

# Assessment of Taxpayers' Satisfaction with Tax Administration Reforms

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## Azerbaijan



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Mr. SHIKHALIYEV has a master's degree in taxation. He has been working in the tax administration since 2004 and has profound experience in conducting strategic researches focusing on development of the tax system in accordance with the EU integration policy and estimating the efficiency of tax system. He participates in the process of forecasting the effects of changes carried out in the tax policy.

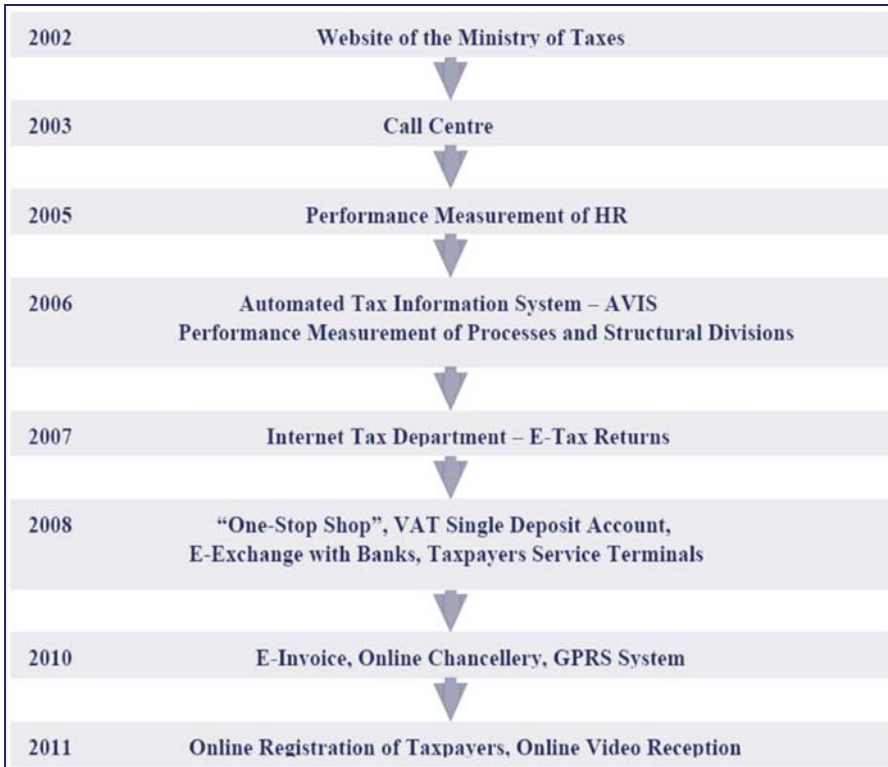
One of the most important challenges for the government is to develop economic relations, to enable global economic integration and to provide high living standards for the people. Such challenges, in their turn, require fundamental reforms in all fields of the economy, and harmonised legislation.

Administration improvements, started after the reforms in management and legislation, were brought to life with the wide use of information and communication technologies. 2005 saw the start of an essentially new stage in the development of tax services. It was then that the "State Program on Improvement of Tax Administration in the Republic of Azerbaijan (2005-2007)" started, during which 40 large-scope activities addressing five strategies were implemented. Important progress was accomplished in a number of strategic areas as a result of this program. The voluntary tax payment system was developed, the continuous struggle against tax violations and evasion was strengthened, tax debts were reduced, a modern management style was provided in tax units and modern information and communication systems were widely introduced.

The Ministry of Taxes (MoT) has made significant efforts and carried out reforms in order to increase the awareness of taxpayers operating in the country of tax issues relating to them, as well as introducing innovations in the simplification of tax-related procedures and regulations. The main purpose of all the services provided by the MoT is to simplify tax administration and make it more effective by reducing the time and cost of various tax procedures for taxpayers and entrepreneurs.

Within the framework of the development strategy, new systems and services were launched, some of which are shown in the following chart.

The application of the Automated Tax Information System (AVIS) in 2006 could be considered as one of the most important accomplishments of past years. Being one of the most significant projects towards e-government, AVIS opened the door to technological changes in the tax system and brought a new quality to tax administration services as well. Implementation of all tax management tasks through AVIS created substantial change, which, in turn, brought these processes inline with international standards. The main goal of the system is to



ers in accordance with the legislation of the Republic of Azerbaijan.

The key objective of the e-tax return is to provide the taxpayer with the opportunity to fill in and submit their tax returns through the Internet without having to visit the tax department. Additionally, the use of this service eliminates the time and cost involved in printing and archiving paper tax returns. Elimination of such a necessity also leads to a partial reduction in the entrepreneur’s costs.

