduction in tax arrears; (2) ensuring taxpayers fulfill their obligations and making it easier to do so; (3) reducing fraud through better controls; (4) developing a taxpayer orientation; and (5) enhancing quality and innovation.

42. **Changes are planned to how tax operations are managed.** The supervisory and coordinating role of the tax chambers with respect to tax offices was strengthened in January 2015. An amendment to the act on tax offices and tax chambers (1996) will remove the separate legal and employer status held by the tax offices and consolidates these roles at the tax chamber. It is expected that this amendment will take effect in April 2015 when the tax chambers will assume all HR and other administrative support functions for the offices. This will involve the movement of 2,228 tax office staff that deliver these support functions and in anticipation of this transition a staffing freeze is in place.

43. **Management committees, common in most modern tax administrations, are not fully in place.** There is a senior management executive committee—the Tax Administration Transformation and Development Team chaired by the Undersecretary responsible for revenue at the MOF. Tax chambers meet quarterly with tax offices, some monthly meetings are held while others are held on the basis of subject matter or urgent issues. However, there are not specific committees to address cross-cutting issues such as strategic and operational planning, compliance risk management, HR, and IT. There had been a committee that managed the current transformation strategy that focused mainly on IT (the Council of the e-Taxes Program), that committee is now used informally to discuss other reform initiatives. The impact of the fragmentation of tax administration is again evident in the prevailing approach to managing reforms.

44. **The Tax Administration Department at the MOF has a central HR function but the tax chambers and offices also manage HR**. This department has an HR unit that supports competitive processes for the heads of chambers and offices and position classification and acts as a liaison point with the civil service agency. Training is managed on a two year cycle by HR, with employees and their managers asked to submit training proposals consistent with development needs.[11]

45. **The legal framework presents certain restrictions.** There are a number of aspects to this. The requirement to have a first instance (the tax office) and a second instance (the tax chamber) for reviews of disputes is a principle embedded in law and could limit the extent to which the field network can be streamlined in terms of, for example, reallocating core tax operations to tax chambers or reducing their number. There are also legal constraints that dictate where offices must be located and tax officers can exercise their functions i.e. only within the geographic area of the tax office they are assigned to rather than nationally.

[11] Training needs analysis is carried out annually. Based on the analysis of needs, annual training plans (to be performed in each calendar year) are prepared at the central level by the Professional Education Centre of the Ministry of Finance (CEZRF) and at chambers and the tax offices level. The CEZRF first analyzes the training needs in the system and this analysis is transferred to the MOF to verify the needs with the MOF priorities.

46. **Tax administration's mandate extends beyond national taxes**. In terms of the overall accountability for tax collection, tax chambers and offices are involved in the collection of a range of taxes, including various local taxes and fees, among them traffic tickets and television licenses. In addition, the local tax office is responsible for the transfer of a share of corporate income tax (as frequently as three times a month) and PIT (generally annually) to the corresponding local government within their jurisdiction.

Issues

47. **There is no single head of tax administration.** As described in subsection B, there is no single point of accountability for tax administration below the level of the Undersecretary for revenue. This means that the Undersecretary, responsible for various other functions not related to revenue administration matters, is the only senior official who can view tax administration as a whole. Daily management of tax administration should not be vested in this management level. The coordination role played by the director of the Tax Administration Department is an inadequate replacement for a single head or chief executive officer (CEO) that has full responsibility for tax administration.

48. **The ability to assess priorities across tax administration is inadequate**. The document on *Tasks of the Tax Chambers Directors and Tax Offices Heads* falls short as a strategic plan or modernization strategy for the tax administration and does not include a medium-term vision for the organization. As described in Section IV, the National Action Plan is just indicative for the local level. Performance information and regular monitoring are in place with close to 90 indicators tracked by the offices and reported to the tax chambers (see Appendix 2). It is unclear how such an extensive list of indicators is actually evaluated and can be of any real use to address performance gaps—all while creating a substantial reporting burden on offices. This situation limits the ability to set priorities and make decisions about what to do, what can be done differently and what can be stopped—all in the interest of creating some resource space to pursue much needed reform initiatives.

49. **Tax chambers and tax offices have excessive local autonomy.** Tax chambers and offices can make decisions with limited or no reference to the various departments at the MOF level. The chambers and offices have direct lines of communication to the various departments at the MOF level and to the Undersecretary responsible for tax policy—but this is described as for coordination or advice rather than direction or supervision. Staff allocation across functions can be decided by the tax office—as tax offices are losing their separate organizational status, this is changing. The creation of the Tax Administration Department at the MOF in 2008 established an intermediary office, rather than a management layer between the chambers and offices and the Undersecretary.

50. **There is no HQ focus on direction and management of chambers/offices, particularly to ensure consistent operational delivery.** Inconsistency across offices is an issue that was identified by business stakeholders and others but the management structure

and the size of the field network (with 400 tax offices) makes efforts at standardization close to an impossible task. Further, according to the business community the mission met, a level of differentiation is actually accepted by officials as needed to deal with local circumstance. Modern tax administrations strive to create a level playing field for taxpayers and this generally means the same processes are applied in the same way throughout the country. The Tax Administration Department at the MOF plays a limited role in the development of procedures and instructions and this is a recent development.

51. **Staff resources directed to tax administration are not properly aligned to functions.** General principles have emerged over the years that help modern tax administration decide on proper resourcing levels for major tax administration functions. For example, taxpayer service/registration should have 15 to 20 percent of staff resources, audit 25 to 30 percent. There is no such approach that governs tax administration in Poland and as a result, resources could be inappropriately allocated across work functions—which can be aggravated by the excessive autonomy of chambers and tax offices.

52. **Management committees—in early stages of implementation in the case of Poland—need to be further developed.** The committee system plays a major role in binding together a large and diverse organization and promoting effective cross-function working arrangements. The establishment of permanent committees responsible for key management issues and proper documentation of their work provides the vehicle for creating a “corporate memory” of important operational and reform activities and facilitates the transfer of knowledge to new members of the management team. Given the small size of staff at the central level (see subsection D), this good practice will be challenging in the short term but further steps should start being taken in this direction. Appendix 4 provides more detail on governance and committee arrangements.

53. **Overall workforce management deserves greater attention.** A great deal of the time of the HR central unit at the Tax Administration Department is now consumed with the consolidation of support functions to the chambers and the HR consequences of this change. However, given that staff resources consume the biggest share of the available budget, and the large number of staff, it is essential to develop a comprehensive view of the workforce and the HR policies that will be required for the tax administration reform agenda ahead.

54. **The legal framework needs to be reviewed to remove restrictions.** The need for a first and second instance review by separate organization units should be dealt with when the tax offices lose their separate organizational status; this will require addressing the possibility of also consolidating core tax operations at the chamber level. The need for the physical presence of tax chambers and offices reflects the administrative structure of the country and there is at present a requirement for a tax administration presence in each region and district/city. Finally the law restricts the authority and ability of tax officers to operate anywhere in the country. This restricts how management can assign its workforce in the most effective way possible. There are a number of legal aspects to consider as the next reform

steps are developed. The draft tax administration act may be a vehicle to address some of these problems.

55. **The tax administration's mandate should be focused on national taxes.** The additional tasks related to parking tickets, TV licenses, etc. means that staff specialized in tax matters are devoted at least in part to relatively simple, transaction-based work. Other options could be considered. In a review of what taxes should be collected by the tax administration, the question of whether excise should be managed as a separate tax type should also be addressed. Finally, expenditure/budget issues are not usually the purview of the tax administration.

D. The Way Forward for Tax Administration in Poland

A unified tax administration

56. **Establishing a unified national tax administration service should be an immediate priority for the Ministry of Finance**. The problems due to the absence of a unified national tax administration have emerged as a recurring theme in this section and the negative impact of this weakness is equally clear in Sections IV and V. This weakness must be addressed urgently to make a sea change in improving efficiency and effectiveness. A proposal on the features of a Tax Administration Service (hereafter referred as TAS in this section) is elaborated in Box 5. The tax administration act under development for 2016 could be the vehicle to make the legislative changes necessary to create the TAS.

57. **One of the first steps towards implementation would be to appoint a single head of TAS.** This person would then be able to build the new organization and lead the development of the myriad of initiatives needed to move from the current fragmented approach to tax administration to a unified and robust structure.[12] Many countries have nominated a senior official and assigned them responsibility for implementation even before the legal basis for the new organization and position exists i.e. using the position of director of the Tax Administration Department as the interim TAS head until the position can be formally created and filled. The TAS head should be granted all necessary powers to begin to build the new organization.

[12] Appendix 5 illustrates a possible function-based TAS organization chart, the preferred model, which should be implemented with a clear delineation of responsibilities and accountability at the HQ level and across tax operations at HQ and operational levels.

Box 5. Features of the Tax Administration Service

- A single senior official (i.e., the new TAS chief) is responsible for ***all*** aspects of tax administration—much like a CEO, General Manager, Director General.
- TAS would be an entity belonging to the MOF and be accountable to it through the Undersecretary responsible for revenue administration matters; but the TAS chief would have authority for strategic and daily operational management.
- All tax field or operational offices would come under TAS management.
- TAS would have all tax-related audit functions as well as risk management as it relates to tax administration—this means transfer of functions from the Customs Control, Tax Inspections, and Gambling Control Department as well as the Fiscal Control Department.
- The boundaries between the Fiscal Control Department (for investigations) and TAS for tax investigations must be clearly delineated, removing tax function powers from the Fiscal Control Department.
- All specialist offices including competence centers, large taxpayer offices, national tax information centers and any other specialized office will be included in TAS.
- TAS should be able to manage its own IT and HR without reference to other parts of the MOF—this implies transfer of functions and capabilities (software and hardware in the case of IT) to TAS.
- TAS should be responsible for the collection of national taxes only (implementation of this aspect may need to be phased).
- TAS should not be assigned any MOF-wide management responsibilities, e.g., the education center for the MOF (currently situated in the Tax Administration Department at the MOF).

Improving tax administration in the current context

58. **A number of initiatives should begin now—whether an immediate decision is made on TAS or not**. As analyzed in this section and sections IV and V, there are a number of weaknesses that can and should be addressed as soon as possible and are not dependent on adopting a unified national structure. Thus, it is still possible to make progress before any decision on structure is made.

59. **A modernization strategy should be developed**. The end state would need to include the issues raised in this section—organization structure, governance, management, and accountabilities—as well as the operational reforms described in Sections IV and V. Developing the tax administration's vision for the next 5 to10 years is the first step in the development of the detailed modernization strategy. This work should not be delayed.

60. **The appointment of an empowered leader of the modernization strategy supported by a high level reform committee will be crucial for success.** The scale of the reform required to realize real change in tax administration in Poland demands the highest political commitment and sustained support. A strong and empowered reform program leader will need to be appointed to manage across departmental boundaries in the MOF and drive the changes necessary to implement the modernization strategy.

61. **A modernization team of dedicated senior officials should be established, with full-time responsibility for designing and managing the modernization strategy.** International experience has shown that where this is not the case, reform efforts lag, are not coordinated and ultimately fail. Reform program governance arrangements need to also be substantially strengthened.

62. **Building a strong HQ to ensure standard methods and monitoring should be a first order priority.** HQ is the business owner of all core processes, i.e., registration and service, payment and processing, audit, enforced collections, compliance, and appeals. It is also the focal point for IT, HR, and other forms of needed management support—it is an essential pre-condition to operational improvements.

63. **Additional staff will need to be urgently considered to strengthen HQ.** International practice has shown effective tax administrations dedicate at least 5 percent of overall staff resources at HQ, to perform HQ functions. It would be unreasonable to think that this sort of quantum leap could be made in short order for two reasons—it would put too much strain on the organization and some time will be needed to determine the right HQ size. It may be that the base for calculation (of over 40 000 current staff) is too large given efficiencies that will be realized through IT, other reforms, and changes to the field network. At present, it is estimated that roughly 200 people (from the two departments) are involved in functions that approximate those of HQ. As an incremental approach to building HQ, these resources (and those assigned to the competence centers) could be directly assigned to the Tax Administration Department at the MOF and initial staffing over the next twelve months could seek to strengthen HQ staff to around 800 to 1,000 people.

64. **The legal framework needs to be reviewed to resolve operational impediments.** A small legal team could be formed and tasked with a review with a goal of submitting a report to management within three months.

65. **The field network should be streamlined.** Considerations should be given to grouping delivery of some core business functions at the tax chamber—creating offices with specialized competencies.

66. **Governance must be strengthened by establishing strategic management committees.** These would include an executive committee (for overall strategy) and committees for operations, compliance, HR, IT, and for reform.

