

FORUM ON TAX ADMINISTRATION

Supporting SMEs to Get Tax Right Series

Strategic Planning



Preface

It has been a great pleasure for the Netherlands Tax Administration to sponsor the OECD Forum on Tax Administration (FTA) project on supporting Small and Medium-sized Enterprises and Entrepreneurs (hereafter jointly referred to as 'SMEs') to get tax right. Getting tax right is not just about the actions of SMEs. It is also about what tax administrations do, and covers tax compliance activities, which help to ensure fair competition, as well as efforts to minimise both compliance burdens and wider administrative burdens. The success of the SME sector is extremely important for the economy, being an engine of growth and employment as well as a significant source of tax revenue. Recognising this, as well as the huge diversity of SMEs, many tax administrations have moved over recent years towards an SME centric approach. The aim has been to enhance their understanding of the SME sector and to actively look for new ways to simultaneously enhance compliance and reduce burdens. The sharing of knowledge and experiences with other tax administrations through collaboration within the FTA has been a very important part of this process.

We in the Netherlands Tax Administration have leveraged this shared knowledge to help us in designing new cooperative approaches with all types of participants within the SME sector, as well as in the implementation of new service strategies and in the development of a new theoretical framework for the compliance behaviour of SMEs.

Work on this new SME project looking at the latest developments and opportunities was, unsurprisingly, heavily affected by the rapid spread of the COVID-19 virus. The importance of the work, though, became even more pronounced given the deep and sustained impacts of the pandemic on the SME sector. We therefore recast the project into a number of constituent parts, ensuring that our collective attention will remain on this sector over the coming year. This first part of what will form a connected series of reports, sets out the importance of taking strategic approaches towards supporting SMEs to get tax right, which requires building an understanding of the wider environment and difficulties facing SMEs as well as the available opportunities, including through the use of new technology tools.

Drawing from the experiences of a large number of FTA members, as well as experts within our own administration, the report sets out guidance over the range of issues involved in setting, implementing and evaluating strategic approaches, supplemented by examples taken from a large number of countries. The report benefited, in particular, from a workshop held in February 2020 in Utrecht which brought together around 30 tax administrations together with representation of the Dutch umbrella organisation for tax advisers, academics and the OECD's Centre for Entrepreneurship, SMEs, Regions and Cities.

For us, this project has come at a crucial time. As will be set out in a subsequent report in this series, the Netherlands Tax Administration is currently working in partnership with SMEs and software developers to set up an uninterrupted administrative chain from SMEs to tax administration. The aim is for the administration of tax to be increasingly built in to the natural systems that SMEs use to run their businesses, helping to make tax a more seamless process and to significantly reduce burdens. It will be crucial in this endeavour to work hand-in-glove with SMEs, tax intermediaries, software developers, other parts of government and, of course, with our fellow tax administrations. We hope that tax administrations and SMEs alike will find this report helpful in stimulating thinking and in enhancing cooperation and engagement as to how to "get tax right".

Peter Smink

Director-General
Netherlands Tax Administration

A handwritten signature in black ink, consisting of a large, stylized 'S' with a horizontal line through it, followed by a smaller 'm' and 'k'.

Acknowledgements

Tax Administration: Supporting SMEs to Get Tax Right Series: Strategic Planning is the first in a series of reports published by the OECD's Forum on Tax Administration (FTA) on supporting small and medium-sized enterprises and entrepreneurs (hereafter jointly referred to as 'SMEs') in complying with their tax obligations while minimising both compliance burdens and wider administrative burdens.

The first part of this publication was authored by Oliver Petzold and Peter Green from the FTA Secretariat, with input and assistance from Rex Arendsen, Raffaele Articolo and Sonia Nicolas. A particular thanks to Marcel Snippe from the Netherlands Tax Administration for chairing the project's Steering and Drafting Group which is leading the work on this series of reports.

The authors would like to thank officials from FTA members for their guidance and valuable contributions, in particular: Jennifer Ryan, Harry Gill and Sahil Behal from the Canada Revenue Agency; Nicolás Chau and Anita Silva Riesco from the Chilean Servicio de Impuestos Internos; Róbert Pál Márton and István Szalóki from the Hungarian National Tax and Customs Administration; Nidya Hapsari, Satrio Adhi Wibowo, Agung Pranoto Eko Putro and Rachman Ferry Isfianto from the Directorate General of Taxes from Indonesia; Rolf G. Nijenhuis, Paul Jairath, Jeroen A.M.J.B. van Hulten, Jaco W. Tempel and Marcel Snippe from the Netherlands Tax Administration; Pablo Díaz-Taguatinga, Patrik Lindmark and Magnus Wallström from the Swedish Tax Agency; and Afi Adjei, Julie Nicholson, Diana Lwanga and Landry Mutunda from the United Kingdom's Her Majesty's Revenue and Customs.

A special thanks goes also to Lucia Cusmano, Anne Rimmer and Stephan Raes all working in the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE), for their comments and input throughout the drafting of the first part.

The second part of this report benefits from two case studies which provide a country view on how to develop a strategic approach for SMEs. The first case study was authored by Aan Almaidah Anwar, Inge Diana Rismawanti, Roberto Satria Mahayasa and Nidya Hapsari from the Directorate General of Taxes of Indonesia, and Khusnaini from the Polytechnic of State Finance STAN Indonesia. The second case study, was prepared by Ong Hui Zhen Jocelyn and Lim Siew Gim from the Inland Revenue Authority of Singapore.

Finally, a very warm thank you to the Netherlands Tax Administration and Deputy Director for SMEs Arno J.M. van Dongen for hosting the project workshop in Utrecht, the Netherlands. This report, and subsequent reports in this series, benefitted much from the presentations and discussions held by tax administration officials from around 30 countries; OECD officials from CFE and FTA, including CFE Director Lamia Kamal-Chaoui; Pieter Asjes from the Dutch Association of Tax Advisers; and Nitesh Bharosa from the Delft University of Technology.¹

1. For further information see www.oecd.org/tax/forum-on-tax-administration/events/report-fts-workshop-on-small-and-medium-enterprises.pdf

Table of contents

Preface	3	Tax administration resources	42
Acknowledgements	5	Culture	42
Executive summary	8		
PART I – Designing, implementing and understanding the effectiveness of strategic approaches for SMEs			
1			
INTRODUCTION	10	UNDERSTANDING THE EFFECTIVENESS OF THE STRATEGIC APPROACH	44
... SME's matter a lot ...		Identification of indicators and related data sources	45
... but they face significant challenges ...		Data collection	47
... COVID-19 has made things a lot harder ...		Analysing the data and understanding the outcomes	48
... and what tax administrations do matters a lot.		PART II – Case studies	49
So what can tax administrations do?		5	
Customer-centric strategic approach		INDONESIA: DEVELOPMENT AND IMPLEMENTATION OF THE BUSINESS DEVELOPMENT SERVICE PROGRAMME	50
2		Background – Overview	50
DEVELOPING A STRATEGIC APPROACH	16	BDS programme	51
Strategies taken by tax administrations towards SMEs		BDS methods	52
Developing the strategic plan		BDS collaboration pattern with institutions, organisations, associations and other parties (ILAP)	53
3		Report and publication of the BDS programme	55
IMPLEMENTING THE STRATEGIC APPROACH	38	BDS activities during 2015-2019	55
Organisational structure		The challenges of BDS programme implementation	56
Communication		Tax education strategy during the COVID-19 pandemic	56

6

SINGAPORE: SERVICE DESIGN PROJECT FOR SMALL AND MEDIUM ENTERPRISES **58**

Overview	58
Implementation process	58
Challenges faced during the implementation	60

References **70**

FIGURES

Figure 1.1. SMEs account for nearly all the firms	11	Figure 2.7. Tax administrative tasks	29
Figure 1.2. SMEs provide about 60% of employment	11	Figure 2.8. The estimated proportion of enterprises outsourcing tax compliance activities by enterprise size	32
Figure 1.3. SMEs generate over half of all business sector GDP	11	Figure 3.1. Key factors for successful implementation of the strategic approach	39
Figure 1.4. Survival rate of U.S. small businesses established in 2009	12	Figure 3.2. SMEs average cost related to data collection as a percentage of total tax compliance cost	41
Figure 1.5. Selected items of administrative burdens	13	Figure 4.1. Measuring the effectiveness of the strategy	45
Figure 1.6. From tax administration-centric to customer-centric	15	Figure 4.2. Potential indicators for understanding the effectiveness of the strategic approach	47
Figure 2.1. Factors that may influence burdens and tax compliance	17	Figure 5.1. BDS methods	53
Figure 2.2. Tax administration's strategies towards SMEs: Three staged approach	18	Figure 5.2. BDS themes	54
Figure 2.3. Context setting – Selected aspects helpful for understanding SMEs	21	Figure 6.1. IRAS approach to service design	59
Figure 2.4. Methods and techniques for understanding the SME business environment	22		
Figure 2.5. Impact of administrative burden on entrepreneurial activity	27		
Figure 2.6. International trends in understanding and measuring customer perceptions of burdens from tax policy	28		

TABLES

Table 2.1. Evolution of the average verification adjustment rates by audit type (in percent) between 2014 and 2017	34
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Executive summary

In many countries, small and medium-sized enterprises and entrepreneurs (hereafter jointly referred to as ‘SMEs’) are the backbone of the economy. They account for about 60% of employment and are largely responsible for economic growth, accounting for 50% to 60% of value added. (OECD, 2019^[1]) But while they are so important, they also face a significant number of challenges.

Understanding both the importance of SMEs to the economy and these multifaceted challenges, members of the OECD Forum on Tax Administration (FTA) have collaborated over many years on initiatives aimed at reducing SMEs’ administrative burdens while ensuring tax compliance. This collaboration has resulted in a number of publications, such as the 2014 report *Tax Compliance by Design: Achieving Improved SME Tax Compliance by Adopting a System Perspective* (OECD, 2014^[2]) and the 2016 report *Rethinking Tax Services: The Changing Role of Tax Service Providers in SME Tax Compliance* (OECD, 2016^[3]). In the light of the increasingly rapid digitalisation of the economy, the changing business environment and the recent impacts of COVID-19, FTA members decided to revisit these issues by collaborating on a series of reports aimed at supporting SMEs to get tax right.

Tax administrations can play a key role in supporting SME compliance and in reducing the burdens they are confronted with. While tax administrations will not be able to address fully all of the different drivers of burdens faced by SMEs, they may be able to help mitigate many of them, especially tax compliance costs which can be significant for SMEs, particularly when compared to large businesses.

In particular, tax administrations are well-positioned:

- To identify pressure points for SMEs stemming from the tax system, including engaging with policy makers and other government agencies to help reduce burdens through whole of government approaches; and
- To ensure fair competition by reducing burdens on honest taxpayers while taking action against the non-compliant.

In doing so, tax administrations might want to consider adopting a strategic approach which would allow them to not only focus on immediate concerns in a holistic manner, but also to plan for more systemic changes which take time. This includes the use of new digital tools and compliance-by-design processes, as well as better joining-up across government. Key to this is enhanced engagement with SMEs to improve understanding of their environment, constraints and possible opportunities for further supporting them to get tax right.

This report, the first in the planned series of reports on supporting SMEs, is intended to assist tax administrations in developing a strategic approach as outlined above. It sets out which elements tax administrations may wish to consider and which stakeholders to involve and how. It also provides some ideas and examples as to the development and implementation of such strategies.

The report is organised around two parts. The first part, which looks at designing, implementing and understanding the effectiveness of strategic approaches for SMEs, consist of four chapters:

- **Chapter 1. Introduction:** This introductory chapter briefly describes the importance of SMEs, the challenges they are facing and the roles tax administrations can play in supporting SME compliance and reducing burdens;

- **Chapter 2. Developing a strategic approach:**

This chapter looks at the different strategic approaches taken by tax administrations towards SMEs and identifies a number of building blocks that administrations may wish to consider when developing a strategy, including the importance of developing an understanding of how SMEs operate, as well as the identification of approaches to manage compliance risks and to reduce administrative burdens;

- **Chapter 3. Implementing the strategic approach:**

This chapter identifies the key factors for a successful implementation of the strategic approach, including organisational structures to support SMEs, internal and external communication of the approach, the tax administration resources, and cultural aspects; and

- **Chapter 4. Understanding the effectiveness of the strategic approach:**

This final chapter of the first part sets out the process of measuring the effectiveness of an SME strategy, including the importance of identifying indicators and related data sources, how to collect and analyse relevant data, and how to understand the outcomes.

The second part of the report includes two case studies which provide a country view on how to develop a strategic approach for SMEs. The first case study, **Chapter 5**, was authored by the Indonesian Directorate General of Taxes (DGT). It looks at the development and implementation of the DGT's business development service programme. **Chapter 6**, which contains the second case study, was prepared by the Inland Revenue Authority of Singapore and describes its service design project for SMEs.

It is intended that future reports in this series will cover:

- Tax administration engagement with SMEs,

including out-reach and education;

- Digital services provided to SMEs, including how to support those that are digitally challenged;
- Issues around trust, fairness and cooperation, including the risks of the COVID-19 environment on compliance; and
- Solutions that integrate tax affairs in the regular business operations, so called “seamless taxation” solutions.

To support the production of these reports and to support an ongoing international collaboration among tax administrations on SME-related issues, it is recommended that members of the OECD's Forum on Tax Administration (FTA) set-up a new Community of Interest on SMEs. This community would bring together tax officials from FTA member jurisdictions on a regular basis to exchange and present on latest developments in this sector, and to discuss new ideas and approaches for engaging with SMEs.

Caveat

Tax administrations operate in varied environments, and the way in which they each administer their taxation system differs in respect to their policy and legislative environment and their administrative practice and culture. As such, a standard approach to tax administration may be neither practical nor desirable in a particular instance. Therefore, this report and the observations it makes need to be interpreted with this in mind. Care should be taken when considering a country's practices to fully appreciate the complex factors that have shaped a particular approach. Similarly, regard needs to be had to the distinct challenges and priorities each administration is managing.

PART I

Designing, implementing and understanding the effectiveness of strategic approaches for SMEs

1

Introduction

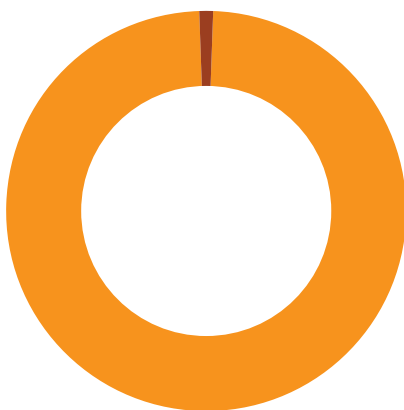
This report sets out the case for tax administrations to develop strategies towards small and medium-sized enterprises and entrepreneurs (hereafter jointly referred to as 'SMEs') and

provides some ideas and examples as to the development and implementation of such strategies. There are a number of reasons why this matters. In particular ...

... SME's matter a lot ...

FIGURE 1.1.

SMEs account for nearly all the firms



■ SMEs ■ Large business

FIGURE 1.2.

SMEs provide about 60% of employment



■ SMEs ■ Large business

FIGURE 1.3.

SMEs generate over half of all business sector GDP



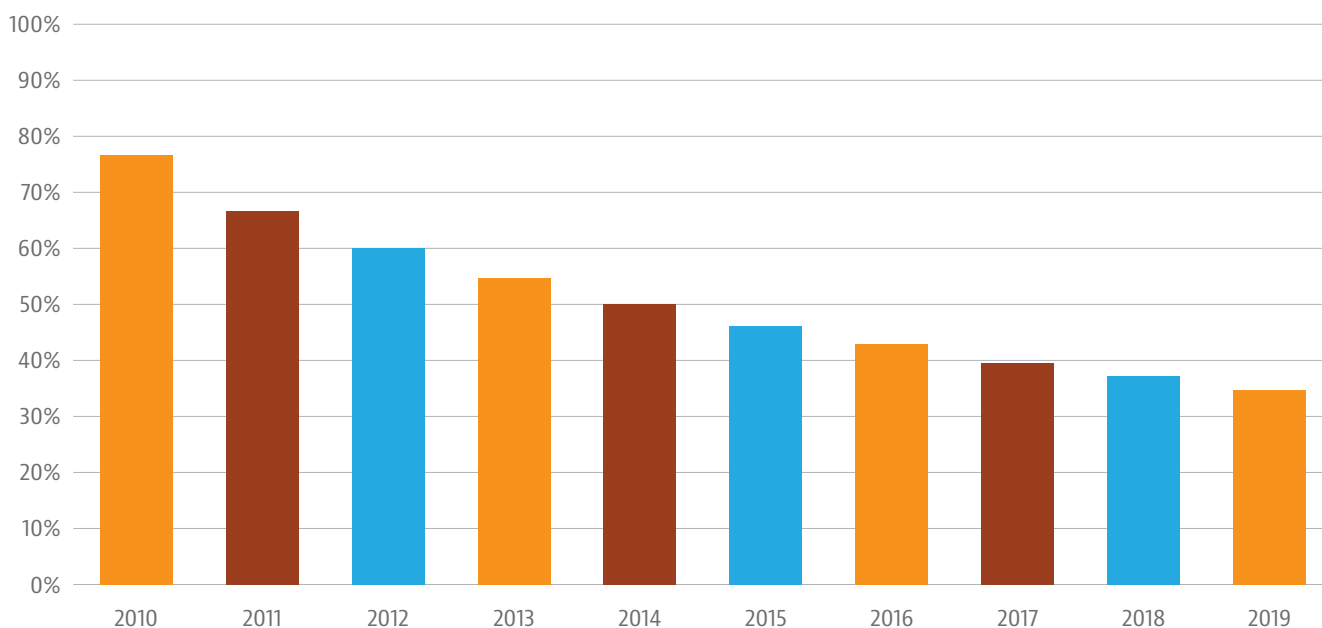
■ SMEs ■ Large business

Source: OECD (2019), *OECD SME and Entrepreneurship Outlook 2019*, <https://doi.org/10.1787/34907e9c-en>.

... but they face significant challenges ...

FIGURE 1.4.

Survival rate of U.S. small businesses established in 2009



Source: U.S. Bureau of Labour Statistics (2019^[30]), *Business Employment Dynamics: Establishment Age and Survival Data - Table 7. Survival of private sector establishments by opening year*, www.bls.gov/bdm/us_age_naics_00_table7.txt (accessed on 22 September 2020).

... COVID-19 has made things a lot harder ...

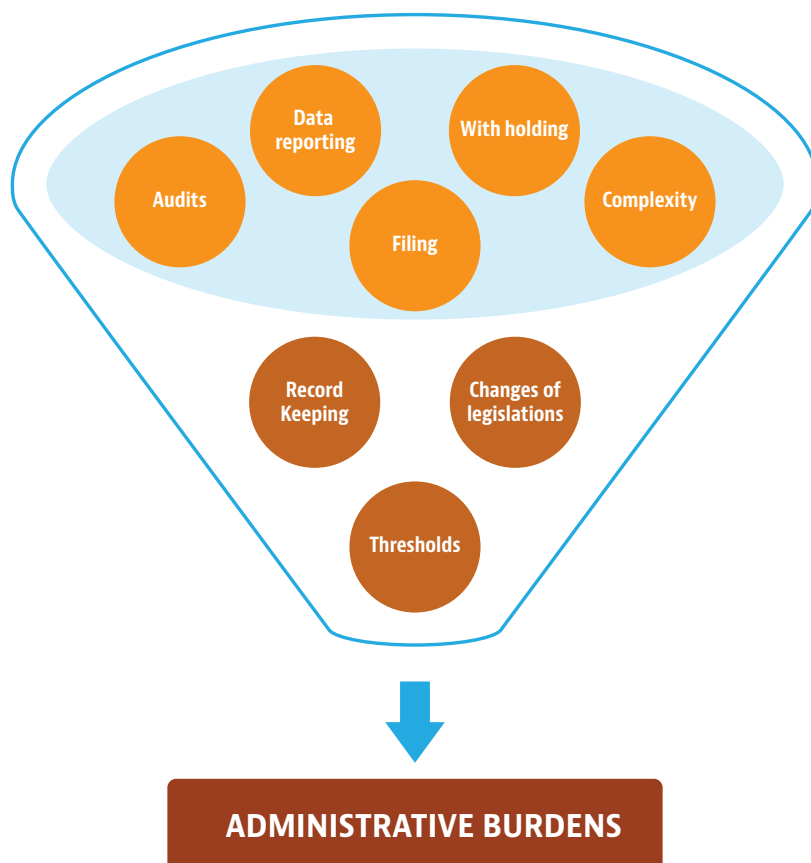
More than half of SMEs face severe losses in revenues and up to 50% of SMEs fear to be out of business without further support within three months. There is an above average representation of SMEs in sectors particularly affected by the crisis and that in these sectors the share of SMEs in employment is 75% on average across OECD countries.
(OECD, 2020^[4])

In July 2020, 58% of operational small-medium businesses reported lower sales relative to the same 30-day period in 2019 and of those, 51% reported declines in sales of over 50%. Closed businesses cited financial challenges as the primary reason.
(Facebook/OECD/World Bank, 2020^[5])

... and what tax administrations do matters a lot.

