I Introduction

Objectives of the Study

Many tax administrations have established special systems to monitor their large taxpayers. In the 1950s and 1960s, several countries in the Organization for Economic Cooperation and Development (OECD) introduced special tax audit operations for large corporations. A more recent trend, especially in developing and transition countries, has been to set up full-fledged large taxpayer units that are responsible for most tax administration functions, including taxpayer services, collection, enforcement of tax arrears, and audit. Some developed countries (Australia, the Netherlands, New Zealand, the United Kingdom, and the United States) have followed a similar policy and have reorganized their tax administrations around different types of taxpayers, or taxpayer segments.[5] This has resulted in a restructuring of the tax administration from one based on functions (e.g., returns and payment processing, audit, enforcement of arrears, appeals, etc.) to one centered on individuals, small and medium-size businesses, and large corporations.[6]

This study provides an overview of the role, structure, and functions of large taxpayer operations in about 40 countries.[7] Using survey responses and reviews of large taxpayer units' performance by FAD tax administration staff and experts in the field, the study also reviews the effectiveness of large taxpayer units in selected developing and transition countries.

[5]The United Kingdom has two separate tax administration departments, each with its own large taxpayer control operation. Her Majesty's Customs and Excise (HMC&E) is reponsible for administering the indirect taxes, and Inland Revenue (IR) administers the direct taxes. Each department has policy responsibility for its own tax work. Both HMC&E and Inland Revenue are non-ministerial government departments that report to HM treasury ministers.

[6]However, each of these groupings, or taxpayer segments, has continued to be functionally based.

[7]Includes about 30 developed and transition countries, and 7 developed countries.

Methodology Used

The study is based on a three-part survey sent to the directors of tax administrations in about 40 developing, transition, and developed countries. The first part requested information about the LTU's organization and functions; the second, detailed data on LTU performance (collection, compliance, audit); and the third, a general evaluation of the LTU's effectiveness.[8] In countries where FAD resident experts have assisted, or currently are assisting, with setting up an LTU or improving its operations, the experts helped determine the accuracy of the survey responses and provided more information as needed. This study also draws on other recent FAD studies on large taxpayer units.[9] Table 1.1 lists existing LTUs and those to be established soon.

Variety of Large Taxpayer Monitoring Operations

Developing, transition, and developed countries follow different approaches to control their large taxpayers, reflecting the differences in the large taxpayer population among countries (e.g., smaller countries have fewer large taxpayers, while larger, more developed countries have many more, spanning a broad range of sectors of economic activity with more complex operations). The variety in operations also reflects differences in the organization of tax administrations across countries. Box 1.1 briefly describes the three main organizational structures characteristic of tax administrations around the world.

In developing and transition countries, large taxpayer compliance operations vary widely in structure, staffing, and functions. For example, in some countries, large taxpayer offices carry out all criti-

[8]Appendix II contains a copy of the survey and a list of countries that responded to the survey. The list indicates the countries that provided complete responses, partial responses, or no response. Surveys were issued in English, French, Spanish, and Russian.

[9]See Bodin (2000) and dos Santos (1994).

