
Chapter 13

Processes

13.1. Main processes

There are various ways to classify the processes taking place within a tax administration. The usual way is to make a distinction between main processes and supporting processes.

The main processes of the DTCA follow from the core tasks, the business philosophy and the enforcement policy. The six processes, i.e. file management, levying, supervision of the execution of non-tax legislation, fraud detection, collection and service provision, are discussed in detail below. Separate attention is paid to dispute resolution and appeal procedures. In addition to the main processes, the DTCA distinguishes supporting processes. These are the processes that enable the organization to carry out the main processes. Examples of supporting processes include finance, accommodation, human resources, information and automation and research and development processes.

13.2. Main processes: identification and registration of taxpayers

The record-compilation function, comprising identification and registration of taxpayers, constitutes an important task for tax administrations. Although tax authorities tend to focus on auditing of taxpayers who are already known and registered, they should also put efforts in including in the tax-return system all persons and companies that have succeeded in escaping their notice. Management of taxpayers' records consists of three basic functions: creation, updating and deletion.

An effective tax system encourages taxpayer compliance with registration obligations. Thereto the tax community should be provided with clear and comprehensive descriptions of the requirements that lead to registration and tax administrations should facilitate taxpayers to make the procedural requirements as easy as possible. Online registration by taxpayers adequately serves the needs of taxpayers thus promotes compliance, reduces the number of unintentional errors and is cost efficient.

However, tax administrations should also take measures to assure the completeness of taxpayer's registration. Thereto it is necessary to establish a system whereby the tax administration is notified of all external events with tax implications: setting-up of businesses and companies, transfer of registered offices, start of gainful employment for natural persons, changes of residence, changes of activity, etc.

The Dutch Tax and Customs Administration aims to ensure compliance with registration requirements by collecting and verifying third party information on the existence of taxable sources of income and other taxable elements requiring taxpayers to register for the relevant types of taxes, to file returns when required, and by actively informing potential taxpayers on their registration and filing obligations and to provide them with the necessary (electronic) forms and documents. In addition to that, the DTCA promotes compliance with registration requirements through surveys of potential taxpayers for instance by physical inspection of business premises and private residences in selected areas, by visiting starting business, by providing one stop services for (starting) businesses to inform them on their rights and obligations in their relations to the DTCA, by on the spot checks at markets and other trade locations, by inspection of cars and also by searching sources of information on economic activities such as newspapers and the internet.

To avoid misuse of registrants and false registrants the DTCA also developed policies and practises to detect and actively deregister those registered taxpayers who have become inactive and even more falsely registered persons who register with the intention to misuse their registration with the tax authority.

The record-compilation function usually involves the task of allocating registration numbers to firms and natural persons liable to tax, allowing more accurate identification and better monitoring of their transactions (the number may thus be indicated not only on tax returns but also on invoices, letterheads, business letters, etc.). If possible, and especially if allowed by law, this number must be unique (social security number, national identification number, etc.) and be used by all Administrations likely to administer some or all of the taxes.

13.3. The Tax Identification Number

The Tax Identification Number (TIN) is an important tool to easily identify citizens and businesses for tax purposes. It enables Tax Administrations to easily and effectively link the information included in its different data bases with reference to each taxpayer, and it is a very effective instrument for facilitating the exchange of information between tax administrations and taxpayers and also with employers and others who have a withholding obligation or an obligation to provide third party information to the tax administration and also for the exchange of information between Tax Administrations and other governmental bodies and with Tax Administrations from other countries. The use of the Tax Identification Number helps to improve the efficiency in the information management and enables and facilitates the realization of matching controls.

As described in Chapter 9, in the Netherlands the Tax Identification Number is called SOFI number. This stands for Social Fiscal number. The SOFI is not exclusively being used for tax purposes but also by other governmental administrations and agencies and other organizations with access to public information such as social security administrations, banks, insurance companies, pension funds, municipalities, hospitals and other medical service providers. Until 2007 citizens and businesses received their SOFI number from the DTCA. However, in 2007 all citizens and organizations that were registered with their municipalities had their SOFI number replaced by a Citizens Service Number that is identical to their former SOFI number, but provided by the Municipality instead of by the DTCA. Since 2007 all persons receive a Citizens Service Number as soon as they register with their municipality. This may be immediately at birth or later for other reasons. Taxpayers who are not registered with a municipality should still request a SOFI number with the DTCA. The Citizens Service Number is being printed on identity papers such as passports, identity cards and driving licences.

