

PLANNING FOR TAX ADMINISTRATION IN ARGENTINA

Presentation made by the Delegation of Argentina
on the philosophy and content of the Planning System
at the General Directorate of Taxes

This paper was prepared with contributions made by
the following officials of the General Directorate
of Taxes of Argentina:

Pedro F. J. PAVESI	Director General
Angel R. TONINELLI	Advisor to the Director General
Carlos SILVANI	Research Department
Beatriz CALVO	Advisor to the Research Department
Gerardo ORIA	Advisor to the Research Department

1. BACKGROUND

Although the General Directorate of Taxes has always applied systematic work methods tending to achieve the objectives of each of the areas of the Institution, it was only as of the beginning of 1971 that the so-called GENERAL PLANNING SYSTEM (GPS) was developed.

The philosophy underlying its adoption enabled us to assemble into one coherent, homogeneous and integrated instrument, the formulation of objectives, the dictation of adequate policies and strategies, the establishment of aims and the implementation of rules, procedures and methods, in order to carry out the different activities undertaken by the Directorate with maximum efficiency.

The task of planning is a non-transferable responsibility of the higher organization levels and it is as old as the world. However, the formulation of the instruments for planning is not quite so ancient. Furthermore, it is sometimes not sufficiently publicized and instead of becoming an efficient term of reference for a coordinated interrelationship of the various decisions to be adopted in order to attain objectives, it conspires against the clarity of the "reasons" taken into account by policy makers when arriving at a particular decision.

This failure to correlate and define objectives, policies, aims and procedures, was experienced by the DGI. The highest authorities, conscious of the fact that their main function is to blaze the trail for the organization, developed an integrated system that defined and expressed their objectives and tasks, as well as the different programs to be developed in order to achieve such aims.

This paper aspires to present a panoramic and necessarily partial view of the system, of its principles and of the experience in its implementation.

2. CONCEPT OF PLANNING

We have used the following concept of planning:

Planning is a process whereby organizations formulate their objectives. The organizations, based on these objectives, determine the goals to be achieved, outline the different alternatives for the development of operations to achieve such goals and select the best course of action.

From this concept of planning, we have drawn the notions of objectives, goals, alternatives and courses of action as relevant to our purposes. Such a formulation allows for the drawing up of a Planning System. The elements involved as well as the concepts are selected from all the alternatives suggested, to comply with at least two requirements: 1) they should be consistent with the objectives at the highest level, and 2) they should be feasible so as to comply with the restrictions within the organizational system itself, as well as with those of the environment in which the Department operates.

3. PRIOR LIMITATIONS TO THE PLANNING PROCESS

The General Directorate of Taxes of the Republic of Argentina is an organization for tax administration. Consequently, it does not determine fiscal policies, although it is usually resorted to as a body for consultation from the standpoint of its operating capabilities to control and collect taxes.

Tax policies, as manifested in the tax laws that form part of the larger sphere of economic policies, are outside the tax administration's area of "control". This situation of dependency (Annex # 1) imposes a wide range of conditions to which the Institution must adapt itself (Annex # 2).

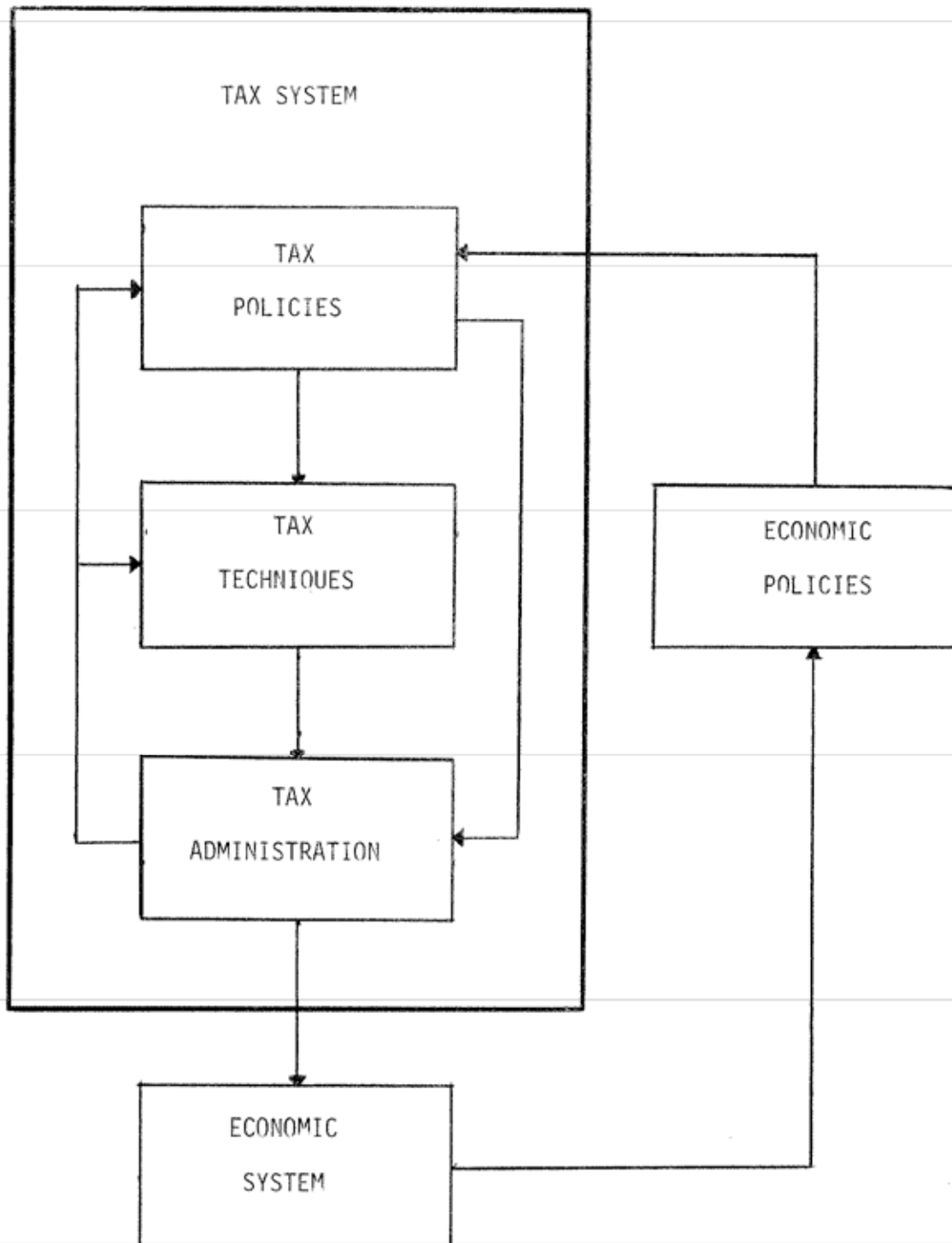
An interesting fact is that, although the aforementioned limitations are not under the control of the Institution, they are not left aside when work is carried out in the field of planning. Quite to the contrary, adequate knowledge of these limitations is essential to make planning successful and they must be studied exhaustively to ensure the successful implementation of plans.

Taxpayer behaviour is another factor beyond the control of tax administration. The General Planning System has proceeded to make a classification (Annex # 3) in order to determine and quantify gaps and reduce some of these gaps by means of the formulation of several operational alternatives. In our country, fiscal power is divided into National, Provincial and Municipal levels. This situation works against compliance on the part of the taxpayer. This diversity in organizations with the power to levy taxes results in a lack of acquaintance with legislation and inhibits the adoption of coherent and homogeneous decisions due to the decentralization existing in decision-making units.

By influencing the taxpayers' motivation, this fact acts as a limitation prior to the planning system and requires the formulation of alternative strategies to minimize by-passing tax compliance.

