

Process model management trends in Slovakia's Tax revenue administration for Slovakia's economic performance

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Abstract:

Within the frame of the research on this matter, we came out from the existing functional organizational structures and tax administration systems not only in Slovakia but also in Hungary, Poland, Czech Republic and Slovenia, whereas the fundamental prerequisite of investigation was increasing efficiency of the system globally. On the basis of trend analysis we assume that upcoming reform of Tax and Customs administration will significantly contribute to the increasing efficiency of the system and in the end to the positive perception of taxes as a socially unpopular obligations.

Key words: taxes, tax reform, tax administration, efficiency, process management

INTRODUCTION

The examination of Slovakia's tax revenue administration should be perceived in a wider context. In order to it, it is necessary to start from the existing functional organisational structures and tax revenue administration systems in Slovakia, but also in the neighbouring countries, e.g. Hungary, Poland, the Czech Republic and Slovenia, while we think there is an objective need to change the organisational structure and to do its process-orientated optimisation, as well as to introduce marketing principles in the area of orientation on the customer in order to achieve a positive image of the tax revenue administration in the eyes of the public. We assume that the reform of the tax revenue and customs administration currently being prepared will significantly contribute to an increase in the effectiveness of the system and, eventually, also to the positive perception of taxes as socially unpopular obligations.

1. DEVELOPMENT OF THE ORGANISATIONAL STRUCTURES OF TAX SYSTEMS

▪ **Structuring by type of tax**

The basic criterion for the start of the oldest type of organisational structure of tax revenue administration was the structuring of executive bodies by individual existing types of tax. That type determined the creation of separate multifunctional departments for each type of tax, while such units functioned separately and mutually independently. The organisational structure divided in such a way fulfilled its purpose, but, despite that, it had its own functional shortcomings. It created space for the duplicity of functions, which caused ineffectiveness. If a taxpayer was subject of multiple types of taxes, the so adjusted system became complicated for him, with excessive amount of bureaucracy on the one hand and, on the other had, it was too complicated to manage the performance by taxpayers, separate control and debt collection. The ineffectiveness of the structure made around the type of tax is also underlined by the fact that there is an increased probability of unequal treatment of taxpayers and a decreased flexibility of the use of workers specialised in a certain type of tax. That eventually makes the planning and coordination of activities in the tax revenue administration managerially unsustainable.

▪ **Structuring by functional groups**

This approach to the organisation of the tax revenue administration's work was made with the objective to improve the standardisation of work processes, to simplify the information flow and procedures concerning taxpayers, and to improve the operational effectiveness in general. Such an organisational structure places workers into functional groups (e.g. registration, accounting, information processing, control, collection, appeals, etc.), but, in general, works along a type of tax. When compared with the structure described in the previous chapter, created around types of tax, the application of the organisational structure based on groups increased the performance of the tax revenue administration (e.g. provided individual access points for tax enquiries, simplified the system of taxpayer registration, access to tax payments and accounting, etc.), and also increased the effectiveness of the tax control and debt collection. The modern theories of management, however, criticise such organisation of work for the division by functions, leading to the provision of poor, insufficient services and standardisation that does not bring effectiveness to the tax revenue administration due to taxpayers' varied and differing behaviours in the fulfilment of their obligations.

▪ **Structuring by individual types of taxpayers**

The latest development in some developed countries has brought a model of organising services and law enforcement based on the principle of taxpayer segmentation (e.g. big taxpayers, small/medium-size taxpayers, employers, etc.). In this case the rationalisation in organising such functions by taxpayer types is in the fact that each group of taxpayers has different characteristics and behaviour and consequently represents a different level of risk in relation to the tax revenues. In order to manage those risks effectively, the tax revenue administration needs to develop and implement strategies (e.g. interpretation of the law, education of taxpayers, improving of the quality of services, focused tax inspections) that are suitable for the unique characteristics and ways of the fulfilment of tax obligations in the cases of individual types of taxpayers. From the management perspective, such a type of organisational structure creates space for the delegation of tasks and a vertical expansion of management, copying the needs of taxpayers, through the centralisation of key functional activities within a single management structure, which, consequently, improves the level of performance. Despite a multitude of advantages and its modern management approach, the application of such an organisational structure is, for the present, in its initial phase. In some countries, departments and divisions for big taxpayers are being introduced into the tax revenue administration system.

