

Tax compliance assignment



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A sound tax system should identify surpluses in the economy and should tax in such a fashion as to cause minimal damage to productive activity. Tax collection should act as a catalyst for economic growth, Ideally a tax system should be neutral with respect to its effect on economic behavior. In the real world, however, it is impossible to achieve neutrality.

Administrative feasibility and practicability are two important constraints on tax policy. These are also matters of convenience to varying degrees. A tax policy is administratively feasible when its enforcement does not cost too much. At the same time administrative feasibility should not be an excuse to compromise the original objective. Further a tax structure should treat equally those individuals who are approximately in the same situation and account for differences among people who are in dissimilar situations.

Finally, every tax should be collected at the time or in the manner in which it is the most convenient for the contributor to pay it, and every tax should be contrived so both to take out and keep out of the pockets of people as little as possible over and above what it brings to the public treasury (Davies, 1986). However, the tax administrators of developing countries face many challenges in the massive task of tax collection. Nevertheless the problem of tax evasion bothers tax administrators of developing countries and developed countries alike.

In the real world, those who wish to reduce their tax liability have more choices than just tax evasion. Smarter and more sophisticated taxpayers, who find the cost/risk of evasion greater than the benefit, practice risk free legal ways of non-payment of taxes rather than blatant tax evasion, which is

popularly known as tax avoidance. In many countries, there are perfectly legal tax avoidance strategies for minimizing tax liabilities. For the government, the results of tax evasion and tax avoidance are the same; for the taxpayer, however, tax avoidance is preferable because there are less or no chances of getting caught and prosecuted.

It is also believed that the relatively less wealthy and consequently less well-advised people engage in tax evasion whereas relatively more wealthy and better-advised people practice tax avoidance. Therefore, the loss to government revenue on account of tax avoidance is much greater compared to tax evasion. For effective revenue collection, governments need to curb not only tax evasion but also tax avoidance becomes difficult for the taxpayer. BACKGROUND OF THE STUDY: Tax has always been the traditional source of government revenue.

But while the government has the authority and right to impose taxes on its sovereign, there is a limit to what it can compulsorily collect from the people. Besides, taxpayers usually view taxes as an additional burden especially in times of economic difficulty. Almost every year, the revenues generated by the government are far short of expected expenditures. The ever-increasing budget deficit brought about by the increasing public expenditure is a big problem faced by the government which has compelled national leaders to impose higher collection goals upon revenue-generating agencies in the hope of coping up with the big deficiency in funds.

The Bureau of Internal Revenue (BIRR), the Bureau of Customs (BOCA) and the Land Transformation Office (LTO) are the main agencies mandated to

collect tax revenues. Among the revenue generating agencies, the Bureau Of Internal Revenue's share in the national revenue is about (80%). Making the BIRR the national government's foremost revenue-generating agency. It likewise plays an important role in implementing the policy of the State to promote sustainable economic growth through the rationalization of the Philippine Internal Revenue tax system including tax administration.

The BIRR also aims to provide , as much as possible, an equitable relief to a greater number of taxpayers in order to improve levels of disposable income and increase economic activity; and to create a robust business environment to enable firms to be competitive in regional as well as in global market, at the same time that the State ensures that government is able to provide for the needs of those under its Jurisdiction and care (Sec. 2 of the Tax Reform Act of 1997).

The BIRR is currently undergoing a process of transformation to make the agency taxpayer-focused. This is being undertaken through implementation of change initiatives that are directed to: 1) reform the tax system to make it simpler and suit the Philippine culture; 2) reengineering the tax processes to make them simpler; more efficient and transparent; 3) restructure the BIRR to give it financial and administrative legitimacy; and 4) redesign the human resource policies, systems and procedures to transform the workforce to be more responsive to taxpayers' needs.

Measures to enhance the Bureau's revenue-generating capacity are also being implemented. Foremost of these measures are the implementation of the Voluntary Assessment Program and Compromise Settlement Program

and expansion of coverage/scope of the creditable withholding tax system. A technology-based system that promotes the paperless filling of tax returns and payment of taxes was also adopted through the Electronic Filing and Payment System (peps).

To enhance the collection performance of the Bureau, three basic strategies were initially adopted, and these are: 1) intensify the use of new systems (e.g. The Reconciliation of Listings for Enforcement or RELIEF System) and Tax Reconciliation System; 2) enhance the security of tax payments through the use of electronic broadcasting system and expansion of implementation of the peps; and 3) tap non-traditional sources of revenues for additional collection.