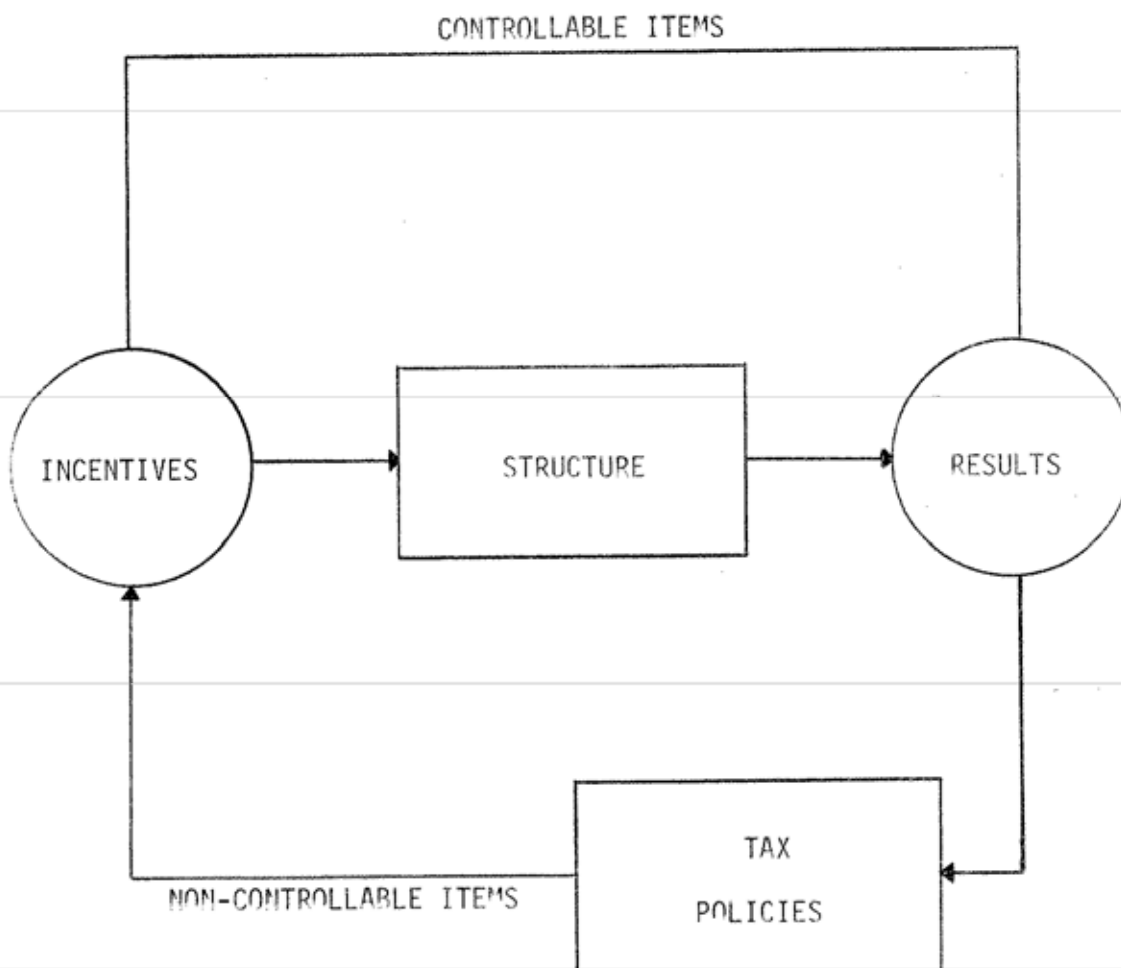
Tax legislation is taken as "data" by the collecting organization, as a result of the difficulty in its control. This "data" (new provisions, eventual amendments, incorporation of new taxable subjects, the widening of the taxable base, etc.) and the lack of clear definitions of new operational techniques conspire against the planning process and restrict the efficiency of the system.

The function of state and commercial organizations (Banks, Stock Exchange, Customs, Ministries, Secretariats, etc.) limit the revenue service in its functions of collections and control. By means of confidential financial and stock exchange data or through the granting of tax and duty exemptions, the functions of the organization are restricted and conditioned to the attainment of higher level objectives. These restrictions exert a strong limiting effect on the discretionary power of organizational planning, leading it to discard a great number of theoretically possible alternatives to avoid disfunctions between the objectives of the General

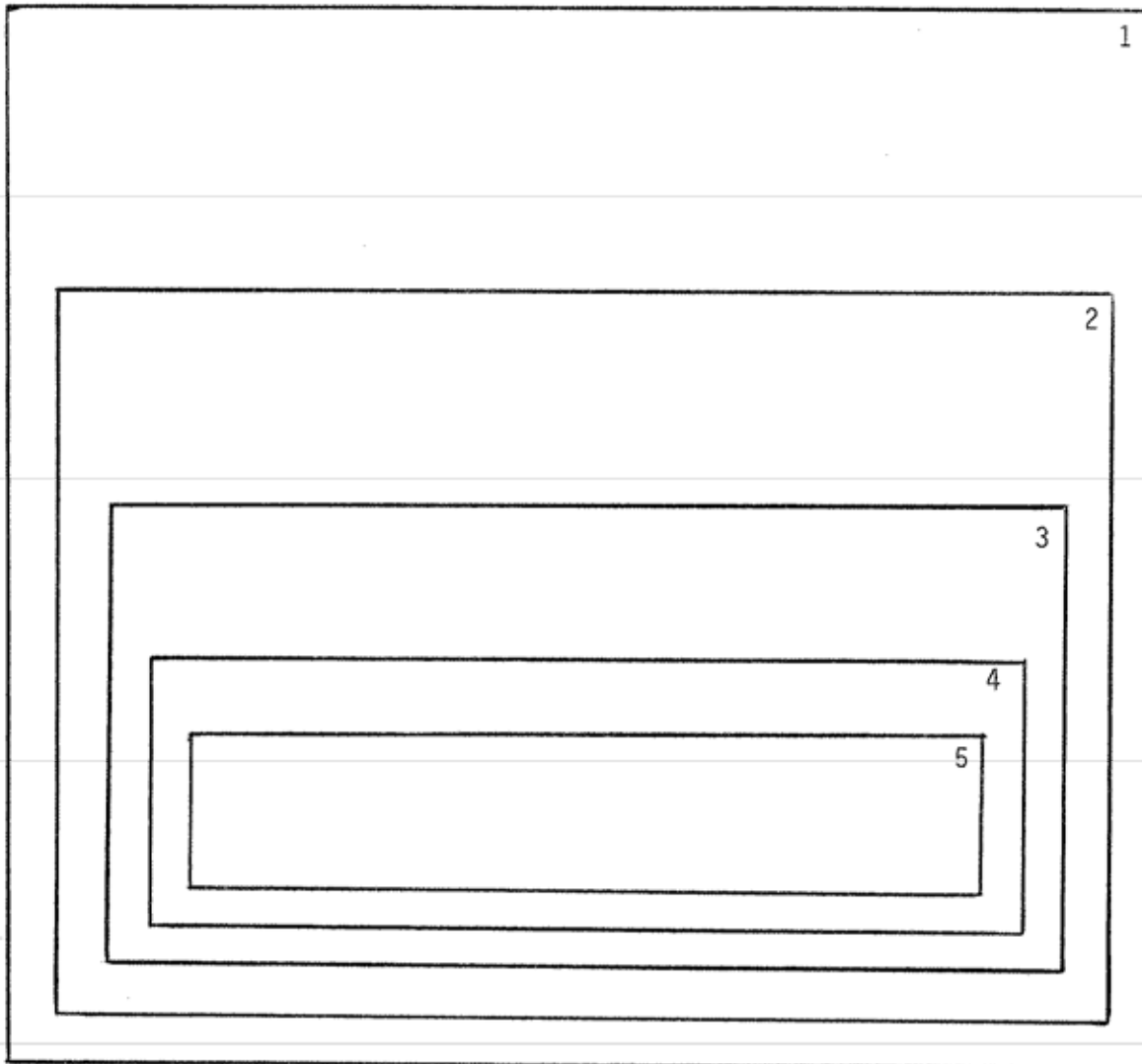


TAX ADMINISTRATION SYSTEM

INFLUENCE OF CONTROLLABLE AND NON-CONTROLLABLE ITEMS



UNIVERSAL CLASSIFICATION OF TAXPAYERS



1. POTENTIAL TAXPAYER x POTENTIAL TAX
2. INDIVIDUALIZED TAXPAYER x POTENTIAL TAX
3. FILED TAXPAYER x POTENTIAL TAX
4. FILED TAXPAYER x TAX FILED
5. FILED TAXPAYER x TAX PAID

Directorate of Taxes and the State as a whole.

