

E-TAX ADMINISTRATION: A CHALLENGE TO TRANSITION COUNTRY? A CASE OF SLOVENIA

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Abstract

One of the major goals of reforms in public sector was improvement of efficiency and effectiveness in providing public services. Tax administration as part of public sector has to challenge the same goal. One of the ways to improve efficiency and effectiveness is informatisation, which could support several services provided by tax administration, such as filing tax returns, information services and counselling etc.

The paper will present efforts of Slovenian tax administration in introducing electronic commerce. Slovenia is one of the first European countries that introduced Electronic Commerce and Electronic Signature Act in June 2000. This Act provided the base for implementation of e-services in the public sector. The Public Key Infrastructure implemented next year for the use of digital signatures in public administration by public workers and citizens was another big step toward e-government. Slovenian tax administration prepared several projects to introduce electronic commerce in tax administration. Some of them are already finished and their results will be shown in the paper. At the moment tax administration announced the public tender for suppliers of the system, which will enable electronic filing of tax returns based on digital certificates and digital signatures.

We also conducted a survey among personal income taxpayers to get their view on e-tax administration. Taxpayers in most cases support such development of the tax administration. Findings of our survey will be presented together with results of two others researches about taxpayers view on electronic communication with tax administration.

Introduction

As it can be seen for every day experiences, the industrial society is converging into informational society and governments as a part of that society, that often take a leading position, are an example or a face of it. Considering the IT (information technology), governments are usually not at the leading edge as private sector is way ahead. Companies fight for better, cheaper and more effective every day. But that also means that governments can learn from their experiences. They must of course adopt it to their situation, for there are many differences compared to private sector.

IT is today a considerable factor of a country's development status and its government and administration as well. IT in tax administration is playing here a big role, too. Many countries have set strict IT goals for setting a whole administration on-line by a certain date, and many will have a hard time to achieve it. Those countries that are staying behind should do their very best to catch those more developed and doing while that try to learn from them as much as possible.

Slovenia is one of these countries that set an e-government on-line term to the end of 2004 (GCI, 2001). It prepared a strategy with many goals and quite a few of them are considering a tax administration. It was planned that government would develop a central tax register, enable payment of taxes, penalties and other claims that originate from different administrative services on-line,...

One of the biggest parts was the implementation of an Public Key Infrastructure that would enable the use of digital certificates for all on-line services offered by the government. By these digital certificates citizens and companies would be able to use authentication and digital signatures while communicating with government or using on-line services.

To get closer to the citizen Slovenian government in its E-government strategy planned to make a web portal that would deliver a citizen all the services in one place. This portal would have one type of design, structure and all data that one user would need. The idea was that user would not just to get to as much information as possible but start and finish different processes and services that he would need in some situation (i.e. user would go to web portal, found the e-income tax form, filled in the data, sign it, send it to tax administration and latter got back a response).

Obstacles on the way to e-tax administration

The bases of good e-business is a good infrastructure. Slovenian plan is to expand the existing IT network and establish several virtual networks for different groups of users (customs, tax administration, courts, geodetic administration,...) but include an integration and horizontal data connectivity of these virtual networks and information systems for needs of applications that use data from data bases of other information systems (i.e. courts use land register and need data from cadastral register maintained by geodetic administration so electronic data exchange between these two systems should be enabled).

In the world of IT and networks like the Internet, the flow of information, required capabilities of employees and the cost of work force is very different from that of the world of Weber's bureaucracy and vertical hierarchy (Senevirante, 1999). Therefore reorganisation is an important part of implementation of e-business. With the rapid development of the Internet and the concept of e-government at the end of the 90's, some authors (Snellen, 2000; Frissen, 1998) began claiming that the implementation of ICT, especially the Internet technologies, changes the organisational structure a great deal and by that enables a better use of IT. Slovenian tax administration was reorganized after the independence in the year 1996. Since at that time IT was no stranger to this administration, reorganisation has been influenced by IT.