67. **Strong working relationships with other parts of national government will be needed.** For instance, the relationship with the customs service will remain important and specific initiatives should be developed to build and fully leverage the working relationship, e.g., reviewing the potential for enhancing the exchange of information. The management of VAT refunds is another critical area where tax and customs administration cooperate, as well as on largest taxpayers, usually an overlapping taxpaying population.

68. **An overall sequence for these and other reforms should be developed.** The reform agenda is complex and not all priorities can be launched at the same time. This obviously creates high risks. Immediate indicative priorities have been described in this section and the reform team needed to be appointed should develop a plan and sequencing of these and other initiatives for discussion with senior management. With elections expected in 2015, it would be a positive step to have a detailed roadmap articulated for the establishment of the TAS, as well as for the several modernization initiatives to undertake pending the establishment of the TAS. Box 6 sets out an indicative prioritization of initiatives under two scenarios: (1) TAS is created and (2) what can (and should) be done without TAS.

Box 6. Scenarios: With and Without the Establishment of a Tax Administration Service

Create TAS	No immediate decision re TAS
Name interim TAS head and task with building new organization and leading modernization.	Name a modernization leader. Review options to vest more authority in position of Tax Administration Department director to allow management authority over tax chambers.

In either scenario:

- ✓ Develop a modernization strategy.
- ✓ Build HQ function.
- ✓ Undertake legal review: identify main issues and time needed to assess.
- ✓ Streamline field network—consider further consolidation.
- ✓ Establish management committees.
- ✓ Create one single LTO for top 1,000 taxpayers.
- ✓ Develop strong working relationships with other parts of national government, e.g., customs.

IV. MANAGING CORE TAX OPERATIONS

69. **There are fundamental weaknesses in the core business functions of the tax administration in Poland that contribute to the apparent low level of taxpayer compliance in Poland.** These include (a) a decentralized tax administration IT system; (b) a weak and under-resourced headquarters function; (c) a fragmented audit function; (d) absence of a dedicated Taxpayer Services department; (e) absence of a true dedicated large taxpayer office; (f) excessive autonomy at the operational level; and (g) absence of any effective central monitoring and control over operational work.

70. **A centralized IT system to support administration core operations is under development but will not be completed until 2018.** Several important elements of this system have already been delivered (e.g., e-filing for national taxes and a centralized taxpayer register). However, the main taxpayer administration systems and taxpayer databases remain distributed across servers located in the 400 local tax offices with limited capacity for efficient information sharing across sites. Core tax administration business

functions currently have only low levels of automation (e.g., tax returns filing enforcement and collections enforcement).[13]

71. **This section provides guidance on improving tax operations in the current tax administration organizational situation,** pending the establishment of a unified tax administration within the MOF and the completion of the centralized IT system. It focuses on headquarters, audit, taxpayer services, and large taxpayer administration. Appendix 6 provides advice on a range of other core business functions; Box 7 provides a summary of the main issues identified in those functions.

Box 7. Main Issues in Core Tax Operations

Taxpayer registrations

- The risk management framework of the registration process needs to be strengthened (see Section V).
- Business registration requirements should be harmonized across all tax types.
- The central taxpayer register is not yet complete and is not sufficiently aligned with other key central registers i.e., Ministry of Economy (individuals), and Ministry of Justice (entities).

Filing enforcement

- The process is not fully automated.
- E-filing is still voluntary, even for large taxpayers.
- There are no performance indicators specifically aimed at improving on-time and final filing rates.

Collection enforcement

- The process is not fully automated.
- It is fragmented across too many sites and needs to be consolidated into fewer specialized sites.
- The reasons for the sharp increase in VAT arrears have not been fully analysed.
- Clearance of the stock of old debt would be facilitated by taking a centrally managed project approach focused initially on the largest collectible debts.

Dispute resolution

- The second instance (tax chambers) could be streamlined by reviewing only those issues in dispute, and providing tax chambers with jurisdiction to directly conduct enquiries required to resolve the disputes.
- Structured feedback between tax chambers and local tax offices are needed to reduce procedural errors.

[13] As described in Section III, the fragmentation of IT support to tax administration at the central level in the MOF aggravates the weaknesses in the support to tax operations and restricts development of rapid responses.

A. Improving Headquarters Management of Tax Operations

Current situation

72. **Control of tax administration operational work by relevant MOF departments is weak and many key headquarters' responsibilities are simply not undertaken at the central level.** As discussed in Section III, the headquarters function is almost absent. It is clear that the MOF departments responsible for tax administration do not currently exercise effective control over the large network of tax chambers and local tax offices that instead operate largely under the discretion of their local management. The tax law prescribes high level business processes and defines the organization structure for tax chambers and local tax offices (i.e., the number and functions of organizational units required in each office). However, the design of operational business procedures and the allocation of resources across functions are at the discretion of heads of local tax offices. As a result, core business processes are currently not standardized across or within regions, and the central administration has limited information on what is happening on the ground across its 400 local tax offices. Headquarters departments have only recently commenced to develop national business plans and these are still at a very high level, set only broad objectives, and provide little more than general guidance.[14]

73. **Headquarters does not have a structured performance management system in place and minimal effective performance monitoring and oversight is exercised at the central level.** In practice, the planning process remains heavily weighted to bottom-up processes, existing performance measures are generally inadequate,[15] management information systems are underdeveloped, and there appears to be little consequence for local tax offices for lack of adherence to headquarters' directions. As a result, there is a major disconnect between the high level plans developed at the central level and the activities actually undertaken at the local office level. In these circumstances, there can be no guarantee that corporate priorities are being addressed.

74. **Some recent initiatives are aimed at developing standardized business processes across the organization.** Tax chambers have been tasked with responsibility for "supervising" the work of the local tax offices in their geographic patch. The chambers have commenced to take a stronger role in business planning (i.e., to develop regional work plans based on national plans), and new organizational units have been formed to quality assure the work of the local offices in respect of some core business functions such as audit. Two new

[14] In the case of the audit function, the National Action Plan for 2014 is the first attempt to develop a top-down national compliance plan. It is mainly focused on audit, and does not provide details on audit activities to be performed, just broad identification of risks; operational decisions are left to tax offices.

[15] For example, there is no performance measure aimed at improving on-time tax returns filing performance other than an objective of increasing taxpayer take-up of the e-filing option.

'competence centers' have also been established to assist in the development of standardized national procedures for the arrears management function.[16] These competence centers are located within the tax chamber network but are effectively out-posted headquarters units.

Issues

75. **As noted in Section III, successful tax administrations are anchored by a strong headquarters that sets policy and provides specific program direction and guidance to the operational level.** Broadly, the role of a headquarters department in managing tax operational work is to provide a management system that delivers clear organizational direction and leadership to operational staff, translates organizational goals and objectives into annual work plans, and assures the effective implementation of those plans. A more detailed description of the tasks typically performed in this regard by an effective headquarters is provided at Box 8.

Box 8. Role of a Headquarters Department in Managing Operational Work

- Contribute to the development of the strategic direction of the tax administration.
- Prepare an annual national work plan that reflects corporate priorities (for both reform objectives and operational business objectives) and specifies required service and enforcement activities, reform related development tasks, expected work volumes, staffing levels, and expenditure budget requirements.
- Ensure that available resources (human and financial) are appropriately allocated across activities and locations and aligned with corporate priorities.
- Develop specific performance measures related to the quantity, quality, and timeliness of the planned activities.
- Regularly monitor performance against the national work plan and budget by means of a structured performance measurement system.
- Identify reasons for variances from the plan and develop corrective actions.
- Report on performance against plans to the Head of the tax administration (and/or the appropriate management committee) explaining variances and remedial actions taken.
- Develop national policies, and design and maintain standardized business processes and procedures (with supporting guidelines, manuals and instructions).
- Take "ownership" of the IT business systems related to those business processes and procedures.
- Identify training needs and oversee the development and delivery of appropriate staff training programs
- Provide advice and guidance to field operational units as required.

76. **MOF departments responsible for tax administration are clearly under-resourced for a full headquarters role.** Section III highlights the relatively small proportion

[16] One is focused on 'soft enforcement' activities and the other on more hard-edged collection enforcement.

of overall tax administration resources devoted to headquarters functions in Poland. MOF departments responsible for tax administration are currently resourced in line with the more policy oriented departments at the MOF. This does not recognize the extensive *operational management* responsibilities of a modern tax administration headquarters. As a result, the relevant MOF departments simply do not have the capacity to effectively playa headquarters role.

77. **These departments must take greater control of operational work pending establishment of a unified tax administration service.** It will take time to design and establish a unified tax administration. In the meantime the relevant MOF departments need to secure greater control over tax administration operations using the resources available to them. This will entail an analysis of the headquarters tasks illustrated in Box 8 to determine priorities. At a minimum, the following steps should be taken in the short term:

- The respective roles, accountabilities and reporting lines for all MOF departments responsible for tax administration, and for tax chambers and local offices, should be clearly articulated and widely communicated across the organization.

- These MOF departments, pending the establishment of the TAS, playing a tax administration headquarters role should take a far stronger role in developing annual business plans and a standardized performance measurement system to facilitate more effective monitoring and control over operational work should be developed.[17] This may require a modest injection of resources into these departments that could be provided by reallocation (or assignation to) from the operational level.

- The development *and implementation of* standardized business process and procedures across all core business functions should be fast-tracked. Given the accommodation and resource constraints within the MOF, this work could be done by dedicated work teams out-posted to tax chambers using the approach piloted by the new collection enforcement competence centers. Under this approach, the work teams would be located in the tax chambers but would report directly to the relevant headquarters department in MOF.

- The division of responsibilities within the tax administration departments at the MOF needs to be reviewed to better delineate core functions across deputy directors and their respective unit under their supervision. Overlapping functions for core tax operations should be avoided to improve management, accountability and strategic drive of modernizations.

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[17] See IMF Technical Note 10: *Revenue Administration: Performance Measurement in Tax Administration*, William Crandall, 2011.

B. Tax Audit

78. **Responsibility for tax audits is split across two separate departments within the MOF with overlapping powers.** Tax audit responsibilities are shared by the Customs Control, Tax Inspection, and Gambling Control Department and the Department of Fiscal Control that report to different Undersecretaries of MOF.[18]

79. **The Customs Control, Tax Inspection, and Gambling Control Department is primarily focused on the formal economy.** It is responsible for both risk analysis and the audit program for customs, taxes and gambling and focuses mainly on registered taxpayers. Tax field audits are conducted by dedicated tax audit units in all 400 local tax offices and are focused mainly on registered taxpayers. Tax auditors have jurisdiction only over taxpayers registered (or required to be registered) in the geographic patch of their own local tax office.

80. **The Fiscal Control Department is primarily focused on the informal economy.** Its responsibilities encompass both protecting state revenue and ensuring financial integrity within MOF departments and agencies. It has a mandate to conduct investigations across all heads of revenue. In regard to taxes, it has primary responsibility for addressing the informal economy (unregistered taxpayers) and the broader grey economy risks. It takes the lead in fighting major tax frauds including carousel fraud. Fiscal Control has a field audit presence in the same 16 provinces as the tax chambers. While organized in provincial units, Fiscal Control field staff all have national jurisdiction.

81. **Risk analysis for tax audits is at an early stage of development and is conducted at multiple levels.** Risk analysis is carried out at the central level by the Customs Control, Tax Inspections and Gambling Control Department based principally on the results of audits completed in prior years. Some third party data is captured but not on a regular and structured basis. Intelligence on new or emerging risks is captured through analysis of frequently asked questions in the National Tax Information Center and results from a 'random' audit program conducted by local tax offices. Staff involved in the central risk analysis process for tax audits is mainly drawn from operational areas and is not expert in the use of data mining techniques and other modern analytics. Risk analysis units were established in tax chambers in April 2014. Small planning and analysis teams are present in all of the 400 local tax offices to support the audit case selection process. A new central risk analysis unit will be established early next year to support the Customs Control, Tax Inspections and Gambling Control Department and will focus solely on tax risks.[19]

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[18] Until July 2014 tax audit was one of the competencies of the Tax Administration Department. Since July 2014, due to organizational changes, tax audit responsibilities are in the Customs Control, Tax Inspection, and Gambling Control Department.

[19] This will mirror the arrangements already in place for identifying Customs and Gambling Tax risks.

82. **A National Action Plan (NAP) is produced that identifies a range of high level risk issues and a number of high risk industry segments.** The NAP requires that 50 percent of the overall tax audit effort should be directed to these national risks and that a further two percent of effort should be directed to auditing a random sample of selected industry sub-segments. Tax chambers are then required to prepare regional audit plans based on the NAP and any regionally identified risks. Tax offices, in turn, develop operational audit plans based on the risks identified through the regional audit plan. Audit case selection takes place exclusively at the local tax office level using an IT supported risk rating engine that incorporates pre-determined risk parameters. The Heads of local tax offices are responsible for approving the final audit case selection.