FIGURE 1.5.

Selected items of administrative burdens



**Compared to large businesses, SMEs face proportionally higher tax compliance cost - the ratio between total tax-related compliance costs and paid taxes) of 30.9%, whereby large companies have a cost to tax revenue ratio of only 1.9%.
(European Commission, 2007^[6])**

**There exists a considerable number of studies implying a high relevance of tax compliance costs compared to the overall burden of 'red tape'...The ratio of tax costs to the sum of compliance burdens ranges typically from about one third to two thirds.
(Eichfelder and Vaillancourt, 2014^[7])**

**Data collection to fulfil tax obligations is the most burdensome activity for small businesses.
(European Commission, GFK, KPMG, 2018^[8])**

So what can tax administrations do?

There are perhaps four key roles for tax administrations in supporting SME compliance and reducing burdens, made all the more pressing by the impacts of COVID-19:

- **Understanding and addressing burdens and constraints:** Tax administrations, through their regular contacts and direct interactions with the SME sector and its representatives, are well-positioned to be able to identify pressure points. These pressure points may arise from aspects of tax compliance, life-cycle events (such as becoming an employer), levels of understanding of requirements and interactions with other parts of the wider government regulatory frameworks. Those findings can be used to improve service and support mechanisms, and to reduce tax administrative burdens.
- **Supporting fair competition:** most SMEs will try to get their tax right despite the constraints which can result in high levels of errors. But not all will do so and this unfairness damages honest businesses. Effective and targeted compliance activities, including tackling those operating in the shadow economy, are therefore an important aspect of support for SMEs to reduce burdens on honest taxpayers while taking action against the non-compliant. It may be useful in this respect for tax administrations to consider ways in which it might be possible for SMEs to demonstrate that they are taking reasonable care through the processes they undertake. For example, low-burden co-operative compliance approaches might be considered, adapting the regimes put in place in many countries for large businesses, possibly including the use of adapted tax control frameworks.²
- **Engaging with policy makers:** In addition, understanding the linkages that exist with other government authorities, such as business registration offices and social security authorities, can helpfully inform wider government efforts to assist SMEs and reduce burdens. This can include the options for better joining-up across agencies, for example by sharing data or combining activities. This includes engaging with tax policy makers as to the impacts of tax policies, including the frequency of changes in tax legislation, on SME burdens.
- **Adopting a strategic approach:** Compared to a piecemeal approach, taking a strategic approach allows administrations to not only focus on immediate concerns in a holistic manner, but also to plan for more systemic changes which take time, such as new e-services, better joining-up across government and more engagement with taxpayers' natural systems (i.e. the systems that SMEs choose to run their businesses, undertake transactions and interact).

2. For further information on co-operative compliance approaches see OECD reports *Co-operative Compliance: A Framework: From Enhanced Relationship to Co-operative Compliance* (OECD, 2013^[29]) and *Co-operative Tax Compliance: Building Better Tax Control Frameworks* (OECD, 2016^[31]).

Customer-centric strategic approach

As expectations and demands on the services provided by tax administrations are growing, many governments have changed their vision of public services and introduced customer-centric approaches. These put the taxpayer at the centre of the tax system rather than the tax administration.

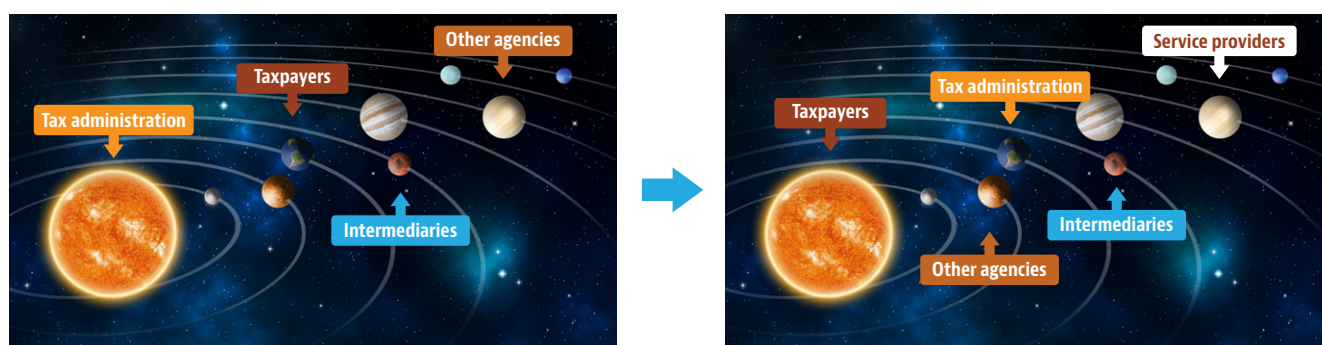
The idea behind this approach is to design and implement services based on the needs of SMEs and their operational business environment, and not driven primarily on the requirements and internal processes of the administration. Through working closely together, the services developed under such

SME-centric approach should have a measurable positive impact on taxpayer satisfaction, which may result in positive effects on administrative costs and attitudes towards tax compliance.

Taking an SME centric-approach may also assist with identifying issues in the SME space more quickly, as close engagement and direct feedback may reduce the time-lag for finding opportunities for improvement with regards to both administrative burdens and tax compliance. It may further help tax administrations to find solutions that are cost-effective and efficient for both parties.

FIGURE 1.6.

From tax administration-centric to customer-centric



“The heterogeneity of the SME population, the diversity of their business ecosystems and the pressing challenges ahead call for a fundamental rethinking of [SME] policy. A whole-of-government approach will be a key factor of success, including efficient multilevel governance arrangements across national and subnational levels, regions and cities, international peer learning and enhanced monitoring and evaluation capacity.”
(OECD, 2019^[1])

2

Developing a strategic approach



Tax administrations are at the heart of the changing business environment, as described in Chapter 1, and they play a key role in providing assistance to SMEs so that they can master the challenges ahead, including those caused by COVID-19. For this reason, it is important to understand that every aspect of an SMEs day-to-day business can have an impact on how they deal with taxes and how they perceive the overall administration of the tax system. In developing this understanding there is no substitute for direct engagement with the SME community. Having the right strategic approach to this sector may prove beneficial in simultaneously reducing burdens and improving tax compliance. At the same time, it is important to note that tax administrations will not be able to address fully all of the different drivers of burdens faced by SMEs although they may be able to help mitigate many of them.

Figure 2.1. illustrates a number of factors that may influence administrative burdens (or their perception) and tax compliance. Whilst the list of factors is not meant to be complete, it does show that there are a number of factors that the tax administration can address as part of an SME strategy. For example, the suite of service offerings provided to businesses in this sector is controlled by tax administrations and the level of tax understanding can be influenced via educational campaigns. Whereas, resource and time constraints

is rather a business issue, the actions of tax administrations can make things easier.

A tax administration's strategy for SMEs should also take account and, as far as possible, align with government-wide strategies. SMEs are not only customers of the tax administration but in many situations also interact with other government bodies. For example, a large number of SMEs serve as employment intermediaries and are responsible for making sure that tax and social security contributions are paid correctly for workers. Thus the administrative burden can quickly aggravate where there are several employer-reporting requirements within a jurisdiction. SME policies are multifaceted, and include a variety of framework and more targeted instruments, with a role for several Ministries and agencies and levels of government. Tax administrations may therefore consider working with other government bodies. An outcome of such government-wide co-operation could be whole-of-government strategies to promote growth in the SME segment.

Strategies taken by tax administrations towards SMEs

The strategic planning implementation process

FIGURE 2.1.

Factors that may influence burdens and tax compliance

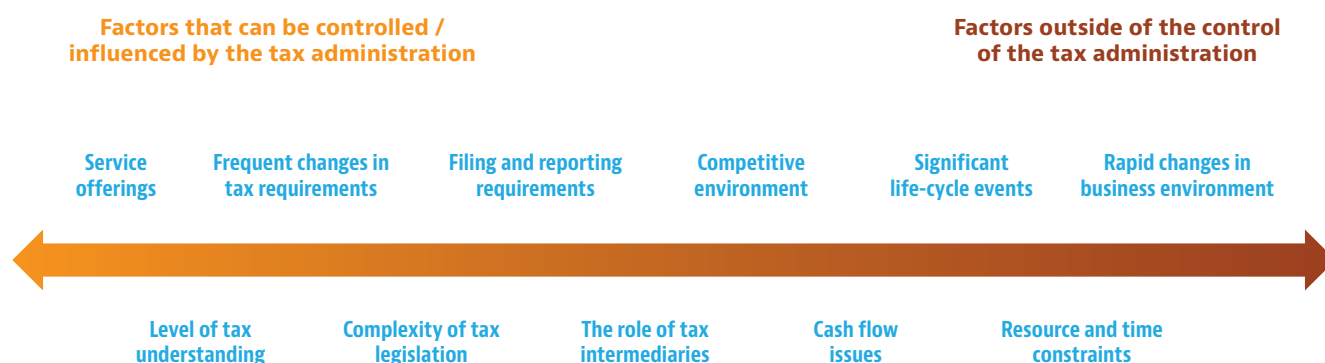
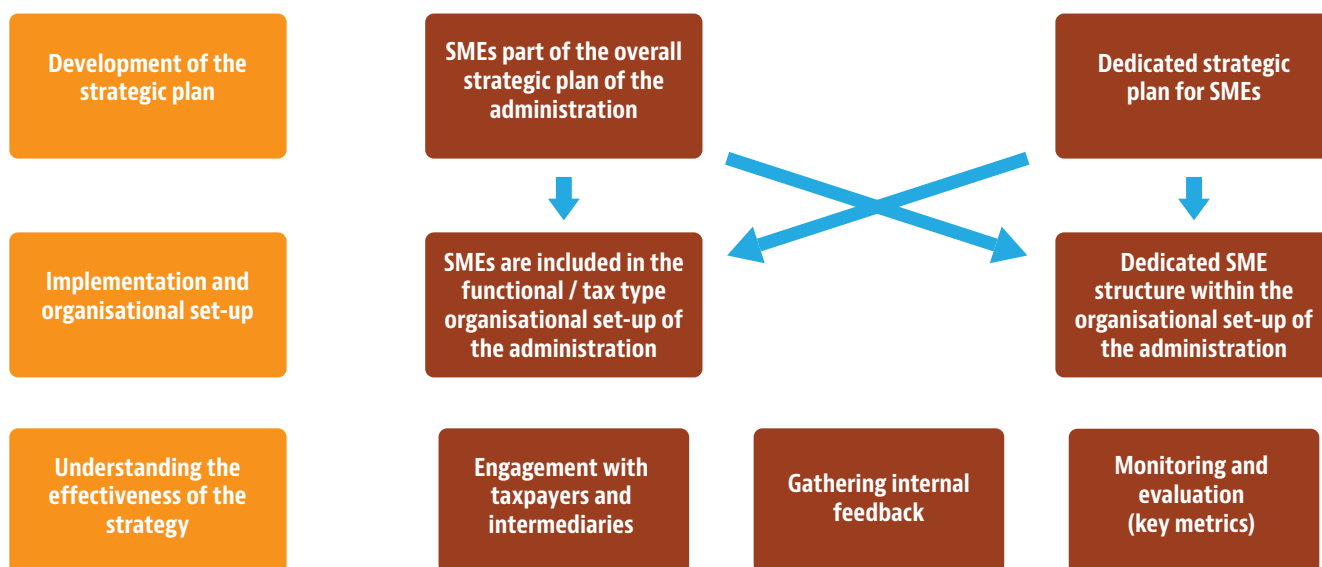


FIGURE 2.2.

Tax administration's strategies towards SMEs: Three staged approach



can be split into three main stages (see Figure 2.2.). First, the administration needs to develop a strategic plan that establishes the directions it wants to take. Second, the plan needs to be implemented by the administration (which may also involve intermediaries) and, third, the administration should monitor its effectiveness to inform future planning processes. This Chapter will now look at the development of the strategic plan, whereas the other stages are covered in Chapters 3 (Implementation) and 4 (Understanding the effectiveness).

Developing the strategic plan

Generally, a tax administration's overall strategy can be found in the strategic plan (or documents with a similar name and purpose). The plan typically covers multiple years and can vary in the level of detail in setting out key directions and priorities (OECD, 2015^[9]). It will help to ensure that the whole organisation is working towards the same goals and it should simplify decision-making at all levels, as the strategic directions are already set. The strategic

plan should ideally be aligned with the overall strategy or policy framework towards SMEs in a country.

Almost all tax administrations have an overall strategic plan and in most cases it is made public (OECD, 2019^[10]). Generally, there appears to be two approaches when it comes to SMEs and how they are covered in a strategy. The first approach is one where SMEs (given that they are part of the overall taxpayer base) are directly covered by the tax administration's overall strategic plan which looks at the different themes and functions such as improving compliance, reducing burdens and enhancing taxpayer services from an overall taxpayer perspective. In the second approach, the tax administration has a strategy solely dedicated to this sector (or a sub-part thereof) which may build on the elements included in the tax administration's overall strategy. Of course, where the strategy is SME specific, it should also include a definition of the SME sector (and sub-sectors where appropriate).

There is no right or wrong approach. For any SME strategy to be successful and effective there

BOX 2.1.**Examples of a strategic plan for SMEs**

In **Australia**, the ATO's corporate plan outlines its focus areas and priorities for the financial year ahead. The ATO's role in supporting the Australian community through recent challenges has highlighted the importance of the organisation's commitment to transformation. The ATO pursues an overarching aspiration – to build trust and confidence in the tax and superannuation systems and to create a streamlined, integrated and data-driven future.

The *ATO corporate plan 2020–21* identifies eight strategic initiatives. These focus areas connect to the highest priorities of the organisation and demonstrate how it will continue to contribute to the economic and social wellbeing of Australians. One of the strategic initiatives in 2020–21 is specifically related to small business:

- **Improve small business tax performance** – Improve the tax performance of small businesses by integrating tax reporting mechanisms and making verifiable data easier for them to provide, access and use.

The initiative focuses on building integrity in the tax and superannuation systems of Australia by improving the tax performance of small businesses and making it easier for them to participate. The size of the small business income tax and good and services tax gaps, as well as the impact of the black economy, highlight the need to make small business an area of focus for the organisation.

In **Chile**, the tax administration is following a strategic Masterplan which focuses on enhancing tax compliance through preventive and corrective measures. In this context, the administration takes a taxpayer centric approach.

As a result, a new model of assisting taxpayers was developed, with the aim to gain in-depth insight into their expectations and perceptions to improve the administrations products. This new dimension allows a better measurement of the taxpayers' experience and the relationship with the administration.

With regard to small enterprises, the principal objectives are:

- to ease their compliance;
- to improve their on-site and digital communication experience; and
- to design and implement specific educational measures to provide taxpayers a better knowledge on their tax duties.

In the **United Kingdom**, HM Revenue and Customs (HMRC) has incorporated SMEs into their overall strategic plan by placing greater emphasis on innovation and the use of technology. As part of this initiative, HMRC will seek to increasingly integrate their processes with validated third-party software suppliers by enabling them to draw on information from internal business systems. The unimpeded development and diversification of software products, including apps with a wide range of services could in the long-term, potentially lead to increases in the productivity of SMEs.

In July 2020, HMRC and the UK Treasury published a 10-year tax administration strategy, 'Building a trusted, modern tax administration system' (HM Revenue and Customs, 2020^[m]) that sets out some of the key reforms they plan to carry out to deliver on this ambition implementing a fully digital tax system that works closer to real-time and provides greater resilience and responsiveness in times of crisis.

Source: Australian Taxation Office (2020), Chile – Servicio de Impuestos Internos (2020) and United Kingdom – Her Majesty's Revenue and Customs (2020).

are a number of building blocks that should be considered:

- 1 Tax administrations should **describe the purpose** of the strategy, including a set of goals and objectives it is trying to achieve. This should also include elaborate the general definition of SMEs (which will of course vary between countries). This is important for direction, transparency and accountability.
- 2 Tax administrations should develop an understanding of how SMEs operate: the related compliance risks; the administrative burdens and challenges that those businesses are facing and the needs they have; and the role tax intermediaries are playing. This could be called the **context setting**.
- 3 Tax administrations should **identify approaches to manage compliance risks** in the sector and consider strategies to **reduce administrative burdens**.
- 4 Tax administrations should consider, as part of developing the strategy, how to **measure and evaluate the effectiveness** of the strategy, to build an understanding of what works, what does not and why. Ideally, this should incorporate a “feedback” loop from SME’s and other stakeholders. This growing evidence base can inform continuous improvement and better decision making to improve the balance of programmes and services.
- 5 Also, it is important that any strategy of the tax administration **takes account of the wider SME strategies or policy frameworks within the jurisdiction**. Having conflicting strategies (or parts thereof) may otherwise create confusion and additional burdens.

DESCRIBING THE PURPOSE

The strategic plan should describe a tax administration’s direction of travel and contain a

BOX 2.2.

Vision of the Finnish Tax Administration

“The Finnish Tax Administration is one of the forerunners of the digital economy. We have integrated our services with external business platforms. Taxpayers do not have to concern themselves with taxes, because tax is collected at the same time as the taxable event takes place. Taxation has thus effortlessly merged into our daily lives. The tax gap has diminished and financing for society is on solid ground.”

Source: Finland – Finnish Tax Administration (2019)

number of goals and objectives that can help others understand what the administration is trying to achieve. Setting-out where the administration wants to be in the future (the vision) and outlining how it wants to achieve its goals (the plan) will help focus the attention of the entire organisation on the key priorities to come.

Goals are rather broad statements, typically of qualitative nature, such as:

- Reducing SMEs’ administrative burdens, to free-up time for them to focus on operational issues and on enhancing productivity;
- Improving the SME tax experience, thus improving overall satisfaction;
- Enhancing SMEs’ tax compliance, including action on those operating in the shadow economy, thereby preventing or reducing competitive distortions; or
- In the current environment, assisting the most affected SMEs or SME sectors in the recovery process from the COVID-19 crisis.

Ideally the goals will be “SMART”. Where the strategic plan is published, the administration can be held accountable for the achievement of the

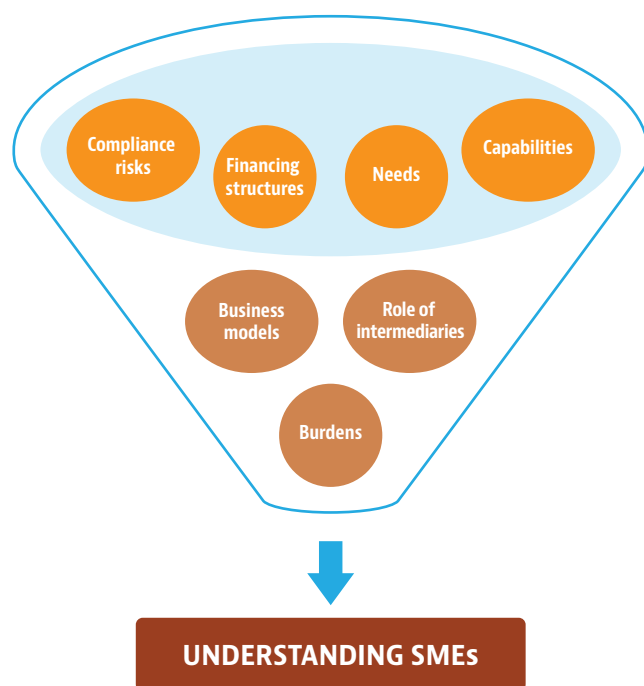


goals. While being ambitious, they should also be realistic to achieve. It is important to note that particular attention should be paid to what is being measured. Sometimes if goals are too narrowly metric-focused, then they can miss the overall outcomes that are sought. It will often be helpful to ensure that the goal specifies the outcome that needs to change or what it is that the administration is seeking to create or remove.

Administrations may also wish to consider having objectives that cover different time periods (short-term vs. long-term). Short-term objectives would look at the immediate future and should give a first indication of whether the strategy is successful or not relatively soon after implementation. Whereas long-term objectives may be aspirational and, in an ongoing changing environment, may require adjustment over time, such as the introduction of new IT systems, e-services or compliance-by-design approaches.

