58. Efficiency of tax administrations

Government activities, including the provision of public services, rely on taxes collected from citizens and businesses. Government tax administrations perform the important functions of interpreting tax legislation; collecting various taxes and social security contributions; and enforcing tax laws.

As governments look to consolidate finances, many have placed stricter limits on the funds available to tax revenue bodies. As a result, there is growing attention on increasing the efficiency of tax administrations in order to reduce costs while providing better services to citizens and businesses. Efficiency gains depend on how well these organisations design their internal organisational structures; how well they allocate budgeted funds to meet new or changed priorities; how they utilise ICTs and e-government initiatives to reduce costs; and how they determine the levels, remuneration and mix of their staff.

The cost of collection ratio compares the annual costs of administration incurred by a revenue body with the total revenue collected over the course of a fiscal year. Observed over time, a downward trend can constitute evidence of a reduction in relative costs (*i.e.* improved efficiency) and/or improved tax compliance (*i.e.* improved effectiveness). For the vast majority of revenue bodies, there is a decreasing trend in their ratios up to 2007 most likely due to reduced costs (*i.e.* increased efficiency) or strong economies that boosted tax collections. However, for many revenue bodies, ratios increased in 2009 most likely as a result of reduced economic activity and tax receipts in the aftermath of the global financial and economic crisis.

A second commonly used performance indicator for tax revenue bodies is total revenue body expenditure as a percentage of GDP, a measure which has not changed much in most OECD countries between 2005 and 2009. In 2009, 0.26% of GDP was spent on tax administrations on average in the OECD. Austria and Denmark show the most marked reductions in tax administration spending relative to GDP from 2005 to 2009. Hungary and New Zealand, on the other hand, show increases in this ratio.

International comparisons of the efficiency of tax administrations, however, must be made with caution. Differences in tax rates and the overall legislated tax burden; variations in the range and in the nature of taxes collected (including social contributions); macroeconomic conditions affecting tax receipts; and differences in the underlying cost structures resulting from institutional arrangements (*e.g.* multiple bodies involved in revenue administration, as in Italy), and/or the conduct of non-tax functions (*e.g.* customs) are all issues which influence the efficiency ratios presented here.

Methodology and definitions

Data are provided by surveyed revenue bodies or extracted from official country reports (*e.g.* annual performance reports). Tax administration expenditures include three categories: administrative costs, salary costs and IT costs. IT expenditure was defined as the total costs of providing IT support for all administrative operations (both tax and non-tax related). For comparison purposes, efforts have been made to separately identify the resources used and the costs of tax and non-tax related functions. Data for GDP were either supplied by member countries' Ministries of Finance, *OECD Revenue Statistics*, *CIA World Factbook* or the *IMF Statistics Database*.

Further reading

OECD (2011), *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series (2010)*, OECD Publishing, Paris.

Figure notes

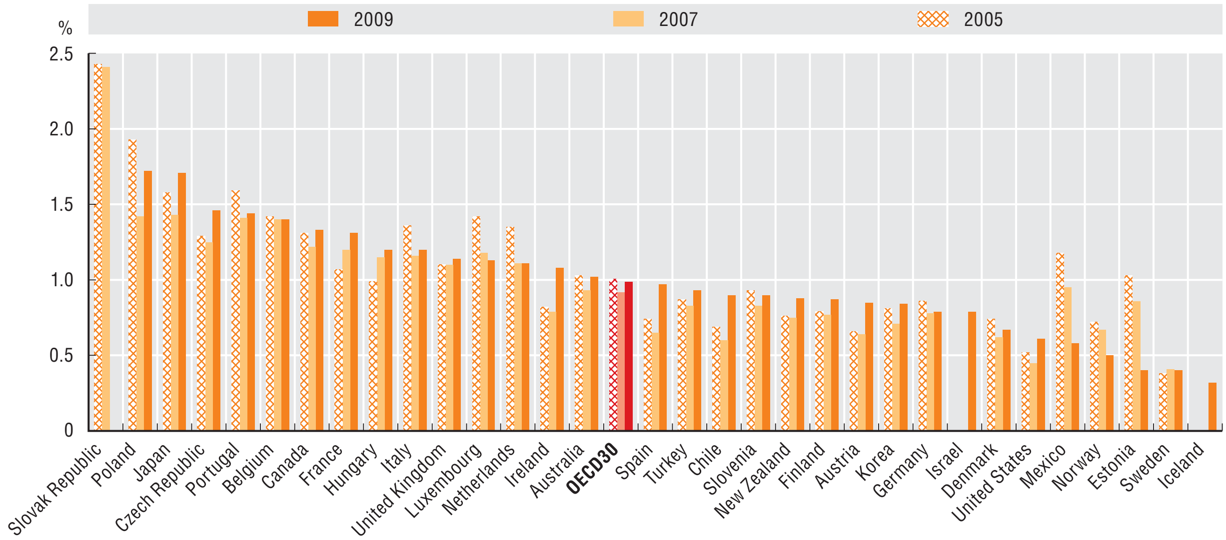
Data are not available for Greece. For Luxembourg, data relate to direct tax and VAT directorates. For Sweden, operational staff are assumed for tax-related functions with figures adjusted accordingly.