Issues

83. **The effectiveness of the tax audit function is seriously eroded as a result of the current organizational arrangements.** There are two main issues: (1) responsibility for risk management and the tax audit program is split across two separate organizational entities within MOF with overlapping powers; and (2) the tax auditor workforce is fragmented across sixteen provincial level Fiscal Control Offices and 400 local tax offices. These factors combine to preclude the development of a coordinated compliance strategy as neither department has a complete picture of the risk environment.

84. **The lack of an appropriately organized and managed audit program is undoubtedly a major contributing factor to the level of noncompliance in Poland.** In most advanced countries, tax audits are performed exclusively by the tax administration staff. These administrations establish their own specialist investigations units whose staff are trained, equipped, and empowered to deal with serious fraud and evasion cases (e.g., carrousel fraud), including cases likely to result in criminal prosecutions. Separate agencies are responsible for investigating other forms of economic crimes and close cooperative arrangements are maintained so that, where necessary, specialist tax investigators can be deployed to support the work of the other agencies in cases involving tax issues. The need for a specialist tax investigation capability to deal with VAT fraud is further discussed in Section V.

85. **A fragmented audit capability is less effective in countering noncompliance.** There is no single organizational unit that has a complete picture of the tax risk environment; no assurance that the MOF's enforcement program is properly directed at the highest risks; and no real opportunity to evaluate the overall impact of the tax audit effort. Given the overlapping mandates of the two departments responsible for tax audit, it appears highly likely that there are major overlaps in the separate audit programs. Taxpayers may be treated in an inconsistent manner and confused about the powers of the particular auditors they are dealing with. Both departments claim that close cooperation is maintained to avoid targeting the same taxpayers, but feedback to the mission from taxpayer representatives suggested that this was often not successful. The mission assessed that effective coordination of audit

activities across two separate organizational structures at sixteen provincial sites and 400 local tax offices would be problematic at best—especially in the absence of good management information systems. Furthermore, under the current organization, there is little incentive for the local tax offices to enforce collection of additional assessments raised through the fiscal control audits. The mission was advised that many of the assessments raised by fiscal controllers were unrealistic and unlikely to be collectible (e.g., assessments raised in relation to tax fraud cases).

86. **The audit program is heavily skewed towards micro and small taxpayers.** The risk analysis process and case selection process is relatively weak. The predominance of data from previous audits tends to perpetuate a focus on the same risks. The 'random audit' program is not managed centrally and does not reflect a truly random sampling approach. Instead these 'random audits' are selected by local offices and therefore reflect a local bias. They are unlikely to fulfill the objective of identifying new and emerging risks. Market segmentation principles are not applied below the tax type/industry segment level. This does not deliver a sufficiently granular analysis of risk. For example, large taxpayers are not singled out for special analysis and the process has not surfaced major compliance risks commonly encountered in the region.[20] Instead, all taxpayers are subjected to the same suite of risk parameters. Finally, case selection is only done by local tax offices, of which 380 deal mainly with micro and small taxpayers. The overall result is an audit program that is heavily weighted to the small end of the market and is therefore unlikely to have any significant impact in reducing the overall tax gap (see Table 2 in subsection D).

87. **The tax auditor workforce is too small and is spread across too many sites.** In modern tax administrations, at least 25 percent of the workforce is allocated to the audit function that encompasses both risk analysis and field audit. In Poland, the tax audit workforce (4,200 staff) represents only around ten percent of the total staff, and this workforce is fragmented across all 400 local tax offices. Furthermore, the tax auditors have jurisdiction only over taxpayers registered in their own local office and must rely on cooperation from other local offices where information is required from taxpayers not registered in their patch. This creates major logistical problems. These factors combine to dilute the effectiveness of the audit program and no doubt create scope for significant differences in approach across sites. Tax audits are also conducted by the 2,250 Fiscal Control inspectors located at the Fiscal Control provincial audit units, but these inspectors are not solely engaged on tax issues.

88. **There is therefore a clear need to re-organize the overall tax audit program in Poland as follows:**

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[20] For example, the NAP does not identify High Net Wealth Individuals or self employed professionals as high risk taxpayers.

- *The mandate and powers of tax auditors and fiscal controllers should be revised to shift full responsibility for all tax related audits under one department.* This department should have responsibility only for tax enforcement (i.e., it should be separate from Customs and other heads of revenue) and should report to the same Undersecretary as the Tax Administration Department under the current MOF organization structure. It would then be subsumed into the unified tax administration service when that service is established.

- *Tax field audit teams should be consolidated at the provincial level similar to the way in which Fiscal Control is organized*. This would include extending the jurisdiction of these staff at least to the provincial level and preferably to the national level. Consolidating the audit function into larger provincial audit teams would increase the critical mass of the audit teams, allow for greater specialization and more targeted training, simplify the line of command and improve communication with headquarters, tighten control over audit case selection, and facilitate a shift in audit focus more onto medium and large taxpayers. Any legal constraints related to the structure of first and second instance decisions would need to be identified and removed.

- *The tax risk analysis approach should be strengthened and audit case selection centralized*. In particular, a far more detailed level of market segmentation should be employed to gain a sharper picture of risks within particular taxpayer populations (especially the top 1,000 genuinely large taxpayers). Better access to third party data should be secured and skills developed in the use of modern analytics such as including data mining. Audit case selection should be centralized with only a small proportion of audit resources made available for locally identified risks. This will result in better targeting and reduced opportunities for corruption.

- *Allocation of staff and financial resources within MOF should be reviewed to take account of the workload transferring from the Fiscal Control Department*. Ideally, the specialist tax audit workforce should be built-up over time to at least 25 percent of the total tax administration staff.

C. Taxpayer Service

Current situation

89. **The tax administration in Poland is in transition to a new taxpayer service approach.** It has embraced the need for a strong taxpayer service program to support a self-

assessment tax system and to build community confidence in the tax administration.[21] A number of impressive taxpayer service initiatives have been rolled-out in recent years including: E-filing of tax returns; modern customer service centers in local tax offices; targeted information campaigns; a seminar program for new businesses; a centralized National Information Center aimed at delivering consistent and accurate advice; a system of general and private binding rulings system to provide greater certainty to taxpayers; and a tax portal through which taxpayers can access information on their own accounts. A new program of personal assistance to all new micro taxpayers for a full eighteen months after registration has also been proposed in the draft Tax Administration Act, but the details of how it would work in practice have yet to be finalized—it will be one of the systems of taxpayer service and support initiatives.

Issues

90. **Responsibility for taxpayer services is fragmented across several areas at the MOF tax administration department.** There is some confusion around the term 'taxpayer service' and a number of filing, verification and payment processing activities are currently labeled 'direct services.' Other initiatives more in the nature of taxpayer assistance are managed across different units reporting to different deputy directors at the Tax Administration Department of the MOF. As a result, while good progress has been made on a number of service fronts, they have not been part of any overarching taxpayer services strategy.

91. **All genuine taxpayer assistance responsibilities should be consolidated into a dedicated Taxpayer Services manager and a taxpayer services strategy developed.** This will help ensure that the overall service program is developed and delivered in a structured way. The strategy should provide for differentiated services tailored to the needs and capabilities of different taxpayer segments; determine the appropriate communication channels for delivery of particular services; and accommodate the development of both general service campaigns aimed at broad sections of the community and more targeted service initiatives delivered as an integral part of compliance improvement strategies addressing specific risks.

[21] The aim of this transition is to build a new System of Taxpayer Services and Support. Taxpayer service initiatives of the system (products) are divided into three pillars: (i) tax information (tax information management); (ii) taxpayer services standards (front office organization); and (iii) taxpayer support (individual cases). Some initiatives have an overall character (overall tax information, uniform standards in front office organization, services centres, support positions and tax administration services catalogue), others are more individual (individual tax information—authorization; special support positions, e.g., assistant position—taxpayers categories; special support procedures—taxpayers categories).

92. **The taxpayer service strategy should pay particular attention to new businesses as a discrete taxpayer segment.** Many countries have developed outreach programs specifically for new businesses in order to promote good compliance behavior right from the start. Typical elements of such an outreach program would include: free seminars conducted in conjunction with other government agencies to help new businesses understand their obligations and entitlements; outbound telephone calls to check if the new business operator is experiencing any problems and to offer help and advice; optional free advisory visits at the taxpayer's premises to resolve any problems that have emerged; and targeted advisory visits (nonoptional) to the premises of new businesses that are considered high risk.

93. **Particular attention should also be paid to businesses that become employers for the first time.** The transition to employer status introduces many new obligations and complexities for taxpayers. New employers are a key leverage point for embedding good compliance behavior from the start around obligations to withhold income from employees' wages and to make social security payments where required—though these last fall within the remit of the Social Security Administration.

94. **The proposal to provide personal assistance for new micro taxpayers is a commendable initiative but will need to be managed carefully**. Ongoing one-on-one assistance to this number of taxpayers is simply not sustainable. These types of programs are better delivered through dedicated teams of service officers that take responsibility for providing support to groups of taxpayers through a structured program of seminars, outreach visits, and telephone and electronic communication.

D. Large Taxpayer Administration

Current situation

95. **In all legal and operational respects the current LTOs are identical to the broader network of local tax offices.** The current network of LTOs was established in Poland in 2004. The network comprises twenty full-functional offices with a presence in every province.[22] The criteria for identifying the large taxpayer population are shown in Box 9. In total, this office network is responsible for around 87,000 taxpayers ranging in size from micro businesses to genuinely large taxpayers. As is the case with the broader local office network, each LTO is a separate organizational entity with its own budget and operates with a high degree of autonomy. They have the same management and reporting relationship with the provincial tax chamber and the MOF that applies to all other local tax offices.

[22] Each of the provinces has a large taxpayer office, while Warsaw has three and Slaskie province has two.

Box 9. Taxpayers Included in the Large Taxpayer Population

- Capital groups
- Banks
- Insurance companies
- Investment and retirement funds, and other financial institutions
- Branches and representatives of foreign enterprises
- Legal entities who:
  - generate gross sales of at least €5 million per annum;
  - hold shares in companies based abroad or control such companies; and
  - are managed by nonresidents.

Issues

96. **The original purpose for establishing the LTOs has not been achieved.** In line with international practice, the original intention was to secure tax revenues by achieving a sharp focus on the relatively few taxpayers who account for a large share of tax revenues. In most countries, LTOs are responsible for only the largest 500–1,000 of the largest taxpayers who typically account for 50–70 percent of total tax revenue. However, the criteria adopted for identifying the large taxpayer population in Poland has resulted in the capture of a far greater number of taxpayers (more than 80,000 in total) including a multitude of small and even micro taxpayers.[23] Inevitably, resources are strained to deal with the workloads imposed by large numbers of relatively small taxpayers and the focus on genuinely large taxpayers has been lost. The mission was advised that, in practice, around 80 percent of effort is expended on small and medium sized taxpayers. The loss of focus is perhaps best demonstrated by the fact that the same risk parameters are applied to all taxpayers regardless of size with the result that the audit program is heavily skewed towards the bottom end of the market (see Table 2).

97. **A more sophisticated approach to managing compliance of large taxpayers is required.** Because of their size, all large taxpayers represent a risk to the revenue and advanced tax administrations develop risk profiles for each and every one. Box 10 illustrates some of the issues that are considered in this risk profiling activity. This individual risk profiling is the main determinate of which large taxpayers will be selected for audit. Auditors in a properly functioning LTO will normally be organized into specialist industry sector teams focused on key client groups such as: information technology and communications; energy; transport; construction; banking and insurance; etc. This allows for the development of specialist industry expertise that is critical to understanding how large businesses operate. Service initiatives are also tailored to the needs of large taxpayers with a particular focus on fast turnaround of technical advice related to large scale projects.

[23] For example, Chinese restaurants are captured because of the foreign ownership/control criteria.

Table 2. Stratification of Taxpayers, and the Audit Focus, 2013

Taxpayer segment	Turnover range (a) (PNL)	Taxpayers		Total turnover (sales) for each segment (a)		Total VAT paid by each segment		Audit focus	
		Number of taxpayers	% of total	Amount (PLN billion)	% of total turnover	Amount (PLN billion)	Percent of total VAT paid	Number of Audits	Percent of all audits
Large	Above 200 million (b)	2,463	0.15	2,504	53.07	84	47.4	1,214	1.92
Medium	40 million - 200 million (c)	9,578	0.57	777	16.46	29	16.55	3,287	5.14
Small	8.5 million - 40 million (d)	34,876	2.06	612	12.96	25	13.91	9,349	14.6
Micro	0 - 8.5 million (e)	1,643,875	97.23	826	17.51	39	22.14	50,096	78.34
Total		**1,690,792**	**100**	**4,718**	**100**	**178**	**100**	**63,946**	**100**

Turnover (sales):
(a) Turnover (sales) includes all sales according to VAT returns, including exports.

