

## COORDINATES OF TOTAL QUALITY MANAGEMENT IN FISCAL ADMINISTRATION

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**Abstract:** *Combating tax evasion, increasing tax collection, reducing collection costs and increased voluntary compliance are the main lines of the action set out on the medium-term by fiscal institutions. These actions aim at achieving effectiveness and efficiency in tax administration, respectively successfully carrying out the mission.*

*What methods and procedures can be applied to achieve these objectives? What principles should be followed to achieve the mission of the institutions responsible for fiscal administration? Answers to these questions can be provided through the essential coordinates of total quality management that would be found in the guidelines that govern tax administration activity.*

*Through this article, we try to highlight the main elements of TQM, namely "continuous improvement" and "whole organization" that must be found in institutions involved in fiscal administration. We will also outline the relationship between the basic principles of total quality management and the two principles of tax administration (equal to the tax payer and efficiency in public revenue collection).*

**Keywords:** total quality management, fiscal administration, continuous improvement, efficiency, effectiveness

**JEL Classification:** M<sub>10</sub>, M<sub>20</sub>, E<sub>62</sub>, H<sub>30</sub>

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## ***1. Introduction***

Often, in Romania, the study of the relationship between the taxpayers and the institutions with responsibilities in the field of taxation highlights some negative aspects, plying that taxation is considered as a destabilizing factor by many taxpayers.

The structure and content of this article emphasize: (1) the need to improve tax administration, based on the results of studies conducted by prestigious international institutions in tax issues and (2) the contribution of total quality management for the elimination of negative aspects in tax administration.

Specific conditions under which operate the fiscal institutions require continuous change and improvement. Achievements and failures registered by the National Agency for Fiscal Administration must be analyzed not only in terms of objectives, but also in terms of taxpayer satisfaction.

## ***2. Why is improvement required in the area of tax administration?***

Obtaining of income and possession of assets determines for taxpayers the obligation to calculate and pay taxes and contributions. How burdening is this aspect for taxpayers? How easy is the payment of fiscal obligations? Does fiscal administration respect the base principles of transparency, efficiency and effectiveness? Often, the answers given to these questions by the Romanian taxpayer emphasize the negative aspects of the field of taxation, aspects that do nothing but destroy the partnership that should exist between the state and the taxpayer.

In this framework, we present some results obtained through the studies undertaken by specialized institutions, which realized a radiograph of taxation.

Thus, annually it is offered the study conducted by Pricewaterhouse Coopers International Limited (PwC), the World Bank and International Finance Corporation (IFC) which measures the ease of tax payments in a significant number of countries, based both on tax costs and administrative burden of tax compliance.

In this ranking, for period 2007-2011, Romania is placed in an unflattering position. If payment compliance time (hours per year) puts our country in the middle of the table, tax rate as a percentage of commercial

profits leads us to the end of the table, number of tax payments puts us almost on the last position in the rankings (PwC, 2012).

*Table no.1*

*Romania's position in the ranking on the ease of paying taxes*

| Year | Number of countries participating in the study | Romania's position in: |              |                |                |
|------|--|------------------------|--------------|----------------|----------------|
|      |  | Ease of paying taxes   | Tax payments | Time to comply | Total Tax Rate |
| 2007 | 178  | 134                    | 175          | 70             | 107            |
| 2008 | 181  | 146                    | 181          | 74             | 119            |
| 2009 | 183  | 149                    | 182          | 79             | 108            |
| 2010 | 183  | 151                    | 182          | 87             | 114            |
| 2011 | 183  | 154                    | 182          | 89             | 119            |

Source: official website of PwC: <http://www.pwc.com/gx/en/paying-taxes>

Although in Romania the total number of hours per year necessary to achieve tax payment is over 200 and more than half of it is reserved for labor taxes, there are a significant number of countries where there is a greater number of hours required for paying taxes. According to this indicator, in 2007 Romania occupied the position 70 (of a total of 178) with 200 hours total tax time, and in 2011 the position 89 (of a total of 183) with 222 hours total tax time (PwC, 2007 and PwC, 2012). The indicator tax rate as a percentage of commercial profits positioned Romania in the top of the ranking (in a negative sense), in 2007 occupying position 107 (out of 178) with an total rate of 46.9%, and in 2011 the position 119 (out of 183) with an total rate of 44.4%. Number of payments made by taxpayers in Romania is very high compared to other countries, with a value of 113 from 2008 to the present. If in 2008 Romania occupies the last position in the ranking, since 2009 only Ukraine has a large number of payments than Romania. (PwC, 2007-2012).

