



The 6th BRITACOF

Shared Progress in Taxpayer Service for a Better Business Environment

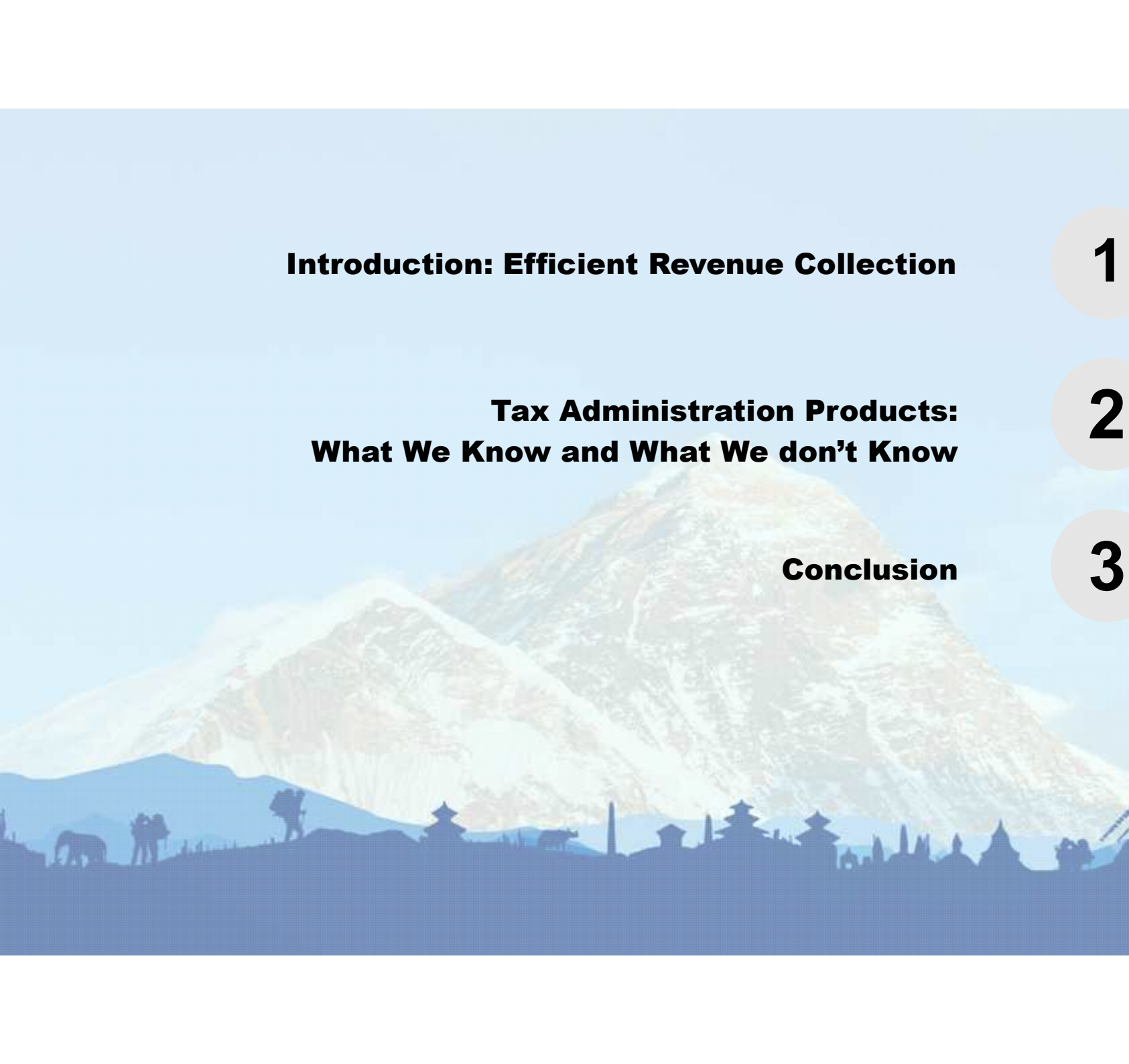
9-11 September 2025 | Kathmandu, Nepal



Balancing Revenue Generation and Cost Efficiency in Tax Administration

Optimizing tax collection

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Introduction: Efficient Revenue Collection

Introduction: Efficient Revenue Collection

First-in-class

Approach:

Maximize Revenue,

Minimize Societal

Cost

Maximizing Tax Revenue

Effective tax administration aims to increase government revenue to fund public services and infrastructure whilst

Minimizing Societal Costs

Tax systems should avoid excessive burdens on individuals and businesses to

- Maintain economic growth and ultimately, increase the living standards of the population; and
- Balancing revenue and costs tends to correlate with tax systems that remain fair, efficient, and sustainable over time

Consensus

Long-standing consensus among independent analysts:

“The tax authority’s goal should be to select and balance tax instruments in a way that achieves the necessary revenue with the least societal cost.” ([Shaw et al.](#), 2010)

Introduction: Efficient Revenue Collection

In Practice: Need to Analyze Both Revenues and Costs

Revenue Focus Limitations

Examining only revenue ignores important costs:

- 1. *Distortion costs*:** Taxpayers' decisions such as how much to invest, work and consume are distorted by tax
- 2. *Administrative costs*:** incurred by the tax authority in establishing and operating systems to manage all aspects of taxation
- 3. *Compliance costs*:**
 - Incurred by taxpayers in complying with their tax-related obligations;
 - Incurred by third parties involved in the tax remittance process (e.g., employers who are required to remit tax on behalf of their employees)

These are a true loss to society! They use up resources that could otherwise have been put to valuable purposes.