Identification and registration of taxpayers is part of file management consisting of the following constituent processes:

- *data collection*: the (active) collection and processing of fiscally relevant information from and about taxpayers;
- *registration and management*: the registration and management of information on taxpayers with the relevant links between taxpayers;
- *making data available*: making available information relevant to the process of levying and collection; and

- *supplying data*: supplying information about the registration of taxpayers to other government bodies, to other tax administrations and to the taxpayer himself.

13.4. Main process: levying

Levying consists of the following constituent processes:

- *registration and management*: the registration and management of information derived from tax returns for the purpose of selection and treatment;
- *evaluation of contributions*: the evaluation of contributions in order to establish tax liability on the basis of the various contribution acts (income tax, corporation tax, turnover tax, wage tax, etc.);
- *establishing the treatment strategy*: evaluation, assignment and choice of the type of treatment:
 - technical fiscal test, divided into an office test and a field test; and
 - revaluation;
- *establishing the basis of tax assessment*: execution of the treatment process, including the establishment of the basis of tax assessment and possibly the application of administrative and legal sanctions; and
- *calculation and conclusion*: the process of calculating and producing assessments and other decisions.

Most tax administrations use the self-assessment system for their most important taxes, such as personal income tax, value added tax, wage tax and corporate income tax. In the Netherlands, this is not the case for the personal income tax, the corporate income tax and a couple of less-significant taxes in terms of revenue. These taxes are administered on the basis of administrative assessment, meaning that the tax administration formally does the assessment of the tax due based on the information declared by the taxpayers. This system is known as administrative assessment, which is generally more costly for the tax administration and less costly for the taxpayers than the self-assessment system that requires taxpayers to assess their tax obligations, to calculate the tax due and to pay their taxes on their own initiative within a certain timeframe and that puts most of the administrative burden on the taxpayers.

The DTCA receives over 54 million tax returns a year, most of which are processed automatically. Of these 54 million tax returns more than 10 million relate to personal income tax, 600 thousand to corporate income tax, 7.5 million to payroll tax and social security contributions, 7 million to

VAT, and 10 million to motor vehicle tax. The processing of these returns are bulk processes. The DTCA has a strong preference to receive the tax returns in digital form through the internet which is fully in line with the preferences expressed by individuals and businesses of which 95% opt for digital returns.

The DTCA is very keen on timely processing of tax returns in particular of personal income tax returns. The DTCA sets targets for the processing of personal income tax returns to generate at least provisional assessments for a certain date. In general, all individuals filing their personal income tax return before April 1 would receive notification from the DTCA before July 1, usually in the form of a provisional assessment stating the amount to be paid or refunded, and an actual refund when applicable. The target set for 2010 was that 98-100% of the personal income tax returns would be processed in time thus before July 1. The actual result in 2010 was that 99.9% of the returns were processed in time, meaning that the set target was fully achieved.

As soon as the returns have been stored in the central computer of the DTCA, the so-called bulk assessment processing can commence. The returns are being checked by a fully automated system based on risk management principles that determines the assessments. Returns that cannot or should not be processed by the automated system are being selected to be processed manually by staff members of the DTCA.

A future challenge for the DTCA would be to create the ability to speed up the processing of the final assessments for personal income tax in a way that would enable the DTCA to settle the final assessments for the fast majority of its private individual taxpayers within a period of say three months so that most of these taxpayers would no longer need to receive a provisional assessment followed by a formal final assessment but instead would immediately receive a final notification of assessment and a final payment of overpaid taxes. That would reduce the administrative costs of the DTCA significantly, reduce the (perceived) compliance costs of individual taxpayers importantly and would likely further improve the perception of the tax community about the DTCA of being a highly efficient and effective administration.