The sales ranges in Zloty equals:
(b) € 50 million and above
(c) Between € 10 million and € 50 million
(d) Between € 2 million and € 10 million
(e) Between € 0 and € 2 million

Source: Prepared by the mission based on MOF data.

Box 10. Illustrative Risk Indicators for Large Taxpayers

- Related party cross-border and tax haven dealings where profits returned in Poland do not reflect economic activities undertaken or the taxable nature of imports.
- Complex structures and intra-group transactions associated with generating tax benefits unrelated to the economic substance of the commercial activity.
- Tax benefits from financial or other arrangements that are disproportionately high compared to the financial exposure.
- Characterization of transactions for tax purposes that are at odds with their economic substance.
- Distortions and inconsistencies in market valuations.
- Unexplained losses, low effective tax rates, and cases where a business consistently pays relatively low or no tax.
- Financial or tax performance that varies substantially from industry patterns.

98. **The decline in revenue collections signals the need to re-focus on genuinely large taxpayers.** It is essential to secure the large share of revenue contributed by genuinely large taxpayers. In Poland, the largest 1,000 taxpayers account for around 50 percent of total tax revenue. A new LTO, responsible only for these top 1,000 taxpayers, should be established without delay. Given the demographics of this large taxpayer population, the new LTO should be located in Warsaw but have national jurisdiction**.** It should deal only with national

taxes (CIT, PIT, and VAT). The best qualified and most experienced auditors from the existing network of LTOs should be recruited for this specialist office.

E. Recommendations

Improving headquarters management of tax operations

- Clearly articulate and communicate the roles, accountabilities and reporting lines for all levels of the tax administration.
- Strengthen central control of the national planning processes.
- Implement a standard performance measurement system across all relevant MOF departments.
- Support headquarters with dedicated work teams out-posted to tax chambers.

Taxpayer audit

- Establish a single Tax Audit Control Department with full responsibility for control of national taxes.
- Consolidate tax field audit teams at the provincial level and extend tax auditor jurisdiction to the national level.
- Strengthen the tax risk analysis function and centralize the audit case selection process.
- Increase the size of the tax audit workforce over time to at least 25 percent of total tax administration staff.

Taxpayer service

- Establish a single accountability for Taxpayer Service within the tax administration department at the MOF.
- Develop an overarching taxpayer service strategy.
- Develop a structured outreach program for new businesses and micro taxpayers.

Large taxpayer administration

- Establish a new LTO in Warsaw to deal only with the largest 1,000 taxpayers, using turnover as the main selection criteria, and only with national taxes.
- Recruit the best qualified auditors for this new LTO.

V. MANAGING COMPLIANCE RISKS

99. **This section provides guidance on the adoption of a more strategic approach to manage taxpayer compliance based on risks.**

A. Introduction

100. **As in most countries, Poland's compliance risk picture has evolved considerably in recent years.** Significant economic, social, technological, cultural, and demographic developments (including EU membership, increasing globalization, and the impact of the economic crisis) have changed the environment in which the tax administration operates. Taxpayers are increasingly mobile and have access to sophisticated technologies and services that allow them to engage in complex transactions that may cross jurisdictions, give rise to legal ambiguities, and leave few records or audit trails. Modern tax administrations continuously adjust their compliance approach to match the changing compliance risk environment.

101. **Declining tax revenues in Poland indicates a negative shift in taxpayer compliance behavior, which the tax administration has been unable to address.** There is compelling evidence (see Section I) that the tax gap in Poland is growing, especially in VAT. For example, while in neighboring countries VAT collections have recovered after 2009 to reach pre-crisis levels, Poland's VAT receipts have declined further—despite a tax rate increase in 2011. Revenues from CIT have also declined since 2008 as a percentage of GDP. This strongly suggests that there are major taxpayer compliance problems that the authorities' compliance efforts have not been able to address.

102. **Structural weaknesses in the tax administration and a somewhat outdated approach to compliance management constrain the effectiveness of current collection efforts.** Section IV outlines a number of major weaknesses in the way in which the tax audit function is organized and managed. These weaknesses preclude the development of a clear picture of the overall risk environment for the tax system, militate against the development of coherent and integrated responses to key risks, and skew effort towards the smallest taxpayers. The current compliance program is based largely on a traditional taxpayer-by-taxpayer approach using audit as the main compliance tool. This type of approach rarely has an impact on compliance behaviors beyond the specific taxpayers to whom the audits are delivered, and the opportunity for a more leveraged return on investment in compliance activities is lost.

B. New Compliance Model for Medium-Term Implementation

103. **Advanced tax administrations take a more strategic approach to compliance risk management (CRM).** A full explanation of the CRM approach is provided in Appendix 7. Broadly, this approach:

- recognizes that the factors underlying taxpayers' compliance behaviors in any specific risk area are frequently quite complex and, as a result, are unlikely to be treated successfully with a single action strategy—particularly one based solely on enforcement actions;

- directs attention to understanding the factors that shape taxpayers' compliance behaviors, so that a potentially more effective set of responses can be developed and implemented;

- promotes the development of treatment strategies that aim for an optimal mix of responses (e.g., education, assistance, clarification of the law, simplified procedures, audit, enforcement, and marketing) to achieve the widest possible impact on voluntary compliance across the entirety of the target taxpayer segment; and

- ensures that these responses are sequenced in a coherent manner to deliver the maximum compliance leverage from the overall treatment strategy.

104. **The CRM approach is founded on three key organizational capabilities.**

- *Sophisticated risk identification and analysis*—the revenue administration must have the capacity to access multiple sources of disparate information and to combine and interpret the data to create intelligence about the risk environment in which it operates. The proposed new central risk analysis unit for tax should form the nucleus for developing this capability.

- *Effective strategy development*—compliance planning and management arrangements must be developed that look across operational functions and tax types to: identify and prioritize risks to the revenue; develop integrated response strategies; and then marshal and coordinate the necessary human and financial resources to deliver the appropriate mix of interventions. Appendix 4 provides a description of a typical management committee arrangement to oversee this activity.

- *Efficient core business operations*—key tax administration business units such as taxpayer services, audit, filing and collections must be resourced, trained and equipped to deliver the targeted activities in a timely and effective manner. Section IV discusses opportunities to strengthen core business operations.

105. **Moving to a modern CRM approach should be adopted as a medium term objective for the tax administration in Poland.** It would not be sensible to attempt to move immediately to this approach given the scale of the overall reform challenges currently facing the organization. The CRM approach represents a sea-change in the way the tax administration plans and manages its compliance activities and it will take considerable time to develop the skills and expertise as well as the cross-cutting management arrangements necessary to support it. For this reason, the modernization strategy should include a roadmap aimed at fully implementing the CRM approach in the medium term.

C. Compliance Management Initiatives for Immediate Implementation

106. **Falling revenues cannot await the implementation of a new compliance model—a more timely response is demanded.** In particular, action needs to be taken immediately to secure collections of VAT and CIT. Ideally, a senior officer in the tax administration headquarters (risk owner) should be identified to lead the development of coordinated responses to declining revenues in these two important taxes.

107. **VAT represents the greatest risk.** VAT collections account for 50 percent of total tax revenues administered by the tax administration and the sharp increase in the VAT gap over recent years is the major concern.[24] Action should be taken immediately on several fronts:

- *Industry based compliance improvement projects should be undertaken for the high risk industries identified in the NAP.* The high risk industries identified in the current NAP are consistent with experience in other countries, so there is a high degree of certainty that they will account for a significant share of the tax gap. Box 11 illustrates how an industry based compliance improvement project is structured and delivered. Adopting this approach will also provide valuable experience to support the medium term shift to a modern CRM approach.

- *An overarching strategy should be adopted for the fight against the grey economy.* Currently, the Fiscal Control Department and the Customs Control, Tax Inspections, and Gambling Control Department separately gather intelligence, analyze risks, and target taxpayers within the grey economy. Some general taxpayer information campaigns have also been aimed at promoting better compliance. However, these initiatives are all at a tactical level and are not part of any coordinated and integrated overall strategy. A senior officer appointed as the risk owner for VAT should take the lead in bringing the relevant parties together to share information and experience, and to jointly developed a more integrated and strategic approach. Appendix 8 provides an illustration of the range of activities included in such a strategy in other countries.

- *A specialist investigation capability should be established within the tax administration to deal with VAT fraud*. Many tax administrations in the EU have created specialized anti-fraud units with the competence to co-ordinate preventive and repressive actions. Ideally, central VAT anti-fraud units cooperate closely with the customs administration, the office responsible for international administrative cooperation, as well as the judicial authorities.

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[24] Informality is another important risk many countries are facing nowadays; appendix 8 provides guidance on strategies to mitigate compliance risks arising in the informal economy.

- *The compliance framework around the registrations process should be strengthened.* The VAT audit program must be supported by preventive measures to facilitate early detection of potential VAT fraud. Some key measures that should be introduced include:

  - Conducting pre-registration visits to verify the legitimacy of new VAT registrations.

  - Implementing a post- registration monitoring program for risky traders. Modern administrations monitor 'from the start' VAT filing and payment compliance for risky registrations, embracing early and on-going post-registration on-site visits. Some administrations have extended monitoring and visiting programs to a wider range of traders and include intermediaries, brokers, main dealers, exporters and freight forwarders in high risk sectors. The main purpose of such programs is to gather as much information as possible on 'new players in the arena'.

  - Introducing a fast track process to refuse or cancel VAT registration where there is strong evidence of fraud or intended fraud. If the evidence is insufficient to refuse registration, the tax administration should be empowered to require securities as a pre-condition of registration. Moreover, good administrative practice seeks to keep the VAT register free of inactive taxpayers, which will reduce the possibility of re-activating or replacing a de-registered missing trader.

- *The power to recover losses of VAT revenue should be broadened.* It is common that bona fide traders get involved in VAT fraud schemes. Where such traders could reasonably be expected to have known that they were collaborating in VAT fraud, many countries have legislated to make them jointly and severally liable for VAT payable by the fraud entity.

- *Criminal prosecutions for VAT offences should be increased and widely publicized.* More criminal prosecutions will demonstrate to taxpayers and the general public that the government is taking VAT fraud seriously and will promote greater tax compliance. To address this issue, the tax administration should negotiate with the state prosecution authority to allocate high priority is to serious tax fraud cases.

- *Develop a much stronger revenue analysis and quantitative risk analysis.* Currently, the analysis of VAT returns and payments is split across ten MOF departments reporting to virtually every MOF Undersecretary of State, and operational risk analysis largely conducted by local Analysis and Planning units or for individual cases. The VAT gap and potential high-level risks need to be monitored as an integral part of revenue analysis for VAT, and the risk analysis brought together, using national databases of individual taxpayer data on VAT registration, payment and enforced collection, to allow risks to be identified and prioritized for control action nationally. In this context, the creation of a simple, 'fit for purpose' analytical database that consolidates the 400 current databases should be more quickly achievable than the fully-specified database that is currently planned. In addition to using VAT records, the integrated IT platform might usefully include data from other sources: customs declarations, company formation agents, financial disclosure information from banks, data from administrative co-operation, and law enforcement agencies. Box 12 illustrates how a risk-based approach might be taken to examining VAT refunds.

Box 11. Illustration of a Typical Industry Based Compliance Improvement Project

Where an industry or trade is identified as high risk, the tax administration should do as follows:

- ***Engage with the relevant industry or business associations*** to explain why it is seen as high risk and to ensure that the revenue agency has an accurate understanding of how the industry operates.
- ***Publicize the revenue agency's intention to conduct a verification program of the industry*** and seek the support of the associations in informing their members.
- ***Identify tax practitioners who have a significant client base in the targeted industry***, alert them to the issues and request that they inform their clients of the intention to conduct a verification program.
- ***Conduct a sample audit program*** to confirm the most serious areas of noncompliance and to quantify the amount of tax at risk across the industry.
- ***Engage with the relevant associations and tax practitioners*** to prepare advice to industry participants on the areas of noncompliance identified through the sample audit program.
- ***Send letters to taxpayers in the industry and/or communicate with taxpayers through the relevant associations and tax practitioners*** advising them of the specific areas of noncompliance and requesting that they review their returns and make any necessary self-corrections. Highlight that voluntary disclosures will attract lenient penalties, and that further audits are planned under which taxpayers who have not self-corrected will be subject to full penalties.
- ***Offer free seminars and advisory visits to taxpayers*** who are unsure of their obligations (these seminars should ideally be conducted jointly with the industry association).
- ***Ensure that the tax administration's enquiry staff is aware of the compliance improvement program*** and has scripted answers for enquiries received from taxpayers about the program, including how to make a voluntary disclosure, attend a seminar or request an advisory visit.
- ***Ensure that the collection enforcement staff is aware of the program*** and applies the reduced penalties and more flexible payment arrangements to taxpayers who voluntarily self-correct.
- ***Conduct a follow-up audit program*** of the industry with wider coverage and targeting taxpayers who have failed to self-correct and are assessed as high risk; and prosecute the worst offenders.
- ***Publicize results of audits and prosecutions*** highlighting how data matching and other new approaches facilitated detection of high risk taxpayers, and using representative case studies to show how informal economy participants were identified and dealt with.
- ***Measure the effectiveness of the project,*** e.g., by tracking the number of voluntary disclosures received and the overall change in tax paid by taxpayers in the target industry, and surveying the industry and practitioners to test for observed changes in compliance behavior.