58.1: Data for 2009 for the Slovak Republic and for 2005 and 2007 for Iceland and Israel are not available and these countries are not included in the average (OECD30). Data are per the revenue body's annual report for Australia (2007) and Turkey (2005). For Estonia, the 2007 ratio includes customs operations that are not included in subsequent years. Data for Mexico are from the Tax Report by the Tax Administration Service. Data for Sweden refer to net revenue of 2005 in *Taxes in Sweden* (7th edition). The ratios for the United States vary from IRS publications owing to the use of net, and not gross, revenue collections as the denominator.

58.2: The following countries are not included in the average (OECD24) due to missing data: Spain (2005); Estonia, Israel, Italy and Slovenia (2005 and 2007); Iceland, Poland, the Slovak Republic and Switzerland (2009). See *StatLink* below figure for full notes.

Information on data for Israel: *http://dx.doi.org/10.1787/888932315602*.

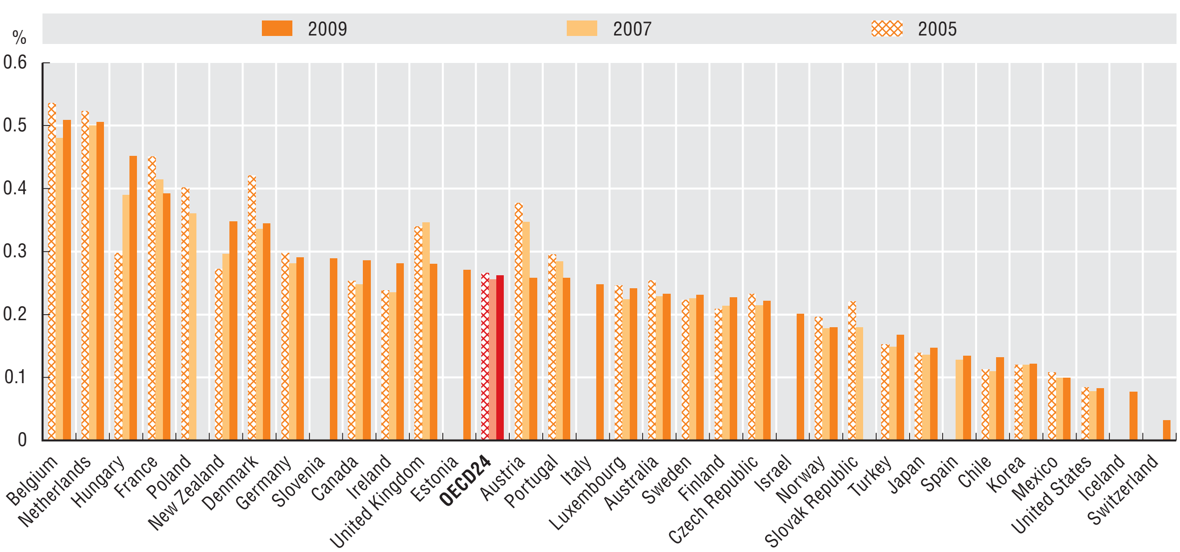
58.1 Ratio of aggregate tax administration costs per 100 units of net revenue collection (2005, 2007 and 2009)



Source: OECD (2011), *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series* (2010), OECD Publishing, Paris, Table 18.

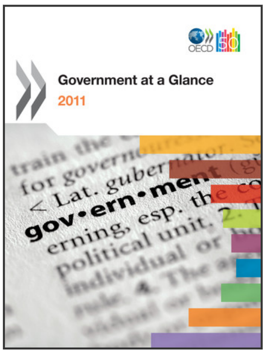
StatLink http://dx.doi.org/10.1787/888932391754

58.2 Total revenue body expenditure as percentage of GDP (2005, 2007 and 2009)



Source: OECD (2011), *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series* (2010), OECD Publishing, Paris, Table 19.

StatLink http://dx.doi.org/10.1787/888932391773



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