Table 1.1. Spread of Large Taxpayer Units

	Countries	Functions[1]	Date of Implementation	IMF Technical Assistance[2]
Central and Eastern European Countries	Albania		1998	Yes
	Bulgaria		1997	Yes
	Hungary		1996	Yes
Baltics, the Commonwealth of Independent States,[3] and others	Armenia	Limited to audit	1995	Yes
	Azerbaijan		1997	Yes
	Georgia		1996	Yes
	Latvia		1995	Yes
	Moldova	Limited to audit and enforcement	1998	Yes
	Mongolia		2000	Yes
	Russia		1998	Yes
	Ukraine		1999	Yes
Africa	Benin		1990	Yes
	Burkina Faso		1995	Yes
	Cameroon		1998	Yes
	Côte d'Ivoire		1997	Yes
	Gabon		1996	Yes
	Guinea (Conakry)		1996	Yes
	Kenya	Limited to audit and arrears collection	1998	Yes
	Madagascar		1996	Yes
	Mali		1994	Yes
	Niger		1997	Yes
	Togo		1995	Yes
	Uganda		1998	Yes
Asia and Pacific	Bangladesh		2001	Yes
	Lao P.D.R.		1998	Yes
	Philippines		1999	Yes
	Sri Lanka		1995	Yes
	Cambodia		1994	Yes
Latin America	Argentina		1974	Yes
	Bolivia		1988	Yes
	Brazil	Limited to audit		
	Colombia		1988	No
	Ecuador		1995	Yes
	El Salvador		1992	Yes
	Haiti		1995	Yes
	Mexico		1999	Yes
	Nicaragua		1993	Yes
	Paraguay		1993	Yes
	Peru		1992	Yes
	Uruguay	Limited to collection	1990	Yes
	Venezuela, República Bolivariana de		1995	Yes
Middle East	Algeria		2001	Yes
	Iran, I. R. of		2001	Yes
	Morocco		2000	Yes
	Saudi Arabia		2000	Yes
	Yemen		2001	
Other	Australia[4]		1994	
	Austria	Limited to audit		
	Belgium	Limited to audit		
	Canada	Limited to audit		
	France[5]	Limited to audit		
	Japan	Limited to audit		
	Netherlands		1990	
	New Zealand	Initially limited to audit, then expanded	1994	

Table 1.1 (concluded)

Countries	Functions[1]	Date of Implementation	IMF Technical Assistance[2]
Spain		1983 (audit), 1995	
United Kingdom	One unit for indirect taxes, audit only	1984	
	One unit for direct taxes	1997	
United States[6]		1975	

[1]Full-fledged LTU unless otherwise indicated.

[2]Technical assistance varied depending on each country's requirements.

[3]The Commonwealth of Independent States (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Takijistan, Turkmenistan, Ukraine, Uzbekistan).

[4]The Australian Tax Office had a large taxpayer audit program starting in 1987.

[5]The French tax administration established a large taxpayer audit operation in the early 1960s, and is planning to establish a full-fledged LTU in the near future.

[6]The U.S. Internal Revenue Service (IRS) had a Large Case Audit Program prior to its recent reorganization in 2000, when it established a formal Large and Mid-Size Business Division.

cal tax administration functions and focus exclusively on controlling the compliance of the largest taxpayers. In others, large taxpayer operations are more limited, focusing only on auditing or collecting arrears of the largest taxpayers. Some countries have a single large taxpayer unit. Other countries place large taxpayer units (or departments) in the largest cities, where large taxpayers are normally concentrated, while regional or local tax offices administer large taxpayers in the rest of the country. In some countries, large taxpayer operations are supervised by the director of the tax administration. In others, they are supervised by a special headquarters office, or by the regional tax offices. Likewise, tax administration procedures followed by LTUs vary from country to country. The number of staff and qualifications of personnel in large taxpayer units vary significantly across countries depending on the size of the large taxpayer population, the complexity of large taxpayers' business operations, and the scope of work carried out by the large taxpayer unit.

Developed countries also follow different models for their large taxpayer units: some countries have set up operations to focus only on auditing the large taxpayers. Other countries (e.g., Australia, the Netherlands, New Zealand, and the United States) are moving toward organizing the entire tax administration according to different taxpayer segments, with one important segment being the large or large and medium-sized taxpayers. Further, differences exist among these newer "segment-based" models. In sum, while discussing country experiences in monitoring large taxpayers, it is critical to keep in mind that there is a wide variety of organizational models, systems, and procedures. Because of these differences, cross-country comparisons should be approached with caution.

Main Reasons for the Spread of LTUs in Developing and Transition Countries

Securing Revenue and Improving Management of Arrears

In most developing countries and transition economies, the most pressing reasons for establishing a large taxpayer operation have been the need to secure tax revenue (i.e., either ensuring that tax revenue does not fall below a certain level, or mobilizing more tax revenue, primarily by reducing nonfiling and nonpayment) and to introduce basic systems to control delinquent taxpayers. In Latin America, Argentina was the first country to establish an LTU, in 1974. Subsequently, in the 1980s several Latin American countries organized special units to control large taxpayers—primarily to gain better control over the main sources of government revenue. Although they emphasized collection, most of the LTUs from that period included (as is now recommended) all the main tax administration functions (e.g., return processing, enforcement of tax arrears, and audit), but some did not assign high priority to some functions at the outset, for example, audit. Only one of the LTUs that was created during that period—in Uruguay—focuses exclu-

Box 1.1. Types of Organizational Structures for Tax Administration[1]

Tax administrations around the world are commonly organized according to type of tax, administrative function, or type of taxpayer. Most tax administrations resemble one type of structure more than the others; however, some reflect a combination.

