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Extract from Rigsrevisionen's report on

the Danish Tax Appeals Agency's case-processing times and productivity

submitted to the Public Accounts Committee



1849
147.281
237
1976
114.6
22.480
908

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1. Introduction and conclusion

1.1. PURPOSE AND CONCLUSION

1. This report concerns case processing at the Danish Tax Appeals Agency (Skatteankestyrelsen) including case-processing times and productivity, which the Danish Public Accounts Committee asked Rigsrevisionen to examine in January 2016. The Public Accounts Committee's request was prompted by the Tax Appeals Agency's failure to meet the financial and professional targets that were defined in a bill on simplification and reorganisation of the tax appeals processing structure that was adopted by the Danish Folketing (parliament) in June 2013. The adjusted appeals processing structure led to the establishment of the Tax Appeals Agency on 1 January 2014 as a new, independent agency and common appeals secretariat under the Ministry of Taxation.

The Tax Appeals Agency was established in order to deliver a more efficient and up-to-date appeals structure. The former appeals structure did not ensure uniform processing of appeals, which, for instance, had the consequence that certain types of appeals could be reviewed twice at the request of the complainant: first by an appeals board and subsequently by the Danish National Tax Tribunal (Landsskatteretten).

2. The purpose of the study is to determine whether the Ministry of Taxation's establishment of the Tax Appeals Agency has led to more efficient case processing. The report answers the following questions:

- Has the Tax Appeals Agency ensured a satisfactory development in case-processing times and productivity?
- Has the Tax Appeals Agency organised case processing in a competent manner?
- Has the Ministry of Taxation adequately supported the Tax Appeals Agency in the execution of its tasks?

The Ministry of Taxation has expressed its overall concern about the methodology applied by Rigsrevisionen in this report, including Rigsrevisionen's calculation of the productivity of the Tax Appeals Agency and the comparison with the former appeals structure. The ministry has also stated that Rigsrevisionen's presentation of certain issues and findings in the report does not fairly present the course of events and facts of the matter.

In response to the ministry's comments, Rigsrevisionen would like to point out that the methodology applied is based on common practice for calculations of productivity, and the comparison made with the former appeals structure is essential for the assessment of the Tax Appeals Agency's performance against the objective of securing a more efficient appeals structure. The Ministry of Taxation and the Tax Appeals Agency have previously applied the same methodology and made comparisons with the former appeals structure. Details on the Ministry of Taxation's specific objections appear from appendix 3.

CONCLUSION

The Ministry of Taxation has not achieved the objective of making case processing more efficient; since the establishment of the Tax Appeals Agency, the average case-processing times have increased continuously, productivity has dropped by 50 per cent and the backlog of cases has almost doubled. This development has taken place despite the fact that the inflow of cases has been almost constant, whereas appropriations for the Tax Appeals Agency have increased considerably.

When the Tax Appeals Agency was established, the Ministry of Taxation did not adequately support the agency in the execution of its tasks. Based on an all-things-being-equal approach, the ministry developed a technical budget for the agency for 2014 based on the amount of funds allocated to the area under the former appeals structure, less a savings potential of DKK 20.5 million relating to the abolition of the possibility of having appeals reviewed twice. Neither in the legal framework nor in the development of the technical budget did the ministry take into consideration that it was about to establish a new agency with an entirely new organisational structure and new work processes. Nor did the ministry consider the long case-processing times recorded, for instance, for property assessment appeals and the potential risk of an increase in the number of FFF-cases. Since the reorganisation took place within the Ministry of Taxation's area of responsibility, this information should have been considered when the establishment of the Tax Appeals Agency was prepared. Rigsrevisionen has noted that the number of cases closed was down by 50 per cent in 2014 compared to 2013, resulting in a growing backlog of cases.

In mid-2014, the Ministry of Taxation submitted a request for additional funding for the years 2014 to 2017 to enable the Tax Appeals Agency to process and close a large number of FFF-cases whilst keeping case-processing times at an acceptable level. By mid-2016, the Tax Appeals Agency had closed approximately one third of all planned FFF-cases and had thus failed to meet the purpose of the additional funding. For 2016, the appropriation for the Tax Appeals Agency was approximately DKK 237 million and 319 man-years, which is approximately DKK 90 million and 146 man-years, respectively, up on the technical budget.