FIGURE 2.3.

Context setting – Selected aspects helpful for understanding SMEs



CONTEXT SETTING

To develop a targeted strategy for SMEs, it is necessary to fully understand the context within which they operate. This not only includes understanding their business environment but also obtaining a detailed understanding of the challenges and burdens they are facing, the potential compliance risks they may pose, their needs and expectations as well as the role of other stakeholders, such as tax intermediaries and other government agencies.

Figure 2.3. provides an overview of a select number of issues that could be analysed as part of the context setting phase. Given the large spectrum of the SME segment, this may also require conducting detailed analysis of sub-segments of this taxpayer population.

Ideally, such analysis would not only be limited to the here and now but also include a horizon scanning element to detect early signs of potentially important developments in this segment,

particularly in the digitalising economy. It would also assist administrations to understand better how to interact with the SMEs' ecosystem and whether, in the long-term, there are opportunities for setting standards for interactions with stakeholders.

Also, a constant monitoring of the context may be helpful to see early signs of changes, whether of operational or behavioural nature. This may allow administrations to quickly adjust their strategies. The COVID-19 crisis has shown how rapidly the overall business environment can change and that the ability to react quickly can have positive effects on burdens, compliance and perceptions (the latter also being important for an administration's reputation among taxpayers).

Understanding the SME business environment

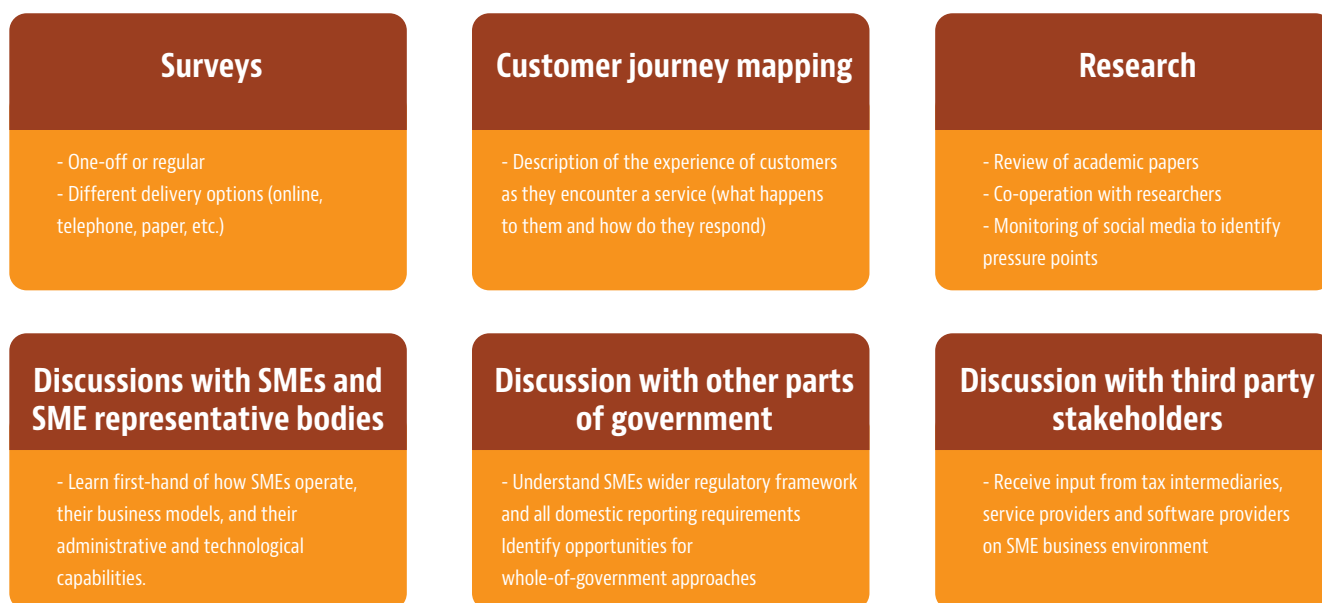
Major transformations are happening in the economy and society, such as increased globalisation, digitalisation, new ways of working, and changing production models, and this transformation has significant impacts on the

SME sector (OECD, 2019^[1]). Those economic and social transformations have a significant impact on the day-to-day business of SMEs. Increased globalisation, fast pace digitalisation, new ways of working, and changing production models have unprecedented impacts on the SME sector and require business owners to rethink and adapt business processes. In particular, SMEs face particular size-related barriers in accessing finance, skills, technology and the knowledge-based capital that are required for innovating, driving competitiveness and growing their businesses.

With changes happening at an ever-increasing pace, it is important for tax administrations to understand the environment within which SMEs operate and how they go about their business. Cumbersome regulatory frameworks and economic downturns are much harder for smaller businesses to deal with, and inefficient infrastructure may prevent them from accessing markets and the necessary resources for their operation. Further, complying with administrative requirements often comes with fixed cost elements that use up large

FIGURE 2.4.

Methods and techniques for understanding the SME business environment



amounts of resources and place disproportionately higher burdens on smaller businesses. Removing unnecessary burdens, for example, by simplifying administrative procedures and by considering SME-related issues during the policy-making process, is at the forefront of many governments' thinking. (OECD, 2019^[1])

This is key for developing a strategy for this sector, even though it is a particularly challenging task given that the spectrum of SMEs reaches from micro-businesses and entrepreneurs at one end to

enterprises with two or three hundred employees at the other end. As stated in the OECD's SMEs and Entrepreneurship Outlook 2019 "The SME population is composed of very diverse businesses, in terms of age, size, ownership, business models, and entrepreneurs' profiles, motivations and aspirations." (OECD, 2019^[1])

In this context, tax administrations need to understand the SMEs' day-to-day business, the most common financing structures and income flows, the developments in business operations and new

BOX 2.3.

Application of methods and techniques for understanding the SME business environment – Country examples

Surveys

In **Finland**, during summer 2019, the tax administration carried out a survey specifically dealing with SMEs administrative burdens. The goal of the survey was to gain information on the everyday life of small entrepreneurs and to understand how small businesses handle their financial management, their capabilities, challenges and needs in handling the digital financial management and tax matters.

In **Ireland**, Revenue conducts surveys of SMEs on a regular basis. In 2017, 10,000 SMEs were invited to participate in a survey conducted entirely electronically, presenting an opportunity to trial behavioural insights to improve response rates. Over 2,000 respondents completed the survey providing a robust basis for reporting and extrapolating results. These survey results assist Revenue in designing and implementing a programme of service to support compliance that is both efficient to administer and as easy as possible for businesses to comply with their obligations.

Discussion with other parts of government

In **Argentina**, the tax administration (AFIP) collaborates with the Secretariat of Entrepreneurs and SMEs within the Ministry of Labour and Production, where a government wide strategy is developed to enhance the strategic value of SMEs and entrepreneurs as engines and drivers of economic development in the country. Outcomes of this strategy are reflected in AFIP's overall strategy.

Multiple methods and techniques

In **the Netherlands**, the strategy of the tax administration is formed by and based on knowledge, insight and experience from round table conferences and meetings with a number of bodies, including government authorities, scientific organisations, entrepreneurs, service providers, software suppliers, umbrella organisations, etc. In addition, the administration officials discuss customer journeys in pilots with small entrepreneurs and software suppliers. These customer journeys provide knowledge and insight into desired and necessary possibilities for improvement with regard to the design of the (administrative) chain.

Source: Argentina – Federal Administration of Public Revenues (2019), Finland – Finnish Tax Administration (2019), Ireland – Office of the Revenue Commissioners (2019), Netherlands – Netherlands Tax Administration (2019).

business models. This also includes understanding the range of administrative and technological capabilities. In smaller businesses, administrative tasks may be carried out by people that are not subject matter experts and understanding non-core business related matters, such as tax, may be particularly challenging for them. In addition, the technological readiness and capability of the business owners are very diverse, reaching from people that run online-based businesses and feel very comfortable using electronic services offered by tax administrations, to those that do not use technology and feel very insecure, or even distrust technology, and continue to keep records in paper form.

Information received from administrations participating in this project show that they are very much aware of the need to understand this environment. However, there only seems to be a small number of administrations at present that look into the everyday life of SMEs and how technology has changed the way they operate. Those that do, apply a number of different methods and techniques. It may be useful for administrations to map out all of the sources of information that they currently have access to in order to help identify potential gaps in knowledge.

When it comes to personal interactions with the taxpayers, for example via telephone surveys or face-to-face interviews, tax administrations may want to thoroughly consider the profile of the officials that engage in those discussions. The professional background of the officials may have an impact on how taxpayers respond or how answers are interpreted. Alternatively, or as a complementary process, such personal interactions could be carried out by independent third parties.

A detailed description of the Inland Revenue Authority of Singapore's (IRAS) approach to understand the changing SME ecosystem and the pain points of taxpayers at the different stages of their lifecycle is included in Chapter 6 which describes IRAS' Service Design Project for SMEs.

Further examples of the models and techniques used by tax administrations can be found in Box 2.3. The examples show that many of those methods and techniques can be applied together in a comprehensive research programme.

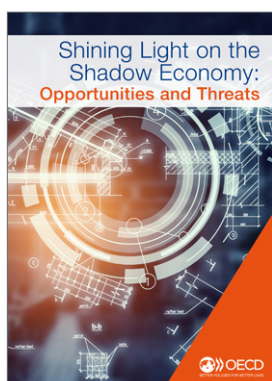
Understanding compliance risk posed by SMEs

Taxpayer behaviour largely depends on personal experience, which is very much influenced by social norms and the economic environment. The reasons for compliance, or non-compliance are a combination of one or more of capability, motive and opportunity. The work described in the previous section to get to know the SME population is critical to both understanding what are the areas of non-compliance, their significance and, most importantly, what are the drivers. Strategies and programmes that address the actual drivers are likely to be effective, others are either not needed or not effective, and may even lead to unintended effects. Taxpayer behaviours will be affected by activities of tax administrations and their interactions with taxpayers. With more knowledge on compliance behaviour at their disposal, tax administrations can change their activities and behaviour, which in itself can lead to a change in taxpayer behaviour (OECD, 2010^[12]).



This is also true in relation to SMEs, including those that may not realise that they are part of this taxpayer segment. Digitalisation and the emergence of the platform economy have led to a situation where some people carry out work

without realising that they earn taxable income. This may be a result of lack of knowledge of their tax obligations. As noted in the 2019 OECD report *The Sharing and Gig Economy: Effective Taxation of Platform Sellers*, sharing and gig economy platform sellers “may be less likely than traditional businesses to understand their tax obligations,



or that they even have tax obligations.” (OECD, 2019^[13]) However, there are also examples where businesses knowingly drift into the shadow economy as described in the 2017 OECD report *Shining Light on the Shadow Economy: Opportunities and Threats* (OECD, 2017^[14]).

Understanding the size and characteristics of the shadow economy is important in enhancing understanding of the competitive pressures that

SMEs face, which may also influence behaviours.

Tax literacy may be another issue. While research suggests that the level of tax literacy of small business owners is strong, it does highlight that tax law changes have an adverse effect on SMEs’ confidence in how the system applies to their business. In addition, SMEs may struggle more than larger businesses to follow frequent changes to legislation and the resulting outdated knowledge could result in unintentional non-compliance (Freudenberg et al., 2017^[15]). For example, the United Kingdom’s HMRC estimates that simple errors account for GBP 3.1 billion or 10% of the overall tax gap for the fiscal year 2018-19 (HM Revenue and Customs, 2020^[16]). The same report estimates a combined total tax gap of GBP 17.1 billion for small and mid-sized businesses, indicating enormous potential for reducing unintentional tax non-compliance in the SME segment. This is a tax gap which may grow in many countries as business models and work patterns are evolving, including the growth of the sharing and gig economy.

Understanding expectations and administrative burdens

No strategy can be developed without understanding the preferences, needs and expectations of taxpayers and the administrative burdens they are facing as well as the impacts those burdens can have on productivity. This has become particularly important, as technology and digitalisation have significantly influenced the way people work and live, and the services they are expecting from governments in general and tax administrations in particular.

In addition to technology related needs, such as improved and new electronic services, applications, chatbots, etc., SMEs have a number of other expectations from tax administrations which may change throughout the business life-cycle and may also be influenced by the economic environment. This includes:

BOX 2.4.

Small business income tax gap - Australia

For 2017–18, the Australian Tax Office estimates the net income tax gap for the small business population to be AUD 11.1 billion or 11.5%. The main components of the small business income tax gap are:

- omitted income
- over-claimed deductions
- people outside the tax system, for example, cash-only businesses operating without an Australian business number (ABN)
- non-pursuable debt, that is not economical to pursue.

Observations from the ATO’s tax gap work programme highlight three key areas warranting attention – the need to:

- address black / shadow economy activity (i.e. deliberate attempts to avoid paying the right tax)
- continue to provide education and support
- make it easier to comply with the law, particularly where there are multiple layers of complexity.

Source: Australian Taxation Office (2020^[17]), Small business income tax gap, www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Tax-gap/Small-business-income-tax-gap/ (accessed 20 October 2020).

BOX 2.5.

Understanding compliance risk – Country examples

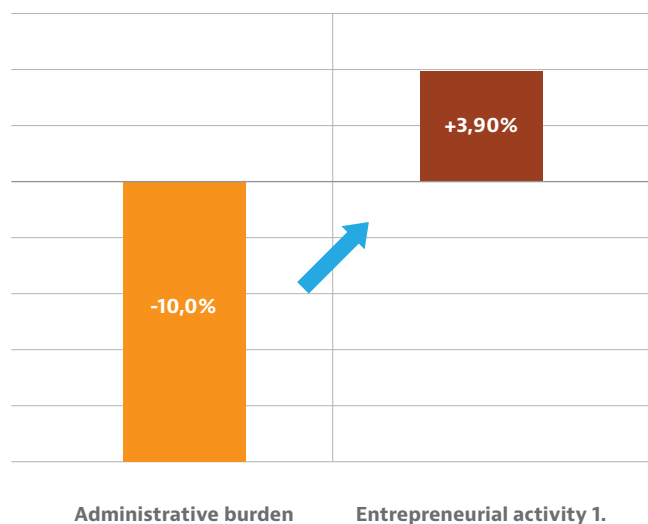
In **Australia**, the ATO Small Business division has dedicated risk and intelligence resources and functions which identify emerging trends and conduct horizon scanning through extensive quantitative and qualitative analysis, at both micro and macro levels. Inputs into this analysis include lodged tax returns, third-party data, outcomes from client engagements, global patterns and emerging trends, and intelligence in the market about emerging issues. Insights from the ATO's *Small Business Random Enquiry Program* are also a key input for the risk and strategy work. This programme informs the measurement of income tax performance in the small business sector. It involves reviewing the tax affairs of randomly selected small business taxpayers. The programme provides a unique opportunity, as it allows the ATO to see the behaviours contributing to the tax gap, as well as the behaviours of businesses that are correctly meeting their obligations.

In **Canada**, audit programmes have Business Intelligence (BI) teams whose primary function is to identify compliance risks and select the highest risk files for the various audit programmes, including those specific to SMEs. The CRA gathers intelligence in many ways, including through semi-annual meetings with Chartered Professional Accountants of Canada (CPA Canada) through the CRA/CPA Compliance Committee. Similar meetings are also held with organisations such as the Canadian Federation of Independent Business and other stakeholders. The Minister's Underground Economy Advisory Committee is comprised of 11 such organisations representing different industry sectors and academia. The CRA also uses Unnamed Persons Requirements (UPRs) as a tool for obtaining third-party data to help identify potential non-compliance. The CRA considers the use of UPRs when its risk assessment processes determines that a certain industry sector, a business model, or an individual entity is showing signs of heightened risk for non-compliance. A UPR can be issued if the CRA has reasonable grounds to believe that a third-party would be in possession of information relating to other taxpayers that may have participated in the same type of non-compliance. The CRA may also use the UPR research data in an emerging area where the CRA feels it needs more information in order to determine risk levels. Additionally, annual Corporate Risk Profile reports are prepared that outline the direction and decisions on the potential risks that could affect the CRA's ability to meet its strategic priorities and objectives.

In the **United States**, data driven analysis is provided in the form of internal and external environmental scans. The scans include internal analysis of taxpayer data for compliance trends and the evaluation of external trends, including economic and business trends for specific individual taxpayer and business market segments. Additionally, the Small Business / Self Employed (SB/SE) operating division's research teams work collaboratively with the compliance functions in various efforts including studies and tests to determine SB/SE level strategies and initiatives for improvement of payment and reporting compliance.

Source: Australia – Australian Taxation Office (2019), Canada – Canada Revenue Agency (2019) and the United States – Internal Revenue Service (2019).

- Education regarding tax obligations and the use of available services. This may be particularly important at the early stages of the business life-cycle or when certain thresholds are exceeded and new tax obligations set-in.
- Personalised assistance. Many tax administrations have significantly expanded their self-service offerings over the last few years, but there may be a number of SMEs that still have the need for personalised assistance. This may be the case for example, because they are digitally challenged or have tax issues that are outside the ordinary things covered by websites or the like.
- A general understanding of situations that are

FIGURE 2.5.**Impact of administrative burden on entrepreneurial activity**

Note: 1. For entrepreneurs that have survived the first 3 months

Source: Braunerhjelm, Eklund, Thulin (2019), *Taxes, the tax administrative burden and the entrepreneurial life cycle*, <http://dx.doi.org/10.1007/s11187-019-00195-0>.

outside the control of the businesses. For example, as mentioned earlier, the COVID-19 crisis has had severe impacts on SMEs including their cash-flow situation. During times of such extraordinary events, SMEs may wish for more flexibility when it comes to filing and payment deadlines, or the simplified application of payment plans.³

While those needs can be addressed by the tax administration, many tax administrations do not have a direct influence on the taxes they administer and the related tax policy issues. Impact assessments of burdens from tax policies and measures are often carried out. With many businesses reviewing their cost structures and calling for additional burden reductions there appears to be an even broader drive by many governments to reduce burdens. For example, in the

United Kingdom, HMRC has committed to reducing administrative burdens by GBP 400 million per annum (OECD, 2019, p. 140^[10]).

Chapter 5 of the 2019 OECD report *Tax Administration 2019* summarises the results of a survey of Forum on Tax Administration members, conducted by HMRC in 2018, on their practices in reducing the administrative burden for business customers.⁴ The results show that:

Some authorities actively engaged with stakeholders to understand, at least anecdotally, how existing administrative burdens impact taxpayers and reported being open to acting on feedback or considering suggestions for change. Most authorities also actively captured the general customer experience of their services. However, there was little evidence of respondents attempting to capture or understand specific insight on perceptions of administrative burdens (OECD, 2019^[10]).

Figure 2.6 illustrates the methods used by those that responded to the 2018 survey and shows that burdens are typically assessed retrospectively on existing tax rules and administrative processes.

This has been confirmed by tax administrations participating in this project, where many of them report that they are assessing the administrative burden for businesses, particularly the smaller ones. Those that do not assess burdens themselves often have dedicated agencies looking at administrative burdens for example, the Service for Administrative Simplification in Belgium, the Taxpayer Experience Management Office and the Process Management Office in Chile, or the Agency for Administrative Modernization in Portugal. However, generally, dedicated agencies appear to look at the wider taxpayer spectrum and not at SMEs particularly.