The three main organizational structures are as follows:

By type of tax: One of the oldest and most common organizational structures is the tax-based model under which separate departments are set up to administer specific types of taxes. The main distinguishing feature of this approach is that each tax department contains virtually all of the functions required to administer the taxes for which it is responsible.

By function: In this structure, staff are grouped around an organization's essential functions or work processes. For tax administrations, the model is typically applied by establishing a separate department to perform each major administrative function (processing tax returns and payments, auditing taxpayers, and collecting arrears) over the full range of taxes. Under this arrangement, each functional department is headed by a manager who is in a direct line of authority to the tax administration's chief executive officer.

By type of taxpayer: In this structure—the client-based model—staff are assigned to units that focus on specific groups of customers. In recent years, client-based organizational structures have become increasingly popular in both the public and private sectors. Some tax administrations have implemented this model by organizing their staff into departments responsible for the full range of administrative services to designated groups of taxpayers. The groups are frequently based on the taxpayer's scale of operation, form of ownership, or economic sector.

[1]For more on this topic, see Vehorn and Brondolo (1999).

sively on processing tax returns and payments (see Table 1.1).

Establishing an LTU helps secure tax revenue because in most countries, especially developing and transition countries, a few taxpayers account for a large percent of total tax collection. In such countries, the largest share of revenue comes from those that pay not only their taxes but also other taxpayers' taxes through withholding systems (see Table 1.2).[10]

In many of these countries, frequent delays in detecting large taxpayer noncompliance have often placed tax revenue at risk. When large arrears have gone undetected for several months or even years, experience has shown that they are almost uncollectible.

Using the LTU as Pilot for Reform

Some countries (e.g., Bolivia, El Salvador, Hungary, Uganda) have adopted LTUs as pilot projects to introduce a new organizational structure, systems, and procedures for tax administration. Several countries have been able to extend reforms introduced via the LTUs to the rest of the tax administration. These reforms have included new organizational principles (often function based), new taxpayer identification systems, new collection procedures (e.g., in the early 1990s, joint filing and payment procedures[11] through banks, or, more recently, electronic filing and payment procedures), and new computerized information systems.

Improving Audit

In developed countries, one of the main reasons for establishing specialized large taxpayer operations has been to improve the audit of the largest taxpayers. As Table 1.1 shows, most large taxpayer operations established in industrialized countries before 1990 were devoted to audit exclusively. In EU countries, for example, the initial reason for establishing a special department to deal with the largest taxpayers was the need to improve audit programs, especially after introduction of the value-added tax (VAT) in the 1960s–70s. In Australia and the United States, large taxpayer operations first focused on auditing large taxpayers' compliance with the corporate income tax (CIT).

Clearly, audits of large, often multinational corporations need special programs and highly skilled officials, insofar as these audits often involve analyzing complex operations and transactions among

[10]In France, for example, 15,000 enterprises (0.1 percent of the total) reported 55 percent of the total turnover and 35 percent of the base for the corporate income tax in 1999. In Australia, for the 1998 income tax year, the 5 percent of companies that are covered by the LTU paid 74 percent of total corporate tax collection.

[11]"Joint filing and payment" refers to the simultaneous submission of tax returns and payments of taxes.

