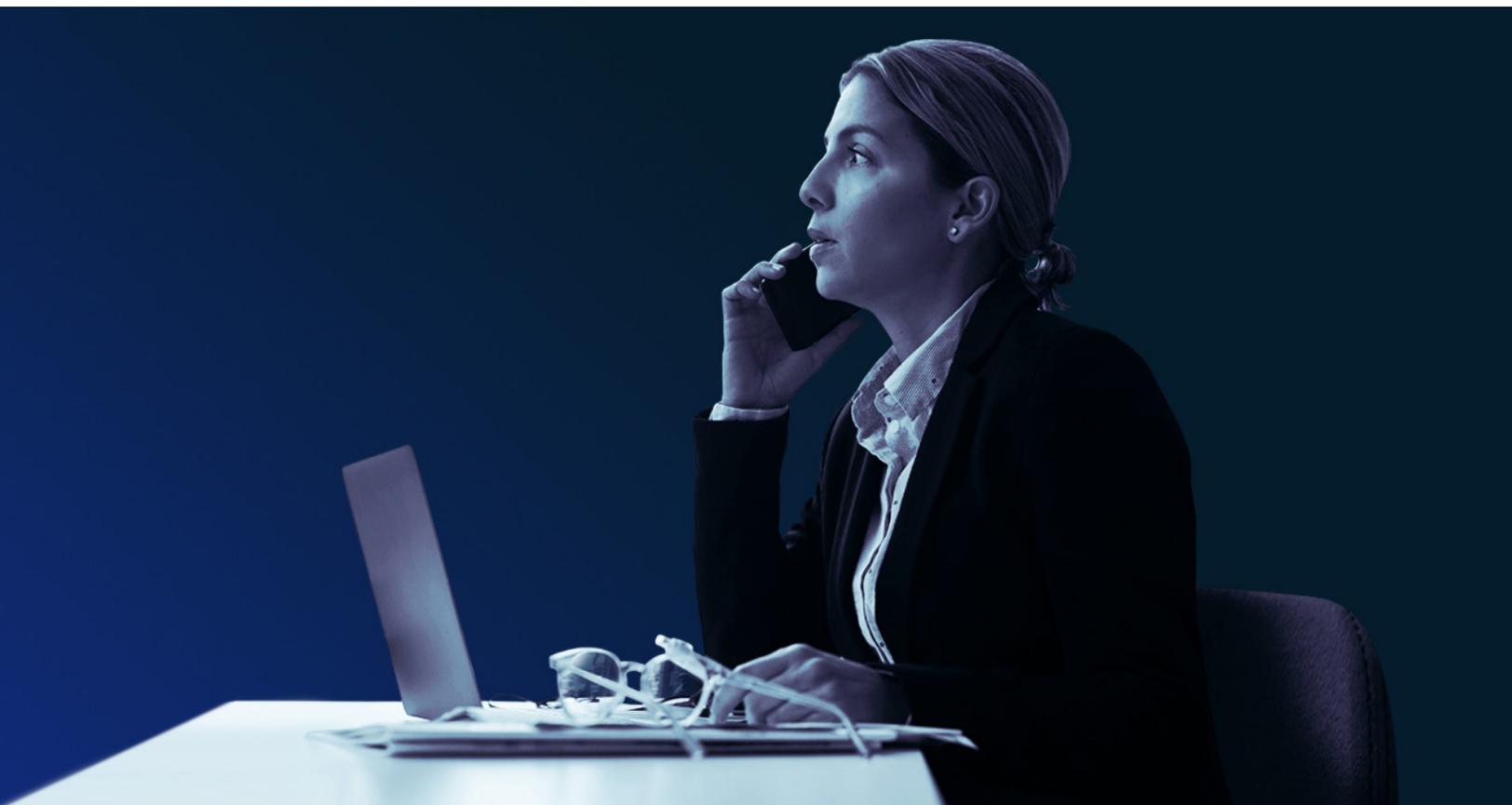


Public & Social Sector Practice

Adapting tax collection for uncertain times

In response to the economic uncertainty caused by the pandemic, many tax authorities are considering new approaches to tax management, adjusting their collections strategies to reflect the new reality.