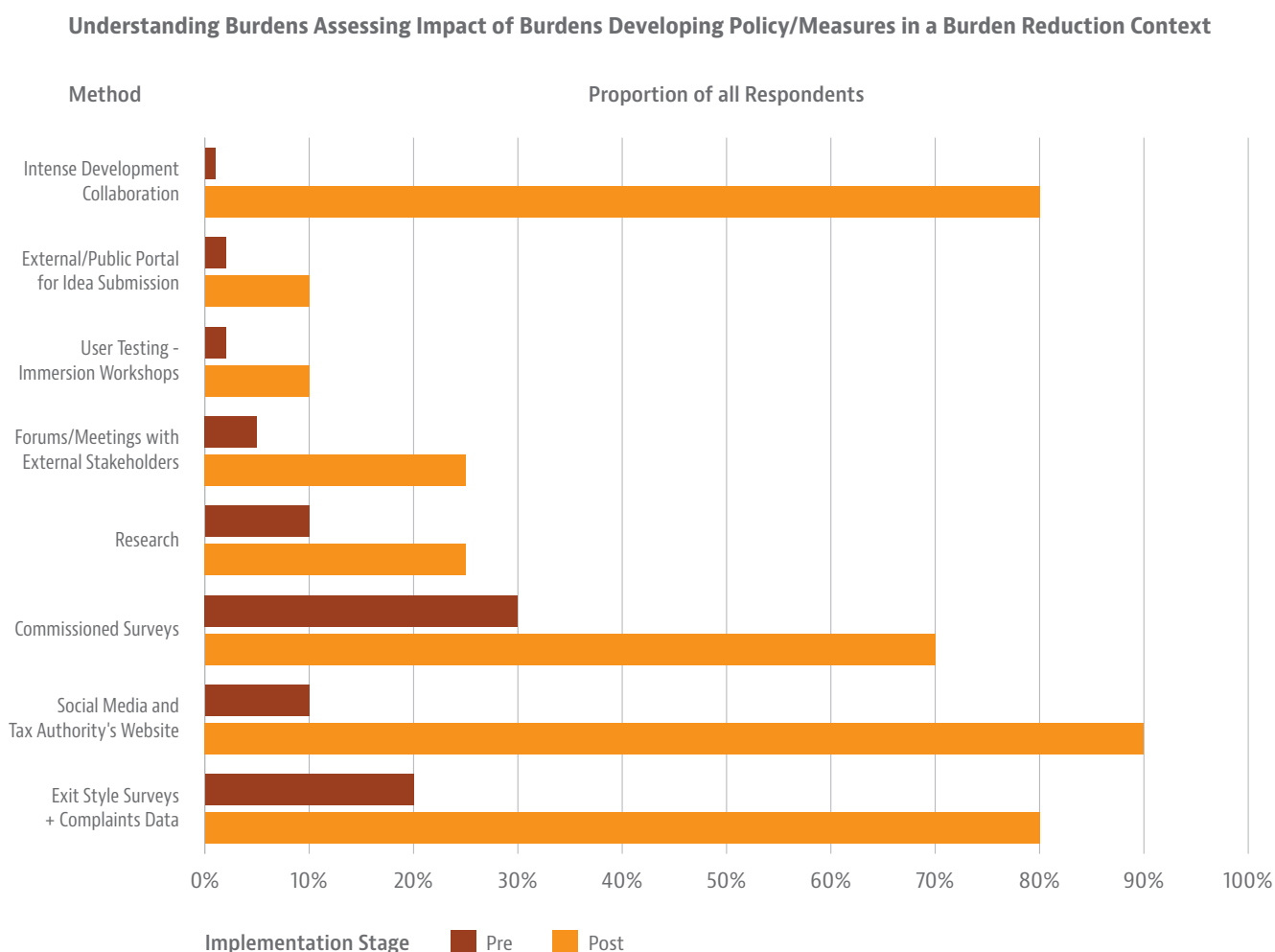
As mentioned, the burdens on SMEs are influenced by several factors tax administrations

3. See the OECD report *Tax administration responses to COVID-19: Measures taken to support taxpayers* for a selection of measures being taken by tax administrations to ease the burdens on taxpayers and to support businesses and individuals with cash flow problems, with difficulties in meeting tax reporting or payment obligations or otherwise facing hardship during COVID-19. (OECD, 2020^[28])

4. The full results of the 2018 HMRC survey on compliance burdens are available to FTA members in the internal confidential note *International Practice in Reducing the Administrative Burden for Business Customers*. For those FTA members that would like to access the note, please contact the OECD Secretariat.

FIGURE 2.6.

International trends in understanding and measuring customer perceptions of burdens from tax policy



Source: OECD (2019), *Tax Administration 2019: Comparative Information on OECD and Other Advanced and Emerging Economies*, Figure 5.2, <https://doi.org/10.1787/74d162b6-en>.

have no control over, such as:

- The **number of taxes** the business has to deal with. The presence of thresholds, for example, for income tax or value added tax, may significantly reduce burdens for businesses that fall below those thresholds;
- The **nature and size of the business operation**, which may result in different record keeping requirements; and

- The **presence of a workforce**, which may require a business to withhold taxes from employees and pay the amounts to the tax administration (or even other government agencies such as social security agencies).

However, tax administrations play an important role in defining and designing the administrative activities related to those factors, including: (i) the familiarisation with information obligations; (ii) the return filing and tax payment process; and (iii) audits carried out by the tax administration and

FIGURE 2.7.

Tax administrative tasks



other public authorities.⁵ Significant reductions of those administrative burdens can lead to an increase in entrepreneurial activity. (Braunerhjelm, Eklund and Thulin, 2019^[17])

Understanding the expectations of SMEs and their administrative burdens can be done internally, for example by analysing the information available to the administration, or externally, for example by engaging with businesses and related stakeholders.

It is important to take a holistic approach where SMEs are not only looked at as customers but also as third-party data providers or withholding agents. Most jurisdictions have meanwhile introduced compliance-by-design mechanisms for taxpayers working as employees where the employer withholds and directly forwards income taxes to the tax administration. While those systems minimise burdens on individuals and the tax administration, they do increase the administrative burden on employers. With SMEs employing more than half of the workforce in most jurisdictions (see Chapter 1), they are particularly affected by this. The burden increases where there are several employer-reporting requirements within a jurisdiction. Engaging with other parts of government to get a better understanding of

the overall administrative burden of SMEs may, therefore, be necessary.

Looking at the examples provided by administrations to support this report, the means for conducting the work can be categorised as follows:

- **Surveys and interviews** of businesses and their representatives. For example, HMRC carried out interviews with 1 800 mid-size businesses to understand, among other issues, their experience of dealing with the administration.
- **Fora and networks** with businesses and related stakeholders. For example, the ATO has established a consultative group for small businesses which includes business owners as well as representatives from businesses associations and several government agencies.
- **Analysis of data and processes.** This includes, for example, the analysis of tax administration data from day-to-day interactions with taxpayers (face-to-face visits, telephone, online chat, etc.) or, as in the case of the Danish Tax Agency, the analysis of different types of errors based on audits of statistically selected companies (approx. 2 100 enterprises).

An overview of methods applied by a number of administrations is included in Box 2.6.

5. Box 13 of the International Standard Cost Model Manual contains a list of the 16 standard administrative activities (SCM Network, n.d.^[27]).

BOX 2.6.**Understanding expectations and administrative burdens – Country examples**

In **Australia**, the *Small Business Experience Forum* is an internal forum that acts as a key integration point across the ATO for leading and improving the SME client experience, focusing on (i) providing a strategic focus based on an enterprise-wide view, (ii) developing more contemporary service offering opportunities and reducing unnecessary red tape, and (iii) actively fostering a whole-of-government approach to small business. The forum has members from across the ATO including compliance, service delivery, law, information technology, communications and registry services areas.

The ATO also works with external partners in the tax profession and small business industry associations to widen the reach of its key messages into the small business community. The primary consultative group for SMEs is the *Small Business Stewardship Group* which is one of nine ongoing stewardship committees operated by the ATO as a means of improving the client experience and the administration of Australia's tax and super systems. The group focuses on:

- gaining insights into issues SMEs face;
- identifying opportunities to improve the tax and super system to make it easy to get things right and hard not to, through an understanding of the effects on the small business sector;
- providing early input into the design of products and services intended to improve SME compliance and reduce reporting burdens; and
- being a conduit for information-sharing between the ATO and small businesses via engagement, education and communication within networks.

The group's membership includes small business owners, representatives from groups that represent and advise small businesses, including industry associations and peak bodies, and representatives from Treasury, Department of Employment, Skills, Small and Family Business and the Australian Small Business and Family Enterprise Ombudsman.

In **Canada**, the CRA has implemented processes and established organisational bodies (such as working groups) that support continuous improvement both in service delivery and in burden reduction focussed on the SME segment. Specific examples of internal and external organisational bodies that look at identifying administrative burdens and challenges can be grouped by:

- Internal organisational bodies
 - The CRA has recently appointed its first Chief Service Officer (CSO). The CSO has been mandated to recommend improvements to the taxpayers' experience with the CRA.
 - The CRA has engaged in a series of "design jams" with key stakeholders and users to co-create service improvements that respond directly to client needs.
 - "Serving you Better" consultations are held every two years with small businesses and tax service providers (where both in-person and online feedback is received).
 - An internal Service Council has been established to serve as a channel for employees to provide ideas, share feedback, and support the CRA's service transformation through communications and engagement.
 - Learning courses have been developed that assist auditors and examiners to become more sensitive to the needs

and realities of small businesses and ensure that audits/examinations are carried out in a professional manner that reflects the Taxpayer Bill of Rights and the CRA's Commitment to Small Business.

- External organisational bodies

- An external advisory panel has also been established comprised of experts from the public, private and non-for-profit sectors to advise on the CRA's service transformation including best practices for the design and delivery of services.
- Recurrent report cards on a variety of topics and subject matter from the Canadian Federation of Independent Business are provided to the CRA. The most recent evaluation was on small business customer satisfaction.
- The Tax Executives Institute holds recurrent annual liaison meetings with the CRA and Department of Finance to discuss upcoming technology solutions that reduce burdens for SMEs.

In **Sweden**, the Swedish Agency for Economic and Regional Growth, a government agency under the Ministry of Enterprise and Innovation, continuously measures companies' administrative burden in Sweden. A 2018 report showed the extent to which Swedish companies view laws and government regulations as obstacles to growth and how they experience contact with public actors. The report provides a knowledge base that can be used in the continued simplification work. The results came from a survey entitled "Conditions and Reality for Companies 2017," which was completed by more than 10 000 companies. By also cooperating between different authorities and by developing coordinated solutions for the eco systems of businesses the Agency for Economic and Regional Growth has been able to prove a reduction of administrative burdens on SMEs.

In the **United Kingdom**, HMRC works with the Administrative Burdens Advisory Board (ABAB), an independent board consisting of members from a range of business backgrounds and professions who represent the small business community. Since 2006 ABAB has helped HMRC to deliver significant administrative burden savings for businesses by offering expert advice. ABAB survey small businesses each year and feed these findings into discussions with HMRC.

In the **United States**, the IRS's internal research and analytics team surveys SMEs as part of its taxpayer compliance burden survey programme that gathers data about the time and money taxpayers spend to comply with their tax reporting responsibilities. An additional survey was launched in 2019 to better understand the burdens and challenges for sole proprietors with making estimated tax payments.

Further, the Taxpayer Advisory Panel (TAP), a group of 75 citizen volunteers who listen to taxpayers, identify taxpayers' issues, and make suggestions for improving the IRS's service and customer satisfaction. TAP is demographically and geographically diverse with taxpayers from all walks of life. TAP members conduct outreach to solicit suggestions or ideas from citizens, and serve on project committees working with the IRS program owners on topics important to taxpayers and the IRS. The members participate in meetings and focus groups, and develop and submit recommendations to improve the IRS.

The Tax Cuts and Jobs Act was the most significant Federal Tax legislation in over 30 years. To determine how the legislation would impact SMEs the IRS performed an analysis of articles posted to the internet and on social media by key words most closely tied to the particular new tax provision involved. IRS was able to identify provisions with significant traffic, where concerns were raised, and where additional taxpayer guidance would be needed. In addition, IRS was able to identify provisions where articles and posts pointed to how taxpayers could take actions to not comply, which informed IRS on potential follow-up compliance actions.

Source: Australia – Australian Taxation Office (2019), Canada – Canada Revenue Agency (2019), Sweden – Swedish Tax Agency (2019), United Kingdom – Her Majesty's Revenue and Customs (2020), and the United States – Internal Revenue Service (2019).

Understanding the role of tax intermediaries

The role of tax intermediaries, i.e. firms or persons, such as advisors or accountants, that assist taxpayers in dealing with their tax affairs, will vary across jurisdictions but can be very high. For example, in Australia, in 2019-20, 85% of small businesses used registered tax agents to prepare and lodge income tax returns. This illustrates the importance of tax intermediaries for the SME sector. Tax administrations therefore need to understand the role of intermediaries and how they can be used to improve compliance across all of their SME clients and help reduce burdens. This also includes looking at approaches to make life easier for intermediaries themselves.

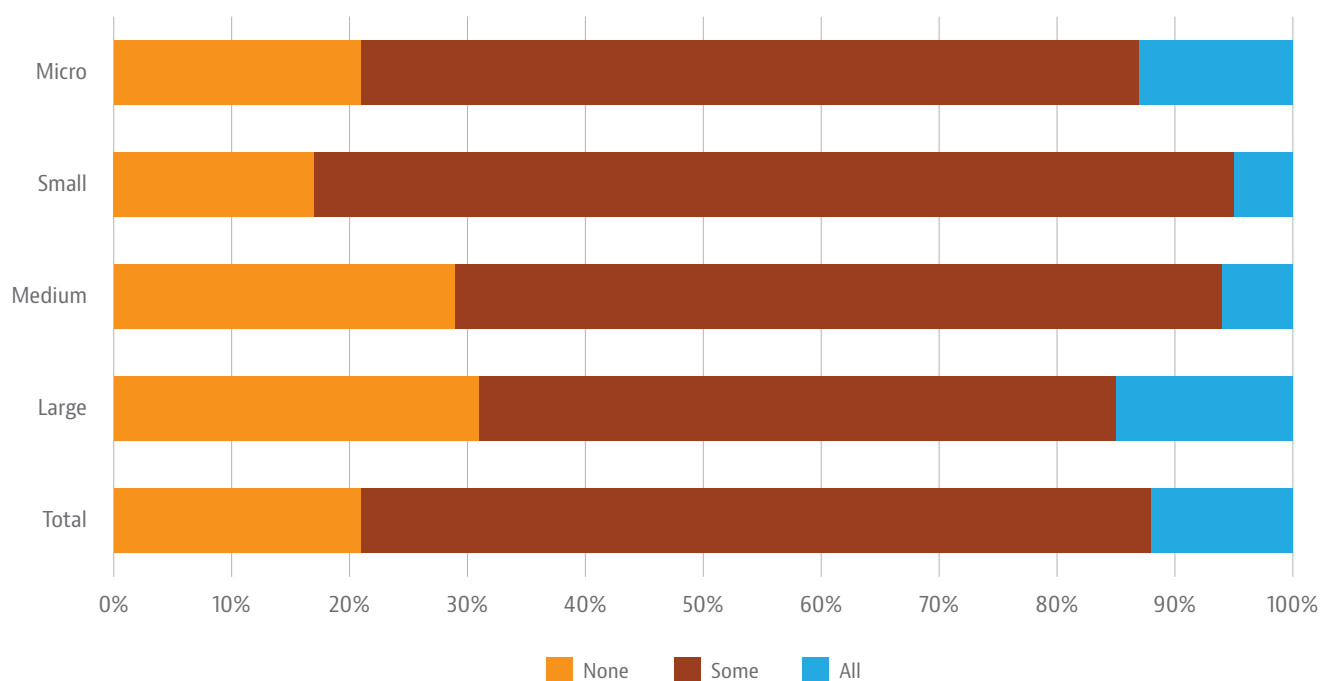
While many administrations engage with businesses and stakeholders, when it comes to understanding the needs and administrative burdens, it appears

that only a few engage with intermediaries to better understand their relationship with SMEs, how they might help in addressing compliance issues and minimising burdens, and the services they need to do that.

For those that do look into the role of tax intermediaries, regular meetings with intermediaries and their associations appear to be common. For example, in Ireland, the Business Division management team meets periodically with tax agents' associations to facilitate two-way communication and address areas of concern / service enhancements. In Belgium, the tax administration has quarterly meetings with representatives from accountants, tax advisors and business associations to set up a dialogue and enhance mutual trust between intermediaries and tax administration. Other examples are included in Box 2.7.

FIGURE 2.8.

The estimated proportion of enterprises outsourcing tax compliance activities by enterprise size



Source: European Commission, GFK, KPMG (2018), Study on tax compliance cost for SMEs: Final Report, <http://dx.doi.org/10.2826/02329>.

BOX 2.7.**Understanding the role of tax intermediaries**

In **Canada**, the CRA partners with the Canadian Chamber of Commerce and the Chartered Professional Accountants of Canada to hold Serving You Better consultations. The most recent consultation, which was held in 2018, has provided a forum for small and medium businesses and accountants to share valuable insights that the CRA can use to make its programs and services more streamlined and client-focussed. Small and medium businesses and accountants were invited to provide recommendations and advice on the CRA's services online or face-to-face with CRA senior officials in cities across Canada. Commitments made as a result of these consultations are publicly available and regularly tracked and monitored within the CRA. The recommendations struck an important balance between reducing red tape and maintaining the integrity and fairness of Canada's taxation system.

In the **United Kingdom**, HMRC has direct engagement with a range of intermediaries through a series of forums and meetings. In addition, HMRC has used an Ecosystems Framework to map the changing SME ecosystem and understand the broad environment in which the administration operates in. This is being used to gain a deeper understanding of the intermediaries working within the United Kingdom tax system and to develop HMRC's long-term strategy. In July 2020, the UK published their Tax Administration Strategy that sets out how they will work with business, intermediaries and citizens to realise the future ambition for tax administration in the United Kingdom (HM Revenue and Customs, 2020^[m]).

Source: Canada – Canada Revenue Agency (2019) and the United Kingdom – Her Majesty's Revenue and Customs (2020).

IDENTIFYING APPROACHES TO MANAGE COMPLIANCE RISKS AND REDUCE ADMINISTRATIVE BURDENS

The context-setting phase will also assist in identifying the pressure points that could be tackled.

How to address those (and how comprehensively) depends on several factors, including:

- the overall strategy of an administration (or wider government strategy);
- the funds available to implement new approaches;
- taxpayers appetite for changes to the tax system, etc.

The best theoretical option may not be the best in practice, if it is too costly for taxpayers or the administration to implement, or if taxpayers reject it because it is considered too disruptive.

Change typically has a cost-element to it and all relevant stakeholders, be it the tax administration, SMEs or intermediaries, need to understand that implementing any new approach may require upfront investment, for example, to upgrade IT infrastructure, to purchase software solutions or to upgrade staff skills, and that cost savings may only follow in medium or longer-term. The costs of switching to new technology could be particularly prohibitive for SMEs. To address this issue, where possible, tax administrations could consider introducing such tools at the early stages of the business life-cycle, such as at the point of registration or the taking on of employees for the first time. Co-sharing of cost may also be necessary in some circumstances to incentivise businesses to adopt new tools or approaches as well as consideration of phased implementation. It will also be important to explain the scale of the benefits that may accrue over time, both direct (such as reduced costs) and indirect (such as reduced risks of audits).

While there is a standard set of approaches that administrations tend to turn towards when considering improving compliance risks or reduce burdens, such as investing in taxpayer education or improving taxpayer service channels and products, the new technology tools available may allow administrations to introduce unique approaches.

This could include:

- Using comprehensive data-sets to **redesign compliance interventions and risk assessment processes** with the result of reducing burdens for trusted taxpayers;
- Using **whole-of-government data collection processes** to reduce burdens by eliminating duplicated data reporting requirements and processes.
- Introducing solutions that integrate tax affairs in the regular business operations, so called **“seamless taxation” solutions**.
- Identifying areas for possible **tax policy changes** based on the experience of the administration and SMEs of problematic areas where policy goals could be achieved in less burdensome ways.

Redesigning compliance interventions and risk assessment processes

In times of tight resources and ongoing technological advancements, there is a shift away from direct compliance interventions, such as field audits and their deterrent effects to manage compliance, towards more targeted interventions using innovative approaches to

influence voluntary compliance, such as the use of behavioural insights and process redesign to minimise burdens and reduce the scope for error.

Compliance risk assessment processes should aim to identify taxpayer groups that can be trusted and that should be less burdened (or not at all). There can be regular checks, however cost intensive interventions, such as field audits that are often a cause of intense stress for business owners, should be reduced to a minimum. For example, despite increases in available data sources and improvements in technology and risk assessment tools, many administrations report high percentages of issue-oriented audits not resulting in any tax adjustment (OECD, 2019, pp. 62-63, Annex A^[10]). (Issue-oriented audits look at particular aspects of compliance, for example governance frameworks, record keeping, filing processes etc.) Table 2.1. illustrates that the average adjustment rates for issue-oriented audits across 26 jurisdictions have remained steady (even slightly declined) between 2014 and 2017. The importance of properly targeted interventions has recently been illustrated in an IMF Working Paper looking at tax audits on self-employed U.S. taxpayers. The paper noted that taxpayers whose audits resulted in no adjustment reported around 15% less in the year following. (Beer et al., 2019^[18])

Table 2.1.

Evolution of the average verification adjustment rates by audit type (in percent) between 2014 and 2017

Audit type	2014	2015	2016	2017
Comprehensive audits (25 jurisdictions)	79.3	82.3	77.5	78.3
Issue-oriented audits (26 jurisdictions)	64.2	64.0	61.7	63.4
Desk audits (14 jurisdictions)	53.2	57.2	54.4	58.5

Source: OECD (2019), *Tax Administration 2019: Comparative Information on OECD and other Advanced and Emerging Economies*, <https://doi.org/10.1787/74d162b6-en>, Table 3.7.