### VAT Deposit Account

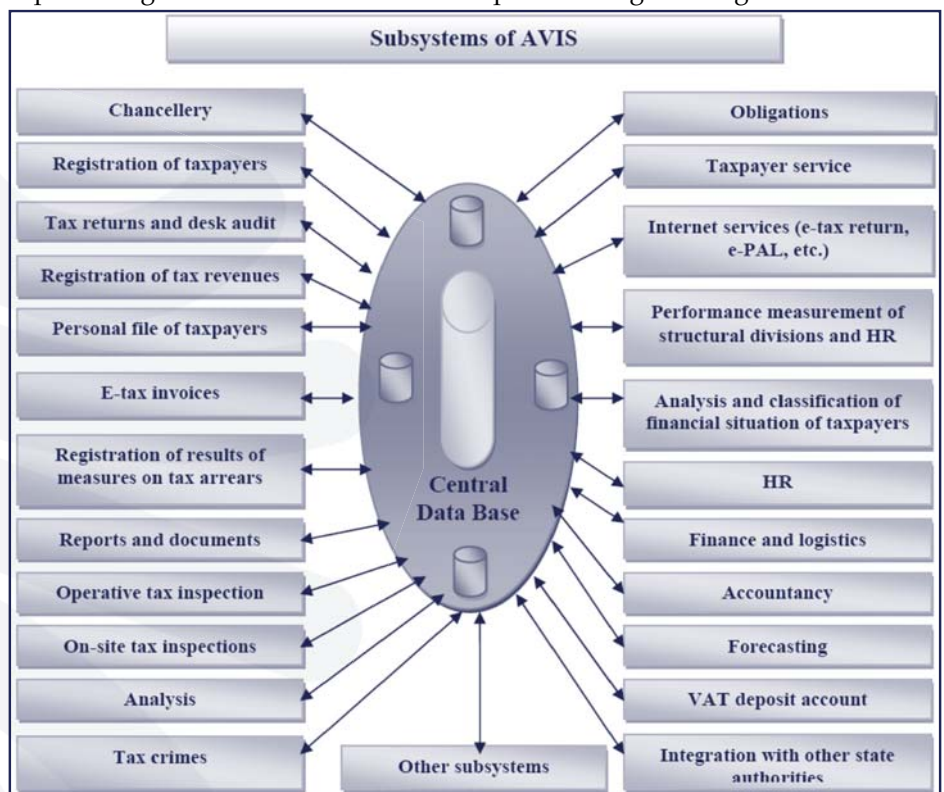
Apart from enabling more effective tax control, AVIS also provides the opportunity for modern technologies to be applied against tax evasion. For improved VAT administration and more effective control a single VAT deposit account and related software were launched on 1 January 2008. The tax

provide a useful technology platform to support a flexible and effective tax policy. AVIS provides an automated system to both head office and local tax bodies. It offers a computer network which is integrated with other government bodies and, in turn, improves and accelerates development of economic analysis and forecast. AVIS provides e-document handling and has prompted the use of automated information exchange among all units of the tax service. During the same period the system has greatly simplified and accelerated the acceptance and processing of tax returns online and has enabled e-reports on planning and the assessment of staff performance in all the units of the MoT.

### E-Tax Returns

AVIS has enabled the administration to accept e-tax returns. The system was launched in 2007 and the Internet Tax Office ([www.e-taxes.gov.az](http://www.e-taxes.gov.az)) was created to facilitate the procedure. The purpose of the e-tax return system is to improve the quality of services provided by the state authorities to people and companies within the e-government project and bring them into line with international standards through regulating the submission of tax returns by taxpayers in electronic format. The system allows for receipt of these reports and the submission of e-notifications about them to taxpay-

authorities and taxpayers can monitor VAT transfers and refunds, and all VAT payment related activities are carried out through a single calculation mechanism with its relevant sub-accounts. Tax legislation specifies that the value of goods or services (without VAT) contained in an invoice should be transferred to the seller’s bank account by the buyer whilst the VAT should be transferred separately to the seller’s VAT deposit, i.e., the VAT sub-account. As a result of this VAT deposit system, VAT evasion decreased and a new and effective scheme was implemented against illegal VAT refunds.



## E-Tax Invoices

To continue the modernisation of the VAT administration, e-invoices were introduced from 1 January 2010. As a result, taxpayers can submit e-invoices for goods sold and services provided. The system both simplifies the taxpayers' routine, and facilitates more effective tax control in this field. This e-invoice system has quickly grown in popularity in Azerbaijan. The main advantages of the e-invoice system are as follows:

- Saving time and budget on receiving and sending tax invoices;
- Electronic facility to record tax invoices;
- Filling in and sending tax invoices in a convenient place and time;
- Reduces the possibility of loss, shortage or damage to tax invoices;
- Improvement of quality of on-site inspections;
- Creation of a database of goods bought and sold by taxpayers.