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COVID-19 has already ignited a global humanitarian crisis. Now it's bringing on an unprecedented economic crisis: between Q4 2019 and Q2 2020, real GDP in several countries has contracted by more than 5 percent, putting a significant number of jobs at risk.¹ Our analysis suggests that the COVID-19 crisis could leave up to 59 million jobs at risk² in Europe—representing 26 percent of total employment in the 27 member countries of the European Union (EU-27), plus the United Kingdom (EU-28).³ That means there is a need to protect not just lives but *livelihoods* as well.

Governments have responded with large-scale fiscal stimuli representing about 10 percent of GDP.⁴ A common theme of the government response has been a combination of implicit and explicit deferrals by tax authorities. In Australia, taxpayers affected by the pandemic can apply for a deferral of tax payments for up to four months, without incurring interest or penalties.⁵ Companies subject to Dutch corporate income taxes will be allowed to deduct their expected losses in 2020 from their 2019 taxable income, creating a “corona reserve.”⁶ A consequence of these types of support packages is that tax authorities are experiencing significant revenue losses and tax-debt increases. In one country in the Organisation for Economic Co-operation and Development (OECD), delinquent tax debt has increased by more than 70 percent in three months. In another, total tax due-date deferrals between March and June 2020 amounted to more than \$25 billion.

Through continued economic uncertainty, many tax authorities are considering careful and thoughtful ways of adapting their tax-delinquency management and compliance activity. They aim to adjust their strategies to the new reality where *everything is different*. Our understanding of customer behavior may no longer be valid, as customers have had widely differing economic

experiences as a result of COVID-19. Customers are facing new pressures. Some are dealing with significant financial difficulty, including the loss of their small businesses. In addition, the overwhelming economic uncertainty can affect their physical and mental health and well-being. In this complex environment, tax collection and compliance must be balanced with protecting individuals and the economy more broadly. Who should reach out to customers delinquent in their taxes? How are these customers best approached, and with what message? What kind of support will best help them settle their debt? All preconceptions need to be tested.

Adapting tax-administration strategies to COVID-19

An OECD tax authority recently launched a focused effort to rethink how its collections function managed delinquent tax debt. Because of the significant impact of COVID-19 on the country, all collections activity had been paused and frontline staff redeployed to help with government-sponsored support programs. Total tax debt almost doubled in only a few months.

The tax authority's team quickly created an analytically robust segmentation focused on ability to pay, to kickstart activity rapidly in a controlled manner. The team designed new customer journeys with softened outbound and inbound language and more generous and flexible payment terms. They also launched an innovative, rapid test-and-learn approach, with vigorous and pragmatic evaluation at its heart. This enabled the team to make weekly decisions based on available data, rather than operating on a multimonth learning cycle. This test-and-learn approach allowed the authority to change its mailing strategy when response rates—both level of response and preferred channel of communication—differed significantly from prior experience.

¹ “COVID-19: Implications for business,” August 20, 2020, McKinsey.com.

² We define “at risk” as a reduction in hours or pay, temporary furloughs, or permanent layoffs.

³ David Chinn, Julia Klier, Sebastian Stern, and Sahil Tesfu, “Safeguarding Europe’s livelihoods: Mitigating the employment impact of COVID-19,” April 19, 2020, McKinsey.com.

⁴ “As the economy recovers fiscal policy has to shift,” *Economist*, July 11, 2020, economist.com.

⁵ Overview of tax-policy measures in response to COVID-19 crisis, Organisation for Economic Co-operation and Development, updated on May 29, 2020, oecd.org.

⁶ Ulrika Lomas, “COVID-19: Netherlands relaxes loss carry back rules,” *Tax-News*, May 15, 2020, tax-news.com.

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The program delivered more than \$1 billion in debt payments and payment plans in the first three weeks of customer contact, with the majority of tax collected in single payments. At the same time, the authority received positive feedback from customers on the experience. Furthermore, the core team was better prepared to work in an agile way, enabling it to continuously adapt as policy, economic conditions, and customer behavior evolved.