Table 1.2. Concentration of Tax Collection in Selected Countries, 1999

Country	Large Taxpayers at National Level: Number	Large Taxpayers at National Level: Percent of total taxpayers	Percent of Total Domestic Tax Collection[1]
Central and Eastern European Countries			
Bulgaria	842	0.1	51.4
Hungary	369	0.03	42.1[2]
Baltics and the Commonwealth of Independent States			
Azerbaijan	1,040	1.0	63.7
Latvia	215	0.5	28.7[2]
Moldova	626	1.6	45.8[2]
Tajikistan	185	0.3	43.3
Africa			
Benin	1,512	1.5	92.0
Burkina Faso	1,573	2.2	83.7
Cameroon	1,205	0.8	42.2
Kenya	600	0.4	61.0
Togo	581	2.4	81.4
Uganda	317	2.1	35.7
Asia and Pacific			
Mongolia	46	0.2	54.3
Philippines	833	0.2	36.0
Sri Lanka	1,012	0.2	27.6
Latin America			
Argentina	3,665	0.1	49.1[2]
Bolivia	5,578	2.5	60.3
Colombia	5,308	0.4	57.0
Ecuador	3,900	0.5	79.3
El Salvador	1,500	0.7	38.0
Mexico	14,588	0.2	85.1
Paraguay	3,532	1.6	44.2
Peru	2,450	0.9	64.9[2]
Uruguay	13,481	...	84.2
Venezuela, República Bolivariana de	2,356	1.0	47.1
Other			
Australia	30,958	0.3	13.4[3]
France	17,000	0.1	45.0[4]
Japan	36,815	0.2	13.8
Netherlands	15,000	1.7[5]	60.6
New Zealand	12,500	0.7	25.0
Spain	1,923	0.1	40.2
United Kingdom[6]	2,200	0.1	22.2
United Kingdom[7]	5,000[8]	0.3	...[9]
United States	227,000	0.2	27.0[10]

[1]Excludes international trade taxes and social security contributions, unless otherwise indicated.
[2]Includes social security contributions.
[3]CIT only. The Large Taxpayer and International Business segment in the Australian Tax Office does not have responsibility for withholding taxes, nor for the sales tax which was abolished in 2000 and replaced by the goods and services tax (GST).
[4]CIT only. The largest 17,000 taxpayers represent 30 percent of total VAT collections.
[5]Large taxpayers as a percent of total number of registered corporate taxpayers.
[6]Represents only indirect taxes, administered by HMC&E.
[7]Represents only direct taxes, administered by IR.
[8]2,000 corporate taxpayers and 3,000 employers.
[9]Large taxpayers account for more than 65 percent of corporate tax yield and over 50 percent of the yield from the pay-as-you-earn and national insurance contributions.
[10]Includes CIT, employment tax, excise tax, etc. The Large and Mid-Size Business Division (LMSB) of the IRS is not responsible for collecting withholding taxes.

Box 1.2. Large Taxpayer Compliance Operations in the Netherlands

Directorate General for Tax and Customs Administration: Large Corporates Division

Background: In January 1990, as part of a comprehensive reform, the Directorate General for Tax and Customs Administration adopted an organizational structure based principally on "*taxpayer segments*" (i.e., large corporate taxpayers, small business taxpayers, and private taxpayers).

Role: The large corporate taxpayer division is responsible for all major tax administration functions vis-à-vis large corporate taxpayers, including monitoring compliance with their filing and payment obligations, auditing, enforcing collection of arrears, and providing taxpayer services. The concentration of knowledge about the large corporate taxpayers ("account management") has made the tax and customs administration a good counterpart for companies and tax advisers, giving the companies the opportunity to talk with the tax administration and customs about problems in advance. In addition, the administration's establishment of special target groups for banking, insurance, oil, and gas companies, as well as advance rulings, has helped ensure the compliance of the large corporate taxpayers. To report yearly on taxpayer compliance, the administration uses a "fiscal monitor." The success rate for the large corporate taxpayer department, where special value is placed on "knowing the business," is higher than for the other departments in the organization.

Current organizational arrangements: The large corporates division consists of a headquarters office, which supervises all large corporate operations within the tax and customs administration. It does not handle any operational issues directly but supervises the operations of 11 LTUs nationwide.

Functions: Technical advice, taxpayer services, audits, collection monitoring, and arrears collection are included. Corporate taxpayers send their returns to the 11 LTUs, but a central unit handles the final processing of large business returns, as well as all returns and payment documents. The LTUs administer the corporate taxpayers following a model of "account management," which differs from the practice of the other tax offices.