In 2009, based on the opinion of 130 people (CEOs and CFOs of the top companies and heads of tax authorities) Deloitte Tax released report "Romanian Taxation. The X -Ray of an incomplete reform". In this report are highlighted for the field of taxation the following negative aspects: limited administrative capacity, high significant changes in tax laws; contradictions about the benefits of the flat tax; lack of a user manual for withholding tax for non-residents; maintenance of VAT as "Achilles heel" for the Romanian fiscal system; consideration of penalties levied for incorrectly reporting intra-Community transactions as unfair and

disproportionate; delays in reimbursement of value added tax; lack of a real fiscal autonomy for local authorities; existence of a relatively large number of taxes levied at local level which gives rise to controversy; lack of a ceiling on social contributions at company level; practicing an interest rate for delayed payments high compared with international practice; lack of effective communication with taxpayers, lack of confidence in tax system and fiscal institutions. (Deloitte, 2009).

In 2012, Deloitte was interested in the degree of tax certainty, based on the relationship between companies and tax authorities. The study was based on interviews with 1328 respondents from 24 countries, respectively Austria, Belgium, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Hungary, Iceland, Ireland, Italy, Kenya, Luxembourg, Netherlands, Nigeria, Norway, Poland, Portugal, Romania, Russia, Slovakia, Sweden and Switzerland, for the purpose of obtaining the understanding of the five aspects of the relation between companies and tax authorities “relationship between companies and the tax authorities; tax authorities and the digital era; disagreements between companies and the tax authorities; perceptions on tax certainty; the advanced ruling practice”. (Deloitte, 2012).

Often Romania was positioned in this study in the area of extreme dissatisfaction, based on a low quality relationship between taxpayers and the tax authorities, an ineffectiveness of administrative remedies, an uncertainty in treatment by the tax authorities in case of dispute, often considered improper and unprofessional, a frequent legislative changes.

The presentation of these studies determines us to say that is necessary to improve tax administration system in order to a corresponding achievement of the main lines of action in the medium-term strategy of the institutions in the field of taxation (combating tax evasion, increasing tax collection, reducing collection costs and increase voluntary compliance), actions that aim to achieving effectiveness and efficiency in tax administration, respectively successful completion of the mission.

We believe that any action taken in tax area must have quality in its center. Even if the concept of quality for public services is difficult because of problems of information asymmetry, quality remains a key issue for the public sector. (Walsh, K., 2007). Complete overhaul of management procedures used by public institutions to improve the quality of public service determined more and more managers of these institutions to use

theoretical coordinates of total quality management with applicability in the public sector. (Milakovich, M., 2007).

### ***3. Can total quality management help to remove deficiencies in the field of taxation?***

The definition of quality was to the attention of many specialists, by taking into consideration the following: ability of a product or service to satisfy the needs determined or implied (ASQ, 2012); compliance with the requirements (Crosby, P., 1996); efficiency in production depending on market expectations (Deming, E., 1986); customer availability regarding payment for a good or service (Drucker, P., 1985); and so on.

Although the definitions of quality emphasize, both strengths and weaknesses, quality must be understood through the excellence, value, conformance to specifications, meeting expectations and exceeding expectations. (Reeves, C. and Bednar, D., 1994).

Total quality management has been considered by the public sector organizations since 1980, in order to achieve the two major objectives, respectively improving public services and increase performance through efficiency and efficacy. (Park, B., 1997)

For the private sector the following defining elements of total quality management are unanimously accepted by specialists: the center of all activities is the quality; quality is achieved by involving all employees; the company aims to ensure long-term success through customer satisfaction and obtaining benefits for employees and for the entity.