Material and human resources make for internal restrictions that must be thoroughly studied by the planners. From a quantitative standpoint, the problem is reduced to matching their number with the requirements of operations. From the qualitative standpoint, and especially as regards the human aspect, the problem is far more delicate.

The Institution does not create men to measure; they are taken from the environment, with the cultural and personal heritage that results from their home life, education and the cultural and social trends of their milieu. Added thereto are their experiences and expectations resulting from present or past employment.

The gap between qualitative requirements and the individuals' possibilities must be filled by means of the development of training. However, while training is in course, this gap must be considered as a limitation to the planning system that is to be developed.

A gap that cannot be filled by means of training is the difference in criteria and reference values existing in the different human components of the Institution. In view of the fact that the human factor in the Tax Office in any given country is an essential factor for proper functioning of the same, we stress the need to unify the values (economic, legal, ethical, etc.) that condition the attitude of the employees.

These values, acting as standards of behavior, determine the convictions of the employees, influence their decisions and, therefore, condition their institutional performance. These values play a very important role as regards the existence and life of the Institution, as it is understood that each individual will decide whether or not to "co-operate" in the measure that the objectives of the Institution contribute to the attainment of his own. This situation of permanent compromise to which the Institution is subjected, is revealed by the efforts of individuals and groups to deflect the objectives of the Institution towards their own ends.

From the standpoint of the Institution, there must be constant concern as to permanence in time and space of its objectives and aims, which calls for a permanent critical attitude in this respect and, in particular, for the establishment of adequate channels of information with efficient feedback mechanisms to -ideally- enable management to "see" the Institution and its "performance" from the "outside".

It also calls for a vigilant attitude in the face of distortions which will result in the deflection of objectives due to deficiencies in information channels, to the power of individuals and groups and, finally, to the pressures exerted by sectors forming the "consumer" or "supplier market" who, in turn, will also deflect the objectives of the Organization to make them conform with their own.

4. SOME EXPERIENCES IN THE IMPLEMENTATION OF PLANNING

The GPS is an instrument of management, that has been systematically applied by the General Directorate of Taxes for the past two years. This circumstance has brought about situations peculiar to the implementation of new work methods, on which we shall comment briefly.

As regards definition, concept and use of a GPS when it is first put into practice, it is impossible to compare results with former experience. This lack of information requires adjustments and re-formulations as called for, and hence becomes the focal point for attacks from detractors of the system. These adjustments, re-formulations, changes in the course of action and even temporary abandoning of certain stages of implementation, should not be a source of discouragement, rejection of the system or failure to put it into practice.

Any new system, especially one that attempts at establishing a control over the operation of an organization, makes room for a surge of skepticism, mistrust and, sometimes, frustration.

From the standpoint of employees and agents, particularly those at the lower levels, a certain feeling of anxiety, insecurity and fear arises as they are not versed in the technique which supposedly will control and constrain their performance. This feeling is revealed more or less overtly or in a concealed manner, at a conscious -or even unconscious- level by their resistance to the system, and this must be overcome.

It is not our intention to provide successful "recipes" for the implementation of planning, but we do call your attention to the fact that the best planned scheme, the best formulated objective, the most efficient work method, will become wishful thinking or very good material for an academic paper, unless the persons in charge of its implementation are convinced and motivated into acceptance of the same.

In this sense, we are of the opinion that all techniques are valid to attain acceptance and adhesion to the system. Partial implementation in those areas where more receptive individuals have been found, or where the carrying out of objectives has heretofore permitted establishing formal work standards and methods, increases the chances for full implementation.

Periods of change, with their subsequent general confusion, reduce resistance to new techniques and create a favorable atmosphere for their acceptance. Advance search for individuals in favor of the system and the temporary "withdrawal" of those strongly against it, has also been a good way to win new converts, as a result of the benefits they derive from the system. When the objectives are well defined and are beneficial to the Institution as a whole, any technique to achieve acceptance is justified, even if it should call for certain "maneuvering" of the personnel, as regards their working methods.

The essential thing is that Higher Management be aware of the problems and inconveniences that will arise. In the first place, so as not

to be taken by surprise and, secondly, in order to take the necessary steps to withstand criticism that is not objective or pertinent to the efficiency of the system itself.

We firmly believe that a General Planning System facilitates management, it forces the departments to formulate in due time the plans that will regulate their activity in the future, it reduces improvisation and discretionary measures, it increases harmony and coherence and, especially, serves as an essential training and management instrument, thus enabling the Institution to apply modern work techniques that will develop planning, organization and control to their fullest possible extent.

If, when formulating the plan, the concrete realities of a given organization are taken into account, such as the social-political environment within which it operates, its previous limitations, the resistance subsequent to its implementation, the understanding of the human problems that will inevitably arise, we are convinced that all unfavourable aspects of planning will be minimized, and we are confident that in a short time better planning and a greater acceptance of the system will be attained.

5. DEVELOPMENT OF THE PLANNING PROCESS

Development of the planning process starts with the establishment of the more general objectives (non-operational objectives), continues with the definition of aims (operational objectives) and ends with the setting up of policies, programs, procedures, methods, etc. (Annex # 4).

Within the GPS, it is the responsibility of the Director General to establish the guidelines for action to be followed in order to implement the objectives of the General Directorate of Taxes.


The Chiefs of Departments and Zones, as first-level officials, are to conform their plans to the guidelines set up by the Director General. This leads to homogeneous and coherent action in all areas of the Department.

The fundamental importance attached to the GPS presents two main characteristics:

- a) it avoids improvisation and narrows the discretionary scope to limits compatible with the greatest efficiency and speed in operation of each of the areas within the Organization.
- b) it harmonizes staff performance with the guidelines established by the Director General.

Following this pattern, all decisions made -at any level- must be in accordance with the basic guidelines that have been set up.

PLANNING SYSTEM

<u>LEVEL</u>	<u>INSTRUMENT</u>
<u>OBJECTIVES</u>	<u>POLICIES</u>
CRITERIA <u>STRATEGY</u> (PERMANENT) <u>TACTICS</u> (EVENTUAL)	 OPERATIONS MANAGEMENT AND CONTROL COMMUNICATIONS INTERNAL INTEGRATION
<u>AIMS</u>	<u>PROGRAMS</u>
<u>ACTION</u>	<u>INSTRUCTIONS</u>

5.1. Levels of the General Planning System

The GPS is divided into three main conceptual levels:

- a) Policies: These are the general guidelines for action as well as a philosophy of management. Decisions and behavior of the entire staff of the General Directorate of Taxes are to be within the framework of these guidelines.

Policies are conditioned by the principles inherent to the Organization and by those set up by the Director General in accordance with the desired projection and scope to be attained by activities of the Department.

- b) Objectives: These result from the formulation of policies as a concrete enunciation of the specific trends of management. They are established by the Director General, and there is no restriction as to dissemination of information on the same.

5.2. Overall Objective of the General Directorate of Taxes

The overall objective is to attain maximum voluntary compliance with fiscal obligations.

5.3. Specific Objectives of the General Directorate of Taxes

1. Efficiency: All resources assigned to the General Directorate of Taxes are to be distributed so as to maximize attainment of the overall objectives, in accordance with the guidelines, plans and programs that have been formulated. All those responsible for different activities should bear in mind, within the discretionary scope allowed by the GPS, the cost involved in the use of resources placed at their disposal.
2. Service to the Taxpayer: The General Directorate of Taxes is at the service of the taxpayer. This attitude is an essential requirement for the employee who has to remember, at all times, that he owes his job to the existence of taxpayers, and not viceversa.

It is a duty of the Organization to make the taxpayer understand his fiscal obligations and facilitate his compliance.

Complying taxpayers should find permanent support on the part of the General Directorate of Taxes, those who do not comply with their obligations should find an impartial and severe judge. In all cases, the taxpayer should find the Organization to be an attentive advisor.

3. Equity:

The General Directorate of Taxes protects the complying taxpayer. It should administer the law equitably and judge prudently and objectively, within the limits of its powers. Administrative judges should be deeply imbued with the honor and responsibility of their office.