Introduction: Efficient Revenue Collection

Why is it important?

Revenue vs. Collection Costs

While increasing collection efforts can boost revenue, it also leads to higher costs, which impacts overall efficiency.

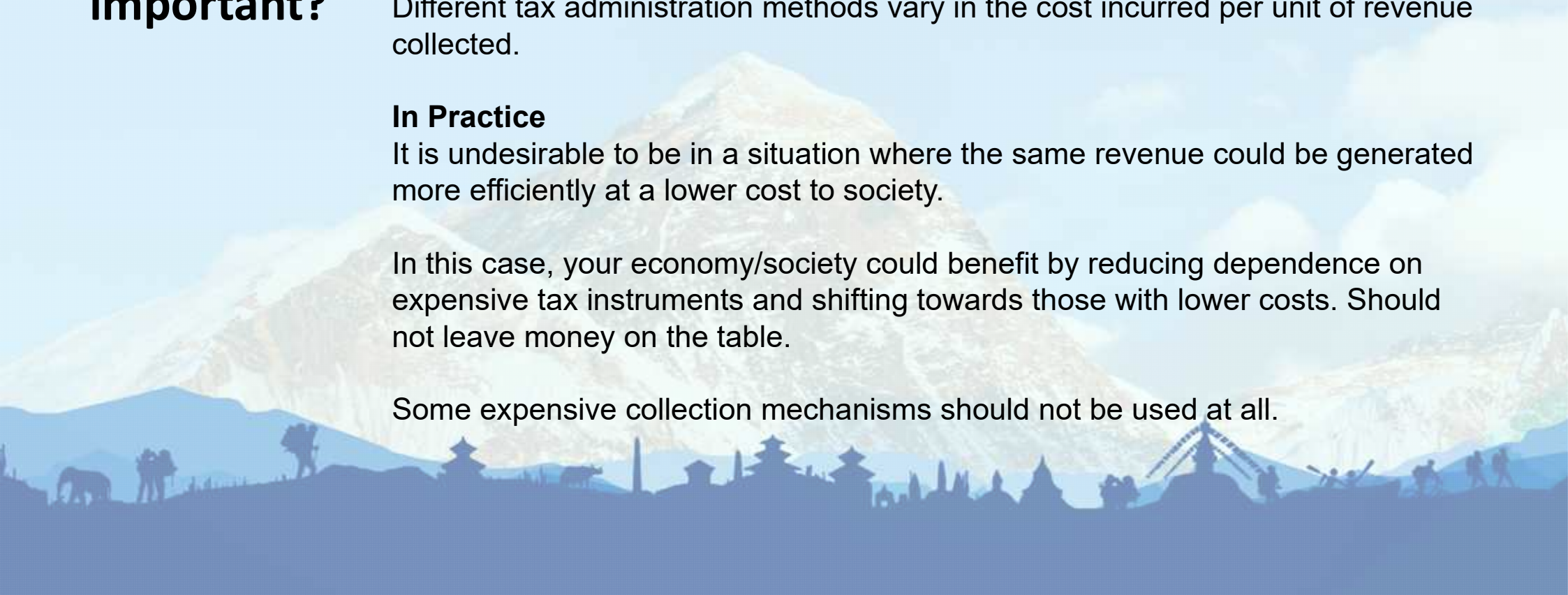
Different tax administration methods vary in the cost incurred per unit of revenue collected.

In Practice

It is undesirable to be in a situation where the same revenue could be generated more efficiently at a lower cost to society.