Toward these the Bureau has been implementing several work programs which are directed towards: 1) more effective taxpayer compliance control systems; 2) effective detection and elimination of revenue leakages; 3) intensified enforcement of tax laws; 4) implementation of BIRR-private sector good and honest governance programs; 5) organizational adjustments; 6) active support to legislative revenue measures; and 7) deployment of productivity and effectiveness enhancement technology.

Another program of the BIRR that is aimed to increase revenue collection is the expansion of external linkages which has benefited the government in terms of eliminating the cost of physical transmittal of documents and making information exchange between agencies easier. The BIRR has already implemented an external tie-up with government agencies such as the Bureau of Customs, to monitor the transmission of import transactions

and to identify potential registrants and the Securities and Exchange Commission to identify unregistered corporate taxpayers.

A memorandum of Agreement was also signed with the Department of Interior and Local Government so as to facilitate the updated remittance of Lugs. With all the programs initiated by the Bureau of Internal Revenue to meet the demands for higher tax collection, it cannot be argued that a well-run Bureau is radical to the effective implementation of these programs. Hence, high performance management practices must be in place within the organization in order to improve organizational performance, in particular, actual tax collection.

In this regard, Brewer and Selene (2000) showed that the most important variables among the factors that influenced organizational performance were efficacy, teamwork, building human capital, structure of task, protection of employees, concern for the public interest, and task motivation. In conclusion, they perceived that these variables have one thing in moon: They are elements of a high-involvement workplace strategy. Performance is higher in agencies that empower employees, clients, and other stakeholders.

In line with the above discussion, this study is conducted to examine the relationship of performance management practices to the implementation of the tax collection programs and level of taxpayers' satisfaction on the performance of BIRR Revenue 39 south, Guenon City. THEORETICAL FRAMEWORK This study primarily premised on the mandate of the Bureau of Internal Revenue to assess and collect all national internal revenue taxes, fees and charges, and to enforce all forfeitures, penalties and fines

connected therewith, including the execution of Judgments in all cases decided in its favor by the Court of Tax Appeals and the ordinary courts (Sec. Of the National Internal Revenue Code of 1997). Acquire (2000) further states that collection of taxes remains to be one of the primary undertakings of any government, in order to provide sufficient funds with which the nation's economy may be sustained or developed. In this light, it has become the enduring goal of every tax authority, be it one that serves a developed or developing nation, to seek and implement strategies and technologies that support the continuing improvement of their collection systems. Employee Empowerment.

One way to assist with pushing the operational decisions down through the organization is by empowering the employees (Howard, 1997). This can be achieved by giving employees information about organization performance; providing rewards based on action using that information, giving employees knowledge that enables them to understand and effectively use this information, and finally allowing employees the power to make the decisions that will actually influence organizational erection and performance (Wall et. Al. , 2002).

This needs to be extended right down to the lowest levels of the organization. With participative climates it is important that employees are allowed, encouraged and have the opportunity to participate in problem solving teams. It is hopes that this participation will have a cascading effect of employee involvement support” (Tussle et. Al. , 2000). Participative work environments need a ‘ systems approach’ (Bowen & Castoff, 2004).

Participation needs to be reinforced with the appropriate supporting systems to assist the organization to be both effective and sufficient.

For a participative environment to be successful there needs to be formal training in problem solving and communications (Tussle et. Al. , 2000). “ Appropriate ongoing training enables employees to develop the knowledge required for effective performance” (Ordain et. Al. , 2005). Information Sharing. Information sharing and dissemination appears to be a critical component of HISS. There are three components as way to involve employees. These are ‘ participative decision making, ‘ suggestion meetings’ and the more generic ‘ information sharing.

Effective HISS give employees all the information required to be involved and participate, without overloading them with information and details that they are either not interested in, don’t need, or are unable to process (White et. Al. , 2003). It should not simply be a system which management uses to ‘ offload’ information onto employees. The depth and detail of the information needs to be carefully balanced and assessed. Too much information can make the employees feel overwhelmed and undervalue (Bowen et. Al. , 2004).

Not enough information can make employees feel that management is ‘ holding out’, and potentially cause satisfaction and mistrust as employees question why information is being withheld. There needs to be support within the organization that encourages employees to participate fully in the process of involvement. Many of the definitions of HISS fail to acknowledge that the system needs various organizational supports in the forms of

appropriate rewards, communication practices, and training and selection procedures (Leotard Jar. , & Lealer, 1994). Rewards.