Scope of taxes: The large corporates division is responsible for administering indirect taxes (the VAT and excise taxes), corporate income taxes, pay-as-you-earn (PAYE) and payroll taxes, and on a test basis, customs duties.

Taxpayers and tax: To fall under the responsibility of the large corporates division, corporate taxpayers must meet two out of the three following criteria: (1) more than 50 employees, (2) assets in excess of the equivalent of about \$3.9 million, and (3) annual turnover in excess of the equivalent of \$15.6 million. The department controlled some 15,000 taxpayers during 1999 and collected VAT, excises, and corporate and personal income tax amounting to some 60.6 percent of annual collections of the tax and customs administration (FAD survey: 1999).

Audits: Additional taxes assessed because of audit actions were 4.9 percent of total LTU tax collection (1997), 6.5 percent of LTU collection (1998), and 7.0 percent of LTU collection (1999).

Number of staff employed: As of December 1999, the large corporates division employed some 2,150 staff—about 7 percent of the total tax and customs administration staff.

Source: The survey response of the General Directorate for Tax and Customs Administration and IMF staff.

several companies belonging to a same group, as well as controlling the taxation affairs of the main shareholders. Moreover, several of these entities may be related to others that are located in foreign countries, and requests for information may need to be sent to foreign tax administrations. Auditors responsible for large taxpayers also need to be familiar with issues of international profit shifting, transfer pricing, and thin capitalization.

In developing and transition countries, setting up a large taxpayer operation with a dedicated audit team may also allow closer scrutiny and supervision of the conduct and results of audits by audit managers. This would increase the chances that corrupt practices might be readily detected and addressed.

Introducing an Organization Based on Types of Taxpayers

Over the past ten years, several advanced tax administrations have reorganized their operations around a segment of the taxpayer population (especially according to taxpayer size), based on the view that strategies that consider the risks for tax revenue, which vary by type of taxpayer, are the most effective means to improve tax compliance. In the early 1990s, the Netherlands reorganized its tax and customs administration along four departments: large companies, medium-size and small businesses, other taxpayers, and customs (as described in Box 1.2). In 1994, the Australian Tax Of-

Box 1.3. Large Taxpayer Compliance Operations in Australia

Australian Taxation Office: Large Business and International Business Line

Background: In July 1994, following a major review of its internal structure and operations, the ATO adopted an organizational structure based principally on "taxpayer segments" (i.e., large businesses, small businesses, and individuals). This fundamental shift in structure (i.e., from a "functional" structure to one based on discrete segments of taxpayers) was intended primarily to strengthen the ATO's capacity to manage taxpayers' compliance. Underpinning this change was a recognition that distinct segments of taxpayers present fundamentally different risks to revenue. They also have diverse service needs and, as such, require specially tailored programs of service, education, and enforcement to achieve proper compliance with the tax laws. As part of this reorganization, the Large Business and International (LB&I) business line was established to administer the income tax affairs of the largest taxpayers in Australia.

Role: The LB&I line manages and shapes the tax systems as they apply to large business and associated key individual taxpayers in domestic and global markets, and ensures that Australia gets its fair share of tax from these taxpayers. It helps develop the ATO's understanding of the tax implications of global business, the interaction of Australia's tax system with those of other countries, international tax policy and practice, the degree of alignment between tax system and industry policy, the operation of the tax system in each industry segment (described below), impacts of large and international business activity for the rest of the tax system, and factors influencing compliance behavior (*Commissioner's Annual Report: 1999–2000*).

Current organizational arrangements: The LB&I consists of a dedicated headquarters function with operations conducted from 10 regional centers in the major capital cities of Australia. The line segment is led by a dedicated deputy commissioner who reports directly to the commissioner of taxation. The existing structure of the LB&I is principally a matrix of industry and topic segments, intended to bring a specialist focus to the management of specific subsegments of taxpayers and tax issues. The industry segments are financial services industry, multimedia and information technology, energy and resources, and national client group (manufacturing, transport, retail, business services, and major building projects). Specialist tax issues dealt with in the LB&I structure include international, innovation, privatization, capital gains tax, losses, and tax reform topics (leasing, consolidation, and taxation of financial arrangements).