Whole-of-government approaches to reduce burdens

Another approach tax administrations could consider is to engage with other government agencies to explore if they can find opportunities to reduce burdens for shared customers (which may also bring benefits to the agencies, including the tax administration). Those whole-of-government approaches could result in offering shared services or in sharing data. The approach could be taken further by going beyond identifying burdens and offering shared service solutions. The agencies

concerned could also consider joint consultations of SMEs and related stakeholders, or through designing measures that complement each other.

Over the past years, many tax administrations have worked with other government agencies to offer joint registration portals or solutions where businesses only need to register with one agency and the information is then passed on to other government bodies. Some administrations expand this further to collaborate and share financial and income information thus reducing administrative burden through fewer instances of information

BOX 2.8.

Whole-of-government approaches

Taxpayer registration

In **Canada**, the CRA operates the on-line application Business Registration Online which allows for registering a Business Number (BN), as well as registering five federal program accounts: corporation income tax, Goods and Services Tax and the Harmonized Sales Tax (GST/HST), payroll deductions, import/export, and registered charity. This tool also provides the ability to connect to certain programmes in Canadian provinces in order to register for their programme accounts. This provides efficiency to the business in being able to conduct registrations of these programmes in a centralised location. The use of the BN as the standard identifier is gradually being expanded to all federal business programmes. The use of a BN allows the business to be uniquely identified with a single number across provincial business programmes and reduces the administrative burden for businesses by standardising data collection and thereby, not requiring businesses to supply the same information multiple times.

Sharing data

In **Norway**, the Norwegian Tax Administration is cooperating with other governmental administrations to collect the so-called A-melding. The A-melding is a monthly statement from employers to the Norwegian Labour and Welfare Administration (NAV), Statistics Norway (SSB) and the Tax Administration concerning employee wages/salary, employment circumstances and withholding tax deductions, as well as employer's National Insurance contributions and financial activity tax for the businesses.

In **Portugal**, in 2006, the accounting and financial information reporting to the different government bodies was simplified by merging it into one single common declaration which is shared by different authorities, such as the National Bank or National Institute for Statistics. Over time, this declaration was extended to fulfil the reporting needs of the different bodies. Understanding that the Standard Audit File Tax (SAF-T) accounting records provide most of the information needed, it was decided to drop around half of the forms/fields in the declaration and to replace them with the accounting records contained in the SAF-T file. This change is now being implemented. It simplifies the reporting of financial data, as the information is made available to several different public bodies via one single declaration.

Source: Canada – Canada Revenue Agency (2019), Norway – Norwegian Tax Administration (2019) and Portugal – Portuguese Tax and Customs Authority (2019).

reporting, so called “tell us once” approaches. It may also help to address compliance issues as some businesses may have reported to one agency (e.g. to receive benefits or certificates) but not to another.

The COVID-19 crisis can serve as a good example for the advantages of whole-of-government approaches, where services or data are shared between different government agencies, thus helping the government to identify businesses in need for assistance and how to reach out to them, as well as identifying fraud situations where several government agencies provide mutually exclusive assistance programmes. Box 2.8. contains some examples of such whole-of-government approaches.⁶

Seamless taxation approaches

The idea behind seamless taxation is that tax becomes an integrated part of daily life and doing business, thus fundamentally changing taxpayer engagement with the administration. Partial integration includes the collection of tax relevant information from third parties, instead of the SMEs. Examples include obtaining information from financial intermediaries or platform intermediaries. In more complete integration, the tax administration processes would be fully embedded within the taxpayer ecosystem with the assessment and collection of tax increasingly done in a seamless and frictionless manner, supported by the use of autonomous taxation algorithms and third-party platforms and data.

While full integration is an aspirational future state, many tax administrations already have in place some seamless taxation approaches. The most notable example is where employers are required by law to deduct income tax (and social security contributions, if applicable) from an employee’s taxable salary or wages and remit the amount to the tax administration (often referred to as *pay-as-you-earn* (PAYE) systems). PAYE systems are seamless from an employee perspective as all interaction with

the tax administration (calculation, deduction and payment of personal income tax) is done by the employer. In systems where taxable deductions (such as child allowances) can be included in this process, for example by providing the employer with the necessary information either through the employee or tax administration, the employer can remit the right amount of tax, thus eliminating for large numbers of workers (salary and wage earners) the need to file annual income tax returns.

Seamless taxation not only looks at addressing non-compliance issues but also at reducing the administrative burdens for the taxpayers concerned. However, in situations where businesses become part of this system as third-party data providers (e.g. where an SME becomes an employer), there may be an additional data-reporting burden on them. SMEs may consider this as a significant burden increase but software solutions that use application programming interfaces and build the bridge between the natural systems of the taxpayers and the tax administration, may help reducing this burden to a minimum. The vision and building blocks of seamless tax administration are explored in depth in the forthcoming 2020 OECD report on Tax Administration 3.0 and will be further explored in the SME context in a later report on seamless taxation in the “Supporting SMEs to get Tax Right” series.

Identifying areas for possible tax policy changes

Tax administrations will, of course, wish to consider where issues affecting SMEs can be solved by making discretionary changes within the administration’s own powers, such as changes to forms, reporting formats or periodicity, registration requirements etc. While this is not usually within their responsibility, tax administrations should also consider suggesting areas where changes to tax policy could be beneficial. With the knowledge gained through their day-to-day work and direct access to taxpayer information, tax administrations are best placed to analyse the impact of changes to tax policy such as thresholds for obligations and frequencies of obligations.

6. For further information on this including some country examples, please see the OECD report Tax Administration Responses to COVID-19: Assisting Wider Government (OECD, 2020^[26]).

This is already the case in many jurisdictions as shown in the OECD *Tax Administration 2019* report, which indicates that a large majority of tax administrations provide tax policy advice. The report notes that 90% of those providing advice do that on broad legislative issues, while slightly more than 90% provide advice on administrative issues (OECD, 2019^[10]).

For example, the Georgia Revenue Service (GRS) actively initiates amendments to the tax law. The GRS collects suggestions and practices from various internal departments of the GRS, cooperates with external stakeholders (e.g. business association, bank, ombudsman, etc.), and identifies critical points. The GRS then prepares draft amendments in cooperation with the department of tax policy of the Ministry of Finance of Georgia.

The need for tax administration participation in policy discussions related to SMEs is evident. While SME related legislation should not be complex and should take into account the business perspective, it should also be administrable given the sheer number of SME taxpayers and the limited resources in tax administrations.

IDENTIFYING INDICATORS TO MEASURE THE STRATEGY'S IMPACT

Understanding whether a strategy has had the desired effects, requires both successfully implementing the planned activities and demonstrating that these activities generate the desired outcomes and meet the goals and objectives.

While this is discussed in Chapter 4, it should be noted that the best moment for considering whether and how the objectives can be measured during and after implementation is in the development phase of the strategic plan. This is because during this phase officials involved in drawing up the strategy can identify the information needed for the measurement. This helps to ensure that relevant information is collected and redundant information is not. (OECD, 2014^[19])

3

Implementing the strategic approach



Following the completion of the first stage with the finalisation of the strategic plan for SMEs, the second stage, the implementation of the plan, commences. During the implementation phase, the strategic plan is sliced into a number of achievable actions that follow the strategic objectives and goals. Whether the process of implementation is successful will depend on a number of factors. The key factors discussed below are:

- The **organisational structure** to support SMEs;
- Internal and external **communication** of the strategy;
- Consideration of available **human resources** and **financial resources**; and
- The **culture** within the administration and within the business community.

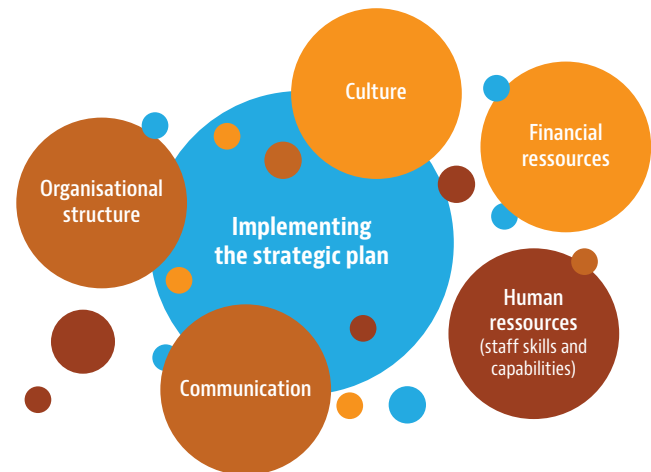
Organisational structure

Available information shows that tax administrations have put in place a variety of different organisational structures to support SMEs. Generally, these can be grouped into:

- Full consolidation of SME related activities into one directorate (or something similar) which is fully responsible for those businesses and their interactions with the tax administration. In this situation, the businesses may be further segmented based on size, nature of business, or tax type.
- Partial consolidation of SME related activities where for certain functions, for example the audit function, SMEs are grouped together, while for other tax administration functions they are part of the wider taxpayer base.
- No consolidation of SME related activities, with SMEs not specifically recognised within the tax administration's organisational structure. They

FIGURE 3.1.

Key factors for successful implementation of the strategic approach



are part of the other regular organisational set-up whether by tax type or function.

Which approach an administration follows is not in itself necessarily an issue. It is useful, though, to review the pros and cons of the current approach since the organisational arrangement may have been in place for a long period and may no longer meet its original aims. The key is that officials who are working on (or supporting) SMEs are connected with each other and have clear lines of communication so that work “silos” do not occur. While this “joining-up” may be easier to achieve where all activities are grouped together, this can also be achieved if there is no or partial consolidation of SME activities.

Communication

Communication is also a key element for a successful implementation of an SME strategy and tax administrations might find it helpful to develop a communication plan to ensure that the content of the strategy is disseminated effectively within the administration and to external stakeholders,

BOX 3.1.

Organisational structures for engaging with SMEs – Country examples

In **Australia**, the ATO has created a division that focuses on small businesses. The Small Business ‘business line’ currently employs around 1 200 staff and includes SME businesses (including sole traders) with an annual turnover up to AUD 10 million. The area has overall responsibility for the small business experience, as well as engaging with, educating, assisting and guiding taxpayers through contemporary products and tailored services. The staff works in partnership with tax practitioners, business, industry bodies and other organisations to create an environment that supports small business through reducing complexity and increasing the adoption of digital technology.

In **Canada**, the CRA recognises the SME segment within its organisational structure, particularly with respect to audit and examination. In terms of compliance approaches, the CRA segments the SME population based on two tax streams, 1) Income Tax and 2) the Goods and Services Tax and the Harmonized Sales Tax (GST/HST). For both streams, the CRA specifically recognises the SME segment with a dedicated unit which focusses on both audit and compliance promotion. The unit’s organisational structure is further segmented based on the size and nature of the business (small versus medium-sized enterprises). In the field offices, audit teams are mixed with auditors at various levels and complete audits for both small and medium businesses for both tax streams.

In the **People’s Republic of China** (hereafter “China”), in 2019, the Taxpayer Service Department of the State Taxation Administration established a Small and Micro Enterprise Service Division, which is responsible for:

- formulating and organising the implementation of tax services for small and micro enterprises;
- coordinating and implementing administrative measures for small and micro enterprises; formulating specific service processes and operating specifications;
- the publicity, consultation, service, and channel management of various policies for small and micro-enterprises; and
- collecting and organising opinions and suggestions of small and micro enterprises.

In **Ireland**, Revenue has segmented its compliance approach to differentiate SME sectors. This is also reflected in Revenue’s operational structures with distinct national divisions responsible for each segment. The Business Division has a case base of 700 000 small business customers and a staffing compliment of 1 600, and the Medium Enterprise Division has a case base of 41 349 customers and a staffing compliment of 445.

In **Singapore**, within IRAS, there are dedicated units/branches that handle SMEs’ tax matters. For corporate tax purposes, there is a branch that focuses on providing frontline services, education, outreach and tax assessment of smaller SMEs and another branch focusing on their compliance programmes. A separate branch handles the larger SMEs as a different compliance approach is adopted to enable audit specialisation in sectors that require specialized knowledge. For the self employed, there is a branch that focuses on carrying out compliance programs such as tax audits and conducting educational outreach to self employed and businesses and another that focuses on other tax matters pertaining to the self employed.

Source: Australia – Australian Taxation Office (2019), Canada – Canada Revenue Agency (2019), China – State Taxation Administration (2019), Ireland – Office of the Revenue Commissioners (2019) and Singapore – Inland Revenue Authority of Singapore (2019).

including marketing the benefits. An open and transparent communication strategy can help build trust among all parties involved. To ensure that the messages are clear and understandable, tax administrations could consider assessing the readability of the text and using behavioural insights to improve wording.⁷

INTERNAL COMMUNICATION

Getting buy-in from all levels within the tax administration is important, as some staff members may have to change the way they do their day-to-day work, adapt behaviour, or learn to handle new technologies and tools.

It starts with senior management explaining the objectives and why they are so important, promoting the strategy among staff members and detailing how staff can contribute to the process. Staff members will more likely be proactive and engaged if they understand the purpose behind suggested changes and see how their work contributes towards a new strategy. Staff needs to believe in any new approaches or services developed as any change may come with uncertainty, extra workload and new ways of working.

Also, it is important to have a two-way communication. Management should facilitate discussions with staff members in building the strategy and to ensure that staff questions are answered and any potential implementation issues are identified at an early stage so that they can be addressed quickly and efficiently.

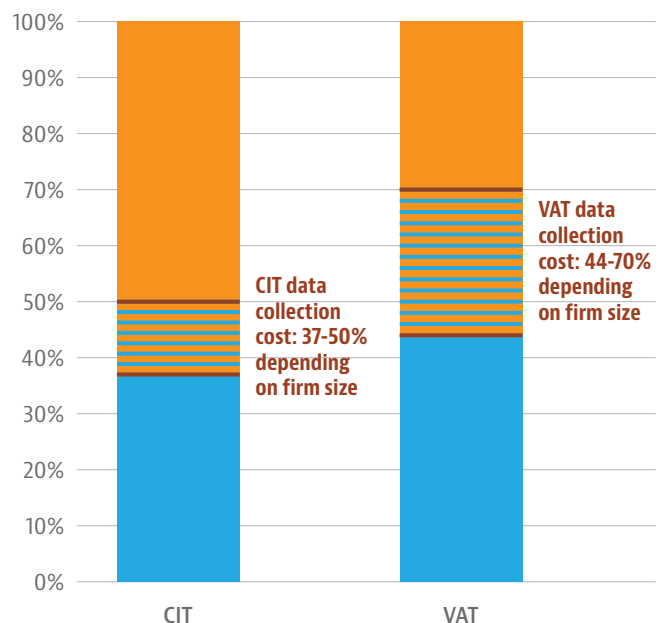
EXTERNAL COMMUNICATION

At the same time, the strategy should be communicated with external stakeholders, including businesses and self-employed as well as business associations and tax intermediaries. While they should already be engaged in the development of the strategy (see Chapter 2), they also need to

7. This will be covered in a separate report in the OECD's FTA Series "Supporting SMEs to get tax right" dealing with how tax administrations engage with SMEs.

FIGURE 3.2.

SMEs average cost related to data collection as a percentage of total tax compliance cost



Source: European Commission, GfK, KPMG (2018), Study on the tax compliance cost for SMEs: Final Report, <http://dx.doi.org/10.2826/02329>.

be part of the implementation phase as they may provide helpful feedback and identify issues.

The best mechanisms for communicating with SMEs and other relevant stakeholders will vary between countries as well as over time. Tax administrations may wish to map out a communication strategy appropriate for their circumstances. This should include consideration of the various “ecosystems” of different segments of the SME sector through which they interact and communicate. This may also be an area where exchange of information between tax administrations on the pros and cons of different approaches could provide valuable food-for-thought.

If new approaches require SMEs to provide data and information, for example as part of compliance-by-design systems or seamless taxation approaches, it would be important to inform them as to how their information will be stored, secured and used by the administration. In particular, it

is important to be aware that data collection and reporting is one of the heaviest burdens on SMEs.

Tax administration resources

Whilst a strategy is being developed consideration needs to be given to the available resources of both the tax administration and the SME population potentially required to implement any changes. This includes both human resources and financial resources. If this is not factored into any strategy the successful implementation of that strategy would be unlikely. Ideally, an impact assessment will be produced and subject to consultation, avoiding any surprises.

TAX ADMINISTRATION SKILL SETS

Many tax administrations indicated that they are concerned by the administrative burdens SMEs are facing as well as by the compliance issues posed by this sector. They report having put in place (or consider implementing) innovative approaches to reduce burdens and improve compliance. Often these approaches are of technological nature and not related to the way tax administrations operated historically.

To ensure successful implementation of new and innovative approaches and that tax administrations can make maximum use of any outcomes (for example, using digital data collected), it is important that tax administrations employ officials that have the right set of skills and capabilities or build into their strategy the need for training and upskilling existing staff. Beyond core skills like technical expertise or other analytics skills, increasingly it is important for officials to be able to serve taxpayers with empathy, recognising the difficulties that they can face, particularly due to COVID-19.

It is worth highlighting that most tax administrations already assess current and future capability needs and have training strategies in place to allow staff to upgrade their skills. A large

number of tax administrations have already lifted their IT and analytics capabilities and, for example, employ data scientists, behavioural scientists and systems analysts (OECD, 2019, pp. 132-134^[10]).

TAX ADMINISTRATION FINANCIAL RESOURCES

As with most innovative and new technological solutions these can be costly to implement, so if these are part of an SME strategy the administration needs to secure sufficient funding to support the implementation and any follow-up cost. The strategy should therefore be clear as to the direct benefits on revenue collection and also the wider benefits from reduced burdens (including the time and monetary costs of compliance which disproportionately impact SMEs), fair competition, employment and the efficiency of the tax administration.

In this respect, it is also important to note that some technological approaches may be costly to implement for SMEs. For example, the use of certain platforms, equipment or software solutions may require monthly payments to service providers, and the effort, time and cost required to migrate from existing manual records to technological approaches could be high. (Reluctance to take up digital solutions may go beyond financial resources.) In the current COVID-19 environment many businesses may not be in a position to cover additional costs. This needs to be considered at an early stage as the success of any new solution very much depends on uptake by the taxpayers (except for maybe some mandatory situations). Thus, where SMEs are required to invest in IT, consideration could be given to possible support through direct government funding or tax policy solutions, e.g. special tax deductions. Two examples are included in Box 3.2.

Culture

Another important aspect to take into consideration when implementing a strategic plan is the culture, i.e. the social behaviours and norms within the

administration and business community. While the strategy sets-out how the administration intends to approach SME taxation, the organisational culture within the administration will impact the execution of the strategy and the tax compliance culture will impact SME engagement.

An open and transparent culture in the tax administration will greatly assist internal communication (see above) and help in identifying and addressing implementation issues. Also, a business-friendly service culture will be helpful in implementing an SME strategy as businesses may face a variety of implementation issues and would like to approach the administration with questions. The tax compliance culture is also important as it may influence how new tools and services are received by SMEs and how much the administration has to invest in support and oversight.

It is also important to consider whether there are socio-economic variations across the jurisdiction which may call for different strategic implementation in different regions. Indonesia, for example, has a strong heterogeneity in socio-economic conditions across its provinces. Variations in local gross domestic product per capita are primarily the result of geography and natural resource endowments. Local economic conditions, for example the presence of natural resources and large employers, the size of the informal sector etc., affect business density at the local level with densely populated areas having comparatively high business-to-population ratios. Such heterogeneity leads to significant variations in the ease of doing business and in the quality of the local business environment. Therefore, several government agencies (including the Indonesian tax administration) integrate local characteristics in running the national small business programmes as a means to support local priority areas (OECD, 2018^[20]).

BOX 3.2.

Government support for IT investments by small businesses – Country examples

In **Australia**, the ATO worked with the Department of Industry, Science, Environment and Resources to develop and promote the Small Business Digital Champions initiative. The Small Business Digital Champions Project will provide 100 Australian SMEs with a comprehensive digital transformation for their business. They will receive up to AUD 18 500 in digital support, and additional products and services from a range of corporate partners.

In the **Russian Federation**, to contribute to a smooth transition for businesses to use Online Cash Registers (OCRs), the government covered the investment costs associated with OCRs for small businesses by means of a special tax deduction. The self-employed had the right to reduce the amount of the Unified Tax on imputed income or the amount of the tax in the Patent Tax Regime by the amount spent on the cash register (not more than around EUR 250 for each cash register). This was subject to the cash register being registered with the Federal Tax Service between 1 February 2017 to 1 June 2019.