Lessons learned

This tax authority's experience illustrates the need and opportunity to reinvent approaches and processes for a better steady state. As tax authorities think about how to restart collections, they are considering five key steps, with approaches that may be quite different now from even a few months ago:

1. *Develop supportive policies and communications*

Customers are experiencing unprecedented financial pressure, leading to significant emotional distress for some. In this environment, tax authorities may need to be particularly thoughtful about the goal of their customer outreach and the tone of their messaging. In our OECD tax-administration example, rather than making full payment the goal of every conversation, offers were adjusted to enable more customers to meet their obligations—for instance, by relaxing qualification criteria for

payment-plan agreements and making terms easier (such as a longer maximum duration). Language in outbound communications and in guidance for frontline staff (scripts) was revised to be more supportive, including directing customers to sources of help when appropriate (for example, government support programs) to help customers adopt a resolution-oriented attitude toward their tax debt.

2. *Refocus segmentation by customers' ability to pay*

An effective segmentation of customers enables tailored journeys not only to improve collection and compliance rates but also to help deliver a better customer experience—all while avoiding additional strain on the economy and ensuring the highest return on investment (ROI) for scarce resources. Given COVID-19's disparate impact on customers, old methods of segmentation need to be rethought. It is important to carefully select indicators that reflect current conditions. The initial focus might be to (1) secure payment from those with a clear ability to pay, given their economic circumstances, (2) accelerate flexible-payment options for those who are willing to comply with their obligations but need more time, and (3) identify those who are under the most duress and boost training and awareness of available options, rather than immediately resorting to traditional collections approaches. In our OECD tax-administration example, this

was done by homing in on industry, region, or other indicators of economic activity (such as tax filings) to give a sense of which customers were most likely to be under stress and which less so. These indicators also were used to deprioritize customers in sectors engaged in the front line of the crisis response.

3. *Redesign contact strategies to reflect current conditions*

Lockdowns have accelerated changes in customer preferences and introduced new considerations. Customers may miss letters because they are sheltering with relatives to escape cramped city apartments while working from home. Tax authorities may need to adapt contact strategies to reflect these new realities. The OECD tax authority in our example had to use remote options instead of on-premises visits, exploring alternative or online contact for businesses operating remotely. More broadly, there is an opportunity to accelerate investment in digital technology, including extending digital or self-serve options, given the increasing customer preference for online channels and the growing imperative to maximize ROI on overstretched contact-center resources. Digitizing end-to-end customer journeys has been a strategic goal for many tax authorities for some time, and, as with many other institutions, the current conditions provide additional urgency for that digital transformation.

4. *Prepare the workforce for a new approach in a remote context*

Frontline tax-authority staff are themselves experiencing a challenging period and need to be appropriately supported. In many countries, tax-administration staff have shifted to a remote setting and may have been redeployed to other areas while regular compliance/collection

activity was paused. Beyond the challenge of motivation and performance management of remote call-center staff, policies and scripts may need to change, as we indicated earlier, requiring remote training. To adapt to this, the OECD tax authority in our example launched focused training and change-management programs to prepare staff for the new environment. A key part of this was creating feedback loops to solicit input and rapidly improve guidance and training in real time. In addition, tax authorities may need to adjust performance-management frameworks to reflect the new approach and context.

5. *Embed test-and-learn loops to maintain agility in the new approach*

A central theme of this moment is uncertainty. Given the unprecedented times, it's unlikely that a tax authority will get everything right on the first try. In addition, even "right answers" may need to be adjusted in an agile way as the economic and policy environment rapidly evolves. Leaders can therefore deliberately design a test-and-learn approach to all four steps above. The OECD tax authority in our example designed programs that used experimentation and rapid analysis to identify improvement strategies, implement them quickly, and then measure results obsessively. Initiatives that prove less effective can be rapidly adjusted or replaced with new initiatives.

For tax authorities, the COVID-19 crisis has brought about a unique opportunity—an obligation, even—to reinvent their modes of communication, their programs, and their ways of working. This moment demands deliberate, agile experimentation to establish a new approach to collections to meet the new reality.

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