Functions undertaken: These include technical advice, taxpayer services, audits, limited collections monitoring, policy work, treaty negotiation, revenue forecasting, and research. Special positions, "key client managers," have been created to coordinate services to the very largest taxpayers. Industry segment teams assist with collections enforcement, but this work and basic processing tasks are largely contracted to another part of the ATO.

Scope of taxes covered: Under existing arrangements, the work of the LB&I is confined to corporate taxation, and personal taxation in relation to the tax affairs of those designated "high wealth" individuals. Administration of the affairs of large taxpayers as they relate to other taxes is contracted with other business lines, for example, the Small Business Income business line oversees personal income tax withholdings, while a new business line has been created to plan and implement a new goods and services tax (GST) that became operative on July 1, 2000.

Taxpayers and tax paid: The LB&I is responsible for the income tax affairs of corporate taxpayers with annual turnover in excess of $A10 million, their subsidiaries (regardless of their income level), associated key individuals, and superannuation funds with investment income of A$ 50 million or more. During the year ending June 30, 1999, the LB&I controlled some 30,958 taxpayers and accounted for collections amounting to 13.4 percent of annual ATO collections of the corporate income tax.

Audits: Additional taxes assessed because of audit actions, expressed as a percent of total tax collection for the largest taxpayers, were about 9.6 percent (1997), 4.5 percent (1998), and 10.8 percent (1999).

Number of staff employed: As of November 30, 2000, the LB&I employed some 1,250 staff, about 8.6 percent of total ATO staffing.

Source: The ATO response to the survey, and various annual reports of the ATO Commissioner.

fice (ATO) reorganized its structure by taxpayer segments (large businesses, medium-size and small businesses, and nonbusiness individuals), as described in Box 1.3. Also in 1994, the New Zealand Inland Revenue Department (IRD) organized itself around three major segments: "corporates" (older, large business segment), a newer, small business segment, and an individuals segment (see Box 1.4).[12] Beginning in October 2000, the U.S. IRS replaced its three-tiered geographic organizational structure (national, regional, and district offices), with one focusing on servicing taxpayers

[12]A further change was made during 2000 to include individuals within the second segment. Return filing by individuals and wage earners was eliminated, removing the need for a separate segment.

Box 1.4. Large Taxpayer Compliance Operations in New Zealand

Inland Revenue Department: Corporates Segment

Background: In January 1994, the corporates segment was established within the IRD. In 1995 and 1996, departments were added when IRD management strategically organized the tax administration around taxpayer segments, reflecting different levels of tax compliance. By 1999, the three main taxpayer segments were (1) "corporates" (large and certain specialized businesses); (2) "businesslink" (smaller businesses with tax agents); and (3) "businessdirect" (very small businesses and individuals).

Role: All corporates segment staff are responsible for delivering services to corporate customers. However, they may specialize in specific functions. Investigators are primarily responsible for audits to correctly assess the amount of tax owed. Business services staff handle taxpayers' questions promptly and accurately, a priority for the corporate segment. Taxpayer services may involve ensuring that assessments have been issued correctly, returns are received, overdue debt is paid, and general tax inquiries are answered. Thus, business services staff acquire an extensive knowledge of Inland Revenue operations, including technical skills, return and debt management policies, and the registration of new entities. For large corporate customers and some particular industry groups within a sector, a senior staff member manages the account, acting as the principal Inland Revenue contact for all tax issues for that customer. The segment also provides a business advisory service and other educational programs to improve voluntary compliance.

The corporates segment and policy advice division work together to develop policies that will strengthen customers' voluntary compliance and that can be smoothly administered.

The rulings unit develops binding rulings and develops and communicates technical policy to customers and Inland Revenue. Staff in the corporates segment provide advice and commentary on industry issues and technical interpretations on legislation and policy throughout this process. The corporates segment administers binding rulings for transfer pricing.

Current organizational arrangements: The corporates segment is structured into sector units based on industry type and specialized tax needs. The main sectors covered include international tax, computer tax audit, banking, insurance, nonresident entertainers, overseas contractors, manufacturing, services, resources, and public sector entities. Each sector is headed by a manager and consists of a mix of experienced investigators, lawyers, and service staff who deal with technical inquiries. The corporates segment is managed as one unit, with a national office in Wellington and two main operational centers. IRD headquarters carries out strategic oversight of this segment's operations.

