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FINANCIAL MANAGEMENT OF TAX ADMINISTRATION BY KPIs

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Abstract: Traditionally, the financial management of tax administration is mainly related to control functions, when actual budgetary expenditures directed to the administration are monitored, comparing them with the established estimates. However, the current conditions arising from tax policy require a review of the financial management functions of tax administration, taking into account the goals of all stakeholders related to the sector. The article presents a new approach to the financial management of tax administration, based on KPIs guided by the goals of sectoral stakeholders.

Key words: tax administration, financial management, key performance indicators, management decisions, beneficiaries of tax administration.

JEL code: H21

Research aims: to review the financial management functions of tax administration, based on the propose of the sector's stakeholders.

Research novelty: in order to improve the financial management system of tax administration, a framework of key performance indicators guided by the goals of the stakeholders has been proposed, which creates an opportunity to assess the cost-effectiveness of public finances from the point of view of the needs of different groups of society related to taxation.

Introduction

The improvement of tax administration is largely determined by the provision of state budget revenues and the formation of the financial base necessary for the implementation of state activities. Effective tax administration is the basis for the successful operation of the tax system, as well as a guarantee of establishing cooperative relations between taxpayers and the tax authority (Aronov and Kashin, 2006). For this reason, tax administration is defined by legislation as a set of actions carried out by an authorized body on the basis of the Code and other legal acts, aimed at ensuring the widespread and correct application of legal acts regulating tax relations (Végh and Gribnau, 2018).

In the professional literature, the effectiveness of tax administration is mainly correlated with the increase in tax revenues, comparing public spending on the functions of tax authorities with tax collections (Harutyunyan, 2017). In our opinion, the scope of the tax administration ecosystem is not taken into account, and especially the factor of financial management (Mikaelyan and Petrosyan, 2021). Meanwhile, the implementation of tax administration requires sources of public financing, the management of which presents a number of challenges to the

beneficiaries, related not only to tax collections, but also to the performance indicators of the financial activity of the entire tax collection ecosystem.

Research results

Tax administration is not limited only to the activities of the State Revenue Committee and tax collection. It is more inclusive, taking into account the stakeholders who are included in the general ecosystem of administration and are interested in the development of tax policy, tax collection and redistribution, definition of the optimal tax burden, control over the costs of maintaining the tax collection apparatus (see Figure 1). Based on all this, a tax administration ecosystem is formed, in which the participants involved, having different goals, nevertheless interact with each other and support the harmonious functioning of the administration at different levels of management, from microeconomic to macroeconomic (Harutyunyan, 2016).

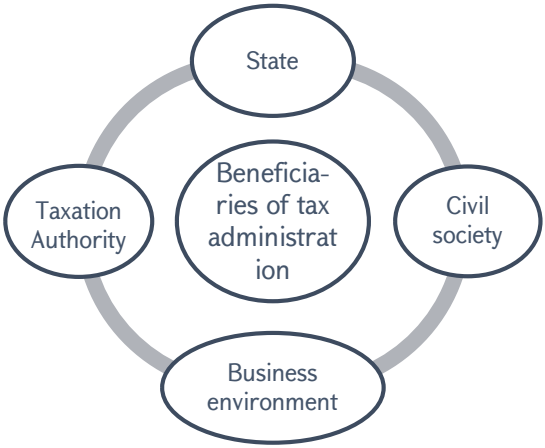


Figure 1. Key beneficiaries of tax administration
Source: *Author's own work.*

Thus, from the point of view of financial management of tax administration, the state sets itself the task of ensuring the progress of tax revenue growth over the growth of administrative expenses of the authorized body. Year after year, public expenditures directed at the activities of the State Revenue Committee of the Republic of Armenia are growing, associated with the modernization of the sector, the introduction of innovations, and the improvement of the qualitative characteristics of human capital. Therefore, the sectoral growth of public finances should be justified by the progress of tax revenue growth, for which we propose to establish a performance indicator on an annual basis (see table 1).

In the context of financial management of tax administration, the state also attaches importance to the growth of improvement in departmental budgetary discipline (Abramchik, 2005). The discipline of using public finances, consistency with budget items, and the targeted use of financial resources allocated to the State Revenue Committee are constantly monitored by financial management, therefore we consider it necessary to establish a key performance indicator in this direction as well (see table 1).

The efficiency of the financial management of the tax administration increases significantly when applying program budgeting (Owens, 2013). By providing public finances for the smooth operation of the tax collection sector, the government of the country becomes interested in assessing both their financial and non-financial return, which becomes feasible when implementing result-based (program) budgeting. Therefore, the use of a key performance indicator for the growth of result-based budgeting

plays a decisive role in the financial management of the tax administration.