2. TRENDS IN THE MANAGEMENT OF THE TAX REVENUE ADMINISTRATION IN SLOVAKIA AND IN NEIGHBOURING COUNTRIES

Each of the monitored V4 countries and Slovenia declare the orientation of their tax revenue administrations that corresponds with the decisive parameters of the effective tax revenue administration of the European Union countries. The upcoming trends in the management of the tax revenue administration (TRA), in relation with the mentioned facts concerning the TRA management in the individual V4 countries and Slovenia, irrespective of the advancement of their economies, can be summarised into the following several points:

- a) Effort to increase the voluntary fulfilment of tax and health and social welfare insurance obligations, professionalism, partnership and correctness in the relations with the tax revenue administration clients;
- b) Continual activities supporting the decreasing of tax arrears and tax evasion;
- c) Building an organisation communicating with its employees and clients professionally, openly, intelligibly and timely;
- d) Effort to use human resources more effectively, to be an employer offering a job perspective and the growth of the employees' professional level;
- e) The utilisation of the information technology in the TRA with the objective to get closer to the taxpayer and to speed up the tax offices' work processes in the area of administration;
- f) To constantly look for new opportunities for the improvement, increasing of the quality and making services more effective without major modifications of the legislation;
- g) Education and training of workers in order to create a more versatile work potential;
- h) Effort to implement an effective system for the measurement of the quantity and quality of work at all levels of the tax revenue administration, set for each critical factor of success and representing a measurable value.

As a starting point of the upcoming trends in Slovakia' tax revenue administration we take the Government's Programme Declaration¹ of 4.11.2002, which, in the part "Economic Policy", sets out the following objectives in the tax revenue administration: simplify the tax legislation, update the parts of the tax laws that allow ambiguous interpretation, simplify the sanction system in the area of tax revenue, decrease direct taxes, shift the tax burden from direct taxes to indirect taxes, reassess the application of property tax rates, unify income tax rates, analyse the possibility to introduce a flat tax, strengthen the tax revenues of municipalities, specify own tax revenues of higher territorial units, secure strict, direct, fair and effective collection of taxes, decrease tax rates, restrict tax evasion, and create a new system of horizontal financial balancing.

„Slovakia is the eighth most attractive European country from the perspective of tax systems. In the KPMG International's ranking, compiled on the basis of a survey of European company representatives' views on the attractiveness of domestic tax regimes, Cyprus was placed at the top, followed by Switzerland. Both countries obtained high ranking thanks to a unified interpretation of the tax legislation, minimum changes in tax laws and relatively low tax rates.”²

¹ <http://www-8.vlada.gov.sk/index.php?ID=918> – Programme Declaration of the Government 2002

² <http://ekonomika.sme.sk/c/3685557/Slovensko-ma-osmy-najpritzlivejsi-danovy-system-v-Europe.html>

The survey³ was carried out by KPMG International⁴ and its results reflect the views of more than 400 tax specialists in multinational companies in Europe. The evaluation criteria included the attractiveness, administrative demands, consistency, long-term stability, extent of legislation, tax rates and relations with tax offices. At the European level, according to the survey results, the least attractive area is the extent of the tax legislation. The order of the countries is specified on the basis of “absolute attractiveness”, which was calculated as a difference between the percentage of the respondents according to whom the key aspects of their domestic taxation systems were attractive, and the percentage of not satisfied respondents.

Slovakia, and not just by the last tax revenue administration reform of 2007 or by the introduction of a flat tax rate, joined the progressive countries of the European Union and significantly boosted its attractiveness and competitiveness.

From the perspective of tax management levels within Slovakia, the current state can be defined as an officially two-level management, but by the transfer of some competences of the Slovak Tax Revenue Directorate (DR SR) to its detached offices (DO), it is, in fact, a three-level management, whose justification is based on the need to manage 102 tax offices, which is not possible to do from a single centre. Such organisation of the tax revenue administration is not optimal due to the following reasons:

- The performance of the main processes is fragmented by the territorial principle, while each tax office (TO) (small, medium as well as large) runs all processes related with the administration and control of taxes and tax execution, so it is not possible to achieve the optimisation of the performance of such processes or of costs of their performance from the perspective of the tax revenue administration as a whole;⁵
- The system of the deployment of tax offices is little flexible, as it does not allow to adapt the deployment of the basic organisational units to the needs of taxpayers;
- In the current system of management, DOs represent an administrative level of management, while there has been a long-term need in their work to concentrate the performance of some processes (e.g. accounting, payroll) that are unnecessarily split between the tax revenue directorate (DR SR) and the DOs and increase the administrative and communication demands;
- In the work of DOs' employees, there are problems that are characteristic for organisations that, along the line management, also apply other types of management (e.g. project, specialised-methodological, etc.). It is, for example, the case of the assignment of tasks by specialised managers of DR SR, which can collide in timing with tasks assigned by line DOs' managers.

On the basis of the above-mentioned, the concept of the reform being prepared takes into consideration the principle of justice, neutrality, simplicity, unambiguousness, efficiency and the exclusion of double taxation. The Financial Policy Institute's analyses dated to 2001 – 2004 show the reasons for the clear need of a reform:

- Complexity of the tax law – lack of clarity;
- A lot of exemptions, liberations and reliefs, leading to social ineffectiveness, when the production and consumption is not influenced by the supply and demand, but also by tax advantages;
- Variability of the specification of the tax base, which allows the optimisation by the taxpayer, which increases administrative costs and decreases the possibility to control.