Box 12. Potential Approach for a Risk-Based Value-Added Tax Refunds Examination

The taxpayer is green flagged (i.e. approved large refund claimer): consistency desk examination

- The claim is consistent with the usual refund pattern and the compliance level is high: instant refund.
- One of the above conditions is not met: further examination.

The taxpayer is not green flagged

- Low risk (small amount or closing enterprise) and average or unknown compliance: desk examination
  - The credit situation is consistent with the industry norms and with the taxpayer credit pattern: instant refund.
  - The credit situation is inconsistent with the industry norms or credit profile but originates in reported operations (exports, investment): written request for supportive documents (copy of invoices, export statements). If unanswered or documents do not support the claim: desk assessment.
  - The credit situation is unexplained: request for a list of supplies. If anomalies (insufficient gross margin ratio, expenses presumably not related to the business):
    - Potential high assessment: field audit.
    - No prospect of high assessments: refund, desk assessment when possible.
- Medium risk (medium amount, average compliance): desk examination
  - ➢ *Good solvency prospect (i.e., ability to repay future assessments).*
  - The credit situation is consistent with the industry norms and with the taxpayer credit pattern: instant refund.
  - The credit situation is inconsistent with the industry norms or credit profile but originates in reported operations (exports, investment, and rate differentiation): written request for supportive documents (copy of invoices, export statements). If request unanswered or documents do not support the claim: desk assessment, refer for future field audit.
  - The credit situation is unexplained: request for a list of supplies. If anomalies detected (insufficient gross margin ratio, expenses presumably not related to the business):
    - Prospect of high assessments: comprehensive field audit.
    - No prospect of high assessment: Refund and refer for future audit.
  - ➢ *Bad or unknown solvency prospect:*
  - Request for supportive documents and list of supplies.
    - Claim fully substantiated (see above): refund.
    - Claim not fully substantiated and origin of the credit known: issue oriented field audit.
  - Claim not fully substantiated and origin of the credit unknown: full scope field audit.
- High risk (large amount, high risk ratio)
  - ➢ *Good compliance history and good solvency prospect:* desk examination.
  - Credit explained: refund, refer for future audit.
  - Credit unexplained or tax fraud suspected: comprehensive field audit.
  - ➢ *Bad compliance history or solvency prospect:* Instant comprehensive audit, consider precautionary enforcement measures.
- *Unknown compliance history*: instant comprehensive field audit, consider demanding guarantees.

108. **In the case of CIT, the main initiative should be the establishment of a genuine LTO.** Pending the establishment of the LTO, the senior officer in MOF assigned to review the CIT risk should liaise with the Gambling Control, Tax Inspection, and Customs Control Department to centrally select a range of genuinely large taxpayers based on risk and coordinate the delivery of audits by the provincial tax offices.

D. Recommendations

A new compliance model for medium-term implementation

- Include the development of a modern CRM approach as a medium-term reform goal.
- Develop a more integrated strategy for managing the informal economy.
- Undertake targeted compliance improvement projects for high risk industries.

Compliance management initiatives for immediate implementation

- Establish a specialist investigation capability within the tax administration to deal with VAT fraud.
- Strengthen the control framework around VAT registrations.
- Develop a much stronger revenue and quantitative risk analysis capability for VAT.

Appendix 1. Tax Administration Performance Indicators

Registration performance

Table A1.1. Registration Activity in Poland 2013

Tax type	LTO taxpayers	Other taxpayers	New registrations	De-registrations
VAT	58,190	2,389,184	199,784	224,321
PIT	57,460	18,468,246	420,047	583,455
CIT	60,345	411,056	42,427	7,776

Source: Prepared by the mission based on Ministry of Finance data.

The tax administration processed over 660,000 new registrations in 2013 (Table A1.1). The level of registration activity is relatively high, but represents only 3 percent of the stock of active taxpayers. For personal income taxpayers, new registrations are under 2.5 percent, while business (VAT and CIT) taxpayers' new registrations are around 10 percent. These levels broadly reflect normal European demographics. The large imbalances between new registrations and de-registrations in Table A1.1 suggests that the taxpayer registries are not kept fully up to date on businesses that have closed down or otherwise ceased trading.

Filing compliance

Late filing of tax returns is an issue for the tax administration, though nonfiling is at relatively low levels (Table A1.2). Detailed data supplied by the Tax Administration Department show high late filing rates of around 25 percent for PIT over the period 2010–12 (2013 figures were not available) and over 30 percent for CIT over the period 2011–13. Nonfiling is around 5 percent overall over the period 2010–13. For VAT, filing noncompliance is lower, both for late filing and nonfiling (Table A1.3).

Table A1.2. Overall Filing Compliance in Poland 2010–13

(In thousands)

Returns	2010	2011	2012	2013 1/
To be filed	41,242	41,498	41,451	17,795
Filed on time 2/	30,666 (74%)	30,679 (74%)	31,422 (76%)	15,269 (86%)
Filed up to 3 months late	7,397 (18%)	7,392 (18%)	6,822 (16%)	1,192 (7%)
Filed more than 3 months late	1,096 (3%)	1,153 (3%)	937 (2%)	520 (3%)
Not yet filed	2,147 (5%)	2,342 (6%)	2,340 (6%)	815 (5%)

Source: Prepared by the mission based on Ministry of Finance data.

1/ Excludes PIT returns.

2/ The apparent rise in on time filing in 2013 shown in Table A1.2 is because the figures for this year do not include PIT returns.

Table A1.3. Filing Compliance for Value-Added Tax in Poland 2010–13

(In thousands)

Returns	2010	2011	2012	2013
To be filed	18,000	18,080	18,000	17,795
Filed on time	15,414 (86%)	14,881 (82%)	15,441 (86%)	15,269 (86%)
Filed up to 3 months late	1,190 (7%)	1,671 (9%)	1,132 (6%)	1,192 (7%)
Filed more than 3 months late	784 (4%)	794 (4%)	639 (4%)	520 (3%)
Not yet filed	614 (3%)	737 (4%)	789 (4%)	815 (5%)

Source: Prepared by the mission based on Ministry of Finance data.

Payment compliance

Table A1.4. Arrears as a Percentage of Collections 2011–13

(In percent)

Tax	2011	2012	2013
PIT	6.67	7.44	8.09
CIT	3.79	3.89	6.39
VAT	14.04	17.66	22.35
Excise	9.32	9.62	10.13
Overall	**9.22**	**11.04**	**13.83**

Source: Prepared by the mission based on Ministry of Finance data.

It is possible that the growth in debt as a percent of collections (Table A1.4) partly reflects growing levels of uncollectable debt that should in fact be written off. Using detailed data provided by the Tax Administration Department, there is further evidence for this in the distribution of debts: over 1 million debts are more than two years old, accounting for around half of all outstanding arrears. In addition, almost 500 thousand debts are actually recorded as uncollectable, accounting for over 20 percent of outstanding arrears.

Audit performance

Table A1.5. Audits Conducted by Tax Administration 2011–13

All businesses	2011	2012	2013
- Total turnover (sales) audited	2,084,439	2,056,429	1,900,051
- Number of completed audits	123,497	110,618	93,329
- Additional taxes identified	1,099	1,279	2,157
Average yield per audit	**8,898**	**11,559**	**23,108**

Source: Prepared by the mission based on Ministry of Finance data.

Table A1.6. Audits Results 2011–13

(In PLN millions)

Audit results	2011	2012	2013
Large businesses:			
- Total turnover (sales) audited	1,572,437.13	1,559,72.06	1,420,36.61
- Number of completed audits	2,155	1,843	1,693
- Additional taxes identified	260.71	350.63	249.69
Medium businesses:			
- Total turnover (sales) audited	291,335.65	275,615.21	250,421.12
- Number of completed audits	5,483	5,278	4,475
- Additional taxes identified	196.94	140.47	221.2
Other business:			
- Total turnover (sales) audited	220,666.21	221,093.61	229,269.10
- Number of completed audits	123,497	110,618	93,329
- Additional taxes identified	1,098.90	1,278.65	2,156.67

Source: Prepared by the mission based on Ministry of Finance data.

Overall, though the amount of additional taxes identified in Audits increased sharply (Tables A1.5 and A1.6), the percentage of audits with positive results has stayed relatively leveled over the period 2011–2013 (Table A1.7). The percentage of audits with positive results for VAT refunds appears relatively low at 55–60 percent, and the results for single issue audits are slightly higher at about 60 percent. For comprehensive audits and registration checks, the results are higher, about 73 percent and 90–95 percent respectively. However, it is not clear what a positive result for registration checks means, as no additional tax is scored for these audits.

Table A1.7. Audit Results for Non-Large Taxpayer Office Taxpayers 2011–13

(In PLN millions)

Type or Performed Audit	2011			2012			2013		
	Number	% with Results	Additional Tax	Number	% with Results	Additional Tax	Number	% with Result	Additional Tax
Registration check	6,733	89%	0	11,079	94%	0	10,347	94%	0
Audits for VAT refunds	36,216	58%	313	33,344	59%	309	31,186	56%	444
Single issue (emergency) audit	31,373	61%	110	25,165	57%	88	20,903	58%	79
Comprehensive (complex) audit	97,607	72%	1,186	90,731	73%	1,331	76,901	74%	2,299

Source: Prepared by the mission based on Ministry of Finance data.

Dispute resolution

Table A1.8. Appeals 2012–13

(Number of Appeals)

Indicator	2012 TA	2012 Court or Other Body	2013 TA	2013 Court or Other Body
Number of appeal cases	14,865	6,540	15,286	9,268
Appealed amounts (in PLN million)	2,893	8,495	3,514	2,024
Percent of unsuccessful appeals (in percent)	61.0	79.9	58.3	76.0
Percent of successful appeals (in percent)	39.0	20.1	41.7	24.0
Percent of partially settled appeals	974	129	911	124

Source: Prepared by the mission based on Ministry of Finance data.

Appendix 2. Measurements Performance at the Tax Chamber and Tax Office Levels

Regional measurements are focused on implementation of individual tasks in different areas of operations in tax chambers and tax offices. They will be used to determine specific tasks for tax offices reporting to tax chambers and, as a result, they will contribute to the attainment of goals defined by the Ministry of Finance.

Data to calculate the measurements will be provided by IT systems. For all measurements with "average number of jobs in a reporting period" data are collected from various subsystems.

Performance measures for tax offices are concentrated in five areas: (1) direct service; (2) tax proceedings; (3) tax accounting; (4) tax audits; and (5) administrative enforcement. There are over 70 indicators; the Box below provides a summary of the indicators used to assess performance in each of these areas.

Box. Summary of Performance Indicators for Tax Offices

Area	Examples of performance indicators
Direct service	- Length of time to enter/approve documents - Accuracy - Number of registered documents - % e-filed documents
Tax proceedings	- Timeliness—initiation of proceeding, overall length, registration of decisions - Correctness of decisions issued by tax office - % of proceedings initiated with inadequate grounds
Tax accounting	- Speed of collection - Tax arrears rate, arrears due with enforceable title - Tax payment rate - Voluntary compliance rate
Tax audits	- Effectiveness and efficiency - Active audit approach to audit CIT taxpayers, CIT taxpayers generating losses
Administrative enforcement	- Effectiveness of enforcement of titles - Timeliness—initiating action, length of proceedings - Labor intensity - Workload

Performance measures for tax chambers are mostly related to the second instance of tax disputes (appeals) across the different taxes.

Appendix 3. Measurements at Central Level

For the year 2014 the Minister of Finance identifies five areas to be in the focus of the Heads of Tax Chambers. These areas will be subject to direct assessment. Each area is aligned with the objectives, which directly translate into measurements (indicators). Areas, as well as objectives and measurements have been presented in the below table.

