Institutional Arrangements for Tax Administration in Asia and the Pacific

The purpose of this paper is to analyze and describe institutional arrangements for tax administration bodies in the Asia and Pacific region as one of the factors setting the framework of tax administration. In particular, the paper classifies tax administration bodies into different institutional models according to their relationship with the ministry of finance or treasury, and then analyzes the degree of internal functions delegated to tax administration bodies. Finally, it gives observations on the direction of institutional reforms as part of a comprehensive tax administration reform process.

Tax administration body within a government

The primary purpose of taxation is to raise revenue to finance government expenditure. With stable tax revenue, governments are able to provide a wide range of public goods and services such as maintaining security, constructing social infrastructure, and providing welfare services. In addition, the tax system is often used by governments to redistribute income toward lower-income earners. A progressive income tax system that imposes higher average and marginal rates on higher incomes is often used to achieve this purpose. The specific of a tax are provided in tax legislation.

The mandate of a tax administration body is to assess and collect tax according to tax laws. Tax administration bodies have three common organizational characteristics specific to their functions:

(i) Tax administration requires a network of offices that covers an entire country.
(ii) A large number of personnel are required.
(iii) Personnel are required to have specific technical expertise on tax laws and administration.

As tax revenue is derived from economic activities undertaken by individuals and businesses, a tax administration body normally has regional offices in addition to the headquarters (often, it is a three-tier structure such as the headquarters–regional offices–district offices), which cover the economic activities of an entire country. This office network, together with the personnel who support the operation of this extensive office structure, often makes the tax administration body one of the largest organizations in a government.

Table 1 summarizes the organizational dimensions of tax administration bodies in the largest countries in Asia and the Pacific by gross domestic product (GDP), population, and country.

Reflecting their vast geographic areas and population, the People's Republic of China (PRC), India, and Indonesia have extensive tax office networks and staffing. The staffing level of the PRC looks large, but when staffing level is compared with the population, the PRC's population/staff ratio (1,796) is only slightly lower than that of Japan

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Table 1 Size of tax administration relative to population and gross domestic product

Economy	Number of offices (both regional and district)	Total staffing	Population/ staff ratio	GDP/staff ratio (million $[a])	Tax revenue/ GDP (2010), %
Australia	28	21,910	1,050	67.9	20.7
People's Republic of China	3,556	750,000	1,796	9.7	18.2
India	848	42,108	28,736	39.8	7.4
Indonesia	571	31,825	7,478	26.6	11.6
Japan	536	56,216	2,277	104.4	8.9

[a] In this publication, "$" refers to United States dollars.

Sources: Organisation for Economic Co-operation and Economic Development (OECD). 2011. *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series* and ADB. 2012. *Key Indicators for Asia and the Pacific*.

(2,277). On the other hand, a high population/staff ratio as well as a relatively high GDP/staff ratio in India suggests that the Central Board of Direct Taxes, one of the principal tax administration bodies in India, may be disproportionately understaffed,[1] and indeed India's tax revenue per GDP ratio, 7.4% in 2010, is still comparatively lower than the other countries.

Table 2 presents a picture of two small-sized jurisdictions in terms of area and population in East and Southeast Asia: Singapore and Hong Kong, China.

Tax administration bodies in Singapore and Hong Kong, China have only one centralized tax office; yet in terms of staffing level, tax administration bodies in the two jurisdictions maintain a significant number of tax officials. Furthermore, Singapore and Hong Kong, China show a GDP/staff ratio within a range of $68 million–$104 million per staff—comparable to Australia and Japan.

Relationship with the ministry of finance

As tax policy (which analyzes a tax system and drafts tax legislation) and tax administration (which implements tax laws) are inextricably linked, the tax policy department at the ministry of finance or treasury is closely associated with the tax administration body, which may be an internal department of the ministry of finance or an autonomous agency affiliated with the ministry. An exception is the PRC, where the State Administration of Taxation, the PRC's tax administration body, is not officially affiliated with the Ministry of Finance, and is directly under the State Council as a ministerial-level department.