Remuneration should be reflective of the desire to encourage employees to continue training. The remuneration needs to be clearly linked to goals and individually tailored to acknowledge differences in intrinsic motivations (Glutamine et. Al. , 2008). Many authors feel that financial participation (gain sharing/profit sharing/employee ownership schemes) is an essential part of high involvement management (Hustled & Becker, 2006; Cochin & Steersman, 2004; MacDougal, 2005; Prefer, 2006). Employees also need to feel that they are to be compensated for effective use of power, information and knowledge (Vandenberg et. L. , 2008). It is important that it does really involve actual power transference to all staff and through to lower level (Hardy Alibi O' Sullivan, 2008). Financial participation, a form of indirect employee involvement, has been associated with improved economic performance (Addison & Bellied, 2000). Skill based pay encourages functional flexibility through cross training and teamwork, although ' pay for Job' is the most equitable way for employees to be paid because it removes individual differences, is more transparent and less subjective (Long & Shields, 2005).

However, high involvement management firms are more likely to use ' person-based' pay rather than ' Job-based' pay (Long & Shields, 2005). Person-based' pay fits a highly educated workforce, and HISS are likely to demand cognitive and interpersonal skills, such as problem solving, teamwork and communication (Flatted & Gillie, 2004). HISS are more likely

to have team-based rewards, variable pay programs (skill-based, gain sharing, employee ownership) and flexible benefits (Richards, 2006).

These schemes actively encourage employee participation in the organization. If organizations do not have any form of payment that actively invests the employee in the success of the system and the effect on organizational turnover. Employees need to be fully involved – this needs to include compensation policies to properly motivate employees to fully participate in HISS (Luau & May, 2008). “ Pay should be clearly linked” to HISS (Glutamine et. Al. , 2008). Another component of HISS has been performance appraisals.

However, performance appraisals often fail to improve the performance of the employees, instead creating an atmosphere of distrust amongst the employees, who see performance appraisal as solely a means of control and accountability (Lee, 2006). Juneau (2002) believes that “ appraisals invariably fail... Because leaders at the top lace is supported in the literature by the lack of ongoing training that is available to managers to administer the process correctly. Knowledge: Training, Skill Development and Decision Making.

Many of the current practices involve workers taking on a higher level of skill and becoming skilled problem solvers, which helps to increase involvement in decision making with the aim of increasing flexibility and multi-killing (Guthrie, 2001). “ High performance workplace practices convey an intention by employers to attain competitive advantage based on high involvement, flexible assignment, and/or enhanced team working” (Whitfield, 2000).

Wilson & Western (2001) also identified training as an area where companies failed to fully enhance their organization's potential, and therefore fail to optimize the effect of systems such as HISS.

They listed many components that are lacking in current training systems, such as: training and development plans remaining unchanged from year to year, initial enthusiasm replaced by lethargy, and the training and development need bearing no relation to the actual nature of the business. Finally, White et. Al. , (2003) emphasized that high involvement work practices must be part of a system, in order to be successful. Guy (2003) found that high involvement work practices work because they allow employees to make decisions that make a difference to the organization.

Decision-making by lower level employees improves performance for various reasons. For example it allows employee to use tacit knowledge that may not necessarily be available to higher-level managers. The freedom to make these decisions (alone or associated with performance pay) provides motivation for greater effort. This study also finds support in the New Public Administration (NPA) paradigm. NPA was advocated as a means to achieve greater governmental responsiveness to public demands. Under NPA, governmental agencies seek to become effective and responsive to constituents.

Baggy and Franken (2001) observed that NPA views the science of " public administration" more as " public management. ," Often an " attitude of customer service" is seen as an appeal of this " liberation management model. " Tendered and Tendered (2000) observed that governance involves

a ‘ complex set of interactions” and “ complex value conflicts. ” They advocate viewing the general public as citizens, not as customers. They contend that while PM is the “ dominant paradigm,” it needs to have a broader and longer- term perspective.

Frederickson (2006) argued that PM was the work of “ scholars, theorist, and researchers” and a potential risk was the decreased ability to “ implement policy’ Hater (2009) observed the results and efficiency were key attributes of agency performance under PM. Wise (2002) observed that three competing drivers within PM are: social equity (fair treatment); demagnification (engaging citizens in bureaucracy) and humiliation (employee focus). HISTORICAL BACKGROUND In the Philippines, the Bureau of Internal Revenue (BIRR) is the leading agency tasked assess and collect all national internal revenue taxes, fees and charges, and to

The power, authority and functions of the Bureau of Internal Revenue (BIRR) have been outlined in the Administrative Code of 1987. The BIRR, which shall be headed by and subject to the supervision and control of the Commissioner of Internal Revenue, who shall be appointed by the President upon the recommendation of the Secretary, shall have the following functions: 1. Assess and collect all taxes, fees and charges and account for all revenues collected; 2. Exercise duly delegated police powers for the proper performance of its functions and duties; 3.

