

## **Overall trust-based strategy should be reflected in performance management**

Performance management used in the right way can drive a Tax Administration in the right direction. This guideline looks at the possibility of using performance management in a way that support a trust based approach.

Strategy, culture and structure are all linked together. A good performance management system sets the goals, objectives and follow-ups to control and support the implementation of the Tax Administration's strategy. Furthermore, highlighting what is a good and result, is important when implementing cultural changes. For long-term results, structure has to support both strategy and the desired culture.

Building trust with taxpayers should be viewed as a good outcome and the right measures need to be found so it can be reported on. Performance management differs across the different Tax Administrations; however there are a number of areas that should be considered to get the right balance between quantitative and qualitative measures and between internal and external performance indicators.

### **Design the performance management to promote trust**

Developing and maintaining a trust relationship with taxpayers should influence the design of a performance management system. This needs to be defined at the top level as it will impact all areas in a Tax Administration. When trying to earn and increase trust with taxpayers, it is important that all actions taken by the Tax Administration are in line with the Tax Administration's overall strategy.

It may be beneficial to also use external measurements when designing the performance management system. Performance management indicators should be seen in the context of internal and national culture, structure, social context and of course the political relationship with the Government.

### **Clear connection between performance management and overall purpose**

Traditional performance indicators may not contribute to and may even hinder, the development of trust between taxpayers and a Tax Administration. Traditional performance indicators are generally very tangible, such as the number of audits concluded and the additional revenues collected; however, these outputs may send out the wrong signals to employees. It is important to also highlight other key outcomes such as trust-based communication, attitudes, cooperation and taxpayer involvement, which are also important factors, but are more difficult to measure.

The introduction of performance indicators that support trust will provide a wider perspective and will assist in the design of initiatives that will give more robust and sustainable benefits. Taxpayers' trust can take years to earn and only seconds to lose. Thus, trust should be linked with a sustainable perspective in order to promote mutual trust between all players (internal and external) and, consequently, an increase in voluntary compliance.

An example is how Tax Administrations sometimes strive to accomplish increased productivity. It is of importance, but used as a stand-alone goal there could be a risk, if targeted in the wrong way it won't lead to the overall effect you want. I.e. "We do audits to raise revenue vs we do audits because tax payers face unfair competition".

It is crucial to review indicators, objectives and follow up actions so that annual key performance indicators (KPI's) are in line with the long term trust based purpose and not leads to a "statistic behaviour".

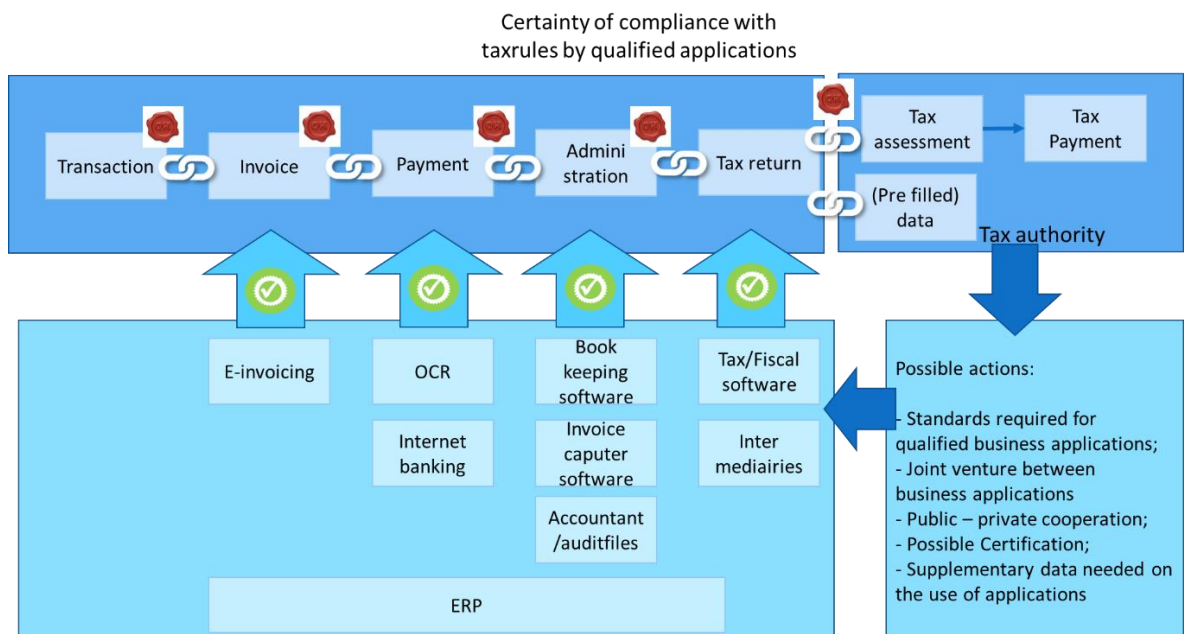
In this context, it is of importance to have a dialogue with the political level to establish a common understanding and gain support for the view of the performance indicators.