Source: Australia – Australian Taxation Office (2019) and the Russian Federation – OECD (2019), Implementing Online Cash Registers: Benefits, Considerations and Guidance, www.oecd.org/tax/forum-on-tax-administration/publications-and-products/implementing-online-cash-registers-benefits-considerations-and-guidance.htm

4

Understanding the effectiveness of the strategic approach

EVALUATION



ASSESSMENT



ANALYSIS



PERFORMANCE



IMPROVEMENT



RESULTS



FEEDBACK

Tax administrations need to understand whether the strategic plan is effective in achieving its desired goals and objectives. While this is important for general reporting and accountability purposes regarding the resources used, it also helps to make adjustments to the strategy, if necessary. Understanding the effectiveness of the strategy should not only be done retrospectively but already during the implementation phase.

It is worth investing in specialist capability to undertake, or at least guide the approach to evaluation. Those undertaking the evaluation need to be close enough to the strategy or programme to be familiar with its detail and context, as well as able to work with the programme leads as they monitor activities and collect data. At the same time, evaluation and measurement does require a degree of specialist skill and will also benefit from the objectivity of having specialists with some independence from the delivery of the programme.

The process of measuring the effectiveness of an SME strategy can be split into four phases: (i) identification of indicators and related data sources, (ii) collection of relevant data, (iii) data analysis, and (iv) understanding the outcomes.

Identification of indicators and related data sources

The identification of potential indicators and

the means for collecting the necessary data is key for understanding the effectiveness of the strategic approach. The indicators should have a clear link to the objectives of the SME strategy of the administration. Ideally, at least some of the measurement approaches should also be able to illustrate the causality between the strategy and the changes in tax compliance of businesses or their administrative burdens.

Demonstrating causality is not always straightforward, for a number of reasons. Organisational strategies will comprise a wide range of complementary programmes, treatments and day to day services, with SME's interacting both directly and through intermediaries in highly diverse patterns. There is typically also more churn in SME populations starting and going out of business. (Unfortunately churn is likely to increase in the wake of the COVID-19 pandemic.) While control group/random control trials are possible for some types of interventions, these are not always appropriate, ethical or practical. Isolating the impacts of one or more programmes, treatments and services, or their contribution to an overall strategy can therefore be challenging or prove more costly to measure than the value of the information.

This means that some different and combination approaches may be required to obtain maximum benefit and insight from the evaluation and measurement process. One approach is to set up measurement in a layered framework, where broad

FIGURE 4.1.
Measuring the effectiveness of the strategy



macro-economic indicators are complemented by more specific evidence from individual programmes or treatments and qualitative evidence. This can help to provide a credible body of evidence supporting an understanding of how the administration is tracking against its objectives overall. Potential indicators can be wide-ranging, focusing on qualitative or quantitative metrics and supporting different phases of the strategy and its implementation (see Figure 4.2.).

With respect to quality-related indicators and the expectations of SMEs, it may be worth noting that perceptions may play an important role when looking at expectations, particularly around administrative burden. As noted in a 2019 OECD report: “Rather than considering and calculating the cost of administrative burdens in monetary terms, customers tend to view burdens in terms of the difficulty of trying to get things right.” (OECD, 2019, p. 141^[19])

As mentioned towards the end of Chapter 2, the identification of the indicators should be done during the strategy development stage, allowing the necessary data capture points to be built into the processes developed under the strategy. What is also important at this moment, is to establish base values for those indicators so that progress can be determined.

The process of having a conversation about evaluation and measurement at the strategy development stage can also contribute markedly to the quality of the overall design and approach. Such a conversation can cover the expected outcomes and objectives and the reasons for believing that the strategy and its different elements will help achieve those outcomes. This not only identifies the key points for measurement and data collection, but helps to identify and address weaknesses in the underlying theory of what will work at the design stage. This is known using a “programme logic” or “theory of change” approach.

This can be a challenging point in the process for tax administrations. Sometimes high level

BOX 4.1.

OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes

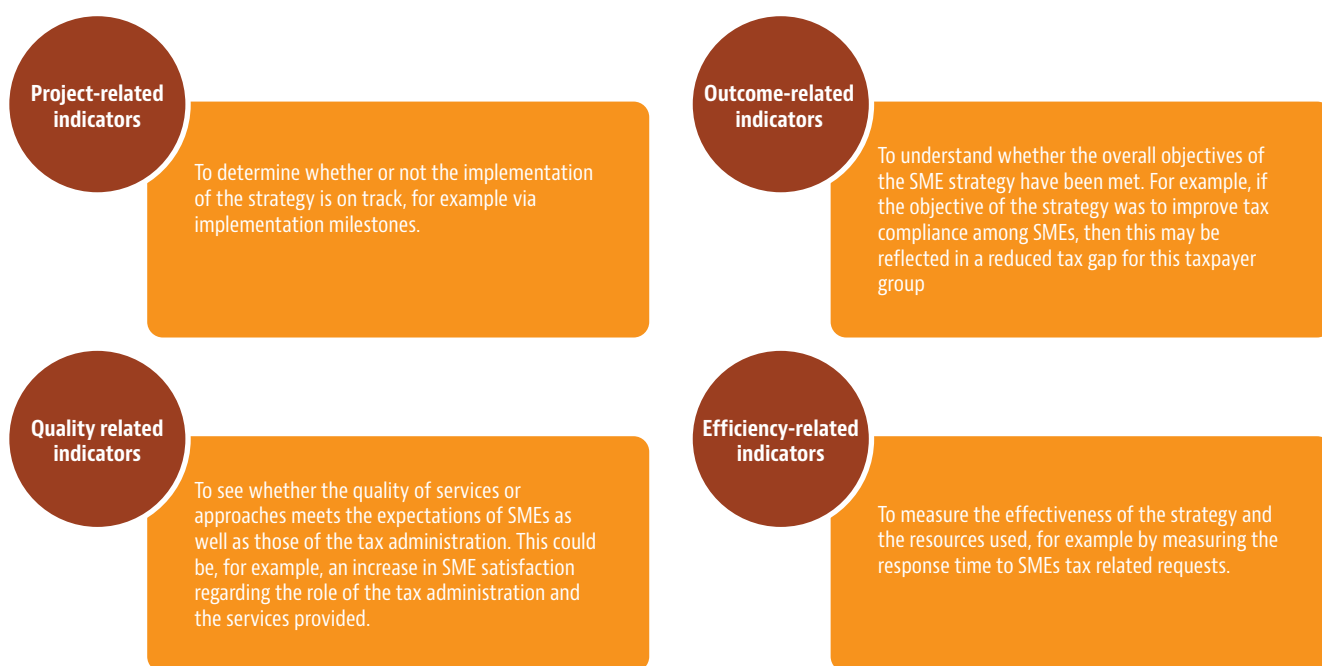
In 2008, the OECD published a framework which provides policy makers with a practical and accessible guide to best practice evaluation methods for SME and entrepreneurship policies and programmes (OECD, 2008^[21]). It uses case studies from a wide range of OECD countries to examine the benefits of evaluation and how best to address common issues that arise when commissioning and undertaking SME and entrepreneurship evaluations.

The framework sets-out a number of key evaluation principles, including a six-step approach to monitoring and evaluation:

- Monitoring
 - Step 1: Take up of schemes
 - Step 2: Recipients opinions
 - Step 3: Recipients’ views of the difference made by the assistance
- Impact assessment and evaluation
 - Step 4: Comparison of the performance of ‘assisted’ with ‘typical’ firms
 - Step 5: Comparison with ‘match’ firms
 - Step 6: Taking account of selection bias

These principles are illustrated with examples of evaluations of national, regional and local programmes that can be explored further by the reader.

directions or even programme specifics have been agreed and there is a reluctance to revisit or shift position, even in the face of compelling logic that there are gaps in the approach. Encouraging a learning or evaluation culture is important to overcome this and ensure that steps are taken to improve strategy or design at the earliest possible stage.

FIGURE 4.2.**Potential indicators for understanding the effectiveness of the strategic approach**

Data collection

Once a set of indicators has been selected, it is necessary to collect the relevant data. While there are various ways of collecting data, each indicator may require a different approach. Common ways of collecting data are:

- **Surveys and interviews**, which could, for example, ask SMEs and related stakeholders to provide feedback on new services or tools offered. The comment made in Chapter 2 regarding the profile of the officials that engage in personal interactions is also valid here and tax administrations could consider using independent third-parties to carry out personal interactions with taxpayers to help avoid any unconscious bias that might otherwise occur.
- **Obtaining usage data from IT systems**, which could allow the administration to understand

how SMEs are using new services or try to access new information. This could include the use of web analytics.

- **Internal record keeping**, which could allow monitoring how the administration is responding internally to the objectives of the strategy. A challenge here can be time pressures. However, if these are recorded well and are able to be extracted systematically, this can provide a rich evidence base.
- **Nudging experiments**, which could provide valuable insights into the impact of new services and tools and could be used to test and, if necessary, adjust them while under development.

The data collection process may take some time (even a few years) to build-up a comprehensive data set that allows for meaningful analysis. Data should be collected on a continuous basis to ensure in the

long-term that the strategy is achieving the desired outcomes.

When identifying potential indicators and the means to collect the relevant data, tax administrations may need to consider having different approaches for the various sub-segments of the SME sector. Given the diversity of this taxpayer segment, not all indicators or data collection methods may be suitable to understand the full impact of the strategy. For example, the use of online surveys to collect data may not provide a complete picture as it excludes those businesses that are digitally challenged. In such cases, administrations may consider the additional use of paper or telephone surveys.

Analysing the data and understanding the outcomes

The next step is to analyse the collected data and turn it into useable information. The collected information should then be compared to the base values established before the strategy was put in place. For administrations that have conducted a tax gap analysis for the SME sector, they could consider updating this analysis to see the overall impact of the strategy on compliance.

Tax administrations should use the results of the analysis to identify areas that might need adjustment and to understand the causes of the underlying issues. Also, the results should be discussed with relevant stakeholders, including SMEs, business representatives and tax administration staff dealing with this segment. The lessons learnt from the analysis and the discussions could then be used to update the existing strategy or to inform a new strategy, always with reference to the administration's overarching vision.

When looking at what has been reported by tax administrations participating in this project on measuring the effectiveness of their SME strategies,

it is worth noting that they appear to fall short on conducting a comprehensive analysis. In this respect, Box 4.1 only contains two examples.

BOX 4.2.

Understanding the effectiveness of strategic approaches – Country examples

In **Canada**, the CRA participates in biannual consultations with small and medium businesses and accountants in an effort to help make their programs and services more streamlined and client-centric. Following the 2018 consultations, the CRA published an action plan which addresses what the CRA heard during the in-person sessions across Canada and the feedback shared through the online consultations. The SME segment and broader Canadian population can stay up to date and track the CRA's progress as action items are implemented on the Agency's website. In addition, the CRA issues a report every other year detailing the progress made on initiatives that stemmed as a result of previous consultations, and their effectiveness in achieving their desired goals.

In **Chile**, for the period 2018-2020 the Chilean tax authority has been implementing a tax compliance model. The four key points of the model are: (i) processes; (ii) compliance breaches; (iii) taxpayer segmentation; and (iv) economic sectors. Monthly measurements will be carried out through taxpayer satisfaction surveys in order to quantify the levels of user satisfaction and monitor the implementation of improvements in the procedures involved.

Source: Canada – Canada Revenue Agency (2019) and Chile – Servicio de Impuestos Internos (2019).

PART II

Case studies

Indonesia: Development and implementation of the Business Development Service programme

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The SMEs' contribution to the Indonesian economy reaches approximately sixty percent (60%) of Indonesia's Gross Domestic Product (GDP), but their contribution is only about 0.33% of tax revenue. Having realized that tax information asymmetry is part of the factors for this gap, the Directorate General of Taxes (DGT) of Indonesia designed a programme, the "Business Development Services" (BDS), to address the challenges in effectively communicating tax knowledge to SMEs and collecting their income-related information, which ultimately can trigger better tax awareness. The BDS is one of the coaching and supervision strategies for SMEs carried out by fostering and encouraging the development of their businesses on an ongoing basis. The education strategy aims to increase tax awareness, engagement with tax issues, and compliance while providing information to support to SMEs' businesses.

Background – Overview

There is an urgency to improve Indonesia's tax ratio, calculated by comparing tax revenue with GDP as an indicator of tax performance. From 2015 to 2019, Indonesia's tax ratio ranged from 10.7% to 12.10% and was included as the lowest among G-20 countries' tax ratios. To improve the tax ratio and promote tax fairness, the DGT has to apply tax fairly to every part of society, irrespective of the amount of tax payment. According to data from the Public Revenue in Indonesia during 2002-2018, the total amount of corporate income tax is always greater than the total amount of individual income tax.⁸ This condition is different with most OECD countries, where the total amount of individual income tax tends to be greater than the amount of total corporate income tax. To neutralize the tax contribution gap, DGT is enhancing its focus on individual taxpayers and informal sectors, including by designing strategies that can expand SMEs' tax base and improve their tax compliance.

The SMEs (known as *Usaha Mikro Kecil Menengah* or *UMKM* in Indonesian) have an essential role in the Indonesian economy. In the middle of 2020, the number of SMEs in Indonesia was around 63 million (approximately 99% of total business entities). Taking into account this large number, the contribution of SMEs' transactions to Indonesia's

8. For details see the OECD report *Revenue Statistics in Asian and Pacific Economies 2020* (OECD, 2020^[33]) or the OECD.Stat database (<https://stats.oecd.org/Index.aspx?DataSetCode=REVIDN>, accessed on 22 October 2020).

GDP is significant. It increased gradually from 57.84% to 62.75% of Indonesian GDP from 2008 to 2013. The low tax revenue contribution is probably due in large part to SMEs' negative perception of taxation. In general, SMEs perceive that paying taxes is burdensome to their business development. The challenge was confirmed by a third-party survey (conducted by IPSOS Indonesia Ltd), which suggested that only 31% of the SME respondents were registered as taxpayers.

The employment of workers in SMEs is another important issue. SME workers' spending can trigger an increase in domestic consumption and income expansion. The positive association between SMEs and the Indonesian economy was proven during the 1998 economic crisis when SMEs were still the primary economic driver, although many medium and large-scale companies collapsed. In contrast to their significant contribution to Indonesia's GDP, tax revenue collected from SMEs has been relatively low. In 2016, for example, the SMEs' tax contribution percentage was merely 0.33% of total tax revenue, despite their contribution to the Indonesian GDP of 62.57% indicating that there are significant issues with tax compliance.

The DGT amended several policies to simplify tax regulations, tax administration, tax payment, and the tax filing system to address SMEs' low tax compliance. However, to improve upon the status-quo level of compliance, a comprehensive strategy focusing on SMEs' taxation is required. The approach – “End-to-End Treatment” - starts with the detection of the unregistered informal enterprises or entrepreneurs from a taxation perspective, followed by a simplified process of registration, calculation, reporting, payment, and a reliable system to monitor their tax compliance.

BDS programme

In 2015, the BDS programme was created to provide SMEs with the right knowledge of their businesses' development strategy, with bookkeeping education

as the primary target. Essentially, the BDS is a dissemination and monitoring strategy for SME taxpayers that fosters the development of their businesses on an ongoing basis, helping to raise awareness, engagement with tax matters, and improving tax compliance behaviour.

The Committee of Donor Agencies for Small Enterprise Development of World Bank acknowledges BDS as a service that can improve the performance of a business, market access, and competition capability. (Hallberg, 2000^[22]) Principally, the definition of ‘Business Development Service’ covers a broad range of small-scale business services carried out by individuals, both strategic and operational.

The BDS programme is carried out by the Indonesian tax offices at least twice a year. The programme can take different forms, including workshops, entrepreneurship training, seminars and thematic tax classes. In practice, the BDS programme is carried out through knowledge-sharing, ensuring closer engagement with SMEs and their communities through the end-to-end approach. This strategy can ultimately increase tax compliance since taxation information is provided alongside the presentation of business-related knowledge.

In general, BDS implementation can be divided into three phases, as follow:

1 Preparation phase

During a preparation phase, several things should be done, including:

- **Mapping of SMEs:** Identifying the needs of SMEs' through several technical activities (i.e., searching, finding, collecting, researching, and recording data/ information of potential income, communities' character and culture, etc.).
- **Synergy and coordination with third parties:** Carrying out collaborative works

with other relevant stakeholders (other governmental institutions/ministries, business associations, and other parties interested in SMEs coaching). At this stage, the tax office can arrange communication between SME communities and influential figures to explore necessary business recommendations for SMEs.

- **Developing BDS Programme Planning:** Every tax office, assisted by its regional office, prepares a specific-period plan for BDS programme activities.
- **Developing concepts and approaches for tax dissemination/education to SME taxpayers:** These are ideas and themes which respond to the needs of both taxpayers and tax offices on a local basis. For example, one of the tax offices used a tagline of ‘pay tax, earn profits’ for dissemination to change SMEs’ perception of taxes.

2 Implementation phase

BDS programme activities are carried out during this phase. Tax offices are encouraged to keep the engagement with SME taxpayers through the establishment of tax-friendly SME communities based on regional characteristics.

1 Follow-up phase

Compiling the SME database and maintaining a mutual ongoing engagement with SMEs are the focus of this phase. A key element of this phase is the inclusion of SMEs as members of a social media group. In this group, tax officers can share relevant information (i.e., the latest tax regulations, business tips, and SME events) and understand SMEs’ business processes at the same time. As well as securing close engagement with SME taxpayers, all data collected during the BDS programme will be forwarded to support the works of Account Representatives (ARs). ARs are the assigned

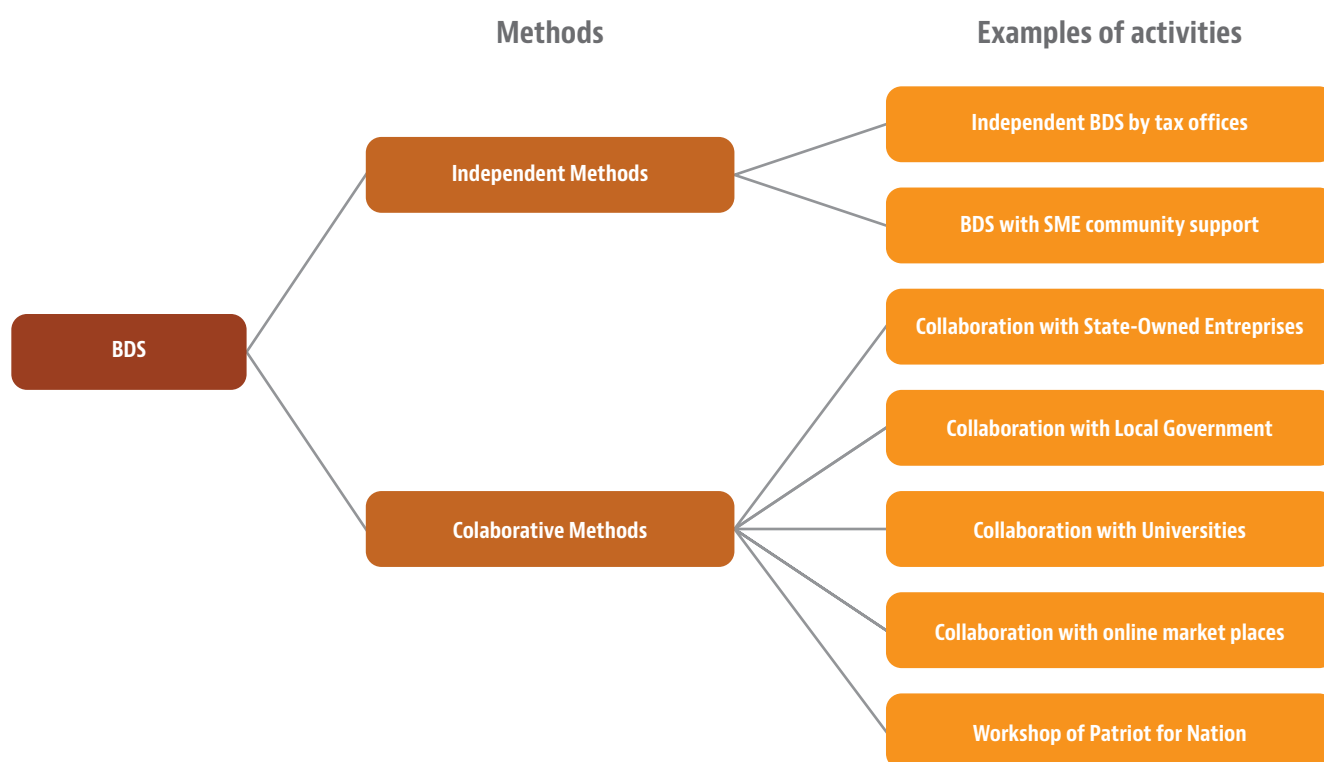
officers who are responsible for supervising tax compliance by providing tax consultation and analysing the potential tax liability. Data collected during the BDS programme is also be a good resource for use in verifying SME taxpayers’ compliance.