³ <http://www.kpmg.com/SiteCollectionDocuments/2007CorporateandIndirectTaxRateSurvey.pdf>

⁴ KPMG is a global network of companies providing services in the field of auditing, taxes and consulting. Its member companies operate in 145 countries and employ more than 123,000 workers

⁵ RAŠNER, J., RAJNOHA, R.: *Nástroje riadenia efektívnosti podnikových procesov (Tools for Managing the Effectiveness of Enterprise Processes)*, Zvolen : TU in Zvolen, 2007.

From the perspective of the management and organisation of the tax revenue administration, as further reasons we can consider:

- Complexity of the organisational structure – duplicity of functions and powers at the central and regional levels;
- A costly administrative tax revenue administration apparatus;
- Non-transparent project management, decreased possibility to control processes;
- The taxpayers' unwillingness to pay taxes;

The Slovak government's intention, declared in the mentioned Slovak Government's Programme Declaration, is to carry out the reform of the tax revenue administration in a way that makes it more effective, with the objective to methodologically help the taxpayers with a good taxpaying discipline and to uncover taxpayers that avoid the payment of taxes. The objective is to create conditions for an effective co-ordination of public administration bodies, to guarantee the access by citizens via the Internet, and to secure the interconnection of information systems of public administration bodies. The reform of the customs administration, with the vision of uniting the tax, duty and health and social welfare insurance premium collection processes, is also a priority task of the Slovak Ministry of Finance. The reform should take place in two phases: the first one will unite the tax revenue and customs administrations; in the second one, the tax, duty and health and social welfare insurance premium collection will be united.

The first phase has the name UNITAS I and part of it is a reform of the tax revenue and customs administration. For that phase it is proposed to examine the possibilities of process synergies in the tax revenue and customs administrations, to adopt legislative changes resulting from both audits and to subsequently coordinate the implementation of changes in both institutions. That determines the subsequent decision whether the optimization process will result in the uniting of the tax revenue and customs administrations or whether they will keep existing separately. It is proposed to develop a feasibility study, which would comprehensively assess the essential preconditions, possible benefits, and risks of uniting the tax, duty and health and social welfare insurance premium collection.

The second phase of the reform being prepared, also called UNITAS II, and its launch, will be influenced by the successful realisation of the benefits of the UNITAS I phase. In the UNITAS II phase, after the development of process models in the institutions concerned, a process model of the united collection should be developed, with a subsequent change in the legislation and the adaptation of the information technology (IT) support of the affected organisations.

The optimisation of the processes in line with the above-mentioned intentions focuses in particular on:

- Centralisation of the tax revenue and customs methodology at the Financial Directorate (FR SR);
- Centralisation of services for the public at the FR SR;
- Centralisation of the payment contact and of the accounting of taxes, fees and duties at the FR SR;
- Concentration of the execution process at Financial Offices (FOs);
- Concentration of the control process at the FOs;
- Concentration of taxes;
- Splitting of tax administrators' tasks by the character of activities and the uniting of tax administrators' registration and administrative activities;
- Centralisation of support processes at the FR SR;
- Unification and simplifying of forms for obliged taxpayers;

- Introduction of a unified identifier for natural persons and legal entities;
- Development of electronic services and elimination of paper-based communication;
- Development of electronic communication with other public administration bodies and with other bodies and institutions;
- Reduction of bureaucracy through the introduction of e-government, electronic communication and digitising of files;
- Reduction of the taxpayer's loading by the removal of the duplicity of the provision of information to public administration bodies.

Through that process, Slovakia is getting closer to an effective taxation system, which will mean an increased effectiveness and competitiveness of our country within EU countries. The impacts of the proposed changes can be split into two basic categories. The first one includes the benefits of the reform of the tax revenue and customs administration that have in particular the character of cost and time savings, of increased added value and work efficiency, etc. The second category is represented by the expenditures made to achieve the individual objectives on the reform of the tax revenue and customs administration. Both of the mentioned categories are further split into the impacts on the taxpayer, i.e. the user, and the impacts on the public administration. The expenditures and benefits of the reform either have a one-off, time-limited, or permanent character. From the financial perspective, the impacts with a permanent or repeating effect are of the greatest significance.

CONCLUSION

In the research of the issue, we started from the existing functional organisational structures and tax revenue administration systems not just in Slovakia, but also in Hungary, Poland, the Czech Republic and Slovenia, while the basic assumption of the examination was an increase in the effectiveness of the system as a whole, through a change in the organisational structure and its optimisation, as well as through the introduction of marketing principles in the area of orientation on the customer in order to achieve a positive image in the eyes of the public.

The introduction of the reform in Slovakia's tax revenue administration (TRA) that is being prepared lies in the optimisation of the number of tax offices (TOs) and in the change of the organisational structure, which will bring significant savings in their budgets. In the next phase, the uniting of the tax revenue and customs administrations is being planned with the objective to subsequently unify the collection of taxes, duties and health and social welfare insurance premiums.

From the managerial perspective, the following expectations of the benefits of the reform are significant:

- Better administration of the state's receivables with the possibility of their mutual compensation and a stronger position in receiverships;
- Optimisation of the number of employees by the elimination of the performance of duplicate activities and by the reduction of management positions;
- Decreased costs of the running of a united organisation.

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