## Country Examples

### NETHERLANDS:

#### Software suppliers to develop tax-proof software for accounting systems that can be used to directly file a tax return

In The Netherlands a great number of activities take place with regards to tax proof software together with software suppliers. These relationships have been there for many years. The intensive cooperation with the service providers is essential to create the required knowledge and broad acceptance of these innovative extensions. When we speak of software suppliers, we do not only refer to fiscal and bookkeeping software suppliers but we include all software suppliers within the administrative chain which the entrepreneurs use.



#### 1 General philosophe

In The Netherlands, the focus is to prevent errors in tax-applications as early as possible instead of correcting them afterwards and an approach that makes it as easy as possible for

people to use it in the right way. This means that the NTCA, where possible, collaborates with public and private parties such as software suppliers:

creating the circumstances in which making mistakes are avoided as much as possible and in which the tax authority prevent fraud as much as possible;

collaborating with software developers and intermediaries to create an administrative chain of data from the first business transactions via bookkeeping software to a tax return and payment.

making it easy for citizens and businesses to declare the tax(es) owed correctly, completely and on time, for example by filling in (parts of) the tax return in advance ('pre-completed / prefilled tax return') and providing fiscal information and calculation aids (e.g. API's) about tax obligations;

bases the extent and intensity of its actions towards individual taxpayers or groups of taxpayers on the relevant information about (causes of) the behaviour of the citizens and businesses concerned. Where the quality of the tax return is assured in advance, the tax authority can do without or with less supervision afterwards.

High number of tax returns filed by S2S due to cooperation with software supplier.

In the Netherlands, for over a decade now, Dutch businesses and public and private parties such as the NTCA are successfully making use of SBR (Standard Business Reporting). Millions of reports and tax applications are communicated each year based on the standards of SBR. This has indisputably led to a decrease in administrative burden for businesses.

- Enterprises (created persons) and entrepreneurs (born persons) must file their annual accounts (financial information) to the Business Register using the SBR-standards

- Enterprises must file their Corporate Income Tax (including financial information from the annual accounts) to the Tax Administration either:

- (14%) manually through MyTaxBusinesses or

- (86%) using the SBR-standards

- Entrepreneurs must file their personal Income Tax (including financial information from the annual accounts of their business) to the Tax Administration either:

- (27%) manually through MyTax or

- (73%) using the SBR-standards

When enterprises and entrepreneurs use the SBR standards (built-in in commercial software) they can either prepare and file themselves or use tax advisors as an intermediary.