Historically, tax collection functions have been within the ministry of finance, and at present, many countries have chosen to give the tax administration body an autonomous status within a broad umbrella of the ministry of finance. The

Table 2 Size of tax administration relative to population and GDP in small-sized jurisdictions

Jurisdiction	Number of offices (both regional and district)	Total staffing	Population/ staff ratio	GDP/staff ratio (million $)	Tax revenue/ GDP (2010), %
Hong Kong, China	0	2,818	2,520	74.9	13.9
Singapore	0	1,712	3,037	103.3	13.2

Sources: Organisation for Economic Co-operation and Economic Development (OECD). 2011. *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series;* ADB. 2012. *Key Indicators for Asia and the Pacific;* and Inland Revenue Department, Hong Kong Special Administrative Region. *Annual Report 2011–2012.*

[1] In terms of registered personal income tax (PIT) payers per staff, India (775 PIT payers per staff) is still more understaffed than Indonesia (399 PIT payers per staff). Source: OECD 2011.

principal reasons that autonomous functions are given to the tax administration body are its size and technical nature. The tax administration body has a large number of personnel and an extensive office network, and its functions are specialized in the assessment and collection of taxes. Managing these tax administration functions as a single-purpose organization with a certain degree of autonomy can be more efficient than keeping the functions within the ministry's ordinary reporting line (i.e., the same as for budget and economic policy departments).

In addition to the size and specialization of tax administrations, there are several other reasons that a government may choose its tax administration body to be a semiautonomous body affiliated with its ministry of finance:

(i) It can be free from political interference in day-to-day operations.
(ii) It can implement human resources policies differently from the ministry of finance to recruit and retain motivated, skilled staff.
(iii) It can implement organizational reforms such as establishing specialized audit functions.
(iv) Its budget arrangements offer more flexibility to invest in information and communications technology.

Tax administration institutional models in Organisation for Economic Co-operation and Development member countries

According to the Organisation for Economic Co-operation and Development (OECD) (2011), among 34 OECD member countries, 13 countries' tax administration bodies (nearly 40%) are classified as internal directorates within the ministry of finance including France and Germany, and 21 countries (nearly 60%) have semiautonomous bodies with different degrees of affiliation with the ministry of finance. All four OECD member countries in the Asia and Pacific region (Australia, Japan, the Republic of Korea, and New Zealand) have tax administration bodies classified as semiautonomous.

Tax administration institutional models in East and Southeast Asian countries

The tax administration bodies of 16 East and Southeast Asian economies can be classified as follows:

Directorate in the Ministry of Finance

Brunei Darussalam; Cambodia; Indonesia; Lao People's Democratic Republic; Myanmar; Taipei,China; Thailand

Semiautonomous body

People's Republic of China; Hong Kong, China; Japan; Republic of Korea; Malaysia; Mongolia; Philippines; Singapore; Viet Nam

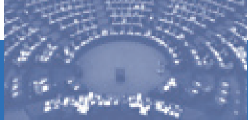
Among the 16 countries in East and Southeast Asia, 7 countries' tax administration bodies are located within the finance ministry as either an internal or subordinate department, and 9 countries' tax administration bodies are semiautonomous, with various degrees of affiliation with the ministry of finance. The taxation agency in Taipei,China covers both tax policy and tax administration functions, and it is subordinate to the main body of the Ministry of Finance, rather than an organization exercising the tax administration function at an arm's length from the ministry's policy function.

Interestingly, the percentage of economies using the ministry directorate model (nearly 40%) and the semiautonomous body model (nearly 60%) in East and Southeast Asia is similar to that of OECD member countries.

Does the semiautonomous body model perform better than the ministry directorate model in terms of raising revenue? The average tax revenue per GDP ratio in 2010 for the seven countries with the ministry directorate model was 9.2%, and the same figure for the nine countries with the semiautonomous body model was 16.8%.[2] However, as the countries with the ministry directorate model include Myanmar (3.2%), whose tax system is in the reconstruction stage, and Brunei Darussalam (3.2%), which has a low reliance on tax revenue, it is not clear to what extent the relatively high performance on tax revenue raising is a corollary of the semiautonomous status of tax administration bodies.

At present, many countries have chosen to give the tax administration body an autonomous status within a broad umbrella of the ministry of finance.