Table A3.1. Performance Measures for Tax Chambers

Area	Objective	Measurement	Code of Measurement
Ensuring budget revenue	*Increase of income*	*Revenue execution measurement*	***WB.RWP***
Decreasing tax arrears	*Acceleration of administrative enforcement*	*Average length of the enforcement proceedings in the area of tax enforceable titles*	***ZP.CTP***
	Lowering the amount of debt subject to administrative enforcement	*Amount of tax arrears with active enforceable titles*	***ZP.KZP***
	Increasing effectiveness of the current tax assets enforcement	*Effectiveness of enforcement of active enforceable titles presented in the last 6 months from the end of the reporting period*	***ZP.EPN***
	Improving efficiency of the enforcement units	*Effectiveness of enforceable titles execution per employee receiving commission*	***ZP.RSO***
Developing friendly tax administration	*Accelerating taxpayers service in the area of issuance of compliance certificates*	*Speed of compliance certificate issuance*	***PA.WZN***
	Accelerating taxpayers requests execution	*Length of proceedings initiated upon taxpayer's request*	***PA.CWP***
Improving quality of work and innovativeness of tax administration	*Decreasing number of cases repealed by provincial administrative court (WSA)*	*Number of cases repealed*	***DI.LUW***
	Increase in number of documents filed electronically	*E-filed returns to all returns filed*	***DI.EDO***
Limiting scale of tax frauds	*Improving effectiveness of tax audit units*	*Financial audit effectiveness per number of employees in audit units/ number of employees receiving auditor allowance*	***OP.EFK***
	Improving effectiveness of the financial audits of current periods	*Effectiveness of current periods financial audit*	***OP.EUP***
	Limiting gap between audit findings and tax volume	*Gap between audit findings and decision/ adjustment/payment*	***OP.RKD***
	Increasing audit effectiveness vis-a-vis costs incurred	*Tax audit cost effectiveness*	***OP.EKK***

Appendix 4. Roles and Responsibilities of the Proposed Management Committees

All modern tax administrations use committees to support the agency head in decision-making and governance arrangements. The committee system plays a major role in binding together a large and diverse organization and promoting effective cross-function working arrangements.

Good practice in establishing and maintaining an effective management committee structure includes the following:

- *Establishing clear terms of reference/charters for each committee* that describe the purpose and role of the committee, the responsibilities of its members, and its accountability to the TAS head.

- *Selecting the right committee members for the task—whether representative or related to expertise.* Rather than seeking representational membership, committees should limit membership to those who are essential to reaching informed decisions. Others can be invited to participate on an "as needed" basis. Of course, membership depends on the committee's role and purpose. For example, if a critical role is to ensure a consistent approach across the entire agency, representational membership may be appropriate. Sometimes, the appointment of external members can provide a broader perspective and strengthen the committee's actual and perceived objectiveness and professionalism.

- *Providing appropriate and skilled secretariat support for committees.* Confidence in a committee will be enhanced if it has clear and transparent management arrangements. A regular schedule of meetings, with prearranged dates and written agendas, papers and minutes, as well as a list of actions decided at each meeting, is important.

- *Ensuring agendas, briefing papers and minutes are distributed to members in a timely manner*. All members should have the opportunity to consider briefing papers thoroughly and seek clarifications and opinions where necessary before the meeting. The outcomes of the meeting should be published internally on a timely basis.

- *Reviewing committee performance and appropriateness on a regular basis* (annually). The aim is to ensure that (a) committees remain strategically focused and are aligned to the vision of the organization; and (b) the number of committees and the workload they create for staff remains reasonable and appropriate.

TAS needs to establish a small number of management committees that collectively will strengthen the overall governance of the organization. This more formal but collegiate approach to management is new to the organization and will require a significant investment of time and effort by senior managers. The guiding principle for determining an appropriate committee structure is to establish and retain *only* those committees that contribute to the effective and efficient running of the organization, and reduce the pressure and workloads on senior staff. Each committee must have a clear purpose and a clear sense of its strategic obligations. Given the current challenges facing TAS, an appropriate initial governance framework would comprise three key management committees:

1. Committee for Operational Management.
2. Committee for Reform Management
3. Committee (or Council) for Compliance Management

The suggested roles and responsibilities of each committee are set out in the table below:

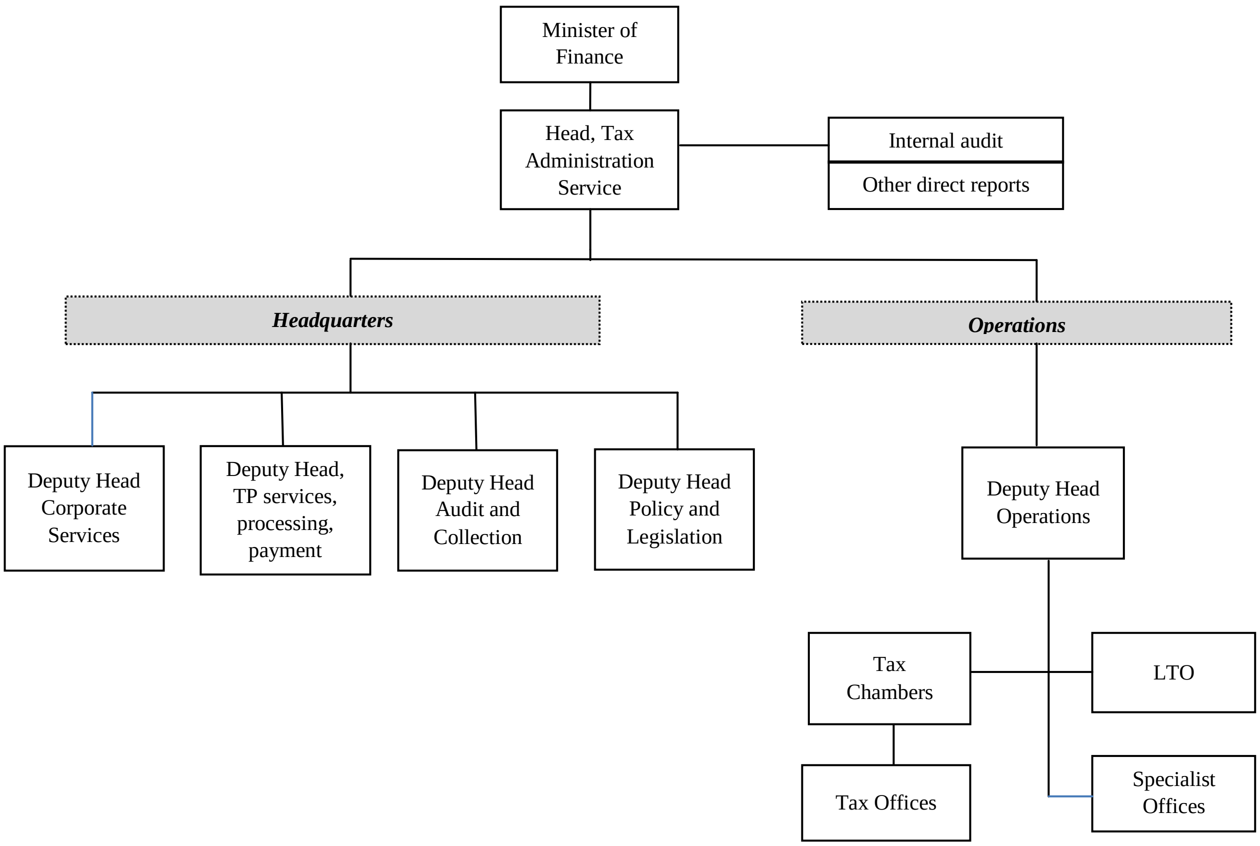
Table A4.1. Outline of Roles and Responsibilities for Tax Administration Service Management Committees

	Operations	Reform	Compliance
Purpose	Manage the annual business planning processes and monitor operational performance.	Set the strategic direction and oversee reform implementation.	Manage the compliance risk management system and promote the development of integrated compliance improvement strategies.
Responsibilities	Ensure that annual business plans are in place, adequately resourced and meet budget revenue targets. Monitor implementation progress. Identify performance gaps and take remedial action. Regularly review and refresh the business plan to take account of emerging risks.	Develop the strategic plan. Ensure that annual reform plans developed in line with strategic plan and are properly resourced. Provide direction and support to reforms. Review and refresh strategic plan to ensure remain appropriate in a dynamic environment.	Identify and prioritize significant compliance risks according to a structured risk assessment process. Identify compliance risks that pose sufficient threat to warrant senior attention. Ensure an integrated response strategy is in place for severe compliance risks. Ensure response strategies adequately resourced and are supported by functional departments.
Members	Head of tax administration (chair) Deputy heads LTO head	Director (chair) Deputy Directors LTO Head Head of Reform Unit	Director (chair) Deputy Directors LTO Head
Meeting Frequency	Weekly	Monthly	Monthly
Support	Head's office	Reform unit	Risk management unit

Appendix 5. Illustrative Function-Based Organization

As discussed in Section III, it would be advisable that in establishing a unified national tax administration the authorities adopt an organization model along main core tax administration functions. The figure below shows an illustration of such a model.

Possible Organization Chart for a Function-based Tax Administration for Poland



Appendix 6. Issues for Selected Core Business Processes.

In the time available to the mission it was possible to visit only one of sixteen tax chambers, one of twenty large taxpayer offices, and one of 380 local tax offices. All of these field offices currently operate with a great degree of autonomy including the responsibility to determine local work practices and staff allocations (they are separate legal entities and have their own budgets, etc.). The tax administration headquarters staff acknowledge that there is little standardization or consistency of approach across the multitude of field offices and so the observations contained in this section are necessarily based on a very small sample.

A. Taxpayer Registrations

A single identifier is assigned to nonbusiness individuals for the full range of government services including taxation. A unique personal identification number (PESEL) is allocated to all individuals at birth by the local government authority. The PESEL is an eleven digit number, the first six digits representing the birth date of the individual. Since September 2011 no other registration is required for taxation purposes unless the individual engages in business. The individual will automatically become registered for PIT purposes upon commencement of employment, at which time the employer advises the tax office of the taxpayer's PESEL.

A separate identifier is assigned to persons engaged in business activities and to legal entities. Individuals who engage in business activities (sole traders) are required to register through the Ministry of Economy (MOE) that provides a one-stop- shop registration facility at the local government level. The Ministry maintains a central business registry and allocates a unique identifier (NIP) to each business. Upon registration, details of the business registration are automatically shared with relevant government agencies including the tax office. The tax office then advises the taxpayer of its NIP. Legal entities must first register with the Ministry of Justice (MOJ) that maintains a central company register and allocates a Court Registration Number to the entity. The Ministry advises the relevant local tax office of the details and the local office issues a NIP for the entity. The NIP is a ten digit number, the first three digits of which identify the municipality (local government area) in which the business is registered and the local tax office responsible for managing the taxpayer's affairs.

Work is almost completed on the development of a central taxpayer register (e-registration project). This has been a major undertaking and is a welcome step forward. Until recently, separate taxpayer registers were maintained in each of the 400 local tax offices. A central taxpayer register has now been created for the whole of the country. While basic registration data is now available nationally, work is ongoing to make a greater range of taxpayer related data (compliance history) available on the same national system.

Issues

Registration requirements differ across tax types. Currently, businesses are required to register for income tax purposes in the local tax office aligned with the location of their head office. However, for VAT purposes, taxpayers are required to register in the local tax office in whose territory its principal business activities are conducted. This creates significant logistical and jurisdictional issues in managing taxpayer accounts across multiple offices.

Taxpayer registration data may not be accurate and complete. The tax office has limited control over the accuracy of taxpayer registration data. Taxpayers are required to advise the tax office of any changes to registration details in a timely manner, and the tax office may identify changes of address etc. through its own enquiries. However, the tax office cannot initiate changes to the central business registers maintained by the MOE and MOJ. It can only advise the relevant authorities of the change and request that the central registers are updated. This can result in major misalignment of taxpayer data across the three central registers separately maintained by MOF (taxpayer register), MOE (sole traders) and MOJ (legal entities). The tax office can flag taxpayers as inactive on the MOF central taxpayer register if evidence is available of cessation of business activities (e.g., if VAT returns are not filed for six consecutive months). However, the number of VAT returns not filed each month suggests that the register may not be accurate and up to date.