Enterprises and entrepreneurs must file their VAT either:

- (60%) manually through MyTaxBusinesses or
- (40%) using the SBR-standards

Enterprises and entrepreneurs must file their Wage Taxes either:

- (4%) manually through MyTaxBusinesses or
- (96%) using the SBR-standards

#### Pre-filled income tax

Since 1990 the NTCA provides the natural persons who must apply for income tax with pre-filled data (pre-filled income tax). This data is gathered from several private and public service providers, like data on income, bank-accounts and properties. This started with a limited amount of data but has grown to a major aid for private taxpayers. Around 70% taxpayers receive a fully pre-filled tax return. This enabled a growth of compliance with the taxpayer and less need for supervision by the NTCA. In the beginning of this cooperation the delivering parties were rather reluctant, but national acceptance over the years has automatically led to full cooperation.

#### Pre-filled VAT and payment

As from 2019 the NTCA started a collaboration with a limited number of external service providers/software developers for accounting software. The aim of the collaboration was to pre-fill out the VAT tax return straight from the accounting software used by the entrepreneur. After pre-filling the tax return, the tax return could be filed S2S, service to service, to the NTCA. Also, the payment was integrated in the process. The amount due to be paid and the payment reference was pre-filled in an online payment system. As a result of these steps a (partly) administrative chain with compliance by design was achieved. Typing errors in all steps of the process were avoided. The success of this pilot led to more software developers integrating the pre-filled VAT tax return and payment process into their accounting software. The pre-filled payment for the wage tax has also been implemented by software suppliers.

#### Creating an administrative chain

Other cooperation initiatives involve software developers of business and accounting software together with accountants and fiscal advisors in the field of setting standards to use in the administrative chains. These standards see to general ledger formats in bookkeeping (RGS), general accounting control rules and information queries to compare with other businesses operating in the same fields (RDA) and Audit Files.

#### Providing 'fiscal information and aids' to software suppliers

In The Netherlands the Tax Administration want to share tax rules, and also wants to integrate the rules of risk and rejection into the administration chain (in the process from a business transaction via bookkeeping software to a tax return and payment). The administration also wants to share the functional analysis it usually performs retrospectively, so that it takes place upfront. By sharing all these rules with software suppliers, the results will be a ('seamless')

integration of the taxation process. A pilot has started on providing pre-calculation and computations rules and services to software suppliers.

A pilot is being held at this moment where 'fiscal information and aids' are provided to software suppliers. Fiscal and legal requirements and hints and tips can be added to these software packages. Systems and humans must be supported to do the right things from the beginning of the administrative processes.

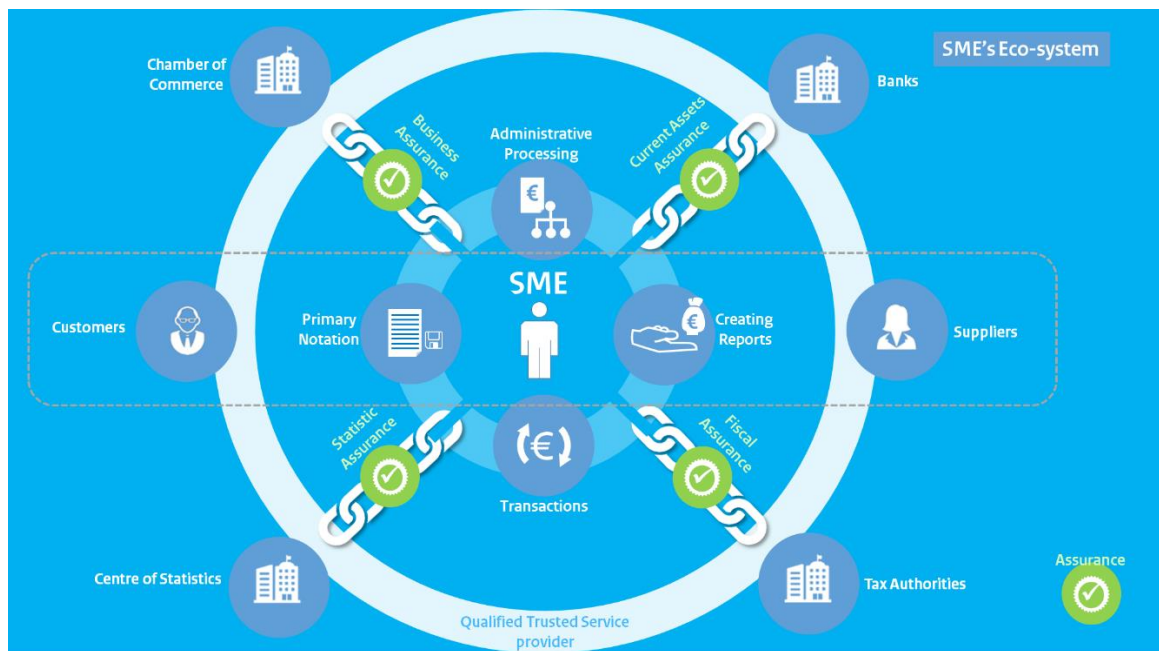
Usage of quality marks for certified software developers.