BDS methods

Under the BDS programme, relevant technical materials are disseminated to SMEs to improve their businesses and tax compliance. There are two primary methods used in the BDS programme:

- **Independent method:** This is applied when tax offices need to organise the BDS programme independently. In some circumstances, the local SME communities (i.e. *UMKM Sahabat Pajak* or *USP*) also support the programme.
- **Collaborative method:** This is applied when tax offices implement BDS in collaboration with other governmental institutions, business associations, ministries, and other parties. Some of DGT’s partners in carrying out the joint programme are:
 - *Rumah Kreatif BUMN* or *RKB* (An SMEs coaching project operated by the Ministry of State-Owned Enterprise).
 - Local Governments.
 - Polytechnic of State Finance (STAN), which offers bookkeeping and accounting classes for SMEs.
 - Online market place platforms and other online platforms.
 - Other ministries and government institutions, under a workshop project named “Patriot for Nation” (known in Indonesian as *UMKM Patriot Untuk Negeri*).

FIGURE 5.1.
BDS methods



Source: Indonesian Directorate General of Taxes (2020)

BDS collaboration pattern with institutions, organisations, associations and other parties (ILAP)

To optimize collaboration with other stakeholders, the DGT is currently formulating a legal framework concerning the BDS collaboration approach. Within this approach, coaching activities comprise of both taxation and non-taxation service and coaching. Non-taxation service and coaching focuses on the SME's core business processes and activities, such as business scale-up, product branding, digital marketing, export, procurement, accounting/bookkeeping, legal/administrative licensing,

financial management, etc. In addition, non-taxation service and coaching offer business-process training, such as designing material or product photos, accounting/bookkeeping applications, product packaging, social media guidance, customer services and communication forums management among other things.

By contrast, taxation service and coaching emphasize tax-related knowledge, with a main focus on taxpayer registration (*Daftar-D*), taxation calculation (*Hitung-H*), tax obligations payment (*Bayar-B*), and Tax Return Reporting (*Lapor-L*).

As an SME development program, the BDS programme can be organised by either the public or private sectors. The more parties running and promoting the programme, the more likely it is to

FIGURE 5.2.
BDS themes



Source: Indonesian Directorate General of Taxes (2020)

improve SMEs' competitiveness. SMEs may have better access to supply and distribution channels as well as support to upgrade the quality of products and services. However, the coordination strategy among different institutions is a challenge. DGT needs to be prepared for overlap in the coaching topics and material to ensure efficiency. Evidently, good communication and coordination are key strategies for sustainable collaborative work with other institutions.

In 2018, the Directorate of Counselling, Services, and Public Relations (P2Humas) of the DGT, took the initiative to conduct initial coordination meetings, inviting 17 ministries and institutions that target SMEs development as part of their strategies. During this event, every participant agreed to share data on the details of SMEs-targeted coaching activities carried

out by each institution (including the names of participants). As a follow-up to the initial coordination meeting, the DGT held another collaborative workshop titled 'Patriot for the Nation' on 25 - 26 November 2019 to harmonize the development strategy for SMEs. The DGT seek to establish a roadmap and build sustainable cooperation in fostering SMEs' growth with other ministries and government institutions. There is also an expectation that this collaborative work can be used as the basis for data-sharing among different government institutions. Data-sharing about the SMEs-related development programmes run by each institution may help of avoid duplication of efforts. Additionally, understanding what others are doing will allows DGT to ask other government institutions to insert tax related material in their SMEs development programme.

Report and publication of the BDS programme

BDS REPORT

Considering that the BDS programme is part of a tax-base expansion activity, the planning and implementation outcome of this activity (e.g. details of agenda, participants, and activity outcomes) should be reported by tax offices online. A dedicated application, namely *Aplikasi Pengawasan Kegiatan Penyuluhan Perpajakan* (Application for Supervision of Tax Education), is designed and managed by the Directorate of Tax Extensification and Valuation of DGT to improve proactive supervision on SMEs' tax compliance.

RESEARCH ABOUT INDONESIAN SMES AND BDS

The following are some studies that have been undertaken on SMEs' development programmes:

- In 2014, Khusnaini did the research about the BDS as a programme to improve small business owners' voluntary through tax education (Khusnaini, 2014^[23]). In this research, BDS was chosen as the main model. This model relied on the assumption that a person will be willing to do a certain thing because they obtain a particular benefit directly. In this study, BDS was proven to affect SME and individual taxpayers' willingness to comply with taxes at a certain level of gross income. The independent variable that had the most dominant influence on taxpayers' willingness to comply was the action variable. Furthermore, the researchers revealed that the low level of compliance was caused by ignorance, disagreement, and the reluctance of taxpayers or the public to fulfil tax obligations and recognize tax rights as citizens. The social marketing programme implemented through the concept of Awareness, Interest, Desire, and Action (AIDA) had a positive impact on tax compliance. However, the number of taxpayers who can be treated was still minimal compared

to the number of registered taxpayers, especially compared to the number of existing SMEs.

- In 2017, Deddy Dwi Purnomo wrote a thesis about *The Evaluation of the BDS Model Implementation as one of the Tax Counselling Methods for Non-Employee Personal Taxpayers* (Purnomo, 2017^[24]). This research adopted the marketing concept of AIDA to assess BDS programme implementation. It was revealed that activities carried out under the BDS programme satisfied the AIDA concept and they were proven to have a positive impact on SMEs' tax awareness, interest, desire, and action.
- In 2018, Inasius conducted a study on *Factors Influencing SME Tax Compliance: Evidence from Indonesia* (Inasius, 2018^[25]). This study examined some factors affecting tax compliance of SMEs in Indonesia. Applying multiple regressions and survey methods, six variables were assessed on data collected from 328 SME respondents located in Jakarta. Based on the research result, participation in SME communities was shown to have the most significant influence on SME taxpayers' compliance behaviour. In addition, audit probability, taxation knowledge and equity perceptions also significantly impacted SMEs' tax compliance. These findings were expected to help tax administrations in designing tax policies emphasizing SMEs' tax compliance.

BDS activities during 2015-2019

The activities and results of BDS programme implementation during 2015-2019 are summarised below:

- The 2015 BDS programme showed the following results:
 - BDS programme was included in the Strategic Initiative of DGT's 2015-2019 Strategic Plan and Strategic Institutional Transformation Initiative; and

- BDS pilot events were conducted in 8 tax offices. 1 002 SME participants were involved in the events.
- The 2016 BDS programme showed the following results:
 - approximately 68 tax offices carried out the BDS programme. 6 047 SME participants were involved in the events; and
 - establishment of Sahabat Pajak (USP) as a primary SME community.
- The 2017 BDS programme showed the following results:
 - approximately 98 tax offices carried out the BDS programme. 7 177 SME participants were involved in the events ; and
 - 9% of SME participants were registered as taxpayers during the event.
- The 2018 BDS programme showed the following results:
 - BDS Implementation Guideline was enacted;
 - a workshop of SMEs Synergy Development (in collaboration with other 17 ministries and government agencies) was held as the first stage in a programme of collaborative work; and
 - approximately 298 tax offices carried out the BDS programme. 27 656 SME participants were involved in the events.
- The 2019 BDS programme showed the following results:
 - other collaborative works with 20 state-owned enterprises namely *Rumah Kreatif BUMN*, where some business development workshops were organised and funded by the state-owned enterprises' corporate social responsibility fund;

- A “Patriot for the Nation” workshop was held by DGT with the participation of ten related ministries to formulate a join-development programme for SMEs.

The challenges of BDS programme implementation

The following obstacles arose during the BDS programme implementation:

- Limited budget for the BDS programme implementation in every DGT working unit;
- Skills shortages, both as regards the number of qualified people and the competency level for providing entrepreneurship coaching to SMEs;
- The need for better facilities and infrastructure to support the coaching programme;
- The lack of an integrated application to monitor BDS activities;
- SME misperceptions that income is only taxable when a tax return is due at the end of the fiscal year;
- SME scepticism towards DGT's initiatives in providing business development assistance.

Tax education strategy during the COVID-19 pandemic

The Indonesian government understands that the impact of the COVID-19 pandemic on societies and economies is profound. Both large companies and SMEs are experiencing a negative impact from the pandemic. To overcome this problem, the Indonesian government issued several regulations to strengthen the national economy, including supporting the sustainability of SME businesses

through the programme *Pemulihan Ekonomi Nasional* (National Economic Recovery Programme). In the field of taxation, the government provides several tax incentives, such as personal withholding income tax borne by the government, exemption from import income tax, reduced monthly income tax instalments, government-borne VAT, and government-borne income tax for SMEs (or temporary tax exemption for SME taxpayers).⁹ To obtain these incentives, taxpayers must apply to DGT official website.

To ensure that taxpayers get information about the tax incentive programs during the COVID-19 pandemic and are able to access the relevant incentive, DGT has prepared a tax education strategy which also satisfies the government's health protocols. Having realized that SME taxpayers are more vulnerable to asymmetric information, DGT has continued to provide tax coaching and education to SME taxpayers. However, the coaching delivery method has been changed to an online mode, such as holding tax webinars using several online meeting applications. DGT often organises tax webinars in collaboration with several business associations, institutions, and online marketplace platforms to maximize attendance and to help ensure that the webinars are appropriately targeted. During the COVID-19 pandemic, almost all tax education activities were carried out online.

SMEs' limited understanding of tax administration has been a challenge for DGT in sending information during the pandemic period, particularly in regard to tax incentive facilities for SMEs and the administrative procedures to access them. To overcome this problem, DGT collaborates with the Ministry of Tourism and Creative Economic and the State Financial Polytechnic (STAN) to plan and carry out a trial assistance program for SME. In the trial phase, the collaborative team asked 500 SMEs to take part. This programme aims to provide assistance and guidance to SMEs in filling out tax incentive applications and other tax administration issues. Communication is carried out through a group chat application consisting of SMEs, facilitators, and representatives from the DGT. Third-party involvement (i.e., SME community of USP) is essential to foster and guide SME taxpayers in taking advantage of the incentives. The SME community also plays a facilitator role, communicating any technical problem faced by SME taxpayers to DGT. This has been a practical two-way problem solving mechanism, allowing SME taxpayers to feel comfortable in conveying their aspirations and concerns collectively, and allowing DGT to grasp the real issues and find the most effective solutions possible. During the trial period, around 20% of the total participants have finally taken advantage of the tax incentives.

9. For further information see: <https://pajak.go.id/covid19> (in Indonesian; accessed on 22 October 2020).

Singapore: Service Design Project for Small and Medium Enterprises

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Overview

The emergence of new business models that leverage contemporary technologies have caused widespread disruptions to many traditional industries. Taxpayers around the world have become more adept at using digital interactions and expect similar, if not higher, levels of service with contemporary digital solutions. To address these challenges, the Inland Revenue Authority of Singapore (IRAS) has embarked on a transformation journey (called 'LEA:D – LEveraging Analytics, Design and Digitalisation') since 2016 to redefine the experiences of its taxpayers and staff to bring about increased satisfaction.

Service design was identified as one of the strategic pillars of IRAS' transformation journey. Adopting a taxpayer-centric approach, IRAS conducted service design projects to better understand the needs and desires of taxpayers in three key segments – individuals, small & medium enterprises (SMEs) and large businesses. The service design project for SMEs¹⁰

dove deep into understanding the experiences that SMEs had in their interactions with IRAS, and sought to answer the question, "How might we better anticipate taxpayers' (i.e., SMEs) needs and provide more personalized services based on taxpayers' profiles and life stages?"

SMEs want to comply with and fulfil their tax obligations, but they might not know what needs to be done. Being smaller in their set-up and having limited resources, SMEs tend to be caught- up in running their businesses, resulting in challenges in understanding their tax obligations and in preparing their tax submissions.

Using a design approach that comprises the Discover, Describe, Design, Develop and Release stages, IRAS was better able to understand the needs of SMEs, identify issues, and design solutions that make tax filing simple and seamless, and in doing so, deliver a positive tax experience for SMEs.

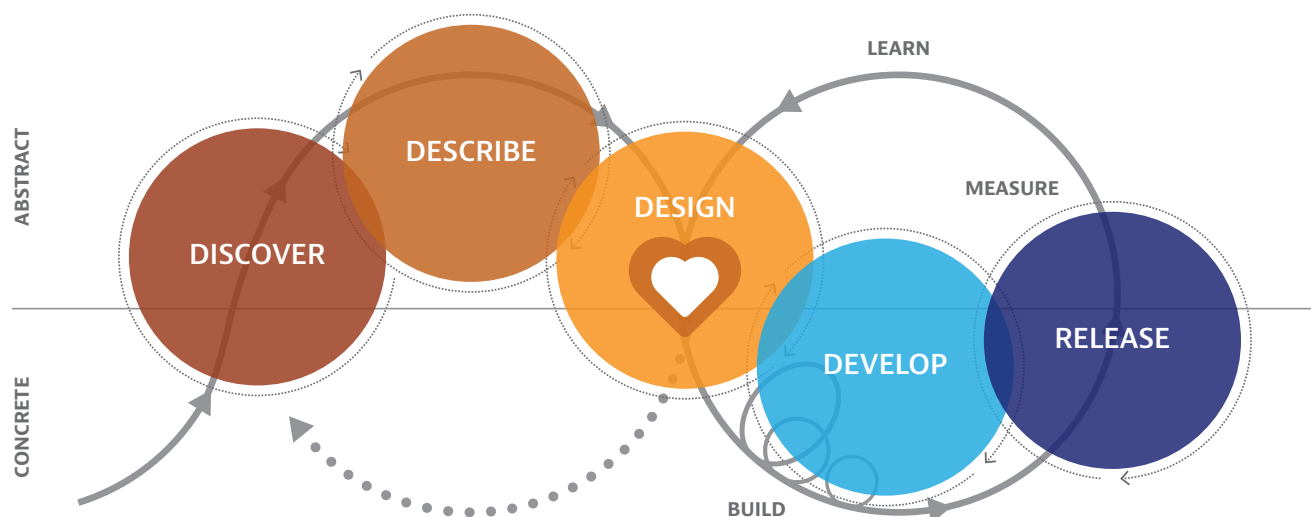
Implementation process

IRAS formed a service design project team that was comprised of 20 staff from different tax types and function groups who possessed the relevant knowledge on SMEs' tax matters. Over five months, the team worked with external consultants equipped with extensive design expertise to complete the project.

10. SMEs are businesses with less than SGD 10 million of revenue (approximately USD 7.2 million) across different legal forms such as companies, partnerships, sole proprietors and self-employed.

FIGURE 6.1.

IRAS approach to service design



Source: Inland Revenue Authority of Singapore (2020)

DISCOVER

As part of the research, the IRAS team conducted a total of 45 in-depth interviews with:

- SMEs from various industries (such as transportation, food, real estate, finance and manufacturing) to better understand their interactions with IRAS;
- Software providers, tax agents, staff of the Accounting and Corporate Regulatory Authority of Singapore (ACRA)¹¹, Enterprise Singapore¹² (ESG), and the SME Centre¹³, as well as members of the Singapore tax professional body to understand the business landscape surrounding SMEs; and

- IRAS staff (including staff from our taxpayer services centre and customer experience teams, tax auditors and assessors).

In addition to the in-depth interviews, the project team conducted “guerrilla” interviews, which were conducted without prior notice, with over 80 business owners and their employees from the food and retail industries. The in-depth and guerrilla interviews were conducted mostly in the businesses’ natural environments for example, their shops or workplaces, to glean insight not just into their tax experiences, but also their business models.

The project team also shadowed IRAS’ frontline/ service officers and tax intermediaries to learn more about their work, with the aim to better understand comments received during the in-depth interviews.

DESCRIBE

From the research done, the team identified sixteen themes after synthesizing their findings and created archetypes of the SMEs. Examples of themes include:

11. ACRA is the body governing the registration of businesses set up via sole-proprietorships, partnerships and companies.

12. Enterprise Singapore (ESG) is the government agency championing enterprise development.

13. These are Centres established by ESG in partnership with trade associations and chambers that support small and medium enterprises in the business upgrading journey.

- “Lost at Sea” for example, those who find it difficult to navigate the website to find information;
- “Too Much Blah Blah”, which includes an overload of information that does not cater to SMEs’ circumstances; and
- “Digitally Shy”, those who lack confidence with digital filing modes as these modes appear to be irrevocable with no room for correction of errors).

Key insights were that SMEs want to comply and fulfil their tax obligations and need assurance from IRAS that the actions that they have taken were correct. An overload of information can overwhelm SMEs, resulting in them not taking any action. IRAS realised that SMEs needed clear, personalised information, delivered at the point of incorporation of their business, to help them prepare for and fulfil their tax obligations.

DESIGN

With a deeper understanding of the SMEs’ needs and challenges, the team conducted two one-day workshops to co-generate ideas that could resolve the challenges and improve the experience of the SMEs. Over seventy participants of various profiles (e.g., SME owners/employees, representatives from other government agencies and IRAS staff) participated in the brainstorming process. Based on the insights from earlier research and workshops, the team developed a future state journey map¹⁴ for SMEs.

Guided by this journey map, the team decided to develop a digital on-boarding tool for newly-incorporated companies to help SMEs to set up their tax affairs correctly from the start. The digital on-boarding tool seeks to provide relevant, bite-sized tax-related information at the right time, providing new businesses with adequate time and knowledge to prepare and fulfil their tax requirements.

Over a period of two weeks, two design sprints were conducted among the project team, subject matter experts and SMEs to co-design the on-boarding tool. The design sprints were a five-day process for answering critical business questions through design, prototyping and testing ideas with taxpayers. Through these sprints, the project team tested its assumptions and validated useful features of the tool with its end-users. A prototype was subsequently built, followed by the development of the actual tool, which was launched for use in February 2018.

Challenges faced during the implementation

Two challenges faced during implementation were recruiting SMEs for interviews and ensuring continuity of design and engagement capabilities.

RECRUITING SMES FOR INTERVIEWS

Embracing a taxpayer-centric approach entailed interviewing SMEs to understand their challenges and tax-filing and paying experiences. Hundreds of emails were sent to recruit interested SMEs for the interviews. Data relating to these SMEs (their businesses turnover figures, tax compliance ratings with IRAS and whether they were represented by tax agents) were used to ensure that a representative mix of businesses were invited for the interviews.

Despite the team’s email campaigns and subsequent cold calling efforts, responses from some business segments were less than ideal. This led to a series of “guerrilla” interviews, with the team travelling to businesses’ natural environment, such as food centres, local markets, shopping malls and co-working spaces.

SUSTAINING IN-HOUSE DESIGN AND ENGAGEMENT CAPABILITIES

A key outcome from the Service Design project for SMEs was to ensure continuity in the design

14. The future state journey map for SMEs is shown on pages [ADD] to [ADD] and can be downloaded here www.oecd.org/tax/forum-on-tax-administration/publications-and-products/singapore-small-biz-future-state-journey_map.pdf

and engagement capabilities within IRAS. The project team members worked very closely with the consultants to pick up the necessary skills to sustain the service design movement within IRAS. Every project member was involved in conducting interviews and surveys, distilling the insights gathered and developing taxpayers' journey maps. To permeate the learnings to the wider organisation, the project team also involved other IRAS staff in conducting interviews, co-generation workshops, organisation wide sharing and 12 in-depth service design showcases to all IRAS' staff.

OUTCOMES AND NEXT STEPS

New E-services

Following from the Service Design project for SMEs, the following e-Services were introduced:

New Company Start-Up Kit

The New Company Start-Up Kit is a one-stop educational platform that consolidates information from various government agencies (including ACRA and ESG). It contains:

- tailored timeline and bite-sized information on IRAS' and ACRA's filing obligations are provided based on the company's responses to questions in the kit.
- A link is provided to the ESG's website for newly incorporated SMEs to obtain industry insights, updates on grants and information on services to enhance their business efficiency.

The kit also reminds newly incorporated SMEs of their Corporate Tax filing obligations (Estimated Chargeable Income and Corporate Tax Returns (Form C-S/ C)), with customised email reminders that are sent one month prior to the company's first filing due date.