Case-processing times are considerably longer than the targets defined by the Ministry of Taxation and the Tax Appeals Agency, and they have increased since the establishment of the Tax Appeals Agency. Average time-processing times were in mid-2016 approximately 27 months for FFF-cases and other cases that were fully examined, which is considered unacceptable by Rigsrevisionen.

TECHNICAL BUDGETING

Technical budgeting is the development of a preliminary budget that is expected to be adjusted.

FFF-CASES

FFF-cases are appeals concerning SKAT's assessment of tax deductions for site improvements.

FULLY EXAMINED CASES

In this report, fully examined cases refers to appeals that have been decided on and resulted in either an increased sentence or an affirmation of a former sentence. It may also refer to appeals that have been fully or partially upheld.

Rigsrevisionen's calculation of the case-processing time for the review of cases on merit includes also appeals that are withdrawn by the complainants. Appeals that are decided on with the outcome: rejected, repealed, reopening refused, reopening by SKAT or dismissal, are not included in the calculation.

OTHER CASES

Other cases refer to all cases processed by the Tax Appeals Agency, with the exception of FFF-cases.

The productivity of the Tax Appeals Agency was down by 50 per cent in mid-2016 and unit costs (costs per case) have almost doubled since the establishment of the agency. The inflow of cases has been almost constant, but the backlog of cases has almost doubled since the agency was established. The number of cases closed is considerably lower than before the agency was established, despite an increase in man-years of approximately 50 per cent during the same period. The Tax Appeals Agency has stated that the reason for the low productivity and the increase in unit costs is the fact that the agency has focused on enhancing the quality of case processing and training new employees. The Ministry of Taxation has informed Rigsrevisionen that it will carry out an analysis to determine, among other things, how productivity can be increased.

At a time when many new employees joined the agency, the Tax Appeals Agency has also established business processes, including guidelines, standard texts for statements of cases and communication of decisions to complainants, and a quality assurance concept that underpins competent case processing. In spite of these efforts, the Tax Appeals Agency is not following good principles of administration when it comes to informing the complainants of expected case-processing times; the actual case-processing times have been considerably longer than indicated to the complainants.

In the spring 2016, the Ministry of Taxation requested that the additional funding allocated to the agency in 2014 should be extended for the period 2018 to the first quarter of 2019 to enable the ministry to reduce the backlog of FFF-cases. It appears from the funding application that the ministry expects the Tax Appeals Agency to reduce the backlog of FFF-cases at a time when one third of the staff working with FFF-cases is being transferred to other work areas. According to Rigsrevisionen's calculations, the remaining staff will be required to increase their productivity by approximately 300 per cent in order to achieve the target set for reduction of the backlog of FFF-cases. The ministry has not made such an increase in productivity plausible.

Rigsrevisionen finds that the Ministry of Taxation should take steps to ensure that the Tax Appeals Board can reduce the very long case-processing times and increase productivity. In the autumn 2016 – as part of the investment plan concerning a restructure of the Danish taxation authorities – the ministry estimated that in the years leading to 2020, additionally DKK 1.1 billion should be allocated to hire close to 600 employees to process the appeals that will follow the implementation of the new property assessment system. The ministry has subsequently announced that an agreement concerning a new property assessment system has been made in November 2016. The ministry has in that connection informed Rigsrevisionen that the parties behind the agreement have accepted that the estimated number of future appeals against the property assessments is associated with great uncertainty. An evaluation of how the appeals structure and processing of appeals should be dimensioned will therefore be carried out when the initial number of actual appeals against the property assessments is known in the autumn 2019.

Rigsrevisionen finds that in the future, the Ministry of Taxation should base its initiatives to reduce the case-processing times and the dimensioning of the processing of appeals against property assessments on a solid, analytical foundation that takes into consideration all known factors and available data.