4. Honesty:

Those who aim at promoting honesty in others cannot achieve their objectives if they themselves are not completely honest. It is not only necessary to be honest but also to appear to be honest.

Spiritual and material honesty are essential requirements for every official in the General Directorate of Taxes.

The Organization should foster these qualities and penalize and dismiss those who violate this essential and strict requirement.

5. Interaction with the environment and communications:

The General Directorate of Taxes should be in close interaction with the environment in which it carries out its work. The exchange of ideas, suggestions and information is vital to the fulfillment of its objectives. The Organization should receive full information and should make itself known by publicizing its activities.

The General Directorate of Taxes should maintain permanent contact with the taxpayer and all organization that are representative of national life. It should

always be willing to receive suggestions and give explanations, seeking a better understanding of the problems existing in its environment and furthering a better understanding of its own functions. The General Directorate of Taxes should not remain isolated but should participate in useful exchanges and fruitful dialogue. It should participate constantly, in a modest and generous manner.

6. Professionalism: The General Directorate of Taxes is a highly technical organization and it should develop the professionalism of its officials to the utmost. It is not a political organization and it should be solely at the service of its overall objective. All of its personnel should find motivations in the Organization as well as satisfaction in their work and professional fulfillment.
7. Systematic action: The General Directorate of Taxes should function independently from the personality of its officials. On the other hand, the complexity of its activities gives no room for improvisation. The General Directorate of Taxes should be made up of interdependent parts acting within pre-established standards. In a progressive but irreversible manner, it should adopt systems for planning, control and management information by means of regulations, programs and plans that will become the essential tools of efficient management.
8. Multifacetic Strategies: The Organization resorts to multifacetic strategies in connection with tax evasion. In accordance with the varying characteristics of tax evasion, the General Directorate of Taxes should use all of the mechanisms permitted by the law and administrative regulations and offered by technology and the imagination of its officials.

Strategy is a varied and complex process and all of its facets should be integrated into a system within the functions of the Organization.

5.4. Operative management strategies

1. Operative structure:

- a) The General Directorate of Taxes acts through "regional centers" which should form the basic operative unit. These essentially active regional centers should count with:
 - Adequate delegation of authority to make them strong, dynamic units within an efficient management program that will enhance their respective responsibilities,
 - high levels of efficiency in communications, information and mobility, and
 - ample technical support from experts well-versed in the necessary techniques.
- b) The General Directorate of Taxes should plan its action all over the country in accordance with the general guidelines of fiscal policies. Whenever guidelines for future development have not been clearly established, its organizational and geographical structure should be based on:
 - a tendency towards a wider base for taxation
 - integration with the social and economic context of the Nation as well as with foreseeable regional development.

2. Classification of taxpayers:

Any action taken at the General Directorate of Taxes should take into account the classification of the universe of taxpayers according to their importance and their attitude towards tax evasion.

The allocation of resources, the imposition of fines and the degree of severity in measures taken should be adapted to this double classification.

3. System for Collections:

- a) The system for collections should pay preferential attention to filling the gap existing between potential and registered taxpayers, between registered and filed taxpayers, and between taxes filed and paid.

It should act firmly in order to fill the gap between

potential and filed taxes.

b) The system for collections should:

- maximize the number of taxpayers with fully paid up tax returns
- minimize, through administrative measures, the number of delinquent accounts - in amount and time - and the flow of uncollectible debts for legal action,
- minimize the cost of voluntary compliance, within the limits of the Organization and facilitate in all respects the application of, and compliance with, tax legislation.
- enhance the image of service and seriousness of the General Directorate of Taxes.

c) In matter concerning the collection of debts, the objective of the General Directorate of Taxes is to make collections and not engage in law-suits. Therefore, the system of court action should be an efficient means to guarantee fiscal credit and obtain payments of assessed debts within the shortest possible term.

d) The system for collections should be carried out mainly through an automated data processing system. Manual procedures and personal contacts should be limited to exceptional cases which cannot be subjected to ADP and to the essential input and output elements. In this manner, the collection system will efficiently feed the data processing system and make maximum use of its production so as to minimize contacts between taxpayers and officials and increase direct contact between data processing and taxpayers.

4. Automated Data Processing:

a) The automated data processing system of the General Directorate of Taxes is in itself a collections system integrated within the functions of the Organization.

It is a key factor in the operations of the General Directorate of Taxes within a highly efficient wide-based tax system. ADP is a means and not an end in itself and its results should be measured from this standpoint.

b) Apart from this, ADP should render its services and support to all other areas in the Organization, furnishing the basic information for decision and control.

c) ADP should promote application of its services,

acquaintance with its techniques and the development of its possibilities in all areas of the Organization.

- c) Training in ADP is to be promoted so as to make ADP a dynamic factor in what regards development and efficiency.

5. Auditing System:

- a) The auditing system should act on the gap existing between potential and assessed taxes and serve as essential support to eliminate other possibilities for evasion.
- b) The auditing system should:
 - maximize the ubiquity of the General Directorate of Taxes to promote the habit of tax compliance and in this way narrow the gap between potential and assessed taxes to a minimum,
 - minimize the flow of cases to the Courts, and the loss of suits therein through an adequate preparation for their defense,
 - minimize the cost of auditing to the taxpayer without detriment to its efficiency,
 - enhance the image of service and seriousness of the General Directorate of Taxes.
- c) The auditing system should base its action on human ability and ingenuity by following strategies, such as:
 - information prepared prior to audit,
 - methodology, based mainly on audit principles, as the tax auditor is essentially an auditor whose function is to find concrete proof of omissions,
 - support from all other areas, as regards fiscal and legal information,
 - intensive development of Court procedures to avoid failures in litigation.
- d) The auditing system is a vital element for the attainment of the GDT's foremost objective of educating the taxpayer. Increased tax revenue is only one aspect of auditing. Its action is to be measured by its omnipresence and by its secondary effects on fiscal compliance.
- e) The auditing system should create a special methodology for fraudulent cases, accompanied by the development of an

appeals system concentrated on tax violations and by the promotion of adequate jurisprudence regarding offenses involved.

6. Technical Tax Department.

- a) The technical tax department should lay down the principles of the General Directorate of Taxes regarding interpretations of legislation within established management standards. These principles supported by the Director General, are of compulsory application for the entire Organization. Their action should transcend the Organizational sphere at national and international levels.
- b) The technical tax department should develop the theoretical and practical knowledge of tax issues to the utmost, creating highly capable experts in this field.
- c) The technical tax department should provide unconditional support to all operative areas and become the necessary source of consultation.
- d) The technical tax department should carry out its services to the taxpayer by means of resolutions and advice on consultations so as to minimize litigation and evasion due to the Organization's lack of rulings on complex cases.
- e) The technical tax department should be the principal representative of the Organization's position in what regards problems on Tax Techniques. In the resolution of these problems it should count with the assistance of the higher levels within the General Directorate of Taxes.

7. Appeals System:

- a) The appeals system comprises all legal issues leading to the determination of tax obligations. The system should minimize the number of lawsuits and their duration as well as adverse decisions. It should tend to maximize the image of service and severity of the General Directorate of Taxes.
- b) In matters leading to the determination of fiscal obligations, the appeals system should be highly dynamic in the course of the proceedings and make use of all favorable procedural aspects to expedite cases. It should especially disesteem all cases where a successful outcome is doubtful or impossible and accept adverse decisions when further discussion of the same would not entail any general or specific advantages to the tax office.

- c) The appeals system is one of the basic elements in the promotion of tax consciousness and taxpayer education.
- d) This system should provide permanent support to all other areas so as to orient their action, as well as to the legal system in general, in order to collaborate without stint towards the administration of justice.

The criteria adopted by the General Directorate of Taxes through the appeals system should likewise be adopted by the entire Organization without prejudice to possible revisions made in the course of the Organization constant activity.

6. GPS MODEL FOR MANAGEMENT AND ACTION

Management of the General Directorate of Taxes (the function of administration as per Henri Fayol's model) is the Director General's inherent task. Its tools for action are the establishment of general and specific objectives for the Institution and of the general strategies for operative management.