During the first year more than 2 million tax invoices had been issued. As a result of eliminating paper tax invoices, 20 tons of paper are saved every year, which means 2.5 hectares of forest is saved from being cut down. Also prior to 2010, more than 100 employees in the Ministry of Finance were engaged in the ordering, selling and registering of tax invoices and sending the information to the Ministry of Taxes.

## E-Document Exchange with Banks

In order to create more favourable conditions for taxpayers, the Central Bank of Azerbaijan, the MoT and commercial banks started the e-exchange of certificates/duplicates and allowed the taxpayer to give instructions to banks for opening accounts and transferring into the state budget any accrued tax debts, interest or applied financial sanctions. The electronic information exchange is carried out via the Central Bank's special co-operative system. The Central Bank of Azerbaijan and the MoT signed a "Joint Agreement on E-Document Exchange among the Central Bank of Azerbaijan, the MoT and Commercial Banks" that legally regulates electronic information exchange. The agreement determines the mechanisms for joining the e-exchange and is open to all banks who are members of the co-operative system.

## Call Centre

In order to ensure the regular receipt of online information by taxpayers about tax legislation and its implementation, the MoT established a modern call centre – Telephone Information Service "195", which is an integral part of the ministry's service infrastructure.

The Telephone Information Service launched its operation at the end of 2003, initially covering only Baku city. In May 2006, the coverage area of the service expanded and it started receiving calls from all the regions of the country.

The Telephone Information Service enables users from all over the country, including clients of mobile operators, to

receive information and/or to clarify any questionable issues regarding the implementation of tax legislation. It also provides information about violations of tax legislation or illegal actions (inaction) of tax employees.

Calls made to "195" from landline numbers of any region, as well as the call centre service are free of charge.

Considering the functions and experience of the Telephone Information Service "195", it could be feasible in future to establish a single Telephone Information Service (Single Call Centre) that would cover the operations of all the respective centralised government agencies. The Ministry of Economic Development has already joined the Telephone Information Service "195".

In September 2011, the Telephone Information Service "195" of the Ministry of Taxes was audited against the standard "EN-15838" for compliance and based on the results the representative of the company "Austrian Standards



plus" - the international institute for certification of contact centres, awarded the MoT a certificate.

## Taxpayers' Service Terminals

According to the "State Program on Improvement of Tax Administration in the Republic of Azerbaijan (2005-2007)", the installation of service terminals was considered necessary for the improvement of the voluntary tax payment system, development of entrepreneurship and creation of a business environment.

With this purpose in mind, the MoT installed taxpayers' service terminals in a variety of areas, particularly, in large cities and regions where the tax authorities do not operate. The terminals were equipped with new furniture, modern computers and high-speed communication systems.

Along with providing different information services on tax legislation and administration to taxpayers (explanations and clarifications; help in filling in tax returns; publications and training), the service terminals give them the opportunity to use modern technology to assist in online office communications, submission of e-tax return and e-invoices, etc.

## Online Chancellery

On 1 March 2010, all citizens and taxpayers were given an opportunity to address the tax authorities online through "Internet Tax Department". For this purpose all users were provided with an individual e-box. The individual e-box increases the effectiveness of any e-document exchange between the taxpayer and tax authority and prevents the loss of time and resources as compared to the traditional delivery of documents in paper format.

"Online chancellery" is the system that enables e-document exchanges between the taxpayers and tax authorities. This system has been integrated into the internal document control of the Ministry of Taxes via AVIS. Users can follow the



status of their submitted documents within tax authority online and get in direct telephone contact with the respective tax officer. All appeals made through the system are treated as official documents. The taxpayers may use the service for communicating with each other as well. An e-box has been created for each user within the system. Any correspondence between the taxpayer, other taxpayers or the MoT will be stored in these boxes and will be accessible via the Internet from anywhere. The main advantages of the "online chancellery" are as follows:

- Saving time and budget on receiving and sending letters and applications;
- Electronic correspondence with tax bodies;
- Electronic correspondence with other taxpayers;
- E-document exchange (applications, offers, etc.);
- Getting information on document execution, its executor and contact number;
- Development of e-archive of documents;
- Acceleration of document circulation;
- Filling of specimen applications.

### Evaluation of Awareness and Satisfaction

Creating good conditions and providing e-services are very important for stimulating business activities. However, how can we determine the level of satisfaction of taxpayers with these services? Providing services are the first step, the second step is making the taxpayer aware of these services (familiarity), and the third is evaluation of the awareness and satisfaction of these services by the taxpayer. The final step must then be improvement of these services based on the evaluation.

Familiarity means having the knowledge about the opportunities and other features offered by the service. It is here the entrepreneur assesses the information and knowledge he/she possesses. It means that the level of familiarity reflects the taxpayer's perception of the knowledge and information offered rather than the information and knowledge itself.