All these basic elements are also valid for total quality management in the fiscal administration, because the issue of quality is primordial for all work done in the 19 structures of the National Agency for Fiscal Administration (focusing on: tax methodology; tax information; guidance and assistance taxpayers; tax audit; financial control; revenue management; budget debt collection; dispute resolution; management of large taxpayers; tax checks) and determines that the actions of all those involved in the tax administration to produce satisfaction for taxpayers in training and use of public funds.

Since the National Tax Administration Agency of Romania fulfills its mission by acting on three priority guidelines, respectively “encouraging the voluntary compliance to prevent tax fraud, by diversifying and increasing

the quality of services and ensuring simplified procedures; fight against fraud by promoting of a high quality fiscal control and more oriented towards sectors with high risk of fraud; effectiveness and efficiency in the collection of taxes and social contributions, to ensure budget revenue”, we consider that total quality management role for field of taxation is significant.

Thus, the 6 keywords of total quality management (Peratec, 1994), such as customers, continuous improvement, control, preventive management, preventive actions, leadership and teamwork, as well as the basic principles of total quality management (Smith, G., 1998), such as the principle quality assurance in all things, steps and actions, the principle customer orientation, the principle of improving process of obtaining goods and services, the principle of zero defects, the principle of continuity in the quality assurance process, the principle of involving all workers, the principle of knowledge management, the principle of cooperation and teamwork can be applied to the field of taxation, offering answer to the questions: What? Why? Who? How? Whom? Where? When? In this context, total quality management for the tax administration becomes a management way to improve efficiency, flexibility and competitiveness of the administration as a whole. (Rawlins, A., 2008)

For fiscal administration, total quality management is a management philosophy that seeks to integrate all organizational functions, focusing on the relationship between taxpayers' needs and objectives of fiscal institutions. The success of total quality management for fiscal administration is guaranteed only if are properly selected the specific methods and techniques.

Gopal K. Kanji and Mike Asher identified 100 methods of total quality management, grouped into 4 categories, respectively management methods, analytical methods, methods generating ideas, methods of analysis and data display. (Kanji, G. and Asher, M., 1996). In the 31 management methods, a significant role is occupied by quality function deployment, with the following working steps: determining customer requirements and identify the importance of each requirement; establish quality characteristics for each product or service corresponding with the functions and the degree of satisfaction of requirements; identifying and assessing interactions between quality characteristics; comparative analysis for products and services; determining target value to cover all requirements. (ReVelle, J., Moran, J. and Cox, C., 1998).

Quality function deployment using a series of matrices (Shillito, L., 1994), that have as starting point the customer's voice, which must be evaluated and then converted to the product or service specifications.

Because the primary planning tool used in quality function deployment is the home quality, we suggest six steps (Charantimath, P., 2006) that can be followed to build the house of quality on tax administration:

- Step 1 – Setting taxpayers requirements for fiscal administration (the voice of taxpayers) – aims to obtain response to the questions: What expectations do taxpayers have from the tax administration activity? What needs are identified for the taxpayer in relation to the tax activity? A part of taxpayer requirements may relate to: the number of taxes and contributions; tax rate; method of calculation, registration, declaration and payment; deduction system; the relationship with institutions in the field of taxation; tax information flow; clarity and stability of tax legislation; tax incentives regime; penalties, and so on.
- Step 2 - Setting technical descriptors for fiscal administration (the voice of fiscal institution) – gives response to the questions: How is the tax activity conducted? How are the activities on tax administration structured? The technical descriptors for fiscal administration may refer to: the typology of taxes and contributions; the structure of the tax system; the principles of taxation; the technical elements of taxes; tax base; tax rate; the relationship between the one that supports and the one who pays; ways of perceiving; declarative system; fiscal control; and so on.
- Step 3 - Identifying the relationship between the requirements of taxpayers and technical descriptors in the field of tax administration - involves comparing the requirements of taxpayer with technical descriptors and determining the relationship between these, using symbols that can show a relationship (strong, medium, weak) or absence of a relationship.
- Step 4 - Determination of the interactions between technical descriptors related to tax administration - offers to the user a picture of technical descriptors of fiscal administration that are in a perfect correlation and those who are in conflict, thus being possible to determine the points of conflict in relation to the

requirements of taxpayers, because any unidentified and unresolved conflict entail the dissatisfaction of the taxpayer and therefore, technical changes, increased costs and reduced quality.