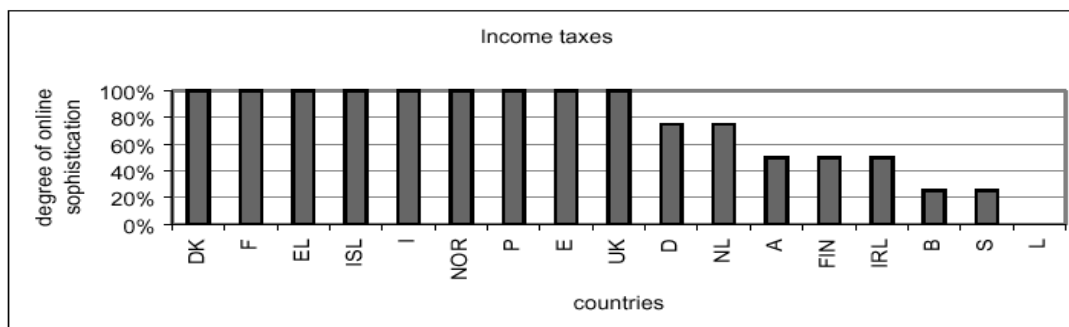
Slovenian government noticed that different agencies within public administration are not open to other agencies from the IT point of view which causes development problems when development occurs. Instead of thinking about quality services and IT solutions that are not designed only for the individual agency, but, in compliance with European tendencies of information society, are designed for other administrations, private sector and citizens as well, they build IT solutions that are not integrated or capable of any connectivity to other information systems. Agencies at their IT solutions and infrastructure do not consider economical logic nor perform basic analysis of various projects. For bigger information systems it is wise to join and set them in common centres because the operation costs are reducing (building, security, professional team, 24x7 working hours, uninterruptible power supply system,...) with higher number of information systems and services.

Because of the rapid growth of IT usage existing solutions are hardly enough or are already lacking capabilities to serve all demands (Tax administration is one such example in Slovenia). Therefore they have to be upgraded and extended. For many of these actions there is no funds planned. The neglecting of investments in increase of capacities can effect critical information systems and cause dissatisfaction of the users (employees of tax administration, companies, taxpayers).

Tax administration from the IT point of view in the Europe

Different countries in EU and other central and eastern European countries have developed different information systems that are used for tax administration. To measure their level, EU developed an action plan and a monitoring system to benchmark national performances that are linked to specific action lines. This so called eEurope programme (an extended variation of this action plan includes Candidate countries as well and it is called eEurope+) was developed at the Lisbon European Council in March 2000 and aims to bring the benefits of the information society to all Europeans and to make the EU the most dynamic knowledge based economy in the world by 2010. Monitoring system is based on the list of 23 indicators where some consider an e-government services to be used by citizens and businesses. One of these benchmarks, percentage of basic e-government services on-line, includes benchmarking of 20 public services, twelve aimed at individual citizens and eight aimed at businesses. Among these, three are considering different tax services: for income tax, VAT and corporate tax. Based on the rules of these benchmarking, where Stage 1 means information level (0-25%), Stage 2 interaction level (25-50%), Stage 3 two-way interaction (60-75%) and Stage 4 Transaction Level (75-100%), these three services were one of the best implemented from all 20 (Kerschot, Poté, 2001) . Figure 1 shows different levels for EU countries.

Figure 1: eEurope e-Government benchmarking, October 2001



Slovenia, as a state taking part in eEurope+ programme, ascertained that its level of services is:

- Around 40% for income tax for citizens. Taxpayers get information on the web pages, and special forms in Excel files are also available. They can fill in the data and print it on the paper form that they send back. Companies have to send their data for the sake of comparison with citizens data too. The format of data to be send to tax administration is publicly known and developers of accounting software implement the special export function for the purpose of income tax in their applications. Data is exported in files on floppy disk and send to the tax office.
- 50% for corporate tax. Information is available on web pages, where companies get special application that they use to put their data into a specific form and export it to a floppy disk file that they send back to tax administration.
- 25% for VAT. Only information is available on web pages, while data is send in paper form.

Although the exact benchmarking for eEurope (and eEurope+) is still under development first results can give a hint on differences between EU countries and Candidate countries as well as between countries inside EU.

Tax administration reform in Slovenia

All countries in transition are going through several changes of their systems. Reforms of the tax system and tax policy are the ones that countries have to carry out. In Slovenia a tax reform was also necessary. The first changes were made at the beginning of its independence when indirect and direct taxes (specially personal income tax) have been introduced.