13.5. Pre-populated (or pre-completed) tax returns

To improve its service to citizens and to increase the quality of the return filing and assessment process, the DTCA has introduced the pre-populated income tax return for private individuals. The DTCA will make use of the information it already has available in its systems, so that the taxpayers do not have to re-send this information. The only thing the taxpayer has to do in this system is verifying the information for accuracy and completion. If needed, the taxpayer can provide additional information and correct wrong information.

The DTCA has tested the pre-populated tax return in 2008, using its own staff as guinea pigs. The year 2009 was used as a trial year in which taxpayers could opt to use a pre-completed return when completing their electronic return form. Based on the favourable experiences of this trial the pre-populated tax return was rolled out on a national scale for all private taxpayers in 2010. More than 3.9 million private individual taxpayers have made use of this facility in 2010. Currently the pre-completed data in the returns still relate to a limited number of data, but the DTCA is working intensively to extend the amount of data to achieve a level where for most private individual taxpayers all relevant data would be pre-completed.

The pre-populated tax return is digital and will encourage returns to be filed electronically. Expectedly it will take a number of years to achieve completely pre-populated personal income tax returns. An important precondition for full implementation is that the income basic registration (discussed in 10.) is fully operational, with complete and accurate information that is timely available. This requires the third parties who provide the information to assure that their data are complete, timely available and correct.

13.6. Main process: supervision

The process of supervision includes all activities aimed at detecting non-compliance with tax obligations, such as non-registration, non-reporting or underreporting of income, or overestimating of deductible expenses.

Supervision activities include verification of tax returns. The process of verification comprises those activities that fulfil the following descriptions: documentary review, office examination, desk review or desk audit. The result of verification may be that the tax return is found in order, that

adjustments have to be made, or that the tax return needs further treatment (audit).

The process of auditing comprises all activities that fulfil the following description: examination, external control, field audit and accounting audit. The audit is usually performed at the taxpayer's premises. The result of the audit may be that the tax return is found in order or that adjustments need to be made, resulting in additional tax obligations.

13.7. Auditing

Technically speaking, the auditing of a tax return relies on two different types of approach aimed at verifying the return. The first approach is a *correctness* check to verify whether what has been reported and accounted for should indeed be reported and accounted for. The second approach is aimed at the *completeness* of the return, to check if the full amount of income that should be reported and accounted for has indeed been reported and accounted for.

The selection of the right approach depends on the assumption of the interest of the taxpayer to pay as little tax as possible, as late as possible:

- assets are more likely to be undervalued than overvalued – the audit should be directed at completeness;
- liabilities are more likely to be overvalued than undervalued – the audit should be directed at correctness;
- income reported is more likely to be understated than overstated – the audit should be directed at completeness; and
- costs and deductible expenses are more likely to be overstated than understated – the audit should be directed at correctness.

Another important distinction to be made is between *formal checks*, targeted at formal aspects of the return, and *substantive checks*, targeted at material aspects of the return. Formal checks are directed at aspects such as non-compliance with the rules and obligations, arithmetical correctness and numerical relationships. Substantive checks include quantitative analyses and existence checks targeted at the correct and proper recording of the various elements of the business process.

Audit approach

To achieve the audit objectives, different audit approaches or auditing methods can be followed:

- the synthetic approach;
- the analytical approach;
- the data-oriented approach; and
- the organization-oriented approach.

In the synthetic approach the auditor focuses primarily on the details of the prime data to reconstruct the tax return, while in the analytical approach the tax return forms the starting point. For both methods to be effective the auditor should have an accurate idea of the reliability of the internal entries and the external documents, which largely depends on the effectiveness of the internal control system.

The additional audit approaches include the data-oriented approach and the organization-oriented approach. These methods focus on the internal organization of a business, including the accounting organization and the system of internal control (AO/IC). To assess the completeness and correctness of certain information, a data-oriented approach can be applied; to determine the structure and functioning of the AO/IC an organization-oriented approach is required. If the data-processing system of the company is computerized, these audit approaches will be carried out by EDP auditors.

Audit techniques

Auditors use a variety of audit techniques, such as analytical reviews, correlation checks, benchmarking (comparing data of an individual case with standard data, such as industry benchmark data) and capital comparison and other indirect income measurement methods.