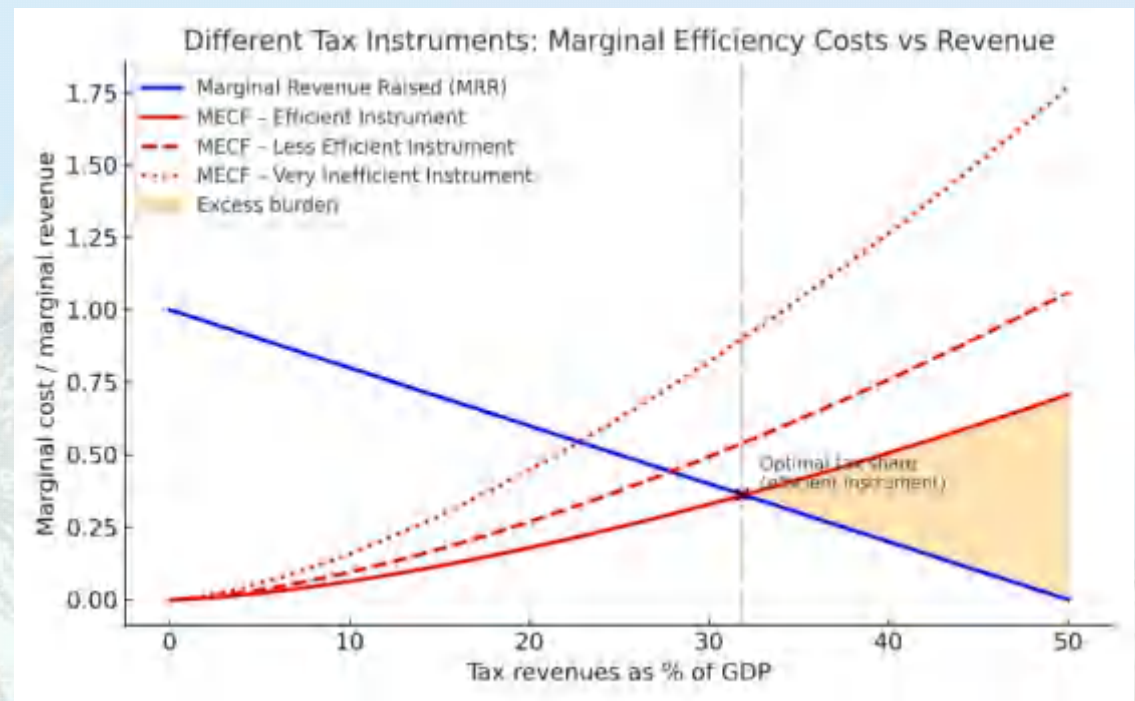
In this case, your economy/society could benefit by reducing dependence on expensive tax instruments and shifting towards those with lower costs. Should not leave money on the table.

Some expensive collection mechanisms should not be used at all.



Introduction: Efficient Revenue Collection

**Illustrates Relationship
Between Revenue
Raised and Collection
Costs**





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Tax Admin Products: What We Know and What We don't Know

Tax Admin Products: What We Know and What We don't Know

Evidence

Exists for

Some, Not

All Products

E-registration, e-filing, e-payment, e-invoicing

- Generates positive revenue
- Heterogenous results, depending on different designs and interaction with legacy systems
- Requires enabling factors to fully realize potential (adequate infrastructure, lack of training, information and trust, broad institutional setting, broad regulatory environment, enforcement capabilities)

[IMF](#) (2023); [Okunogbe and Santoro](#) (2023)

- Very few studies trying to tackle the three types of costs and relate them to revenues in a systematic way
 - E-filing: Hours saved per month, mainly visits to the tax office (Okunogbe and Poulighen, 2022 on [Tajikistan](#))

Tax Admin Products: What We Know and What We don't Know

Challenges in Estimating Overall Costs of Tax Admin Products

Scarcity of Cost Data

Very few indicators of the three types of costs associated with tax collection products

Complex Measurement – How to quantify?

Implications

- Very little idea of what the optimal choices are
- Possibly underestimates the costs to the system
- Reinforce misunderstandings – very little understanding of the structure and materiality of costs for taxpayers

Solutions

- Surveys
- Interaction with taxpayers



Tax Admin Products: What We Know and What We don't Know

Common misunderstandings

Initial Setup Costs are not that Important, can be diluted in the longer-term

- *One-off expenses*: are incurred during the business establishment phase and include costs like equipment and licenses.
- *Ongoing compliance costs*: Recurring expenses include regular costs such as regulatory compliance, maintenance, and operational fees essential for business continuity.

It is not a big deal for the taxpayer, especially for large MNEs

Sophisticated taxpayers, especially business can cope as they have large resources and routinely cope with complexity



Tax Admin Products: What We Know and What We don't Know

Business Key to Revenue Collection

Significant Tax Contributors

Businesses contribute a major share of overall tax revenues because they remit a large part of tax revenues (85%), making them critical partners for revenue collection efforts.

[OECD](#), 2017; [Slemrod and Velayudhan](#), 2018

Efficient Administrative Focus

Excluding business input in the design of tax administration products or policies is bound to undermine their effectiveness and reduce the overall efficiency of tax collection.



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Conclusion



Conclusion



Focus on the Balance

Effective and efficient tax systems balance revenue generation with cost efficiency to ensure better economic outcomes and long-term sustainability.



Understand Costs

We know very little about costs.

Analyzing product costs helps shape optimal tax policies and therefore, better economic outcomes.



Chose Optimally

Once you know more about costs, choose the most efficient tax administration products, especially if you do not want to distort your economy and/or face a competitive environment.



Thank you