Improving taxpayer service and facilitating compliance in Singapore

Singapore has led the world in its rapid and widespread adoption of new technology in revenue administration. What lessons does its experience offer developing countries?

Singapore is a small island with a high per capita income, a technologically sophisticated population and infrastructure, and a well-organized and effective revenue system. Yet Singapore began its independent life in 1965 as a low-income city-state with a revenue structure and administration similar to those in many other former British colonies. Moreover, Singapore has retained many fiscal features often considered archaic—such as stamp duties and official assessment rather than self-assessment—and has introduced fiscal incentives that have facilitated evasion and complicated tax administration elsewhere. Still, public finances have been extremely well-managed, and the public sector has played a key role both in Singapore’s general development and in directing that development into particular channels.

Over the past 10 years the government has sought to modernize and computerize Singapore. Tax administration was one area of public administration that clearly required modernization. By 1990 the Inland Revenue Department was piling up larger amounts of uncollected revenue every year, had a staff turnover level almost three times that in the public service as a whole, and had the lowest rating on public satisfaction of the entire public sector (Sia and Neo 1997).

In 1992 the Inland Revenue Authority of Singapore (IRAS) was created to administer income and property taxes and a new value added tax called the Goods and Services Tax. Planning began to develop an integrated, computerized approach to tax administration, which was soon reorganized on functional lines. Over the next eight years a completely new administrative system was introduced in a carefully phased, thoroughly planned fashion.

This process has had impressive results. Although the revenue authority’s staff size has stayed constant, tax arrears have been cut, property valuations have been kept current, staff turnover has fallen, auditing has improved, and public satisfaction with the tax service has increased markedly. In a recent survey 95 percent of individual taxpayers, 83 percent of corporate taxpayers, and 93 percent of goods and services taxpayers said they were satisfied with IRAS services, which they found to be convenient as well as competently and courteously provided.

What has Singapore done?

One of the first steps IRAS took was to convert from a hard-copy filing system to a paperless imaging system that allows documents to be retrieved instantly from networked terminals. This move made administrative processes more efficient and freed staff from unproductive paper-shuffling, permitting better taxpayer service and more “back end” auditing. Up to 80 percent of assessments are made automatically for simple cases, and the time
needed to issue assessments has dropped from 12–18 months to 3–5 months.

Taxpayers still had to file paper originals, however. So, in 1995 IRAS took the next step, introducing electronic filing by telephone for individuals. Eliminating paper reduced the time needed to process returns, improving taxpayer service. Laws were changed to indicate that computer output from the imaging system provided an accurate representation of an original paper document, and many taxpayers used the convenient phone-filing system. Still, some taxpayers were uncomfortable with the lack of visual confirmation inherent in this system. Many people, it seems, like paper.

In 1998 Singapore took the next logical step and introduced direct electronic filing for individual taxpayers with employment income. Although considerable efforts were made to make the process simple and attractive, in the first year only 61,000 taxpayers took advantage of e-filing. But by 2000, after further improvements—many in response to feedback from filers—nearly one-third of taxpayers (364,000) were filing electronically. (Another 119,000 filed by telephone.) E-filing has since been extended to individual taxpayers with business income and to returns for the Goods and Services Tax.

Another important step was taken in 1996 with the introduction of one-stop service. Taxpayers can now directly inquire about any type of tax through an integrated information system known as the Inland Revenue Integrated System (IRIS). IRIS is a three-tier client-server system equipped with the latest imaging technology and an integrated database for the main taxes. The system provides 24-hour automated phone service for information on income and property taxes as well as the Goods and Services Tax, with taxpayers able to access specific information through use of a personal identification number.

About 43 percent of inquiries are handled by the automatic voice response system, though tax officers still deal with about 400,000 calls a year. In addition, a special Valuation List provides information on the value, rate, and ownership of properties. IRAS has also set up a free automated service that allows taxpayers to request forms and brochures by fax. All these services have made it easier for taxpayers to obtain quick access to information.

In addition, the system has been made more attractive to taxpayers. For example, filers see the entire form (including any corrections made for consistency) before it is submitted. And when a taxpayer’s employer supplies IRAS with filing information directly—an increasingly common approach—all the taxpayer needs to do is click the appropriate box to submit the form. Because all dividends paid by Singapore-listed companies must be paid by the Central Depository, taxpayers with income only from employment and such dividends no longer need to declare the details of such income. Thus compliance costs have been lowered significantly. The long-term goal is to eliminate the need for most taxpayers to file any kind of return. Well-developed links with other government agencies identify new taxpayers, record income flows, and facilitate administrative processes.

Considerable efforts have been made to keep the system secure. In addition to the personal identification number mailed to each taxpayer, the system accepts only raw data (preventing virus contagion). Within IRAS, information is accessible on a need-to-know basis and is carefully tracked, a process that also facilitates detailed evaluation of the performance of officials.