13.8. EDP auditing

Paper books, records and documents are increasingly replaced by data transmitted electronically. These changes require tax administrations to make adjustments to their examination methods. However, these different approaches also open up new opportunities. The number of specialists needed in this area is rapidly growing. Products of EDP auditing include:

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- *preliminary investigation*: taking stock of the information technology applied by the taxpayer in order to determine how information technology and the internal controls of the taxpayer interact;
 - *the relationship between risks analysis and the quality of the information technology*: the advice of the tax auditor can be supplemented by a system audit by the EDP auditor;
 - *system audit of standard software*: this standard software includes applications developed by software companies that are used by many taxpayers;
 - *data gathering and data conversion*: in the preliminary investigation it has been established which electronic data of the taxpayer can be used in the EDP audit;
 - *data analysis*: the data to be analysed and how they should be analysed, which also follow from the planning stage;
 - *sharing information gained while carrying out an audit (which may include the evaluation of this knowledge) via computer records*: EDP auditing has an innovative and supporting role, with the objective to transfer knowledge; and
 - *specific support of tax audits*: making internal data available is part of this class of instruments and services.

IT and EDP audit

GTCBAS stands for “guidance on tax compliance for business and accounting software”. The DTCA plays an active and leading role in the development of this guidance and related products, together with other OECD members and businesses. The guidance aims to list all features to be built into software packages in order to create reliable accounting software.

SAF-T stands for the guidance on the “standard audit file for tax purposes”. SAF-T describes how to add export features to accounting packages, ensuring that data can be easily extracted from these systems for testing purposes. Ready-made audit packages for testing are already available at the market (e.g. “Clair”).

The DTCA encourages auditors – not being EDP auditors – to have some basic knowledge of automated systems. They should be able to work with Word, Excel and PowerPoint and with special developed tax software, to read computerized output and to translate their audit questions into queries for EDP auditors.

It is good practice that for auditors to consult with an EDP auditor in the planning phase of an audit if this is considered to be useful. Special atten-

tion may be paid to tables with fixed data, such as VAT rates and intercompany prices.

13.9. Main process: supervision of the execution of non-tax legislation (customs)

Supervision of the execution of non-tax legislation consists of the following constituent processes:

- *collecting, registering, managing and making available information*: the active collecting and processing, registering and managing of information that is relevant to the supervision of the execution of non-tax legislation. This relates to both the target groups of the legislation (subjects of the law) and the goods that are affected by this legislation (objects of the law). It also involves making available information for the other constituent processes;
- *establishing the treatment strategy*: evaluation, assignment and choice of the type of treatment;
- *execution of supervision*: execution of supervision of compliance with non-tax legislation on the basis of the treatment strategy chosen, in the following ways:
 - administrative treatment of the official customs documents;
 - treatment on the basis of documents submitted with the declaration; and
 - surveillance;
- *provision of information*: the provision of information about the results of supervision to the appropriate authorities and to the subject of the law; and
- *conclusion*: conclusion of the supervision of compliance with non-tax legislation by means of:
 - execution and conclusion of the treatment process; and
 - transfer to another main process (in particular “fraud detection”, in the event of any identified offences).

13.10. Main process: fraud detection

Fraud detection consists of the following constituent processes:

- *collection*: selecting the information required and the sources of information to be consulted; requesting and/or finding this information to combat tax or customs fraud;

- *investigation*: reproduction of the information in a format that is suitable for submission to those who determine how the suspected fraud is to be dealt with; and
- *establishing the treatment strategy in consultation with the public prosecution service*: decision on how the suspected fraud is to be dealt with:
 - no prosecution, but settlement within the relevant legislation, using corrections;
 - settlement within the relevant legislation, with administrative legal sanctions; and
 - criminal prosecution.

13.11. Main process: collection

Collection consists of the following constituent processes:

- *establishing the basis of assessment*: establishing the claims on the basis of tax liability;
- *settlement of claims*: the settlement of outstanding claims by ensuring that they are paid, set off or acquitted; and
- *debt collection*: taking measures aimed at collecting the debts of taxpayers who have failed to comply with their obligation to pay.