The kit was launched in February 2018 and is hosted on the IRAS website. Email blasts are sent to new

companies to encourage them to use the kit. As of February 2020, there were over 5 000 users.

New Sole-Proprietorship and Partnership Start Up Kit

Similar to the New Company Start-Up Kit, a kit was developed for sole-proprietors and partnerships who have recently registered their businesses with ACRA. Tax related information, such as the filing due date and the required financial information to be submitted, are cascaded to these businesses at relevant points. For instance, email invites to access the kit are sent shortly after business registration, and email reminders are sent one month before e-Filing services are available.

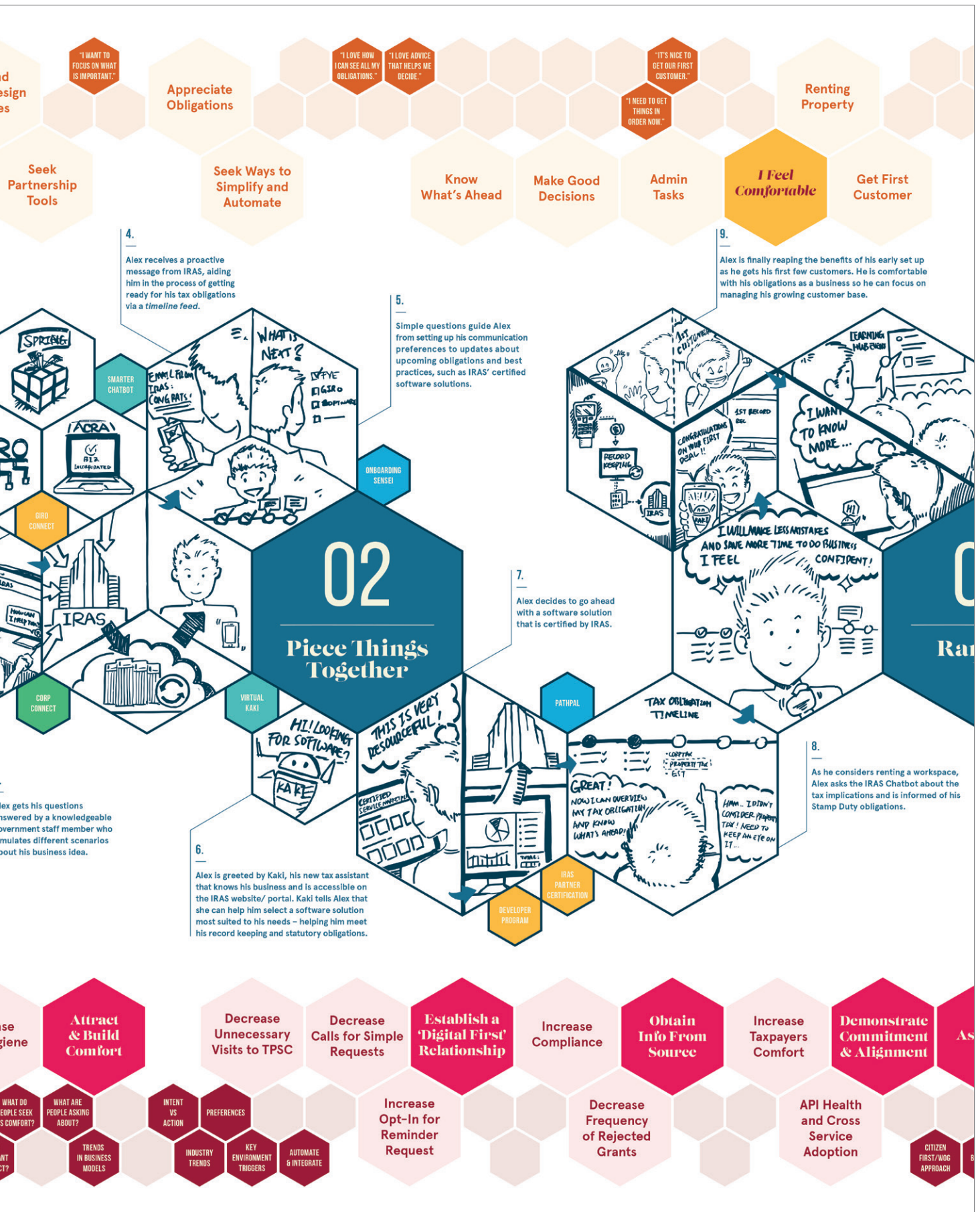
The New Sole-Proprietorship and Partnership Start-Up Kit was launched in June 2019, with close to 7 500 new businesses invited to try the kit via emails. The kit is hosted on the IRAS website. Within 6 months, 900 sole-proprietors and partnerships have subscribed to the kit.

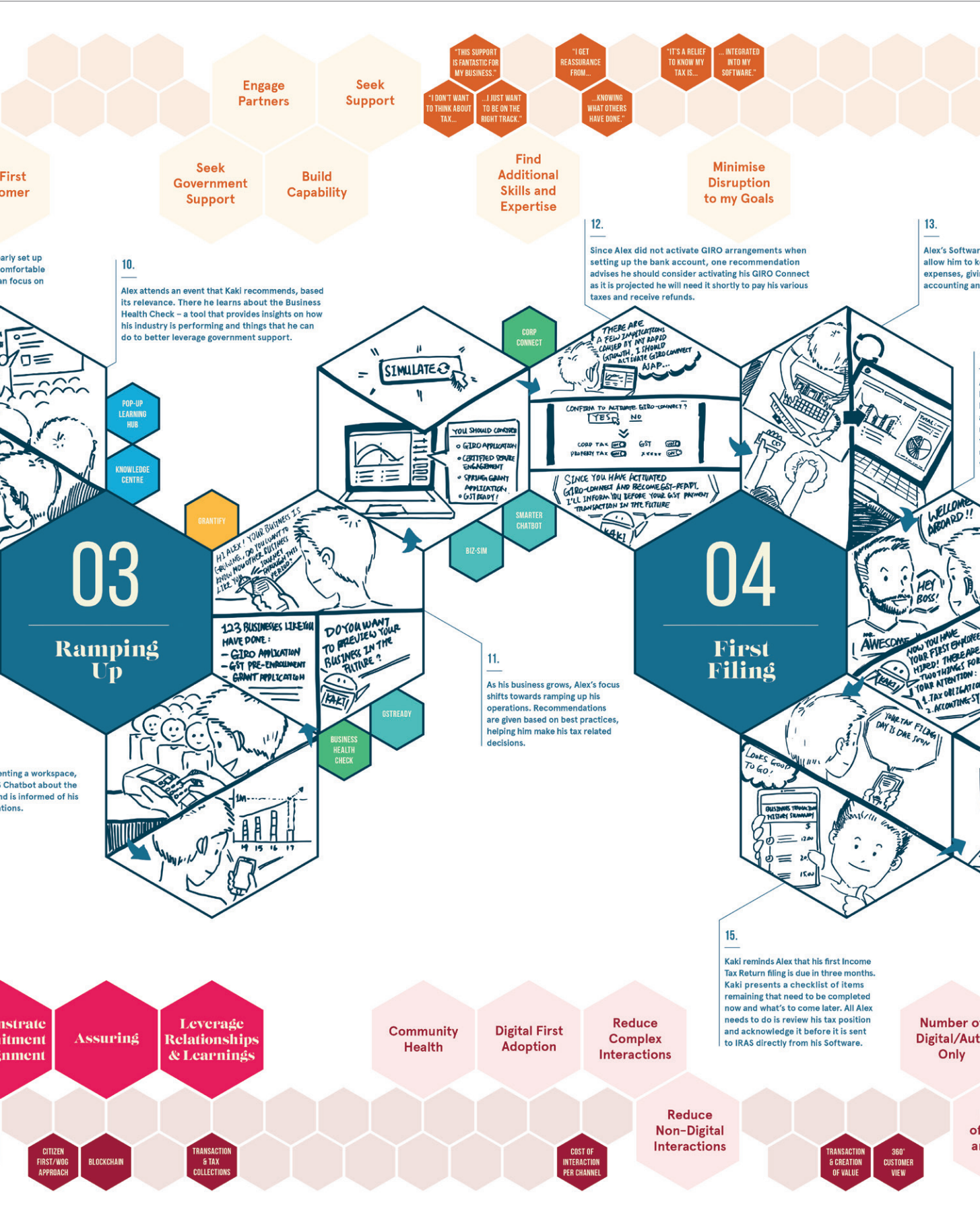
Goods and Services Tax (GST) Registration Calculator

Other than income tax obligations, businesses with taxable turnover exceeding SGD 1 million annually are required to register with the IRAS for the collection of GST. To assist businesses in fulfilling their obligation to register on a timely basis, IRAS introduced a web-based and mobile-compatible calculator on 1 October 2019. The intuitive calculator allows businesses to input their sources of income (e.g. sales of goods or provision of services) and the corresponding income figures. The calculator then determines the sources of income to be included as taxable turnover to determine if the business is liable for GST registration. If they are liable for GST registration, businesses will be directed to myTax portal to submit their registration application.

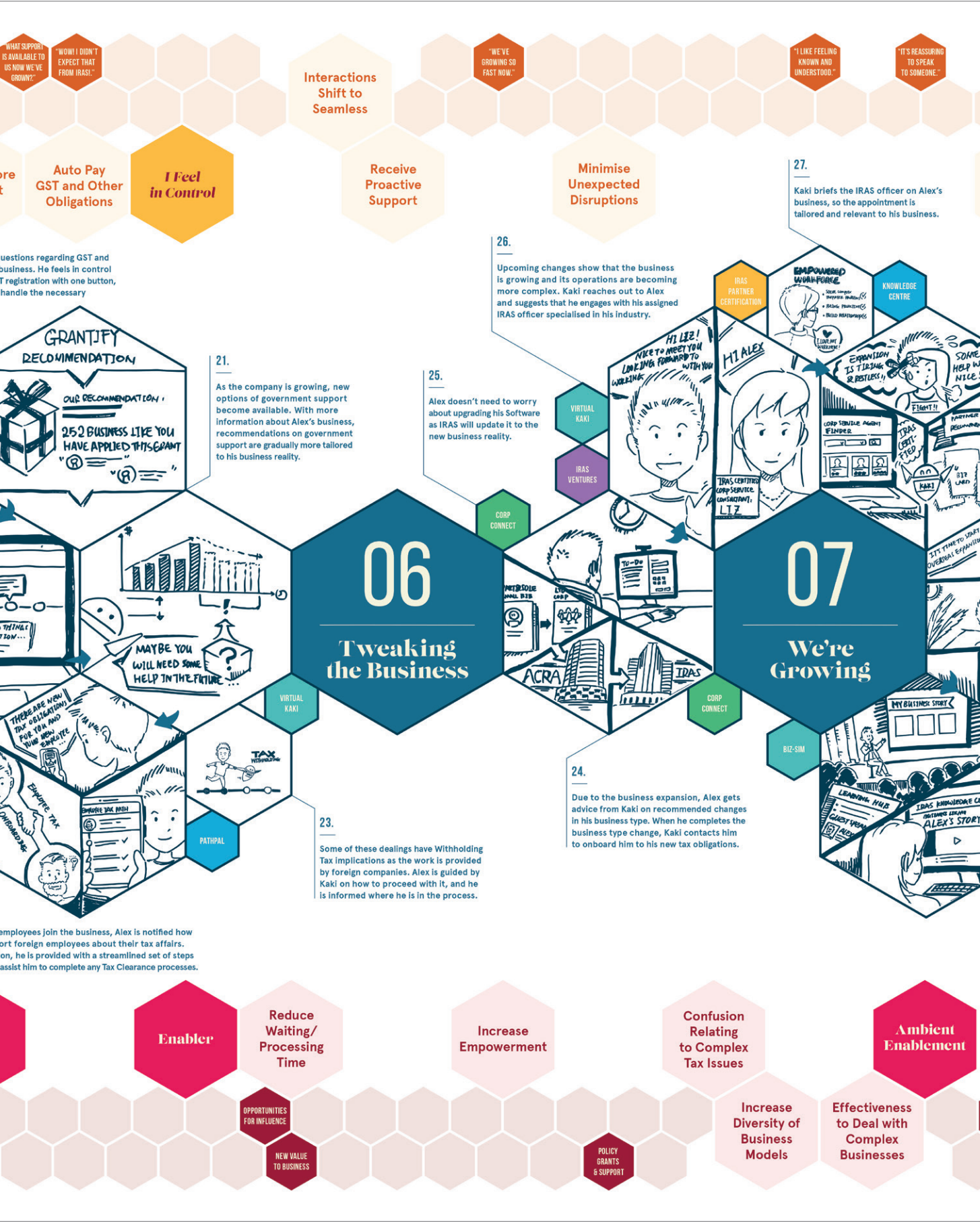
Information on GST registration is also incorporated into the New Company Start-Up Kit, seamlessly directing users to the registration calculator.

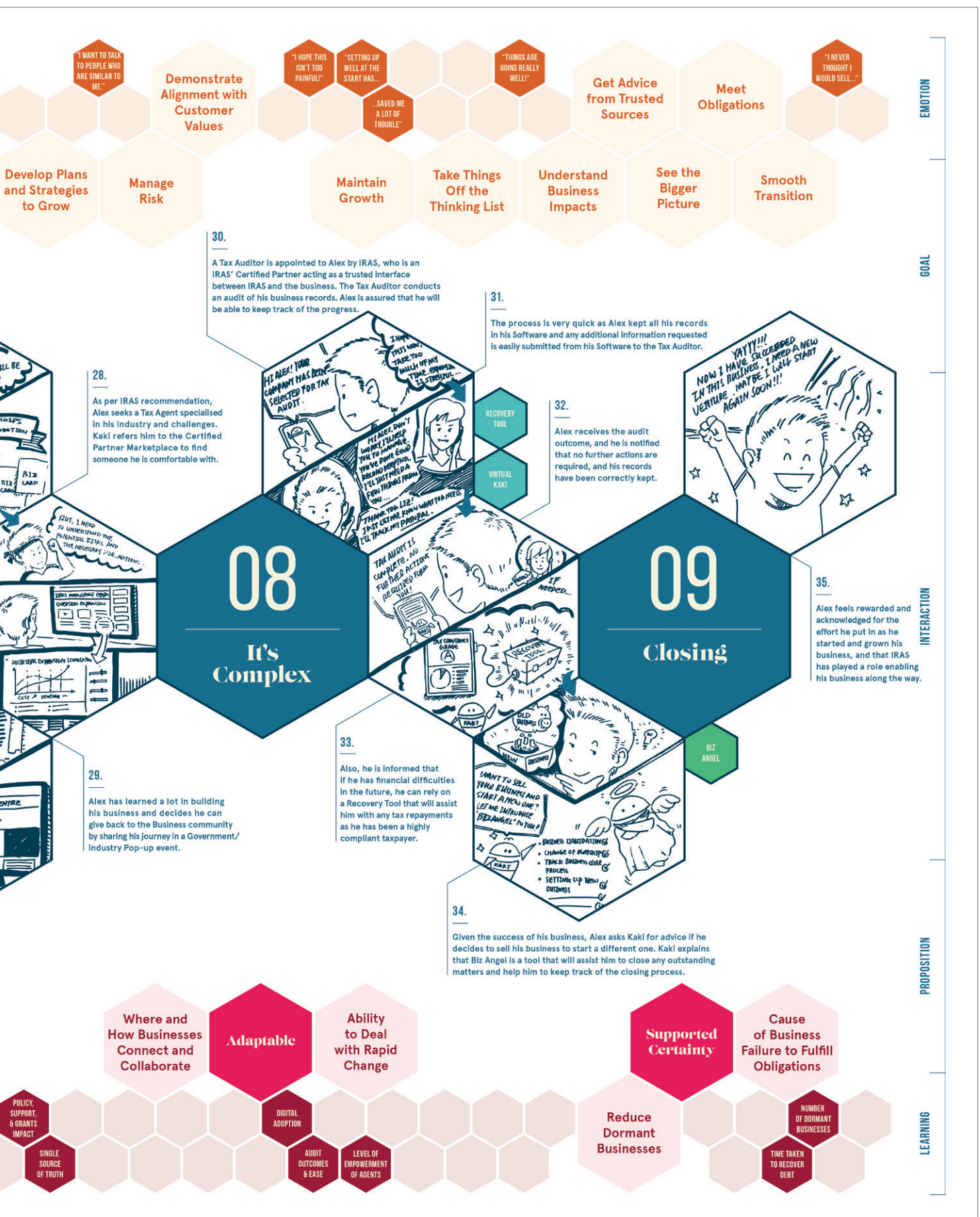












New initiatives

The future state journey map for SMEs, which was developed during the Service Design project, also advocated partnerships with third parties to bring forth a seamless tax-filing experience from IRAS' taxpayers' natural system. This led to the following initiatives described below.

SME Cloud Exchange Network Software (SMECEN)

SMECEN is an integrated accounting and human resource software for SMEs launched in July 2018. It was developed by the Association of Small and Medium Enterprises (ASME) of Singapore, in collaboration with IRAS, ESG and ACRA¹⁵. This software has the capability to generate draft financial statements, financial data in extensible business reporting language (XBRL) format and tax computations in compliance with ACRA's and IRAS' requirement. GST-registered businesses can also utilise the software to generate draft GST returns and transaction listings. In addition to achieving productivity gains, the software improves the accuracy of companies' documents and returns submissions to ACRA and IRAS. A year and a half following its launch, 1 200 companies have subscribed to, and benefited from, SMECEN.

Seamless Filing for Corporate Tax

Since February 2019, IRAS and ACRA have embarked on a joint pilot project to co-create a seamless filing solution with accounting software developers. The project, launched in June 2020, aims to bring on-board 200 to 300 pilot SMEs users.

Today, companies are required to file a statutory return at least once with ACRA (known as the Annual Return) and twice with IRAS for corporate tax (Estimated Chargeable Income and Corporate Tax Returns (Form C-S/ C)). Companies will manually prepare the different returns and submit

them via the portals residing on the relevant agencies' portals. Under the new initiative, software developers will enhance their accounting software to consume a suite of Application Programming Interface (API) services from IRAS and ACRA to generate documents required for their users' statutory filing. Companies only need to review the output generated by the accounting software (IRAS' Corporate Tax Return, ACRA's Annual Return and financial statements in XBRL format) and can submit them directly from the software to IRAS and ACRA without the need to do so manually via the two agencies' usual platforms. The collaboration aims to achieve the following:

- Improve companies' and tax service providers' productivity as the document preparation process is streamlined and automated;
- Reduce compliance costs for companies which outsource the statutory filing preparations to tax and corporate service providers;
- Improve the quality of submissions as the data is extracted directly from source; and
- Increase the adoption of digital solutions by encouraging companies to use accounting software as its primary record keeping tool.

Upon the successful completion of the pilot, IRAS and ACRA will on-board more accounting software developers to the API services and encourage wider adoption among the SMEs.

Seamless Filing for Goods and Services Tax

Similar in concept to the seamless filing for Corporate Tax returns, seamless filing for Goods and Services Tax (GST) returns enables transmission of GST returns and its accompanying transaction listings directly from taxpayers' accounting software to IRAS via API services.

In addition to time-savings and reduced compliance cost for taxpayers, the collection

15. ASME is a not-for-profit organisation established by entrepreneurs to equip member SMEs with business knowledge and market opportunities to help grow their businesses.

of transaction listings also has the benefit of enhancing IRAS' compliance capabilities. The submission of such listings together with GST returns improves audit efficiency and reduces audit turn-around time for both IRAS and its taxpayers.

The pilot for seamless GST submission was

successfully completed in February 2019. Seventy five percent of users who responded to IRAS' feedback survey agreed that the new mode of submission via API was easy to use and sixty three percent responded that it resulted in higher accuracy in their tax declarations. IRAS is in the process of enhancing the API services before it encourages wider adoption.

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FORUM ON TAX ADMINISTRATION

Supporting SMEs to get tax right Series

Strategic Planning

This report is intended to assist tax administrations in the development and implementation of strategic approaches to support SMEs with tax compliance as well as to identify opportunities for burden reductions. It also provides some country examples as to the development and implementation of such strategies, including two case studies.

It is the first in a planned series of reports on supporting SMEs, with future reports looking at tax administration engagement with SMEs; the provision of digital services; issues around trust, fairness and co-operation; and solutions that integrate tax affairs in the software used to support the regular business operations of SMEs, so called “seamless taxation” solutions.

To support the production of these reports and to facilitate an ongoing international collaboration among tax administrations on SME-related issues, members of the OECD's Forum on Tax Administration have agreed to set-up a new Community of Interest on SMEs.



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