Action of the General Directorate of Taxes is implemented through the organizational structure of the Division, which is in charge of the following functions: 1) Management, a responsibility of the Director General; 2) Planning and Control, carried out by the Research Department; 3) Processing, the task of the ADP Department; 4) Logistics, in charge of the Department of Administration and Audit and, 5) Operation, carried out by the Collections, Technical and Legal Departments and by the Department of Auditing Standards and Programs, aided by the Psychological impact on the taxpayer by the activities of the Directorate (Annex # 5).

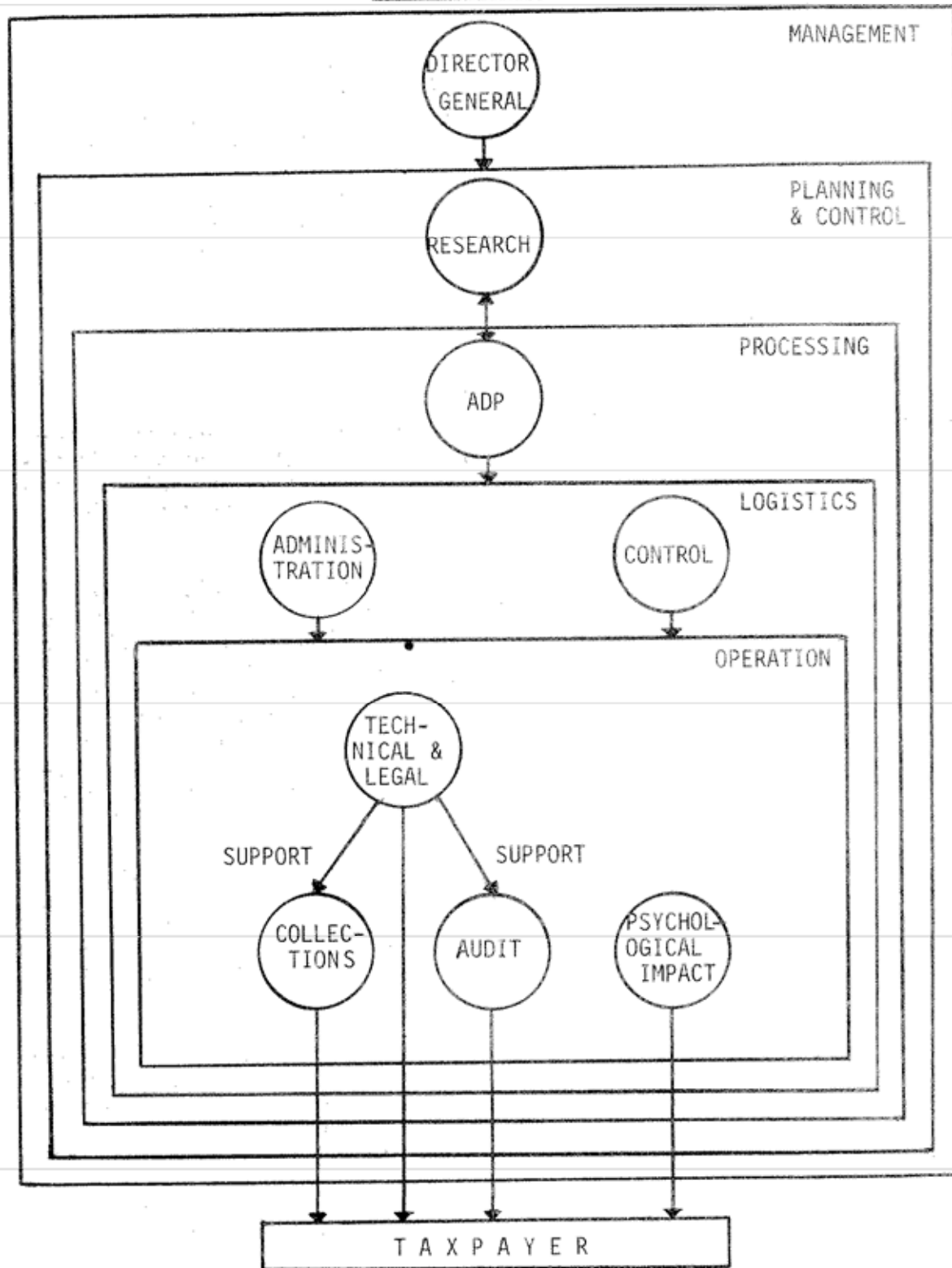
In accordance with the operative decentralization criteria that forms part of the General Planning System, action is made more effective through "Regional Centers" which provide the basic operative units. These "Regional Centers" are essentially active and they are in charge of the functions of Collections, Internal and External Auditing, Data Processing and Appeals.

Subordinated to these units and following geographic criteria, there are smaller operative units; the difference between these units and the "Regional Centers" lies in lesser discretionary powers, lesser authority and smaller number of functions, as well as greater simplicity in the tasks assigned to them.

The plan of action establishing the score of the different units follows various concents, in conformity with the planning system, that may be summarized as follows:

1. Better utilization of resources.
2. Homogeneous and consistent action under similar circumstances.

MODEL FOR ACTION



3. Elimination of overlanning of tasks.
4. Limitation of the discretionary powers of the Organization's agents.
5. Integrated action leading to the achievement of objectives.
6. Definition of programs to be applied to situations that are repeatedly found.
7. Better exercising of controls.

7. CLASSIFICATION OF TAXPAYERS

The classification of the universe of taxpayers is of essential importance for planning and, consequently, for the functioning of the General Directorate of Taxes.

Decisions regarding allocation of resources, establishment of work methods, imposition of fines, establishment of the degree of inflexibility of instruments and tactics, are all adapted to this classification. The different concepts utilized in this classification are explained in Annex # 6. Potential Taxpayers are those who have not been detected by the Organization, Registered Taxpayers are those who have been detected and entered in the Register of Taxpayers and Filed Taxpayers are those who, from the standpoint of filing of returns, have complied with their fiscal obligations.

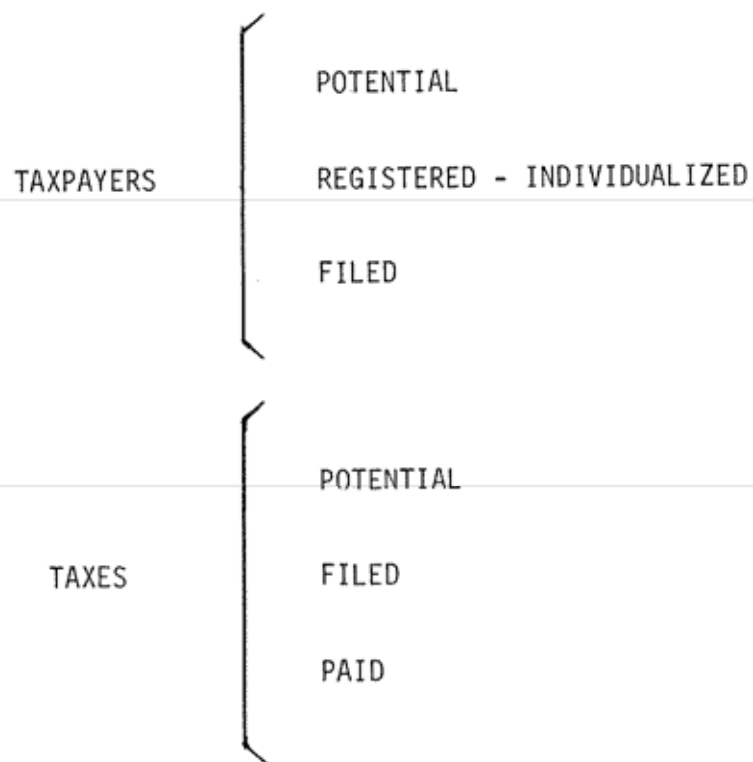
On the other hand, taxes may be classified in a similar manner. Potential taxes are those that might eventually be applicable to a given taxpayer, Filed taxes are those declared by the taxpayer himself and Paid taxes represent the tax actually paid.

As a result of these two classifications, there are three different groups of Taxpayers as regards Taxes, as shown in Annex # 7. These groups are another form of the taxpayer classification, appearing in Annex # 3.