- Step 5 – Achieving competitive assessments – allow the assessment of the taxpayers’ requirements on tax administration and the assessment of tax administration’s performance, identifying strengths, weaknesses, opportunities and threats.
- Step 6 - Setting priorities for taxpayers’ requirements - involve identifying a hierarchy for each taxpayers’ requirement, on a scale from 1 for low importance to 10 for high importance, so that the changes that are to be taken in the tax field bring more satisfaction to taxpayers.

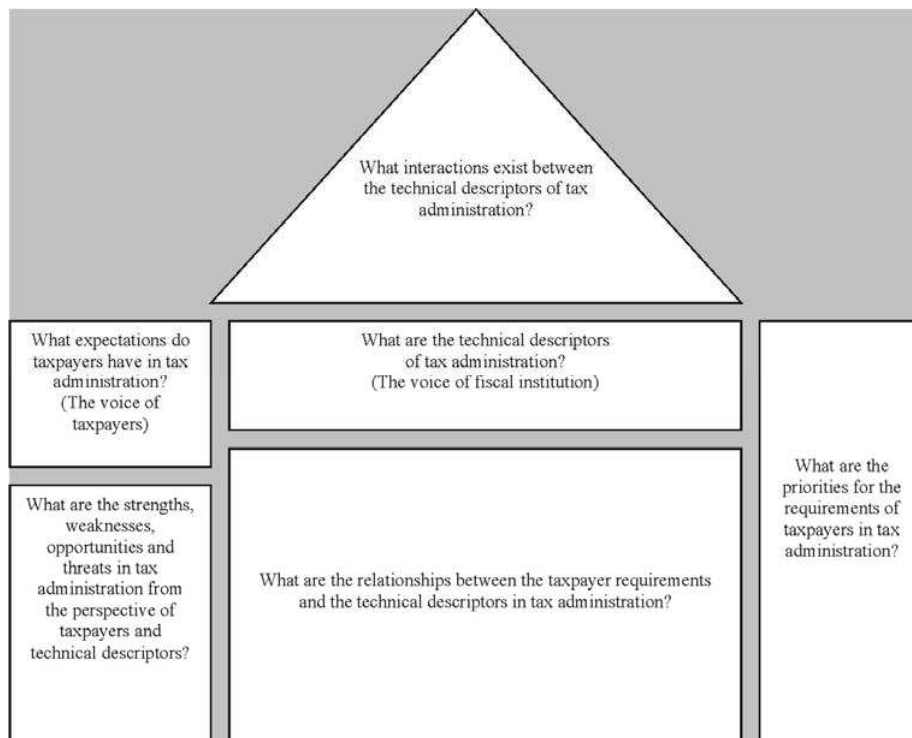


Figure no. 1 House quality for tax administration



Following these steps can be found a number of answers that will allow improving the relationship taxpayer - tax institution, and thus, will be understand the purpose and the role of tax administration by all those involved in this field

#### **4. Conclusion**

Because this paper debated only in theoretical terms the role of the quality function deployment, as part of total quality management in tax administration, our approach aims to be a start for other theoretical and pragmatic research, to study other methods of total quality management that can positively influence the taxpayer - taxation relationship.

Total quality management in the field of taxation should ensure adapting tax administration in Romania to international requirements, improving the collection of budget revenues, reducing the general consolidated budget arrears, reducing tax evasion, increase the voluntary compliance, consolidation of state - taxpayer partnership.

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