The implementation of new types of services and improvement of existing ones by the MoT serves to secure them a positive and advanced place in the opinion of entrepreneurs. However, entrepreneurs with a low level of familiarity with these services will not be able to adequately evaluate any improvements in this area. Certainly, entrepreneurs unfamiliar with the services will not be aware of any reforms that take place or opportunities and conditions that were created for effective and free entrepreneurship.

For these purposes, the tax administration of Azerbaijan uses different evaluation tools, including a performance measurement system, regular surveys through the Internet, completion of satisfaction forms by taxpayers and so on. These tools are all part of the internal evaluation system.

It is important to note that for the purposes of creating a fair evaluation of taxpayer satisfaction with tax reforms, the tax administration needs to combine both internal and external

evaluation results. Under the term of external evaluation we understand evaluation to refer to those conducted and held by NGOs, survey companies, research centers and so on. Taking into account the importance of external evaluation, the MoT requested the local office of the International Finance Corporation (IFC) from the World Bank Group, to implement a survey regarding the evaluation of awareness and satisfaction by taxpayers with the services provided by the MoT as a result of tax administration reforms.

### Results of Survey regarding Satisfaction of Taxpayers

The objective of the survey was to assess the level of satisfaction of users with tax services provided by the MoT for taxpayers and entrepreneurs as well as to provide recommendations on the improvement of the effectiveness of these services. Respondents were selected from four geographical regions: Baku, Ganja, Lenkaran and Sheki. The reason for incorporating geographic locations as an influencing factor is that sometimes the infrastructure is different in the capital and in the regions. Also, satisfaction can be affected by emotional factors (perceptions and expectations), which again can be influenced by the geographic location.

The survey focused on satisfaction within four primary services (e-tax return system, call centre, website, and taxpayers service terminals) being provided by the MoT for a sufficiently long period of time and, therefore, having an adequate number of users.

The survey which was conducted in August-September 2010 represented the selected regions and key sectors of the Azerbaijan economy. In the second stage of project the answers from small and medium enterprise representatives and individual entrepreneurs to the survey questionnaire were analysed and incorporated within the final report.

The structure of the final report for each surveyed service was set out as follows:

1. General information on the service:
  - a. Description of the service;
  - b. Awareness and use of the service.
2. Level of familiarity with the service:
  - a. Respondent's opinion of their familiarity with the service;
  - b. Services offered and simplicity of the system.
3. Distinction of service and general satisfaction level:
  - a. Strengths and weaknesses of the service;
  - b. General level of satisfaction with the service.
4. Recommendations for improving the service:
  - a. Increase awareness and use;
  - b. Increase the level of familiarity;
  - c. Increase and stabilise the level of satisfaction.

Along with the above mentioned elements, the report reflects the observations made by specialists during the survey as well as respondents' opinions on different aspects of the provided services.

As it is clear from the report, the general level of satisfaction with the services provided by the MoT is quite high. During the interviews, entrepreneurs evaluated three of the surveyed services at grade 6 out of a possible 7.

As evident from the answers of respondents to the questions raised during the survey, the level of awareness of the services provided in the area of tax administration was high as a result of the policy pursued by the MoT in recent years. Considering the survey results, we can state that by implementation of the e-tax return system the key objectives were achieved and entrepreneurs were provided with the opportunity to save time and costs in the submission of tax returns. The general opinion on the e-tax return system was positive and the level of satisfaction high.

As evidenced from the survey results, the entrepreneurs mainly use the Telephone Information Service "195", as a source of general information. However, it should be noted that the key objective of the service is to provide general information to increase taxpayers' awareness from both the technical and methodological viewpoint and to direct them towards correctly solving tax procedure related problems.

The ability to receive information at any time and place is another factor that satisfies the users. As to the entrepreneur's opinion, the availability of such an opportunity reduces the risk of deficiencies due to mistake and changes in the legislation.

The experts of the IFC analysed the survey results and included in the report their recommendations on those tax services requiring improvements:

- Ensure the wide use of the system by preparing a plan to focus the awareness campaign on those who do not use the system;
- Assess and monitor the work quality during the awareness campaign;
- Conduct practical workshops for those who do not use the system, and apply this also to accountants (particularly, the representatives of small and medium businesses); prepare and distribute guidance on the usage of services;
- Collect questions and answers given during regional training and place them in centralised form on the websites of the MoT, Entrepreneurs Confederation and entrepreneurship development portal.

## Conclusion

For the purpose of creating better conditions for taxpayers, taking into account the recommendations of experts, and improving tax service including the raising of awareness of services, "Conception on Improvement of Taxpayers Services (2011-2015)" was approved in 2011. The main purpose of the scheme was the development of services provided by the MoT for all taxpayers, the majority of which comprise of small enterprises. Another purpose was to develop the process of voluntary compliance based on partnership and mutual co-operation with taxpayers by using modern information technologies and service terminals for taxpayers all over the country.