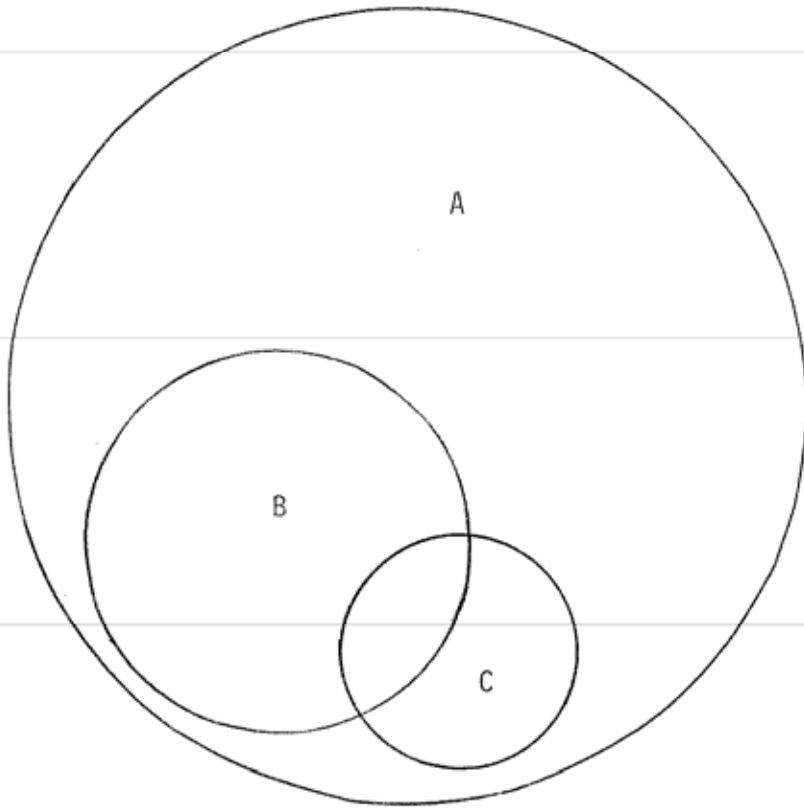
Another specific differentiation of taxpayers, in the planning model used by the Argentinian General Directorate of Taxes is that known as the System of Large Taxpayers. This system implies the utilization of differentiated policies and the implementation of a diversity of operations in accordance with the category of the taxpayers involved, from the standpoint of their contributions to the overall revenue. A detail of the policies applied according to the categories of taxpayers is shown in Annex # 8.

The philosophy of management regarding the system of large taxpayers is aimed at the formulation of differential plans and at the possibility of setting up a control and informations system aimed at:

CLASSIFICATION OF TAXPAYERS AND TAXES



TAXPAYER GROUPS



ANNEX # 7

TAXPAYER GROUP POLICIES	A	B	C
	A	B	C
AUDIT	Groups of auditors	Individual auditors	Internal audit
CONTROL OF PAYMENTS	Follow-up of collections. Incentives for voluntary compliances. Settling cases outside of courts	Notices	Accumulated notices
RETURNS FILED	Abundant information. Periodical - at least yearly	Fewer annual data	Only statement of payments
DISSEMINATION OF INFORMATION	Distribution of bulletins, resolutions and provisions, circular letters, due dates.	Mass media	Mass media
EXTENSIONS	Special requirements	Ordinary requirements	Ordinary requirements
FILES AND DOSSIERS	Microfilm dossiers	Current	Lots
LEGAL	Consultation priorities. Specialized staff. Centralized consultation service	Current	Current

- Providing differential policies for action in the different taxpayer groups.
- Knowledge of the economic-financial situation of the companies of major fiscal significance in their respective areas of activity.
- Obtaining information on different sectors so as to permit the adoption of decisions regarding Tax Administration and Tax Policies.
- Acting as an information aid to the Planning system of the General Directorate of Taxes.
- Concentrating control of revenue in each group of taxpayers and in this way ensuring a continuous flow of revenue in the course of the fiscal year.
- Obtaining payment of unpaid tax liabilities by persuasion and by means of preferential follow-ups.

A model of the different strategies followed by the General Directorate of Taxes vis-a-vis tax evasion is shown in Annex # 9. The philosophy embodied therein may be expressed by the words: ATTACKING - GAMING - DISCUSSING.

The first strategic level referred to as "attacking" is aimed at the large evader, who uses all illicit means to avoid payment of taxes. When faced with this type of taxpayer, the only strategy possible is to punish and destroy him. Measures taken at this level include judicial searches, special actions, participation of the Tax Violations Division, prosecution of tax frauds, etc.

The second level referred to as "gaming" is aimed at those taxpayers who hope to remain undetected due to the generally insufficient means at the disposal of the Tax Office.

As regards this type of taxpayers, we use all resources available to the Organization and a great deal of ingenuity to create efficient techniques against tax evasion.

The use of a data bank, the implementation of programs by type of enterprise, volume of sales or sectors of economy and the use of cross-reference information between the Department and other units, are some of the many tools used to defeat the tax evader and attain his detection.

A model that shows the fiscal Organization permanent critical attitude towards its own activities is shown in Annex # 10. It is intended at "quantifying" the risk of non-compliance, measured in terms of probability of detection by the tax office. The General Directorate of Taxes is seeking ways and means to increase this probability (p) and, consequently, reduce the non-compliance margin of impunity.

CLASSIFICATION OF TAXPAYERS

STRATEGIES FOR ACTION

PUNISH	ATTACKING	DESTROY
WIN	(GAMING)	TAX
CONVINCE	(DISCUSSING)	SELL

ANNEX # 9

DECISIONS ON COMPLIANCE

	<u>DETECTED</u> p	<u>UNDETECTED</u> (1-p)
COMPLIANCE	$S - (I + C)$	$S - (I + C)$
NON-COMPLIANCE	$S - (I + P + C)$	-

S - Satisfactory compliance

I - Tax

C - Cost of paying taxes

P - Penalties - k. I.

DECISION

$$(I + C) < p (I + C + P)$$

ANNEX # 10

Annex # 10 is a simplification of a more complex plan of action showing other essential elements, such as the possible corruptibility of a revenue agent, the possibility of shortening collection periods as a defense against non-compliance, etc.

Finally, with reference to the level of strategy designated as "Discussing", the General Directorate of Taxes' efforts are aimed at convincing, persuading, i.e., "selling" the idea of taxation.

Strenuous work has been carried out in this respect. It ranges from massive dissemination of information on taxes, due dates and legal aspects favorable to the taxpayer to the implementation of a great variety of measures aimed at improving service to the taxpayer, the latter being a policy of the present management of the General Directorate of Taxes.

8. ANALYSIS OF THE PLANNING SYSTEM OF THE GENERAL DIRECTORATE OF TAXES.

8.1. General Outline

The Planning and Programming system within the General Directorate of Taxes automatically carries out the following tasks: (Annex # 11)

- planning
- programming
- control

Conventional meanings: So as to clarify and unify the meanings of terms used, we shall define each one, with explanations wherever necessary.

Planning: Process whereby organizations formulate their objectives. In accordance with these objectives, they establish the goals to be achieved and outline the alternatives that will enable them to attain such ends. They then evaluate and select the course of action that will most likely lead to success.