Scope of taxes: The IRD is responsible for collecting the goods and services tax (GST), excise taxes, corporate and personal income taxes, pay-as-you-earn (PAYE) and payroll tax, and other direct taxes.

Taxpayers and amount of tax paid: Taxpayers in this segment range from large corporates to small mining operators. Wealthy individuals, large accounting and legal firms, and smaller subsidiary companies owned by multinational corporations are also included. Taxpayers (or "customers") fall into one of three categories: (1) groups of companies with a turnover in excess of $100 million, (2) companies whose industry is governed by special tax legislation, or (3) large companies who have nonresident ownership. Large corporates controlled some 12,500 taxpayers during 1999 and collected domestic taxes amounting to about 25 percent of annual IRD collections.

Audits: Additional tax assessed because of audit actions was 2.8 percent of total LTU tax collection (1997), 3.4 percent of LTU collection (1998), and 7.9 percent of LTU collection (1999).

Number of staff employed: The corporates segment employs some 240 staff—about 5.5 percent of the total IRD staff.

Sources: The IRD's response to the survey, the IRD annual report for the year ending June 2000, the IRD website: *www.ird.govt.nz*, and IMF staff.

with similar needs: individuals, small businesses, large corporations, and tax-exempt organizations (see Box 1.5). The French General Tax Directorate has also developed a plan to reorganize itself into three groups: natural persons, small and medium-size businesses, and large corporations. The first phase of the reform is to establish a full-fledged Directorate of Large Enterprises (Direction des Grandes Enterprises) starting in January 2002. In the United Kingdom, both HMC&E and IR have large taxpayer compliance operations (Box 1.6 describes those of IR).

The experience of the Netherlands and New Zealand is particularly relevant for the developing and transition countries discussed in this paper because they have unified large taxpayer operations that cover all the main national taxes, including income taxes and the VAT. In other developed countries with tax administrations organized by taxpayer segment, such as Australia and the United States, the large taxpayer operations focus mostly on managing the corporate income tax.

Box 1.5. Large Taxpayer Compliance Operations in the United States

U.S. Internal Revenue Service (IRS): Large and Mid-Size Business Division

Background: In early 1998, the IRS Commissioner announced a proposal for modernizing the IRS, including establishing four working divisions based on "customer segments" (i.e., large and midsize business, small business and self-employed, wage and investment income, and tax exempt and government entities). The fundamental change in structure proposed (i.e., moving from a functional and regional based structure) followed much study and criticism of IRS operations, which suggested that the IRS's existing structure no longer enabled it to achieve its goals. The proposed move to a "customer segment" structure recognized that the needs of taxpayers in each segment were very different; serving them effectively and efficiently required diverse services and distinct ways of delivering those services. Following announcement of this proposal and its subsequent congressional confirmation, extensive work was done to complete design of the new organization, business practices, and management roles, culminating in their introduction in October 2000. As part of this reorganization, the Large and Mid-Size Business Division (LMSB) was established to administer the tax affairs of the largest taxpayers.

Role: The IRS developed a new mission statement, which sets the direction for its modernization effort: *to provide taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.* In broad terms, the LMSB is required to carry out this mission as it relates to its segment of taxpayers. To do this, it has identified four strategic priorities: (1) globalization—build a tax administration to effectively deal with the global economy; (2) issue management—develop a strategy to resolve disputes sooner with taxpayers; (3) employee skills and satisfaction—recruit and retain a highly qualified, skilled, and satisfied workforce; and (4) abusive corporate tax shelters—strengthen the ability to deal with corporate tax shelters.

Sources: The IRS's response to the LTU survey; the IRS publication "Modernizing America's Tax Agency," and the IRS website (*http://www.irs.gov/prod/news/lg-mid*).