In The Netherlands a quality label 'Reliable cash register' exists for cash registers. An independent foundation with public private cooperation is in place to determine and audit the standards for the quality label. The independent corporation audits the standards of the cash register before it receives the quality label 'Reliable cash register'. The use of a certified cash register is not obligatory but the use of one, gives a higher certainty on quality of the administration of the SMEs. When a tax audit takes place the quality label is considered and the time for auditing is limited compared to non-certified registers which is beneficial to both the Tax Administration as well as the SMEs.

Working towards a trusted ecosystem

Growing interests in online activity has led to an increasing need for online security and trust. Online reliability benefits from high-quality digital authentication, information exchange, expression of will and archiving. The eIDAS regulation creates the framework for these qualified trust services and the qualified trust service providers that provide them. Broad availability of qualified trust services brings a high level of online reliability within reach and provides a boost to the eSociety. Public and private organisations - including the NTCA - are initiating a reliable online ecosystem to make these qualified trust services accessible. With this ecosystem citizens, businesses and governments exchange information in a qualified way. The ecosystem is currently in the initiation phase. Technical tests have successfully demonstrated the proper functioning of the ecosystem. In a multiplier approach, these parties are experimenting with the ecosystem by implementing use cases whilst parallel setting up a structural governance and framework of agreements. On the basis of a green paper, public and private parties are jointly establishing a formal governance for the management, organization and functioning of the ecosystem.

A trusted online ecosystem creates new possibilities for digitising processes, where assurance is currently lacking or is a hassle. There is room for new digital forms in which the parties involved fulfil their social ambitions at an accelerated pace. These ambitions require a high degree of digital security, whereby actors (natural and legal persons) have digital information relevant to them in an easy and structured way. As a result, they act online with a high degree of legal certainty. An actor can be anyone in the digital society: a company, the government and also the individual citizen.



## SPAIN:

### Forum of tax intermediaries

The Spanish Tax Authority highlights the importance of tax advisors in the functioning of the tax system for providing fiscal advice and other collaboration in the application of taxes. Therefore, in 2011 the Spanish Tax Agency created a cooperative body with the Tax Professional Associations in order to enhance relationships to facilitate voluntary compliance and improve tax certainty and transparency. Moreover, this Forum allows the dissemination of the Tax Administration's criteria in the application of taxes and the analysis of regulatory modifications prior to their entry into force.

The Forum is chaired by the Director General of the Spanish Tax Agency with the participation of other members of the Administration's Board of Directors and one or two representatives of each association (10 associations in 2020).

The Forum can deal with tax issues of common interest or refer to the relationship between Tax Administration and tax professionals, enhancing trust by achieving these objectives:

- Knowledge and sharing of problems that may arise in the application of the tax system
- Increase the legal certainty
- Reduce compliance costs
- Promote the use of electronic administration
- Collaborate in the detection and solution of fraudulent tax practices

The agreements reached in the Plenary meetings take the form of reports of recommendations. No specific or individual cases or files can be discussed.