There is insufficient focus on the risks associated with registration. Close scrutiny of new registrations is an important fraud prevention strategy—especially for carousel fraud. Experience has shown that potential fraudsters may be identified by matching registration data (names of directors, addresses of businesses, bank accounts, and contact telephone numbers, etc.) and many countries conduct pre-registration checks to verify that the applicant is a legitimate business and to detect potential fraud. In high risk cases, registration is refused or substantial up-front security payments are required. However, the tax administration is not empowered to refuse registration if all relevant data has been provided by the taxpayer and so no pre-registration checks are conducted. Registration has not been identified as a high risk process by either the tax administration or the Fiscal Control Department, and so only limited post registration checks are conducted.[25] In the relatively few cases where registration has been arbitrarily cancelled by the tax office, there have been no appeals from the affected taxpayers.[26] This suggests that they may only be identifying the tip of an iceberg. A far more robust approach to risk management of the registration process is required and has been made feasible by the development of the central taxpayer register.

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[25] Fiscal control is a separate investigation arm of the government that has primary responsibility for addressing the cash economy (see Sections III and IV).

[26] The tax office is empowered to cancel VAT registrations where fraud is suspected. Taxpayers may appeal this decision.

B. Filing Enforcement

Current situation

Tax returns for all national taxes (PIT, CIT, and VAT) may be filed electronically or in paper form. E-filing has been successfully rolled-out on a voluntary basis for all taxpayers. The proportion of taxpayers filing electronically has grown rapidly and now stands at around 30 percent. The Tax Administration Department at the MOF advised that mandatory e-filing for taxpayers with more than five employees may be introduced next year. Paper returns can be obtained from the local tax offices or downloaded from the MOF website. The returns are not pre-filled with any taxpayer identification data that results in a significant number of data errors at lodgment. The paper returns must be mailed or taken personally to the local tax office in which the taxpayer is registered for the particular tax type.

Returns are subjected to a basic verification process prior to acceptance. E-returns are subject to the normal suite of automated arithmetic and credibility checks before acceptance. Paper returns delivered personally to the local tax office are checked at the service counter while the taxpayer waits. Once the return is accepted, payment is made and a receipt issued. Paper returns filed by mail are verified and the taxpayers are summoned to the office to make necessary adjustments if basic errors are detected. Once accepted, the return information is entered into the tax accounting system. Around 8–10 percent of VAT returns are filed late each period, with a further 5–6 percent not filed at all (see Appendix 1).

The filing and payment process is not fully automated. Within a few days of the filing deadline, a report of nonfilers is automatically generated from the system to each local tax office. Each taxpayer's account must be reviewed to check if the taxpayer has provided information explaining the failure to file (e.g., notification of cessation of business). If it is determined that a tax return is required the local tax office will contact the taxpayer either by telephone, email or letter. Standard reminder letters are available on the system but must be manually generated. If the taxpayer is unable to be contacted, and does not respond to the reminder letter, there are no systematic follow-up procedures in place. Fines may be imposed or access to tax breaks may be forfeited—for example, joint income taxation for spouses—or a field audit may be requested, but this is at the discretion of the local tax office.

Issues

Effective enforcement of the obligation to file tax returns on time is a cornerstone of good compliance management. Modern tax administrations give priority to this task as it is the first step (after registration of taxpayers) in establishing tax liabilities. For this reason, a disciplined and systematic approach is adopted to monitoring filing behavior and following-up quickly on any late and nonfilers. It is generally a highly automated process in which returns filed are automatically matched by the computer system against the taxpayer register for each filing period; automated reports of nonfilers are produced and computer-generated reminders or demand notices are issued. Special attention is given to large and medium-sized taxpayers, new businesses, and taxpayers with a history of poor compliance. Sophisticated taxpayer profiling tools are used to predict the type of enforcement action most likely to elicit a positive response from the taxpayer (e.g., telephone call, text message reminder,[27] demand notice, personal visit, default assessment,[28] or prosecution action). Importantly, filing of returns is secured regardless of whether the taxpayer is able to pay the tax due in full or in part at that time. The focus is on first *establishing the amount owed* by the taxpayer and then *securing payment* through appropriate collection enforcement action.

While the nonfiling rate in Poland is not alarmingly high, the lack of a structured approach to filing enforcement is of concern. Audit action is clearly not possible in most cases due to the sheer volume of the work (around 70,000 VAT nonfilers per month) and the tax administration was unconvincing in its claim that the great majority of the nonfilers were in fact ceased businesses who had failed to give proper notification. There has apparently not been any further analysis of the problem within the MOF to verify this claim or any attempt to assess the level of risk attached to the failure to follow-up nonfilers effectively. Nonfilers are simply flagged on the system as 'inactive' after six months. Filing performance is not effectively monitored by headquarters—the only performance standard set for this function refers to promoting the use of e-filing.

The tax administration needs to modernize its approach to enforcing filing obligations. Key steps to strengthening this function would include (a) setting clear performance standards for improving the on-time and final filing rates for tax returns; (b) engaging with the MOF IT provider on the development of a fully automated approach to identification and follow-up of late filers/nonfilers; (c) requiring taxpayers to file "nil" returns for filing periods in which no economic activity takes place; (d) reviewing the effectiveness of the current penalties and other sanctions in deterring noncompliance; and (e) considering introducing a power for the tax administration to issue default assessments to nonfilers.

C. Collection Enforcement

Current situation

Standardized procedures are not in place for collection enforcement. Similar to other core tax administration functions, only the broad procedural guidelines for collection enforcement are prescribed in the law. The 400 local tax offices are free to develop their own

[27] Text message reminders have proved particularly effective in the case of younger taxpayers.

[28] A default assessment is an arbitrary assessment based on information declared in the taxpayer's previous returns. The amount assessed is considered a final liability under the law, and cannot be disputed unless the taxpayer files a correct return for the same period.

business processes and procedures and to determine their own priorities for allocation of staff. In the past eighteen months, a range of new IT support tools have been introduced for the collection enforcement function that has forced some level of harmonization of procedures, but the function is not yet fully automated. The tax administration appears to have adequate legal powers to effectively manage tax arrears.

Headquarters has issued guidelines setting priorities. All collection enforcement action is currently carried out at the local tax office level. Guidelines issued eighteen months ago instructed local tax offices to give priority to new and large debts and prescribed a range of performance indicators (see Appendix 2). However, there has been no central analysis conducted to identify specific large debtors for priority action in the local tax offices. Tax chambers monitor performance of local tax offices and provide aggregated reports to headquarters. Some Heads of local tax offices apparently do not fully comply with the headquarters guidelines due to a fear of criticism from the government audit office if action if they fail to pursue old debts.

Work is underway to develop standardized business processes and procedures. The collection enforcement process is split across two organizational units within the local tax offices. The first is the Administrative Enforcement unit that is responsible for 'soft' enforcement.' This unit deals with taxpayers known to be legitimate businesses and who have a reasonable compliance record. The unit negotiates and monitors time to pay and installment arrangements for these taxpayers. The second is the Collection Enforcement unit that is responsible for the more hard-edged enforcement actions such as garnishee of wages and seizure of property and other assets. Competency centers have recently been established within the tax chamber network to assist in the development of harmonized procedures for each of these functions. The competency centers reside within the tax chambers but effectively report to headquarters. They have been established in the tax chambers because of accommodation limits at headquarters and because it is easier to recruit staff in the tax chambers.

Local tax offices are also responsible for collection enforcement of a wide range of local taxes and charges. The local tax offices act as the collection agent for virtually all government taxes and charges, including parking fines and televisions licenses. The local tax office visited by the mission advised that up to two thirds of its collection effort is expended on these small local taxes and charges.

The stock of arrears is not excessive and has remained relatively stable except for VAT. Figure 4 in Section I shows that VAT arrears have risen sharply in recent years and this increase has not been sufficiently analyzed by the tax administration

Issues

The collection enforcement function needs to be re-engineered as a matter of urgency. Effective collection enforcement is critical to achieving revenue outcomes. The collection enforcement process needs to be standardized and fully automated to optimize effectiveness and to remove opportunities for corruption. It should be given the highest priority for business process reengineering and IT support. The new competency centers should be engaged as the business owners to support the design of any new collection enforcement business processes required for the IT redevelopment.

Collection enforcement activities should be performed by specialist staff and collection effort predominantly focused on national taxes. Professional collection enforcement is a highly skilled activity. It should be performed by full-time specialist staff trained and equipped for the role. It makes little business sense to expend the majority of resources on collecting small fees and charges when the collection performance for national taxes is declining. Collection enforcement *for national taxes* should be consolidated at the provincial level. This would create the critical mass required to develop specialist expertise in this demanding role and would greatly facilitate the implementation of standardized procedures. Responsibility for collection of local government taxes, fees and charges could remain in the local tax offices. In this way appropriate resources could be focused on the most important arrears instead of being dissipated on small and insignificant collections.

A project approach should be adopted to clear existing debts. Priority should be given to the largest collectible debts for national taxes that are not in dispute. Headquarters should analyze the existing stock of debt for national taxes to identify the largest collectible debts by matching taxpayers in arrears with registered assets. Every effort should be made to secure payment of these debts quickly, beginning with the largest 200 cases. Full use should be made of the enforcement powers in the law by a dedicated project team comprised of experienced collection enforcement staff supported by legal experts and, if practicable, experienced private sector debt collection experts. It would operate in a transparent manner, and be empowered to assess each case according to the nature of the debt and how it was generated, the standard of the evidence to support the claim, and the prospects for success in litigation weighed against the costs involved. Where a settlement cannot be reached with a taxpayer, the case should be fast-tracked to the Court.

D. Dispute Resolution

Current situation

The dispute resolution framework in place in the tax administration is broadly in line with international practice. Informal reviews of procedural issues can be requested by taxpayers prior to the finalization of a formal decision. The formal dispute resolution process involves two administrative review points and two judicial review points as follows:

First instance administrative review: All decisions—procedural and legal—can be appealed within 14 days of the decision. First instance administrative review of decisions is conducted by the head of the local tax office in which the decision was made. Taxpayers dissatisfied with the first instance review decision can appeal to the relevant tax chamber.

Second instance administrative review: Tax chambers are obliged by law to review the whole case—not just the issues disputed. If further evidence is required, the matter must be returned to the original local tax office for enquiries to be conducted due to jurisdictional boundaries embedded in the law. This causes significant delays, especially where evidence is required from witnesses who live outside the geographic patch of the local branch office.

First instance judicial review: Taxpayers dissatisfied with a second instance administrative review decision can appeal to the Administrative Court—all issues of fact and law (including procedural issues) can be appealed.

Second instance judicial review: Taxpayers dissatisfied with a first instance judicial review decision can appeal to the Supreme Administrative Court subject to certain limitations. The tax administration is represented by qualified lawyers employed in the Legal Support Units of the tax chambers in all litigation.

Issues

The dispute resolution process could be streamlined to reduce timeframes and costs. It is normal practice for the appeals process to consider only the specific issues disputed rather than to require a review of the entire case. The jurisdictional boundaries between tax chambers and local tax offices cause logistical problems and severe time delays and appear to be artificial and unnecessary. Tax chambers should have jurisdiction to conduct whatever further enquiries are needed to resolve the dispute at second instance.

Structured feedback loops should be established between tax chambers and local tax offices to reduce the number of procedural errors. The mission was advised that around half of second instance administrative appeals that are decided in favor of the taxpayer relate to procedural errors in the local tax offices. Structured feedback loops should be established between the tax chambers and their local tax office networks to provide guidance on how such procedural errors can be avoided.

Appendix 7. Implementing a Modern Compliance Risk Management Model

Leading tax administrations now apply a more strategic approach to compliance management. This experience has led to the development of the CRM model, which is endorsed by the IMF, EU, and OECD. Application of this approach to managing compliance has been shown to deliver, over time, *sustainable* increases in tax revenue through increased taxpayer compliance. This appendix describes the key features of a modern CRM approach and the organizational and governance arrangements that are needed to develop and implement effective compliance plans.[29]

Features of the compliance risk management approach

The CRM approach aims to improve compliance behaviors across entire taxpayer segments using leveraged strategies. Market segmentation principles are applied to divide the taxpayer population into smaller more manageable groupings based on common characteristics and potential risks. Compliance risks are then identified and *prioritized* from a corporate perspective to ensure that the major compliance problems contributing to the tax gap are being addressed. The CRM approach:

- Recognizes that the factors underlying taxpayers' compliance behaviors in any specific risk area are quite complex and, as a result, are unlikely to be treated successfully with a single action strategy—particularly one based solely on enforcement actions;
- Directs attention to understanding the factors that shape taxpayers' compliance behaviors, so that a potentially more effective set of responses—ones that deal with the underlying causes of noncompliant behavior rather than focusing on treating the symptoms—can be developed and implemented;
- Promotes the development of treatment strategies that aim for an optimal mix of responses (e.g., education, assistance, clarification of the law, simplified procedures, audit, enforcement, and marketing) to achieve the widest possible impact on voluntary compliance across the entirety of the target taxpayer segment; and
- Ensures that these responses are sequenced in a coherent manner to deliver the maximum compliance leverage from the overall treatment strategy.