Within the Tax Offices (Regions) special employees are responsible for the collection of taxes. The employees are called tax collectors and should be distinct from tax inspectors who are responsible for the assessment of taxes. This distinction of duties was created for various reasons. These include the following:

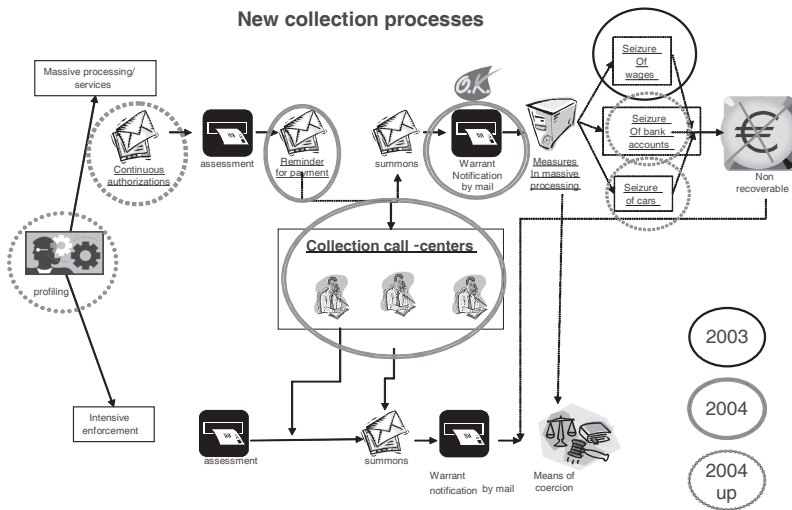
- legal substantive reasons: assessment and collection of taxes are based on different laws each providing for their own procedures and rules for legal protection; and
- assessment and collection are different functions that shouldn't be mixed up. The completion of the assessment forms the start and bases of the collection process.

The DTCA has its own bailiffs who operate under the responsibility of the tax collectors. These tax bailiffs work exclusively for the DTCA by performing duties to collect tax debts and other liabilities collected by the DTCA. The activities of these bailiffs include seizure of assets and execution.

The collection process in the Netherlands has been redesigned. A new approach was developed, which includes the following elements:

- development of a new business strategy, values, and goals;
- modernized and simplified processes;
- an emphasis on quick wins (i.e. within 3-month chunks) to improve business performance over the short term;
- development of a business case to predict future performance with the modernized arrangements;
- the use of a flexible and experienced project team; and
- packaged market solutions rather than building in-house.

A process architecture for the modernized processes has been completed, strongly emphasizing centralization of large-scale payment processing work, improved risk profiling, integrated debtor administration, automation of case management elements and improved management information.



In view of the timeframe set for the full redevelopment effort, the project team developed a range of short and medium-term “quick win” initiatives, consistent with the longer-term strategy and goals. The range of quick wins included a system of payment reminders (01/2005), implementation of collection call centres (01/2005), sending warrantings by mail (01/2004), seizure of taxes from wages (10/2003) and seizure of bank accounts and cars (2005).

The DTCA wants more customers who comply voluntarily with their tax obligations; fewer “regulars” who need special attention; efficient customer handling; and minimization of lost revenue. In order to support these

policy goals, the DTCA applied a more risk-based approach, which is new for the DTCA in the collection process. (The DTCA has been using risk-based methods in its assessment and audit processes for many years, but so far not in the collection process.)

Whereas the old system made no distinction between good and bad payers, the new system is based on risk profiles: the level of risk determines the approach to be adopted. The DTCA now tackles high-risk cases quickly, in a tailor-made manner, giving them extra attention and intensive scrutiny. Experience and research have shown that the longer the collection process takes, the smaller the chance is of recovering the tax due. That is why DTCA has a strong focus on pursuing and dealing with long-overdue debts.

From 1 January 2005, taxpayers who are late in paying what they owe will receive, free of charge, a payment reminder and giro payment slip. The reminder advises them that the DTCA call centre can help with any questions they may have and provide them with information on their tax position. If the amount due is not too large, the call centre staff can immediately authorize a deferred payment. The object of payment reminders is to speed up the flow of payments. However, if the reminder and contact with the call centre fail to achieve the desired result, a tax demand will follow. If that, too, fails to result in the tax being collected or a payment arrangement being made, a writ of execution will be issued.