The main introduced changes were also:

1. Government changed the form of the tax administration. A single central tax body was established. Before that, two different institutions carried out tax control for citizens and companies. The new Tax Administration of the Republic of Slovenia has better defined tasks on the field of tax collection, tax control and wider competence. It also has a better organizational structure. On the other hand some experts argued that tax control of companies would be less effective and more expensive.
2. A tax number was introduced. All inhabitants and companies received a tax number. The tax number became an identification of the taxpayer.
3. The central tax register was established. The central tax register includes all taxpayers and keeps a record of the tax control, avoidance and evasion. The register enabled better analyses of the tax system, tax discipline and better control.
4. Penalties for tax evasion became higher and more power was given to inspectors. Inspectors received broader competence for the control of taxpayers. They can set high penalties for violation of tax laws.
5. In the middle of 1999 the VAT was introduced.

Existing information system in tax administration

Providing tax assistance through computerized means is determined by the scope of information technology available to administration. Current system includes five information systems, which support 162 transaction databases. All five systems are unconnected; therefore analytical support of tax system is not developed. Tax administration became aware of this problem and started to develop integrated tax information system in the year 2000, called IDIS. The bases for the new system are central tax register (CTR) established in 1997, the support system for VAT, basic infrastructure and computer centre in 1999. Most of the future system will be build by tax administration computer centre, but some operational systems will be outsourced from private sector (Annual report of Slovenian tax administration in year 2000).

The development strategy of e-tax administration in Slovenia

When informational tools are directly related to taxpayers and include all means accessible to them to consult and interact with administration as well, we can talk about e-tax administration. Developments in this area in several countries helped to streamline the entire process of filing tax returns and improve relations between taxpayers and the tax administration. Electronic connection with tax administration is possible in several countries, for example in Brazil, Portugal, Netherlands, Spain, United States and Canada (Rains et al., 1997).

Slovenian tax administration has not yet implemented electronic commerce with taxpayers. Taxpayers can file their tax returns on floppy disks in some cases, and tax administration has its own web page, but that is all. Web page was recently changed and the new page gives more information about tax administration work, news, common answers for VAT taxpayers (taxpayers can also ask questions), public tenders, development plans, code of ethic, rights and obligations of taxpayers, etc. Tax system and tax administration are still in phase of development and foreign experiences of e-commerce will be useful. Despite that the foreign experiences should be modified and prepared for the situation in Slovenia. If the tax administration wants to implement electronic commerce it should invite all external institutions to cooperate. Especially the cooperation with banks, tax advisors, technical experts and most of all with taxpayers themselves will be necessary.

In tax administration we can identify at least three major fields where efficient electronic commerce can be implemented. These fields are filing tax returns, paying tax obligations and counselling for taxpayers.

Tax administration in its strategic plan for time period between 2000 and 2003 defined some general goals about introducing electronic commerce in tax administration (Jevševar, 1999):

- electronic filing, assessment and payment of tax obligations will reach 75% large taxpayers and tax agents,
- electronic filing, assessment and payment of tax obligations will reach 50% medium companies,
- electronic filing, assessment and payment of tax obligations will reach 25% small companies,
- electronic filing of tax returns will use 25% of personal income taxpayers,
- electronic support for different services and delivering of information will reach 50% of all taxpayers,
- CTR for almost 2.200.000 persons, out of these 2000 VAT payers, 75.000 self employed persons (36.500 VAT payers) and 88.000 companies (37.000 VAT payers).

Despite all positive affects of such development tax administration was aware of some possible obstacles in developing e-tax administration:

- lack of financial and human resources,
- underdeveloped communication infrastructure,
- undeveloped tax system,
- legal obstacles,
- distrust of taxpayers,
- underdeveloped system of counselling in tax matters.

Some of these obstacles were already abolished (communication infrastructure, act on electronic commerce and electronic signature were introduced), but some of them still exist. Distrust of taxpayers, lack of resources and counselling are the important ones.

Taxpayers view

Internet is a phenomenon with rapidly increasing number of users. Slovenia is not an exception. According to the research in February 2002, 28% of active inhabitants of Slovenia use Internet monthly. Three years before, in 1998, the share was 9% (RIS, 2002). Despite rapid grow of Internet users Slovenian average is still below European average of Internet users with share of 31% of active population.

In March 2001 we conducted a survey among 350 personal income taxpayers. 226 personal income taxpayers responded to our questionnaire (response rate was 64%) and they represent 0,02% of all personal income taxpayers in Slovenia. 33% of respondents were men and 69,5% of respondents were between 25 and 45 years old.