High priority risks and response strategies are amalgamated into an annual *compliance plan.* This is a high level plan that brings together in a single document a description of the most significant compliance risks identified in the tax system and sets out the broad detail of how the tax administration intends to respond. The development of a targeted compliance

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[29] For a full explanation of the model see IMF technical note *Revenue Administration: Developing a Taxpayer Compliance Program*, November 2010.

plan on a cyclical basis allows the tax administration to systematize its CRM approach in a way that ensures a focus on the most significant issues and makes best use of available resources across competing priorities. It also provides a transparent and defensible record of the organization's risk management decisions (i.e., why resources have been devoted to particular risks in preference to others). The Box below describes the features of a typical compliance plan.

Box. Features of a Typical Taxpayer Compliance Plan

- A compliance plan is structured around the major taxpayer segments, typically: (1) individuals; (2) micro and small businesses; (3) medium-size businesses; (4) large businesses; (5) nonprofit organizations; and (6) government organizations.
- For each taxpayer segment, the plan summarizes the economic, revenue and business environment (e.g., number of taxpayers, nature of entities, total tax contribution, number of persons employed, and structural features).
- The plan addresses the major risks in each of the taxes administered in each taxpayer segment.
- The plan outlines the headline compliance issues and the specific risks for each taxpayer segment, and describes how the revenue agency intends to respond to these issues and risks. Headline issues have an impact across more than one taxpayer segment and include, for example, the economic crisis, informality, international profit shifting and abuse of tax havens.
- The plan records the number and type of different service and control initiatives planned to be undertaken in the coming year within each taxpayer segment.
- Regular reporting against these commitments helps ensure that the planned activities are carried out and builds community confidence in the administration of the tax system.

Organizational arrangements to support compliance risk management

The modern CRM approach is founded on three key organizational capabilities:

- ***Sophisticated risk identification and analysis***—the revenue administration must have the capacity to access multiple sources of disparate information and to combine and interpret the data to create intelligence about the risk environment in which it operates.
- ***Effective strategy development***—compliance planning and management arrangements must be developed that look across operational functions and tax types to: identify and prioritize risks to the revenue; develop integrated response strategies; and then marshal and coordinate the necessary human and financial resources to deliver the appropriate mix of interventions.
- ***Efficient core business operations***—key tax administration business units such as taxpayer services, audit, filing and collections must be resourced, trained and equipped to deliver the targeted activities in a timely and effective manner.

A high level steering committee (Compliance Council) is required to guide and manage the CRM process. Genuine buy-in to the new planning process and ownership of the annual compliance plan by functional departments is critical to success. This is best achieved through the establishment of a formal Compliance Council to provide effective corporate governance of the planning process. Ideally, this Council should be chaired by the Director General (or Deputy Director General) and include the heads of each of the core functional departments. The Council takes responsibility on an ongoing basis for: (1) Identifying and prioritizing significant compliance risks according to a structured risk assessment process; (2) identifying those compliance risks that represent a sufficient level of threat to warrant the ongoing attention of the senior executive; (3) ensuring that an appropriately integrated mitigation strategy is in place for each of these severe compliance risks; (4) ensuring that the treatment strategies are adequately resourced (people, finances, skills, business support tools etc.); (5) determining appropriate effectiveness measures; (6) promoting awareness across the organization of the high priority to be allocated to the annual compliance plan; and (7) monitoring the implementation and effectiveness of the strategies.

A permanent specialist compliance risk management unit (RMU) is also essential to support the process. The RMU has two key functions: (1) risk identification and analysis; and (2) development of integrated compliance improvement strategies. Ideally, these functions are managed by separate teams of specialist staff within the RMU as follow:

Risk management unit—Risk identification and analysis team

This team is responsible for capturing and analyzing data from a wide variety of internal and external databases, and using sophisticated analytics (e.g., data mining technology and automated search engines) to support the CRM approach at multiple levels:

- ***At the strategic level,*** the team it is responsible for managing the data warehouse;[30] monitoring the external environment for changes that are likely to have a significant impact on the organization or operational environment; using macro-economic indicators, demographic trends, behavioral analysis, tax gap analysis, taxpayer profiling, and risk modeling to identify emerging compliance patterns among taxpayers; and providing research-based decision-support to the strategic risk assessment process.
- ***At the tactical level,*** it is responsible for identifying and analyzing emerging compliance patterns among taxpayers, particularly in registration, filing, reporting, and payment compliance; conducting sectoral analyses (e.g., professions, trade sectors, and industries); and assisting to refine and prioritize identified risks.
- ***At the operational level,*** it is responsible for working with the compliance strategy team and other headquarters units to analyze specific risks; understand the drivers of the

[30] While the IT provider may be responsible for developing and maintaining the data warehouse physical infrastructure, this team comprises expert knowledge managers and intelligence analysts and is responsible for deciding what data the organization captures, and how it is captured, stored, analysed, retrieved and reported.

noncompliant behavior; identify the specific taxpayer populations subject to the identified risks; and profile the taxpayer populations to assist in targeting case selections.

Risk management unit—Compliance strategy team

This team is responsible for developing a set of integrated strategies to promote compliance and deal with noncompliance.[31] This work is informed and supported by the risk identification and analysis team; therefore close collaborative working arrangements are required. This compliance strategy team identifies key compliance risks and provides the information in a structured way to the Compliance Council. With the approval of the Council, it develops integrated, multifaceted response strategies. Development of these compliance strategies generally requires significant interaction with, and input from, the core functional departments and often from external stakeholders (e.g., industry and professional associations). Once endorsed by the Compliance Council, these compliance strategies become *corporate priorities* (i.e., they take priority over other business activities independently planned by functional departments). Delivery of the compliance strategies may be undertaken by each relevant functional department with coordination by the compliance strategy team, or special project teams may be formed by drawing operational staff together from a range of functional departments.

RMU staff requires specialist skill sets to perform these functions effectively. The RMU, when supported by a modern data warehouse facility, effectively becomes the "brain" of a modern tax administration. It is therefore critical that RMU staff has the right skills and experience. Typically, statisticians, economists, and data analysts would be employed in this unit together with staff with broad experience across a range of tax administration functions.

Strong core operational capabilities are also a pre-requisite. Even the best strategies may fail if the tax administration lacks the operational capacity to deliver the planned activities efficiently. The modern CRM approach assumes the existence of strong capabilities within core tax administration functions (especially taxpayer services, audit, and filing and payment enforcement). This includes a well functioning headquarters with authority to direct and control the activities of field offices to ensure that corporate priorities are understood and followed. Field office staff must be properly trained and equipped and empowered under the law to carry out their roles effectively. Reliable management information systems and a structured performance management system should also be in place.

[31] This team also provides secretariat support to the Compliance Council such as preparing and circulating agendas, discussion papers and reports; recording minutes and action items; tracking action items; maintain records and organizing and coordinating issues-based working parties as required.

Appendix 8. Mitigating Compliance Risks from Informality

Many countries have a sizable informal economy that presents significant compliance risks. The extent of informality in business practices, and particularly the use of cash in completing commercial transactions, is extensive. Informality is therefore likely to feature prominently on any list of key compliance risks that may be identified as part of a compliance strategy developed by the tax administration. For the tax system, the informal economy presents major compliance risks emanating from the typical behaviors taxpayers operating in such an environment display. Likely examples of such behaviors include the following:

- ***Businesses operating outside the tax system.*** An unregistered business may transact only with consumers and not supply tax invoices. The business provides mainly services and has minimal inputs. The business does not report its income, nor does it pay income tax or VAT. The business operator may also claim social security benefits.

- ***Cash sales.*** A VAT registered business reports sales made electronically, by check or by credit card, but does not report cash sales. The consumer is unaware that the VAT will not be passed on. No VAT is paid on these sales by the business, and the sales are not reported for income tax. The business operator may claim the VAT input tax credits and an income tax deduction for the supplies that went into the cash sales. The loss to the budget revenue is the VAT plus income tax on the sales.

- ***Business-to-consumer transactions.*** A VAT registered tradesperson performs work directly for householders. The tradesperson excludes the VAT from the purchase price provided the householders pay in cash. The tradesperson does not pay VAT on the sale and does not report the income or pay income tax. While the householders believe they have saved the VAT, the total revenue lost is higher as it includes the income tax evaded.

- ***Moonlighting.*** A person employed Monday to Friday is asked to work overtime on weekends on a ‘cash in hand’ basis. No tax is withheld and the worker does not report the income. Alternatively, the person may do work for a different employer on weekends and receive payment in cash or in kind and not disclose this income. By not reporting the income, the worker may gain access to social security support. The employer continues to claim an expense for the payment even though tax is not deducted at the source.

- ***Claiming private expenses as business expenses***. An entrepreneur or business owner accounts for their personal expenditure as a business expense, inflating their inputs and fraudulently reducing their net tax liability.

The range of noncompliant behaviors manifested within the informal economy is likely driven by a variety of underlying causes. With the informal economy largely centered in the micro, small, and medium business sectors, and the large number of businesses in these sectors means that it is not logistically feasible for the tax administration to rely on audit as the sole compliance improvement lever. To effectively manage the risks in the informal economy, the tax administration will therefore instead need to develop integrated compliance improvement initiatives that address the underlying causes of noncompliance. This calls for a mitigation strategy that responds to the most serious of these behaviors through a balanced set of measures aimed at engaging with the community to (1) reduce its tolerance for the informal economy; (2) provide targeted assistance; (3) encourage self regulation; and (4) demonstrate a visible and credible enforcement capability. These measures are discussed in more detail below.

Targeted measures could be taken to reduce community tolerance of the informal economy. Community attitudes to the informal economy are an important factor in influencing voluntary compliance. For example, in many countries, taxpayers have limited experience with a tax system based primarily on self assessment. As a result, perceptions of the overall 'fairness' of the tax system in achieving social equity and providing essential public services and infrastructure may be low, leading to widespread disengagement and high levels of noncompliance. A comprehensive communication strategy that addresses these issues at a range of levels is required. The communication strategy should (1) Raise community understanding of the role played by taxes in achieving social equity objectives and providing essential public services and infrastructure; (2) Promote a voluntary compliance culture; (3) Raise awareness of the dangers of dealing with cash economy operators; (4) Engage the community in identifying and rejecting cash economy operators; and (5) Inform the community of the tax administration's increasing capability to detect and deal with cash economy activities.

Taxpayer services can be targeted at taxpayers who are most at risk. Noncompliance often arises from a lack of understanding and low skill levels rather than any deliberate intention not to comply. This is particularly the case with small business operators who cannot afford professional advice. The tax administration should therefore provide a range of assistance measures targeted to small businesses to promote voluntary compliance. It should not be assumed that small taxpayers will necessarily contact the tax administration to avail themselves of these services, as they are usually "time poor" due to the demands of running a small business. The assistance measures must accordingly comprise a balanced program of reactive services and outreach programs.

There is merit in managing new businesses as a discrete group. This approach can lay the foundations for an ongoing and cooperative relationship between the tax administration and new taxpayers. The aim is to prevent compliance issues from arising, rather than treat them after they emerge. Hallmarks of a well managed approach to encouraging new businesses to be compliant include early identification of a business as being 'new'; ongoing monitoring of the business in its early stages, and timely and proactive provision of assistance when a potential problem emerges.

Voluntary compliance could be encouraged through a range of incentives that recognize and reward good compliance behavior. Incentives may include the following:

- Remission guidelines for penalties and interest that recognize a good compliance record.

- Less-onerous reporting requirements and easier access to extended filing periods and payment installment arrangements, for taxpayers with a record of good compliance.

- On-line self-help tools to promote accurate reporting of complex obligations e.g., a decision support system for determining the employment status of workers (i.e., are they employees or contractors?).

- Pre-filling of tax returns with data obtained from third parties—e.g., income from salaries and wages; interest; dividends; social service payments; credits for tax payments withheld from salaries and wages or other payments; and credits or offsets from other transactions.

Self regulation can also be promoted through effective liaison with key intermediaries and other external stakeholders. Tax agents and other tax practitioners, banks and other financial institutions, industry, business and professional associations, and business service providers are all key stakeholders in the tax system through which the tax administration could build liaison two-way communication channels to promote compliance through self-regulation.

Enforcement activities must be visible and credible. To complete the informal economy strategy, the tax administration needs to complement education, assistance and encouragement activities with a highly visible and credible program to detect and deal with noncompliance. This requires the development of effective intelligence gathering, risk identification and analysis, and case selection capabilities and a skilled compliance enforcement workforce.