[2] ADB. 2012. *Key Indicators for Asia and the Pacific*.



Among the nine Asian economies that have adopted the semiautonomous tax administration body model, the degree of autonomy from the ministry of finance varies, as described in Table 3.

The tax administration bodies of the nine countries may be classified into three categories according to the degree of autonomy from the ministry of finance. In the PRC and Hong Kong, China, the tax administration body is independent

Table 3 Semiautonomous tax administration bodies' relationship with the ministry of finance/treasury

Economy	Tax administration body	Relationship with the main body of the ministry of finance or treasury
People's Republic of China	State Administration of Taxation	• Independent from the Ministry of Finance • A ministerial-level department under the direction of the State Council • The commissioner is appointed by the State Council
Hong Kong, China	Inland Revenue Department	• Independent from the Financial Services and the Treasury Bureau • The commissioner is appointed by the chief executive • The financial secretary chairs the Board of Inland Revenue
Japan	National Tax Agency	• An external organization of the Ministry of Finance • The commissioner is appointed by the minister of finance
Republic of Korea	National Tax Service	• An external organization of the Ministry of Finance • The commissioner is appointed by the President of the Republic
Malaysia	Inland Revenue Board	• An external organization of the Ministry of Finance • The secretary general of treasury chairs the Inland Revenue Board • Beneath the board, the CEO heads the executive management
Mongolia	General Department of Taxation	• An external organization of the Ministry of Finance • The department is under the supervision of the minister of finance
Philippines	Bureau of Internal Revenue	• An external organization of the Department of Finance • The bureau is under the supervision of the Department of Finance
Singapore	Inland Revenue Authority	• A statutory board under the Ministry of Finance • A permanent secretary (finance) chairs the board of the authority • The commissioner is appointed by the board and is the head of senior management
Viet Nam	General Department of Taxation	• An agency under the Ministry of Finance • The general director is appointed by and accountable to the minister of finance

from the ministry of finance, though in Hong Kong, China, the finance secretary is designated as the chair of the Board of Inland Revenue according to the Inland Revenue Ordinance.[3] In the other seven countries, the tax administration body is broadly part of the ministry of finance. In Malaysia and Singapore, the oversight board, like in Hong Kong, China, is chaired by a finance ministry official.[4] The characteristics of the board system will be discussed in the next section. In the remaining five countries (Japan, Republic of Korea, Mongolia, Philippines, and Viet Nam), the tax administration body is an external or specialized organization of the finance ministry that is assigned to implement tax laws and collect tax revenue.

Semiautonomous body with oversight board model

An oversight board brings three benefits. First, although the board chairperson tends to be a finance ministry official, a clear separation between the oversight function and executive function will bring an environment where the executive section of a tax administration body can focus on daily tax collection operations with minimum political intervention. Second, as the board is normally comprised of members with different backgrounds including the private sector, it can ensure that a tax administration body adopts flexible policies that consider human resource management, budget allocation, and organization restructuring in response to a rapidly changing economic and business environment. Third, because the board is distant from the daily operation of tax administration, it can exercise the checks-and-balances function over the executive section, enhancing the protection of taxpayers' rights.

Table 4 outlines how oversight boards in Hong Kong, China; Malaysia; and Singapore are composed.

In these three jurisdictions' inland revenue boards, the chair is from the ministry of finance and commission members include professionals from the private sector, in particular law and accounting firms, the financial sector, and corporate executive management. In Singapore and Hong Kong, China, the commissioner of inland revenue bodies is also a board member. In these jurisdictions, the role of board members from the private sector is to reflect various views and values, which are different from the government sector's perspective, on the direction of tax administration bodies.

The three jurisdictions with a semiautonomous body with oversight board model indeed had stable tax revenue at around of 13%–14% of GDP in 2010. A 2011 study by the World Bank Group and PricewaterhouseCoopers on corporate tax compliance burden shows that these three economies are among the most efficient in terms

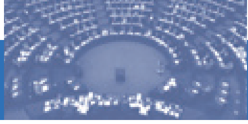
The role of board members from the private sector is to reflect various views and values, which are different from the government sector's perspective.