Prevent and prosecute tax evasions and all other illegal economic activities; 4. Exercise supervision and control over its constituent and subordinate units; and 5. Perform such other functions as may be provided by law.

Pursuant to the provisions of Sec. 21 of R. A. 8424, the sources of revenue that are deemed to be national internal revenue taxes and administered by the BIRR are income tax, estate and donor's taxes, value-added tax, other percentage taxes, excise tax, documentary stamp taxes, and such other taxes as are or hereafter may be imposed and collected by the Bureau of Internal Revenue.

The Bureau, being the country premier tax administrative agency, has a significant role in the achievement of economic development objectives. Through its revenue performance, it is able to provide the financial resources needed to support programs and projects for development. The revenue performance accounts for at least 80% of the government's entire revenue target (Annual Report, 2001). The BIRR is currently undergoing a process of transformation to make the agency taxpayer-focused.

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technology-based system that promotes the paperless filing of tax returns and payment of taxes was also adopted through the Electronic Filing and Payment System (peps).

Toward these the Bureau has been implementing work programs which are directed towards: 1) more effective taxpayer compliance control systems; 2) effective detection and elimination of revenue leakages; 3) intensified enforcement of tax laws; 4) implementation of BIRR-private sector good and honest governance programs; 5) organizational adjustments; 6) active support to legislative revenue measures; and 7) deployment of productivity and effectiveness enhancement technology.

Some venue programs initiated to improve tax collection include the following: Monitoring of Taxpayers, Enhancement of the Enforcement System, Collection Enforcement and Assessment, Taxpayer Information and Education, Legal, the so- called Integrated Tax System and the Expansion of External Linkages. The Monitoring of Taxpayers is a BIRR program which seeks to strengthen control over taxpayers especially those considered as large taxpayers. This aims to promote taxpayer compliance through extensive monitoring.

Under the enforcement program initiatives to improve the investigation of tax fraud and policy cases are undertaken. The purpose of this program is to audit large taxpayers, issue assessment notices, recommend tax fraud cases, and to conduct surveillance activities. These activities are undertaken not only to increase revenue collection but also to gather and process data

for tax policy analysis and revenue projection. CONCEPTUAL FRAMEWORK

The research paradigm of this study is shown in Figure 1 .

The input of the study is in the implementation of Tax Compliance Program of BIRR Revenue 39 South, Guenon City are the Basis of Letter Notice Issuance and Guidelines and Procedures in handling LEN. A discussion of the performance management raciest in terms of teamwork, customer service practice and process improvement. The process is the comparative assessment of the groups of respondents through survey questionnaire, interview, documentary analysis and statistical treatment.

The output is the efficient and effective implementation of Letter Notice Issuance, improved services, and satisfied taxpayer. Input Figure I FIGURE 1 Implementation of Tax Compliance Program Covering the Letter Notice Issuance on the Performance Process Output of Internal Revenue Office OR 39 Statement of the problem: This study primarily aim to examine the implementation of tax compliance program n the Basis of Letter Notice Issuance on the performance of the Bureau of Internal Revenue Region 39 South, Guenon City.

Specifically, the study seek to answer the following questions: 1. To what extent are the respondents officers and tax payers respondents implement the Tax Compliance Program on the Letter Notices Issuance in terms of the following: 1. 1 Basis of LEN issuance and 1. 2 Guidelines and Procedures in handling LEN 2. How significant is the difference on the assessment of the revenue officers and tax payers as to the implementation of Tax Collection Program of Revenue Region 39 South, Guenon City cited in problem no. 3. As

assessed by the groups of respondents, to what extent the following performance management practices observed in BIRR Revenue Region 39 South, Guenon City? 3. 1 Team work 3. 2 Customer service practices 3. 3 Process improvement 4. How significant is the difference in the assessment of the groups of respondents as to the extent the performance management practices cited in problem no. 3 is observed in BIRR Revenue Region 39 South, Guenon City? 5.

How significant is the relationship between performance management practices and the implementation of Letter Notice Issuance with regards to the overall reference of Region 39 South, Guenon City? Hypothesis The study will test the following hypothesis at .05 level of significance. 1. There is no significant difference on the assessment of the groups of respondents with regards to letter notice issuance when their respective companies are grouped in terms of the following. 1. 1 Basis of LEN Issuance 1. 2 Guidelines and Procedures I Handling LEN 2.