Table 1. Proposed key performance indicators for the financial management of the tax administration
Source: *Author's own work.*

Beneficiaries		Interpretation	Planned	Actual	Ratio
State	K_1	Growth of tax revenues in relation to growth of administrative expenditures			
	K_{11}		4%	3%	0,75
	K_{12}	Growth in improvement of administrative budgetary discipline	7%	5%	0,71
	K_{13}	Growth in results-based budgeting	6%	3%	0,5
Civil society	K_2				
	K_{21}	Growth in accountability of tax revenues	4%	4%	1,0
	K_{22}	Growth in provision of feedback	8%	5%	0,62
	K_{23}	Growth in redistribution of taxes aimed at sustainable development	7%	4%	0,57
	K_{24}	Growth in redistribution of taxes aimed at the well-being of the population	9%	6%	0,66
Business community	K_3				
	K_{31}	Stability of tax rates	15%	15%	1,0

	K_{32}	Improvement of digitalization of tax administration	12%	11%	0,92
	K_{33}	Improvement of simplicity of tax collection	10%	8%	0,8
Authorized body	K_4				
	K_{41}	Increase in efficiency of internal audit	15%	12%	0,8
	K_{42}	Increase in professional training of tax employees	20%	20%	1,0
	K_{43}	Increase in financial remuneration of tax employees	18%	16%	0,88

Civil society is also interested in increasing the level of efficiency of financial management of tax administration. In this regard, this group of stakeholders is interested in assessments of such key indicators as the improvement of accountability of tax revenues, the optimization of state-taxpayer feedback loops, the increase in tax redistributions aimed at sustainable development (see Table 1). Taxpayers should understand how effectively tax revenues are used to manage improvements in the social sphere, public measures aimed at environmental protection, and the increase in the well-being of the population, which require key performance indicators in the field of financial management.

The business community is also interested in the financial management of tax administration, which requires monitoring such indicators as the degree of stability of tax rates, the improvement of tax administration digitalization, as well as the simplicity of the

tax collection system (see Table 1). As taxpayers, employers strive to use the most convenient set of tools for paying tax obligations, therefore they attach importance to the inclusion of key indicators in this direction in the financial management framework of tax administration.

After all, the financial management of tax administration is included in the functions of the SRC itself (see Table 1). By spending financial resources on internal audit activities, professional training of employees, and rewarding specialists, the authorized body strives not only for high financial cost-effectiveness, but also, by monitoring the performance of key indicators defined in this direction, presents appropriate management decisions.

Conclusion

Thus, the financial management of the tax administration guided by the goals of the beneficiaries creates a number of opportunities.

Firstly, financial management, which until now has been mainly implementing control functions in the tax administration system, is already transforming from a financial control system into a means of contributing to the implementation of goals through the use of key performance indicators. In this case, the main components of the management process operate along the full management chain of "goals-control-monitoring-performance".

Second, the use of key performance indicators (KPI) in the management system creates an opportunity to identify the weaknesses and strengths of the administration in different aspects of the financial management of the tax administration and to make

management decisions related to progress. Thus, the closer the key performance indicators are to 1.0, the higher the effectiveness of their financial management functions is assessed.

And third, when defining KPIs, the multi-vector goals of different groups of tax administration financial management beneficiaries and their expectations from the cost-effectiveness of public finances are taken into account, which significantly contributes to the increase in the efficiency of tax system management from the point of view of maintaining the harmony of public and private interests.

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ՀԱՐԿԱՅԻՆ ՎԱՐՉԱՐԱՐՈՒԹՅԱՆ ՖԻՆԱՆՍԱԿԱՆ ԿԱՌԱՎԱՐՈՒՄԸ ԿԱՏԱՐՈՂԱԿԱՆԻ ԱՌԱՆՁՔԱՅԻՆ ՑՈՒՑԻՉՆԵՐՈՎ

Մարատ Մանուչարյան
Հայաստանի եվրոպական համալսարան, հայցորդ

Բանալի բառեր - հարկային վարչարարություն, ֆինանսական կառավարում, կատարողականի առանցքային ցուցիչներ, կառավարչական որոշումներ, հարկային վարչարարության շահառուներ:

Ավանդույթի ուժով հարկային վարչարարության ֆինանսական կառավարումը հիմնականում առնչվում է վերահսկողական գործառույթների հետ, երբ մշտադիտարկման են ենթարկվում վարչարարությանը ուղղված բյուջետային փաստացի ծախսումները՝ համեմատելով դրանք սահմանված նախահաշիվների հետ:

Սակայն, հարկային քաղաքականությունից բխող ներկա պայմանները պահանջում են վերանայել հարկային վարչարարության ֆինանսական կառավարման գործառույթները՝ հաշվի առնելով ոլորտին առնչվող բոլոր շահառուների նպատակադրումները: Հոդվածում ներկայացվում է հարկային վարչարարության ֆինասական կառավարման նոր մոտեցում՝

հիմնված ոլորտային շահառուների նպատակադրումներով ուղղորդվող KPI-ների վրա:

Առաջարկվող կատարողականի առանցքային ցուցիչների (KPI) կիրառումը կառավարման համակարգում հնարավորություն է ստեղծում հարկային վարչարարության ֆինանսական կառավարման տարբեր հարթություններում բացահայտելու վարչարարության թույլ և ուժեղ կողմերը և ընդունելու առաջընթացին առնչվող կառավարչական որոշումներ:

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