Table 4 Member composition of the board

Economy	Board	Number of members	Chair	Members (as of November 2012)
Hong Kong, China	Board of Inland Revenue	5	Financial secretary	Commissioner, and three from the private sector (financial controller, solicitor, and banker)
Malaysia	Inland Revenue Board	6	Secretary general of treasury	Accountant general, secretary of tax analysis division, Ministry of Finance, commissioner (law reform), attorney general's department, and two private consultants
Singapore	Inland Revenue Authority of Singapore Board	9	Permanent secretary (finance)	Commissioner, permanent secretary (population and climate change), and six from the private sector (law, accountancy, finance, education, and oil)

3 Cap 112 Inland Revenue Ordinance, s 3(1).

4 Among the OECD member countries, Canada, Mexico, and the United Kingdom's tax administration bodies have an oversight board at the top of their governance structures. Some Nordic countries such as Finland and Sweden have an advisory board, which discusses and advises on the tax administration body's strategic directions. Australia has the inspector general of taxation, which reviews tax administration systems as an independent statutory agency.



Australia, New Zealand, and Singapore have the most autonomous tax administration bodies.

of tax compliance burden: Hong Kong, China (ranked 3rd of 183 world economies); Singapore (4th); and Malaysia (28th).[5] A biennial taxpayer satisfaction survey being conducted by the Inland Revenue Authority of Singapore shows that nearly 95% of taxpayers surveyed were satisfied with the Singaporean authority's services in 2011.[6]

The extent of tax administration bodies' autonomy

In previous sections, we have examined the external institutional structure of tax administration bodies in Asia including their relationship with the finance ministry, and it was highlighted that the semiautonomous body model can implement human resources, budget, and internal organization policies more flexibly to respond to issues faced by tax administration bodies. The OECD's *Tax Administration in OECD and Selected Non-OECD Countries* (OECD 2011) provides information on the delegated authority of national revenue bodies. Table 5 examines dimensions of the authority of tax administration bodies in selected Asian-Pacific countries including authority to (i) design internal organization, including office network; (ii) allocate budgeted administrative funds across administrative functions; (iii) set staffing levels and mix of staff; (iv) hire and dismiss staff; and (v) negotiate staff remuneration levels.

Table 5 provides an overview of the dimensions of autonomy granted to tax administration bodies, though care must be taken in analyzing the data, which may be based on simple "yes" or "no" answers to survey questions that may have been translated differently in different countries.

Australia, New Zealand, and Singapore have the most autonomous tax administration bodies, with autonomy granted in all five categories. Indonesia has the least autonomous tax administration body with no authority in any of the five categories, followed by Japan, which only gives autonomy to its tax administration body to hire and dismiss staff.

With respect to the authority to design internal organization, most countries' tax administration bodies have autonomy except in Indonesia and Japan. In Japan, the design of internal organization of central government ministries and external agencies, including setting staff levels, is administered by the public administration management bureau of the Ministry of Internal Affairs and Communications. Similarly, regarding the authority to allocate budget within the organization, a majority have autonomy except for in India, Indonesia, and Japan. Again in Japan, the budget of central government organizations is subject to the control of the budget bureau of the Ministry of Finance.

Table 5 Delegated authority of tax administration bodies in selected countries of Asia and the Pacific

Country	I. Design internal organization	II. Allocate budget	III. Set levels and mix of staff	IV. Hire and dismiss staff	V. Negotiate staff pay levels
Australia	Yes	Yes	Yes	Yes	Yes
People's Republic of China	Yes	Yes	Yes	Yes	No
India	Yes	No	Yes	Yes	No
Indonesia	No	No	No	No	No
Japan	No	No	No	Yes	No
Republic of Korea	Yes	Yes	No	Yes	Yes
Malaysia	Yes	Yes	No	Yes	Yes
New Zealand	Yes	Yes	Yes	Yes	Yes
Singapore	Yes	Yes	Yes	Yes	Yes

Source: Organisation for Economic Co-operation and Economic Development (OECD). 2011. *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series*.

5 The World Bank and PricewaterhouseCoopers. 2011. *Paying Tax 2012. The global picture*. Washington, DC.
6 Inland Revenue Authority of Singapore. *Annual Report 2011/2012.*

The table shows a more mixed picture when it comes to human resources policy. While most countries' tax administration bodies have independent authority to hire and dismiss staff, only three countries (Australia, New Zealand, and Singapore) have authority for both setting staffing levels and negotiating staff remuneration.