Following the success of the pre-established Large Taxpayers Forum, this new Forum has represented an important advance to transform the traditional position of confrontation between the taxpayer and the Tax Administration into a cooperative relationship capable of adopting joint solutions in defence of a higher goal such as the common interest. With this objective, the Spanish Tax Agency decided to create a new instrument to manifest their goodwill in improving the communication process between the Associations and the Administration, so the Code of Good Tax Practices for Associations and Colleges of Tax Professionals was launched in 2019. This Code establishes a set of principles and commitments to improve the communication and proposes lines of action to develop the cooperative relationship model between the Spanish Tax Agency and the Associations of Tax Professionals. In this sense, good tax practices are the set of principles, values, norms and guidelines that define good behaviour of the tax intermediaries with respect to the tax obligations of the taxpayers.

So far, 20 associations have signed this Code of Good Practices but the procedure to adhere has just started.

The assessment of the participants has been very positive, and they have stated that this represents a qualitative change in the relationship model between the Tax Administration and the Intermediaries, in order to establish a transparent and trusting relationship aimed at developing voluntary compliance.

#### **LATVIA:**

There is a State Revenue Service Development Advisory Council, which includes both representatives of business associations and representatives of state institutions. This approach addresses problems that are important for business, to systematically solve the problems that have arisen, and to improve the service of taxpayers.

#### **IRELAND:**

##### **Engagement: The operation of Co-operative Compliance**

Co-operative Compliance, which is also described in international tax literature as ‘Enhanced Relationship’ and ‘Horizontal Monitoring’, among other titles, is the creation and development of a relationship between the taxpayer and the tax administration based on trust and co-operation from both parties in order to achieve the highest level of voluntary tax compliance.

Co-operative Compliance (CCF) was introduced in the Large Cases Division (LCD) of Revenue, the Irish Tax and Customs administration, in 2005 with a view to managing the tax risks within the LCD case base more efficiently and effectively. It envisaged a new form of relationship between LCD and large businesses, one where both parties work together to achieve the highest possible level of compliance across the taxes for which particular businesses needed to account.

This cooperative model was then, and still is, increasingly becoming a feature of the relationship between large business and tax administrations across the world, reflecting the growing sense of a mutual interest in being as certain as possible about tax liabilities. It ensures greater clarity for taxpayers who enter the CCF as to the benefits that taxpayers will derive

from being part of the framework and the advantages Revenue will derive from taxpayers in their dealings with LCD.

## **PORTUGAL:**

### **The large taxpayer's forum**

The Portuguese Tax and Customs Authority (AT) has, since its establishment, governed its activity in a spirit of reconciliation with taxpayers, in order to achieve a greater level of cooperation, transparency and confidence in legal-tax relations.

In this sense, organic solutions have been developed that allow a closer and more efficient management according to the tax situation of the different types of taxpayers. The implementation of these solutions resulted in the creation of the Large Taxpayers Unit (UGC), in 2011. In accordance with the responsibilities of the UGC, it was decided to set up the Large Taxpayers Forum, which was created in 2014 with the aim of creating a space for dialogue, that would allow deepening the relationship between AT and taxpayers, based on principles of proximity, transparency and mutual trust.

It draws on the international experiences of various tax administrations in the European Union (e.g. Netherlands, United Kingdom, Spain) and follows the OECD recommendations on this matter, namely, incorporating tax issues as an integral part of good management practices. In particular, it aims to simplify the fulfilment of tax obligations, increase legal certainty in transactions and approve codes of good practices in tax matters, both for companies and the tax administration.

The Forum operates at two levels: the plenary and through sectoral commissions.

The plenary is chaired by the Secretary of State for Tax Affairs and consists of him and the other members: representatives of the AT (General Director and some deputy directors) and representatives of taxpayers (large companies)

Within the scope of their activities, they may analyse and discuss tax matters of general interest to the participants, based on a reasoned proposal from any of them to be addressed to the president. However, it is forbidden to discuss the particular matters of any members of the forum.