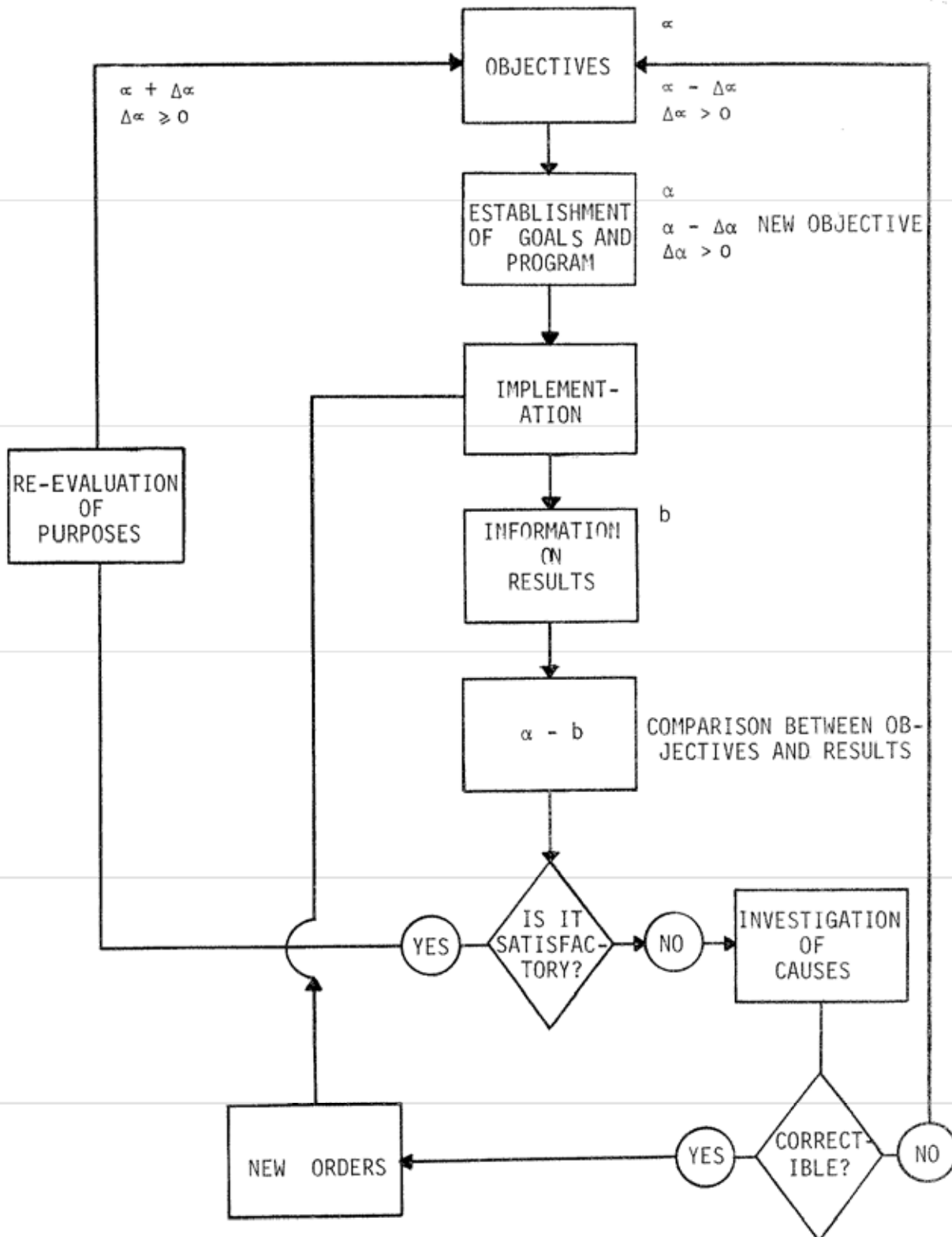
Planning comprises:

- a. The establishment of objectives.
- b. The listing and evaluation of alternative courses of action.
- c. Decision: choice of the best course of action.
- d. Drafting or elaboration of the Plan.

Planning outlines the course of action in accordance with time references and the probable resources available.

Plan: A plan is a preestablished course of action aimed at

P L A N N I N G
PLAN-PROGRAM-IMPLEMENTATION-CONTROL



achieving an objective sought by the General Directorate of Taxes.

In this Organization, plans are set in writing and endorsed i.e., they are signed by those responsible for them or by those who have participated in their formulation.

Term: Period of time forecasted for completion of the Plan.

8.2. Mechanics of the System:

Current planning is based on medium and short-term considerations.

M.T.: Medium - 3-year term

S.T.: Short - 1-year term

a. Medium Term:

Medium term planning presents two basic problems:

- Forecasting of activities for the immediately following period.
- Rejection of arguments in favor of shorter terms, taking into account the fact that short-term planning should in no way be detrimental to medium term planning.

b. Short Term:

The Short term planning is strongly influenced by plans set for the medium term, although it retains its own individuality. "Short term" basically comprises analysis, evaluation and determination of what is to be done in the immediately following period.

Therefore, short term plans will rapidly become programs to be implemented and controlled.

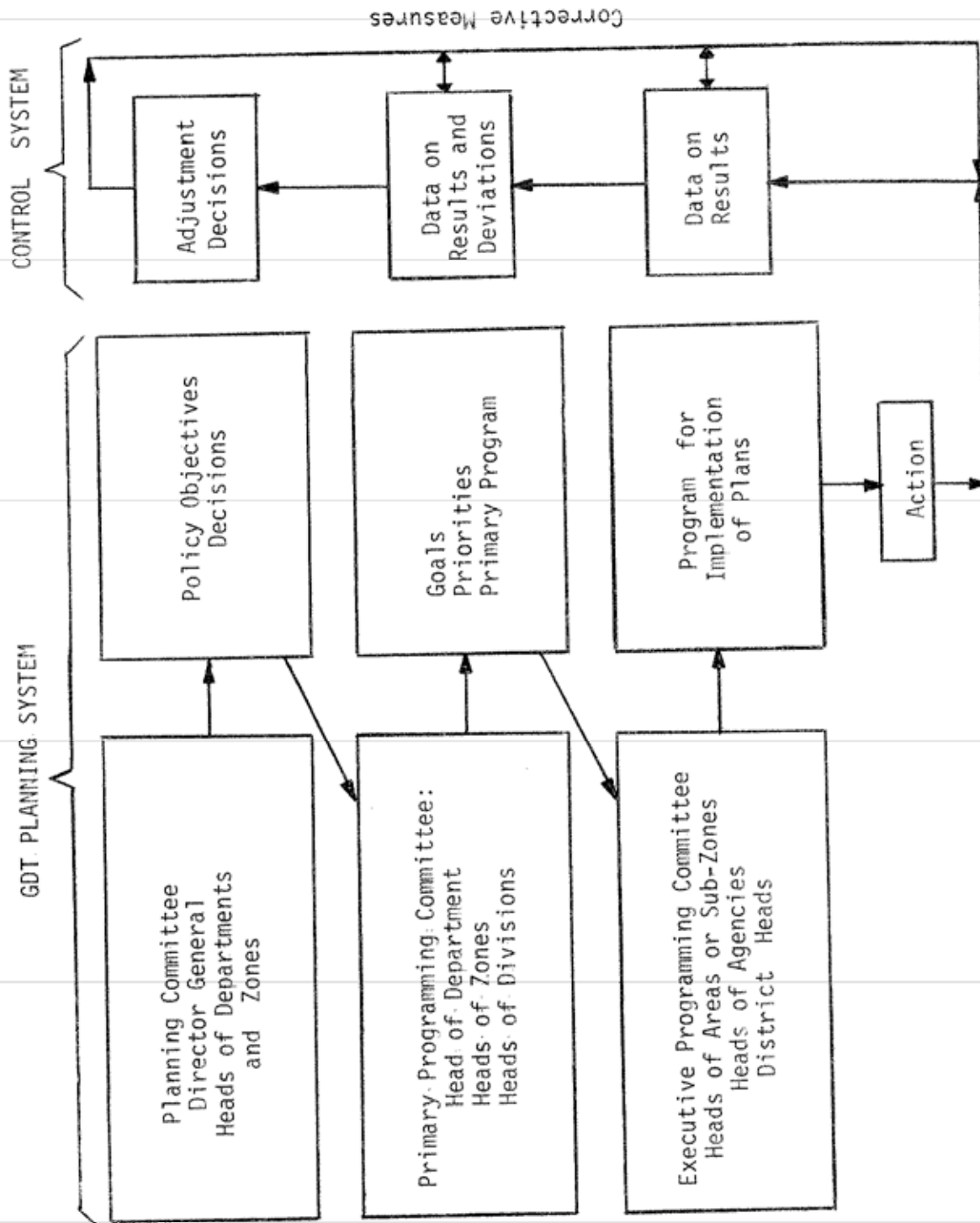
8.3. Planning Responsibility:

The Director General is responsible for the primary formulation of the objectives and general policies of the General Directorate of Taxes.