In some countries, the number of staff and their remuneration levels are centrally controlled by a government bureau in charge of civil service affairs; therefore, in these countries, it is difficult for the tax administration body to offer salaries that are higher than an ordinary civil service standard for well-qualified tax officials.

Among the nine countries in Table 5, eight countries' tax administration bodies are classified as the semiautonomous body model, and only Indonesia adopts the finance ministry directorate model. The table shows that the Indonesian tax administration body, the Directorate General of Taxes, has a lower degree of autonomy than the other countries.

For tax administration bodies to respond adequately to a rapidly changing external economic environment, flexible policy choices with respect to human resource management, budget, and internal organization are important factors.

First of all, to secure tax officials of high caliber, a flexible pay structure will enable tax administration bodies to offer competitive salaries. For example, when a tax administration body deals with state-of-the-art aggressive tax planning schemes employing cross-border financial transactions, a tax audit team solely composed of internally promoted auditors could encounter difficulty detecting and analyzing those schemes efficiently, and mid-career recruitment of tax practitioners with experience in law or accounting firms may therefore be an effective countermeasure.

Flexibility in internal organization design is equally important. For example, the establishment of a new division specialized in aggressive tax planning schemes will enable tax administration bodies to deliver more effective operations. The Inland Revenue Department of Hong Kong, China established special field audit sections that concentrate on tackling tax avoidance schemes, and in 2011–2012 nearly 80% of understated earnings and profits revealed by field audit and investigation operations derived from these special audit sections.[7]

Furthermore, autonomy in budget allocation can facilitate a tax administration body's ability to invest financial resources into focused areas, particularly information technology infrastructure. According to OECD, Malaysia's tax administration body spent 28% of their entire administrative expenditure on information technology systems and operations in 2009, and Singapore's spent 30%, both of which were substantially higher than the OECD countries' average of 12%.

Conclusion and Observations

As examined in the earlier sections, the tax administration body occupies a unique position within the government. First, it requires a large office network and personnel covering an entire country; second, it is required to coordinate with the tax policy planning section at the ministry of finance.

We have looked at tax administration bodies in East and Southeast Asia, particularly their degree of affiliation and autonomy in relation to the ministry of finance. Among the diverse models, the semiautonomous body with the oversight board model—which is used in Hong Kong, China; Malaysia; and Singapore—may be worth noting and considering as an option for developing countries that are considering a comprehensive tax administration reform involving the restructuring of government institutions. When this model is introduced in a developing country, a good governance system that prevents political intervention in the enforcement process and a sound tax intermediary sector, including legal and accountancy services, will be keys for the oversight board to function effectively.

In addition, in the process of tax administration reforms, it will be useful to review not only the tax administration body's organization structure, but also its degree of autonomy with respect to internal organization design, budget, and human resource issues. However, such reforms are not likely to be made simply within the tax administration body, but will also require working on the government's organization and civil service systems.

Reform of tax administration bodies' institutional arrangements alone will not be a panacea for improved performance of the tax administration. In this respect a study on semiautonomous revenue authorities in sub-Saharan Africa by Fjeldstad and Moore (2009)

For tax administration bodies, flexible policy choices with respect to human resource management, budget, and internal organization are important factors.

[7] Inland Revenue Department, Hong Kong Special Administrative Region. *Annual Report 2011–2012.*

suggests that, while it is not clear whether institutional reforms toward semiautonomous revenue authorities have actually increased public revenues, these institutional reforms have facilitated a range of reform measures with respect to the operation of tax administration. Similarly, Crandall (2010) points out that institutional reform of a tax administration body needs to be accompanied by a commitment to and a comprehensive plan for better tax administration in order to lead to improvements in tax administration efficiency and taxpayer compliance.

Reform of institutional arrangements of tax administration bodies, including their increased degree of autonomy, are an indispensable step for achieving an efficient and effective tax administration, yet the process should be regarded as a platform for comprehensive tax administration reforms, rather than a stand-alone panacea.

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