One of the purposes of the survey was to find out taxpayers attitude to e-communication with tax administration, especially if they would be willing to file tax return by using Internet. Almost half of the respondents (48,6%) stated that they would use Internet to file their tax return when tax administration will make this possible (Klun, 2002). At the same time 76,6% of taxpayers agreed that the tax administration does not assess taxpayers returns fast enough. Taxpayers also stated that the tax administration's counselling service for taxpayers is not efficient enough.

According to the survey conducted among businessmen in Slovenia in March 2001, 79% of respondents stated that they would file their personal income tax return via Internet (Vozel, 2001).

We can conclude that Slovenian taxpayers are willing to accept changes in filing tax returns through computerized system. Improvements in the field of e-tax administration will reduce costs and time spent by taxpayers and tax administration for filing tax returns and tax assessment. The result will be better efficiency and effectiveness of the tax administration.

The future of Slovenian tax administration

One of the biggest step into the future of modern e-tax administration is a current project that is just about to start in Slovenia. The development of the new system will be outsourced by the public tender to one of the IT

companies in Slovenia. It will be based on the current Public Key Infrastructure, that was build on the legal bases of Slovenian Electronic Commerce and Electronic Signature Act.

Electronic signature and its special form - digital signature, that is a based on asymmetric cryptography, are the base mechanisms to achieve demands for identification, authentication, security, integrity of data and other demands of information systems of modern society. Slovenian Certificate agency was established in 2001 and it issues digital certificates for citizens, private companies and public administration employees. The first two can use it for authentication and digital signature of e-mails while public administration employees use it to access data and applications at their work. The infrastructure is based on Entrust technology. All users can keep their digital certificates on smart cards as well. Infrastructure is now fully operational, but the lack of different services that would enable the use of these certificates is a big problem. For example the only available service for citizens on the web pages (using their digital certificate for their authentication) is application for a copy of birth, marriage or death certificate.

Tax administration is starting a project of new information system, that would achieve the following goals:

- secure communication over internet between administration and taxpayers,
- decreasing the costs,
- stimulate taxpayers to use electronic channels for submitting data and to use this channels for a full data exchange with tax administration,
- increasing the number and quality of services with 24x7 "working hours",
- enable system connectivity with other systems of this kind (EU countries) and become an equal partner in international business,
- decrease of routine work of employees and increase of their satisfaction and time to do more demanding work.

The new system (IDIS) will extend and improve the current system (DIS) and include:

- Central tax register (CTR) that will be easy accessible to all users and include up-to-date data that will be gathered directly primary registers of other administrations.
- Central bookkeeping evidence, unified for all types of taxes and all taxpayers, that uses data from CTR, maintains specific data about duties of individual taxpayers for individual taxes, about tax paying duties and tax returns.
- Debts recovery system for support on procedures of administrative and on-field recovery and connectivity to other systems concerning these procedures.
- Supervision system for support on procedures of all tax supervisions: selection, preparation, performance of supervision and recording and analysing after the supervision.
- Data warehouse with data from different systems for analysis, statistics, planning and decision support.
- E-tax system, that would enable to taxpayers and their representatives direct mediation and acquirement of data out of tax information system over the Internet.
- Data exchange system for viewing and transfer of data for the needs of the CTR, bookkeeping evidences and supervision.
- EU system for direct connection with member states for viewing and transfer of data.

The deadline is end of the year 2003. The front-end of the system, i.e. e-tax system is the one that taxpayers will be using the most. It will be:

- accessible by internet browser in a secure way,
- available 24x7x365, with simple equipment (PC with modem, browser and access to Internet),
- used for filling, validating and digitally signing a great number of tax forms in electronic format for e-tax-payers and their representatives
- used to access the data about taxpayers by internet browser for all taxpayers not only those that use e-tax system (representatives will be able to check data for their clients, authorised people in companies will be able to check the companies tax data,...)

- used for exchange of data between applications or systems of taxpayers, especially companies on the bases of XML Scheme defined by tax administration

The system will use the above mentioned Public Key Infrastructure and its digital certificates. Citizens and companies will be (and are already) able to get them locally at administrative district offices. It is planned that in the future system will be used by most of the taxpayers.

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