A major improvement of the collection process is the sending of writs of execution by post, which has been done since 2004. Service by post is almost completely automated and speeds up the process by 6 to 8 weeks. As a result, it has become a cheaper, less labour-intensive, mass process. The benefits have been considerable: the costs per writ served plummeted by 90% from EUR 14 to EUR 1.20; yet, the DTCA was able to increase the number of writs issued, from a previous total of around 850,000 per year to 1.6 million.

13.12. Appeal procedures

A proper tax assessment system also provides for an effective complaints/appeals mechanism, that guarantees the taxpayer a fair treatment. A proper tax appeals system is based on a legal framework, is easily accessible for taxpayers, and has transparent administrative procedures guaranteeing independent decision-making processes, including provisions that assure that decisions are promptly acted upon.

When a taxpayer does not agree with a tax assessment, he must have a right to lodge an appeal against it.

Appeal procedures offer a number of benefits:

- *right and interest protection*: concerned parties have the opportunity to make their appeal to invoke a new decision;
- *arbitration*: there are many ways to find a solution for problems, aside from declaring the appeal valid;
- *improving the quality of the decision process*: during the consideration of the appeal the committee will take notice of the social situation of the taxpayer;
- *file collecting*: when the appeal is brought to court, the appeal will only be judged on the facts which are used in the appeal procedure; and
- *filter*: the use of appeal procedures decreases the work pressure of the court. According to Dutch research, the decrease is almost 80%.

Tax assessments made by the tax administration are open to administrative appeal. The appeal process generally includes the following elements:

- administrative appeal to the tax inspector;
- tax inspector's decision;
- appeal to lower court of justice;
- lower court's decision;
- appeal to court of justice;
- court of justice's decision;
- appeal to the Supreme Court; and
- Supreme Court's decision.

Legal systems and practices in dealing with objections and appeals differ widely from country to country. However, in any appeals system there should be clear rules on the following aspects, as taxpayers need to know what they are expected to do to have their cases handled properly.

- What can a taxpayer object/appeal against?
- Who can object/appeal?
- How does a taxpayer appeal?
- Is there a charge for making an appeal?
- What happens after a taxpayer has made his appeal?
- Does a taxpayer have to continue paying while he is waiting for his appeal to be settled?
- Where will his appeal be heard?
- Does the taxpayer have to attend?
- Can someone else represent him?
- Is help available if taxpayers have special needs?

- How should a taxpayer prepare for his hearing?
- What happens at the hearing?
- What happens after the hearing?
- What can a taxpayer do if he loses his appeal case?

The Dutch appeal process includes the following steps:

- notification of (re)assessment;
- administrative appeal to the tax inspector;
- tax inspector's decision on appeal;
- appeal to (tax chamber of) lower court of justice;
- lower court's decision;
- appeal to (tax chamber of) court of justice;
- court of justice's decision;
- appeal to (tax chamber of) Supreme Court;
- Supreme Court's decision.

After receiving a notification of (re)assessment of his tax obligation, the taxpayer can start up the appeal procedure. The first step for a taxpayer who disagrees with the (re)assessment of his tax obligation by the tax inspector is an administrative appeal. In this so-called closed system of appeal possibilities, the taxpayer does not have multiple options – appeal to the tax inspector is the only option. The law provides for a time limit for the taxpayer to lodge an appeal. The taxpayer must state the reasons for his appeal by providing the grounds for his appeal to the tax inspector.

If the taxpayer is too late with his appeal or does not provide his grounds for the appeal, the appeal can be formally dismissed. However, internal rules of fairness require the tax inspector to seriously reconsider the case when the appeal is lodged within a certain time period and there is a substantial interest for the taxpayer and serious grounds and facts provided to be reviewed.

The tax inspector has a legal time limit to make his decision on the appeal. Like many tax administrations, the DTCA has a (published) policy that narrows the legal time limit to a shorter period of time.

In the Netherlands, the appeal must be handled by another tax officer than the inspector responsible for the initial (re)assessment of the tax obligation.

During a hearing at the office of the tax inspector, the taxpayer has the opportunity to clarify his appeals, in order to explain his aims and the effects he desires from his appeal action. The tax inspector will make a report about the exchange of information and opinions at the hearing.