Organizational arrangements: The LMSB is composed of a headquarters function, led by a commissioner and deputy commissioner, with field operations conducted from major cities across the United States. The LMSB headquarters provides leadership, management of organizational activities, capital budgeting, forecasting, and financial management, interacting as necessary with other operating and support divisions. The division's field operations are organized along industry lines, and report directly to IRS headquarters. There are five industry groupings: financial services and healthcare; retailers, food, and pharmaceuticals; natural resources; communications, technology, and media; and heavy manufacturing, construction, and transportation. An office of field specialists (e.g., computer audit specialists, engineers, economists, financial products and transactions specialists, and employment tax specialists) supports the five industry groups.

Functions: Industry groups design, develop, and implement programs, including prefiling and educational activities to assist customers in understanding industry specific tax responsibilities and complying with the tax laws. Industry groups are expected to be in continuous communication with industry stakeholders and industry experts to increase taxpayer education, improve business practices, and clarify common tax issues. Industry groups also identify global industry trends and issues to improve customer service and compliance. Most field staff audit/examine tax returns and perform outreach/educational activities and related services to taxpayers. The LMSB contracts with other parts of the IRS for returns processing and collection functions.

Taxes and taxpayers covered: Each industry group is required to administer all domestic and international tax laws and tax treaty provisions applicable to industry specific customers. The LMSB is responsible for all corporations and partnerships with assets over $5 million, which includes some 227,000 taxpayers.

Number of staff employed: The new division has 7,035 staff (7 percent of total IRS staff), including 565 headquarters staff, and field staff of around 6,500 (708 managerial staff, 4,933 professional staff, and 829 support staff).

Box 1.6. Large Taxpayer Compliance Operations in the United Kingdom

U.K. Inland Revenue (IR)—Large Business Office and Oil Taxation Office

Background: IR operates a discrete executive office known as the Large Business Office (LBO). This office was created in August 1997 to combine staff that had been working previously in separate functional units into one operation. This operation was broadened in April 1999 with the inclusion of the Large Employers' Unit of the Contributions Agency into the executive office as part of the wider merger between IR and the Agency. IR also operates a dedicated "Oil Taxation Office" to administer the tax affairs of petroleum industry taxpayers.

Role: The LBO handles the tax affairs of the largest U.K. taxpayers and partnerships, U.K. banks, building societies, and insurance companies and the Lloyd's of London Underwriting syndicates. Through its compliance teams, it is also responsible for employer compliance for PAYE schemes operated by the United Kingdom's largest employers and public sector bodies.

The Oil Taxation Office is responsible for valuing oil and gas production for royalty and tax purposes, for administering petroleum revenue tax and corporation tax on production profits, and for related advisory and compliance functions.

Organizational arrangements: The LBO is made up of 15 Large Business Offices and 18 Large Employer Compliance Offices based throughout the United Kingdom.

Functions: Both offices undertake technical review work, which includes examining tax returns and accompanying information, dealing with taxpayers inquiries, and conducting field examinations. The LBO also supports the operation of the "Large Corporates Forum," whose purpose is to foster a closer working relationship with its customers, better understand their needs, debate issues, and provide them with an additional avenue to develop thinking on tax policy and administration issues. (Details of the forum (i.e. agenda and minutes) are contained on the IR's website available via the Internet: http: www.inlandrevenue.gov.uk).

Taxes covered: The LBO is responsible for the income tax affairs of its client taxpayers, including PAYE employee withholding. Its work does not extend to VAT or excises; these taxes are administered by a separate agency, HMC&E.

Taxpayers and tax paid: The Large Business Offices handle the tax affairs of about 2,000 corporations and other entities, while the large Employer Compliance Offices are responsible for reviewing the affairs of some 3,000 of the largest commercial and public sector employers (representing about 60 percent of the U.K. employee workforce).

Audits: The total additional assessed liability resulting from the work of these organizational units is

	1998	1999	2000	2001
Corporate tax (millions of U.K. pounds)	1,528	1,886	1,876	2,142
Employer contributions (millions of U.K. pounds)	69	28	35	45

Number of staff employed: The 15 Large Business Offices employ 420 staff. The Large Employer Compliance Offices employ some 250 staff. Total IRD staffing is about 60,000.

Sources: IR Annual Reports; and IR's website (*http://www.inlandrevenue.gov.uk*). As mentioned, the Customs and Excise Department (HMC&E) also has a separate large taxpayer control operation focusing on the indirect taxes.