There is no significant difference in the assessment of the groups of respondents with the performance management practices observed in Region No. 39 South, Guenon City. 2. 1 Teamwork 2. Service Customer Service 2. 3 Process improvement Significance of the Study This study is beneficial to the following: Bureau of Internal Revenue. The findings of this study will provide useful inputs and credible evidence to help inform policy-makers in the agency in formulating some policies relevant to the use of sending tax letters to taxpayers to enhance voluntary compliance and more broadly, in any enforcement policy.

BIRR Revenue Region No. 39 South, Guenon City. This study may positively influence the future reporting behavior of taxpayers in BIRR Revenue Region No. 39 South, Guenon City in ERM of accurate reporting of “ true tax liability. ” This study may also raise the awareness and knowledge of taxpayers in the research locale about their tax obligations as well as their privileges. BIRR Employees. This study will serve as an eye opener for BIRR employees of their respective roles in enhancing voluntary tax compliance among taxpayers.

They will be more mindful of observing procedures described by law and existing internal rules in enforcing the use of Lens to verify tax deficiencies in case of discrepancies. Taxpayers. Through this study, taxpayers will have a broader knowledge and peer understanding of their obligations and rights as well as the appropriate sanctions imposed on delinquent taxpayers and evaders. Further, this study will serve as a feedback mechanism for taxpayers of BIRR Revenue Region No. 39 South, Guenon City. Feedback from taxpayers, if addressed appropriately, will engage taxpayers to improved tax compliance.

Public. Since the expected outcome of this study is an increased revenue collection, the public will benefit the most since additional revenue to the government will mean better public service through its programs and projects particularly for poverty alleviation. Researcher. This study will contribute to the intellectual foundation and technical know-how of the researcher in the field of tax collection schemes and strategies, enforcement or monitoring mechanisms, policy formulation and decision-making.

Other Researchers. The findings of this study will provide useful reference for future researchers on the topic about factors and drivers of voluntary tax compliance. **SCOPE AND DELIMITATION OF THE STUDY** The scope of this study will be limited to the use of Letter Notice (LEN) issuance in enhancing voluntary compliance of taxpayers of BIRR Revenue Region No. 9 South, Guenon City and the performance practices of the Bureau of Customs personnel.

To address this objective, this study focuses only on the knowledge level of the taxpayer respondents about Lens their assessment on the extent to which Lens enhance their tax compliance. An assessment of the knowledge level of the taxpayer respondents about the Lens will cover only the basis of LEN issuance and guidelines and procedures in handling Lens. Differentiating factors in the taxpayer respondents' knowledge about Lens will be confined to the following (management performance practices of BOCA such as Teamwork, Customer Service practices and process improvements). The respondents of the study will cover 100 registered business taxpayers and 50 BIRR officers and employees in Guenon City. The study covered the year 2013. **Definition of terms** For a better understanding of this study, the following terms are conceptually and operationally defined: **Basis of LEN Issuance.** This is one aspect used in this study to measure the knowledge of the respondents about Lens.

Sample indicators include: LEN informs a taxpayer of discrepancy of sales/purchases for a particular taxable period; LEN gives detailed information as to the source or basis of the discrepancy in the amount of

sales/purchases; and LEN is an issue-based assessment which means that it will cover only specific discrepancies discovered under the third-party information matching system. Corporation. This refers to a form of business organization which that has shareholders and a board of directors that govern how the organization will be run.

The shareholders are the owners. A corporation will continue to exist even after a shareholder dies. Form of Business Organization. This refers to how a business is structured. The common forms of business organization are sole proprietorship, partnership and corporation. Guidelines and Procedures in Handling Lens. This is one aspect used in this study to measure the knowledge of the respondents about Lens. Sample indicators include: an LEN recipient is given the opportunity to refute the discrepancy raised by the LEN usually within 10 days; when the customers.

Suppliers fail or refuse to cooperate with the request, the BIRR officer may consider the LEN as true and correct; and installment payment is allowed in cases where the tax liabilities exceeds five hundred thousand pesos (IPPP, OHO. O). Customer Service Practices. These refer to the following practices, routinely seeking input from the taxpayers about services of BIRR, easy filing of complaints about services by the taxpayers use of inputs from the taxpayers to improve services to resolve complaints from taxpayers in timely fashion.

Letters. This refers to a broad intervention category of any written communication between revenue the tax authority and any type of taxpayer. Such letters can take the form of general messages of personal notifications,

reminders, notices, warnings or final warnings – forever collectively they all aim to generate or enhance compliance levels, from the general public or know tax offenders. Letter Notice Issuance (Lens).

This serves as a notice to a taxpayer that it will be subjected to audit or investigation with specific reference to the result of information obtained from third party sources. Partnership. This refers to a form of business organization where two or more individuals utilize their money, talent and labor to build a company. All partners personally share in the profit and loss of the company.