In addition to submitting returns electronically, taxpayers can pay taxes electronically. A 12-month interest-free installment plan (based on the previous year’s tax assessment) is offered under which tax is deducted directly from bank accounts. Changes in tax liabilities automatically lead to adjustments in payments. Alternatively, taxpayers can pay a lump sum once their current liability is assessed through direct deduction, by phone or Internet banking services, or by debit card at payment kiosks or taxpayer service centers. About three-fifths of individual taxpayers (and half of property taxpayers) use these systems.
IRAS also recently introduced “e-stamping,” under which stamp duties on documents such as mortgages and real estate and stock transfers can be paid automatically. This system generates a certificate that takes the place of the legally required stamp and can be printed immediately.

Plans to further expand IRAS’s use of information technology include a personalized electronic mailbox for each taxpayer, e-filing by companies, e-filing of property tax notices, and automatic crediting of tax deductions for charitable donations based on information supplied electronically by charitable organizations.

In all, a government Internet publication does not seem far off when it says that “the IRAS site is the most effective and popular of the e-Government interactive sites, and the Singaporean e-filing system the envy of every leading IT aware country (and tax-paying citizen) in the world” (Singapore Wave, 1 August 2000). Indeed, as The Economist recently put it, quoting a U.S. official, “Singapore’s eCitizen centre is the most developed example of integrated service delivery in the world” (24 June 2000, Government and the Internet Survey).

How did Singapore do it?
Singapore did so much so quickly and so well for three reasons. First, it was decided at the highest levels of government that the changes would be made. Second, the tax administration was repositioned, reorganized, and given adequate resources to carry out the major tasks with which it was charged. At its peak, for example, 200 people (including consultants) worked fulltime to develop and implement the computer system for the new tax administration. Third, the system was extremely well-planned and implemented in a carefully phased and monitored manner, taking into account client feedback at each stage before moving to the next stage.

Singapore did not simply introduce new technology to tax administration. Rather, it completely reengineered:

- All internal procedures for processing taxpayer information. For example, detailed performance indicators were developed to enhance the accountability of individual tax officers, and significant financial incentives were linked to good performance.

Substantial and sustained effort was required to plan these changes, to train staff, and to manage and monitor the process of change.

Thus tax administration in Singapore has changed far more fundamentally than simply introducing e-filing and a nice Web site. Before IRAS was created, the tax administration was a classic hierarchical bureaucracy, with extensive “front end” revision of returns followed by extensive intermediate steps before the issuance of an assessment and then separate payment and enforcement. Nearly all aspects of this system were altered in well-planned and carefully executed stages prior to the introduction of new direct taxpayer services (phone filing) in 1995.

The main information technology component essential to this restructuring was the paperless imaging system introduced in 1992. The resulting automation of standard procedures made the system less dependent on the expertise of individual officers and reduced the potential for corruption—for example, by clearly separating functions such as return processing, auditing, and payment. A second important information technology feature was increased reliance on information provided electronically by third parties.

Equally important, the attitudes of officials toward taxpayers changed, with information submitted by taxpayers being accepted as honest. As one official recently expressed the current official attitude, “When we deal with our taxpayers, IRAS does not just mean the Inland Revenue Authority of Singapore. It also means ‘I Respond and Serve.’” Efforts to make tax compliance easy for citizens reflect this attitude.

Some of the expert administrative resources freed from routine work are now used much more intensively for auditing and investigation. The Audit Division, for
example, grew from 20 in 1993 to 200 in 1997 (out of a basically constant IRAS staff of 1,600).

Can others do the same?
Most developing countries differ from Singapore. Thus it seems unlikely that others can easily emulate it. Yet many aspects of Singapore’s experience do not depend on its unique characteristics. Many of its achievements are available to others:

- Gaining strong support from political leaders, with dedicated and skilled leadership over a sustained period.
- Developing and implementing a strategic business plan.
- Creating a partly independent revenue authority able to hire skilled people outside civil service limits.
- Reorganizing from a tax to a functional structure.
- Reducing the potential for corruption by automating and restructuring control systems.
- Strengthening the audit function.
- Changing attitudes toward taxpayers.
- Simplifying and reducing paper handling through appropriate use of information technology.

Few countries may be able to go as far and as fast as Singapore has done. But all can proceed down this path, with advantages for both their revenues and their citizens. Certainly this task becomes easier if countries are also heeding such conventional tax reform recommendations as refraining from complex fiscal incentives, abolishing archaic levies such as stamp duties, and making more use of self-assessment and withholding. Singapore’s administrative efficiency enabled it to overcome the problems associated with such features, but most countries would seem better advised to clean up their tax structure first, or at least simultaneously. Similarly, most countries need to develop reliable taxpayer identification numbers before they can make effective use of information technology. Finally, Singapore’s system rests heavily on the fact that citizens basically trust the government. Such trust must be earned—it cannot simply be assumed.

Further reading

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