The forum may discuss any tax matters considered relevant by its members, namely:

- Improvement of the relationship between AT and companies in general and the improvement or establishment of new communication channels;
- Simplification and facilitation of voluntary compliance with tax obligations;
- Streamlining the tax procedure to reduce contextual costs and litigation;
- Increased legal certainty;
- Discussion, promotion and adoption of principles of good corporate management by companies and the application of good tax practices by AT.

The sectoral commissions discuss topics of common interest also with a view to improving tax compliance, debating and reflecting on the different perspectives of stakeholders in the tax process and find solutions to improve the tax system.

In these terms, it is important to create the necessary conditions within the Forum to promote this debate and reflection, to find solutions that contribute, globally or sectorally, to the intended improvement of the system. Thus, the creation of sectoral working commissions should constitute an objective and constructive form for this purpose.

The conclusions of the Forum take the form of recommendations or agreements in relation to the matters under analysis and are not legally binding.

It should also be noted that at the 4th plenary session of the Forum on December 3, 2019 the Code of Good Tax Practice (CBPT) was approved, representing the achievement of one of its objectives. This Code constitutes a set of recommendations voluntarily accepted by AT and taxpayers, committing AT and taxpayers to observe, within the framework of their legal and tax relations, principles and conduct with a view to improving the tax system through an increase in fiscal certainty, cooperation based on transparency and trust amongst themselves.

The principles established in this Code will be applied in the tax matters of the entities covered by it, without prejudice to compliance with the principles enshrined in law.

In addition, improvements resulting from the Forum benefit not only large contributors but also taxpayers in general.

## **Research**

### **Performance management was originally founded on the opposite of trust . . .**

While trust as a guiding principle may be intuitively appealing, it is not the norm within the public sector. **Van de Walle & Six (2011)** argues that distrust is often the guiding principle in institutional design and in the operation of public services, pointing to the fact that public officials often have to give account of their work through elaborate accountability processes. On the citizen's side, they have to prove they are not cheating on benefits or taxes. A little over 20 years ago, **Power (1999)** even argued that the rise of an 'audit society' demonstrated the pervasiveness of attitudes of distrust within modern public administration. All of this has been linked to the development of performance management within the public sector in developed economies based on the principles of *new public management* (**Van de Walle 2010, 2013**).

### **. . . and a turnaround based on rethinking the paradigm seems necessary**

Thus, the question remains as to how performance management can be shifted towards a more trust-based approach – in a way that affect outcomes in a desirable way. According to **Yang & Holzer (2006)**, researchers has found it difficult to empirically demonstrate the link between government performance and citizen trust in government and argue that this is rooted in the difficulty of defining and measuring government performance meaningfully. To be improved, current performance-measurement practice must be shifted towards measuring what citizens

really care about – incorporating both political responsiveness, institutional design, and citizen input – and be more systematic and integrated across public agencies.

### **A shift towards trust-based management and steering concepts is possible – and happening**

**Halligan & Bouckaert (2009)** argues that a development within performance management is going on, in which there is a move away from the use of indicators based on a *command and control* approach to a different approach of using performance management as an instrument partly based on mutual trust. **Bouckaert (2011)** argues that this is visible throughout the public sector in developed economies.

**Choudhury (2008)** argues that in public administration, compared with other leading concepts such as legitimacy, accountability, efficiency, discretion, responsiveness, and public participation, a focus on trust is quite recent but increasing. In working with increasing the focus on trust, Choudhury argues for the importance in seeing trust not only as an important value in itself but also as a means for resolving conflicts of priority between organisational values – for example, balancing discretion with accountability.

Thus, the idea that trust between actors in collaborative arrangements is associated with a long list of virtues, such as better performance, is no longer new. **Klijn, Edelenbos, & Steijn (2010)** study governance networks characterized by complex interaction and decision making, examining if trust influence the outcomes of environmental projects and if active network management improve the level of trust in networks. Based on a survey of 337 participants involved in environmental projects, their results indicate that trust does matter for perceived outcomes and that network management strategies enhance the level of trust.

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