When these objectives and policies are spread out to the different areas by means of the planning process, they become the responsibility of each department.

8.4. Implementation of Plans (Annex # 12)

Area and Sub-Zone	Department and Zone	Management	Level
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Planning Committee: It is formed by the higher levels of management.

Basic Mission: Drafting the outline of the Plan on medium and short-term considerations.

Product: Set of plans and instructions.

Complementary Mission: Analyzing the development of plans and programs in the course of their implementation in order to make the necessary adjustments.

Officers: Director General, Chiefs of Departments and Zones.

Eventual Personnel: All other personnel whose collaboration is required by reason of their situation or specialization.

Meetings: The Planning Committee meets on the first working day of October and presents a draft project updating the medium term Plan and setting up concrete measures for the short term before the last working day of the same month. Only for reasons absolutely beyond control may the date for completion of this task be postponed, and this may only be authorized by the Director General.

Feedback and Readjustments: Although the foregoing implies a continuous activity, this activity, may, at times, be discontinued to permit periodic feedback and readjustments.

Plans and instructions resulting from the work of the Planning Committee are for internal use and are of restricted circulation.

9. PROGRAMMING

9.1. General Outline:

Programming is the orderly arrangement of events and activities, denoting time, place, responsibilities and resources necessary to comply with the requirements established by high-level planning. The programming system is the means to permit organized management and control of the Organization.

Characteristics of Programming as regards:

- Results: What is to be done?
- Time: When is it going to be done?
- Space: Where is it going to be done?
- Resources: What is it going to be done with?
- Action: How is it going to be done?
- Responsibility: Who will be doing it?

Essential elements of the Programming System:

Input: Requirements, policies, priorities and estimated resources established at high-level planning form the substance of the ingoing material.

Processing: It consists of the definition of requirements into objectives for each area of the program. The programming system determines the amount and nature of the areas, specifying their scope and responsibilities.

Output: The programming system establishes the nature and characteristics of the completed work. This is made up of programs to be implemented, of their classification, subdivision, course of action, intermediate results and forms of coherent action.

Feedback: Feedback leads us to an integrated system. It is supplied by the controls system which, together with the programming system, forms a functional group: the Programming and Controls System.

The system may occasionally resort to specialized programming methods and techniques. These do not essentially belong to the system, but are merely an aid.

In order to accomplish an effective coordination and liaison of activities, Management requires the establishment of a systematic sequence of tasks in time and space as well as adequate distribution and allocation of resources. Programming furnishes these requirements thereby becoming one of the essential tools of Management and, as such, conditioning decisions to the possibilities for their effective and coordinated implementation.

9.2. Relations with the Controls System

Programs, whether separately or jointly, are in themselves, basic standards for evaluation of the results obtained in the course of their implementation, i.e., they establish basic control standards.

9.3. Analysis of the elements that participate in the programming process.

1. Planning

- 1. Planning Requirements
- 2. Priorities
- 3. Probable resources available
- 4. Policies and procedures

2. Programming
- 5. Requirements that have become objectives within an area of the program
 - 6. Events and activities necessary for implementation
 - 7. Sequence
 - 8. Allocation of resources and assignment of responsibilities
 - 9. Physical and chronological location

Officials: See Annex # 13

Eventual Staff: Advisors whose assistance may be required when necessary.

Basic Mission: Drafting preliminary programs for the area.

Complementary Mission: Analyzing the development of programs in the course of their implementation so as to make the necessary adjustments.

Meetings: On the basis of plans and instructions resulting from activities at high-planning levels, Preliminary Programming Committees for each area meet on the first working day of November and present a definite preliminary program for their respective areas before the last working day of the same month.

As in the case of the Planning Committee, only for reasons beyond their control may the date for completion of the task be postponed, and this may only be authorized by the Director General.

Support: Planning Teams working under their respective chiefs were formed within each Department and Zone, in order to carry out the basic work, maintain the necessary feedback for program adjustment and give technical support for implementation of the work program.

These Teams are the natural support to the work of Preliminary Planning Committees.

Determining the number of members of each Team and their selection is left to the Chiefs of Departments and Zones, with the special recommendation that teams should include specialized professionals.

Coordination of Departmental Programs:

The Research Department is in charge of coordinating the Departmental Programs resulting from the work of the Committees.

The Research Department is to prepare a draft of the Annual Work Program for the General Directorate of Taxes in the

MAKE-UP OF PRELIMINARY PROGRAMMING COMMITTEES

PRELIMINARY PROGRAMMING COMMITTEES	Advisory Area			Area of Operations			
	Head of Dept.	Head of Division	Head Zones I, II, III	Head Zone RBA	Head Zone FBA	Head Zone II Vs.	SC D
1) Collections	X	X	X	X	-	X	X
2) Field Audit	X	X	X	-	X	X	X
3) Technical-Legal	X	X	X	X	X	X	-
4) Administration	X	X	-	-	-	-	X
5) Research	X	X	-	-	-	-	X
6) Internal Audit	X	X	-	-	-	-	-

course of the first half of December and submit it to the Director General for approval before the seventeenth of the same month.

Analysis of the Preliminary Program:

The Preliminary Program is referred to a specific programming area. It comprises:

- I. Specification of programmed area and period
- II. Research:
 - a) Ascertainment of resources necessary to fulfill area objectives in the period.
 - b) Part of medium-term plans to be carried out within the period.
 - c) Current situation of the area.
 - d) Changes required in facilities and capacity.
 - e) Maintenance of material resources.
- III. Table of activities and allocation of time, showing the following data:
 - a) Units involved.
 - b) Executive offices.
 - c) Expected volume of production.
 - d) Term of activity
 - e) Executive responsibility.
 - f) Material resources to be used.
- IV. Interaction between Programs.

It is essential to include at the end of the list any other preliminary programs affected by this Program.

V. Charts (Annexes)

General and specific tables summarizing the process.

Work Program

Consideration of this aspect varies in accordance with operative or advisory nature of the area.

In the case of operative areas and, in view of the Planning System, the following aspects are to be taken into consideration:

Basic Operative Units: These are the Areas and sub-Zones, to which smaller operational units are subordinated, i.e.:

sections, agencies and districts.

On the basis of the guidelines of the Plan and of the objectives taken from the preliminary program, operative units are to draft their respective "work programs" (synchronization and specification).

The person responsible for the operative unit is to be acquainted with high-level Planning, including medium and short-term plans, as well as with the corresponding preliminary program. On this basis he is able to work out the plan for his unit.

All requirements included in this work program, when chronologically arranged, will form part of the unit's Master Program.

Execution: Each operative unit will appoint a Committee for programming and implementation of the work program.

Basic Mission: Drafting the respective work program.

Complementary Mission: Analyzing the development of the program in the course of its implementation, so as to make the necessary adjustments.

Officers: Chief of Area or sub-Zone and chiefs of sections, agencies or districts.

Eventual Personnel: All those whose assistance may be requested when necessary.

Implementation: In the first half of January, basic units are notified, through their respective Zones, of the Annual Work Program approved by the Director General. From that moment onwards, Programming Committees start drafting the work programs which must be finished by the first half of February.

Feedback: Committees work in an intermittent manner so as to allow for the necessary adjustments. To this end, they meet at least twice a month to analyze the information obtained through management control systems.

Contents of the work program:

- I. Tables of activities and of allocation of time.
- II. Training and personnel Subprogram.
- III. Administrative Subprogram.

In what regards advisory areas, the formulation of Master Programs is accomplished by each Departmental Division under the responsibility of the respective Chief.

10. CONTROL OF EFFICIENCY

The formulation of a General Planning System would not be complete if we did not mention the system that allows for its final implementation by performing the difficult task of harmonizing theory and action. The following is a paper prepared by the Research Department of the General Directorate of Taxes on the very important aspect of Control of Efficiency.

CONTROL OF EFFICIENCY

In view of the objective of establishing a management controls system within the General Directorate of Taxes and taking into consideration the characteristics of the Organization, we believe it would be advisable to formulate a program to allow for management control through evaluation of efficiency, which, in turn, requires the evaluation of cost and production indices.

The Methodology for calculations on efficiency shown below, is based on data-processing forms (2017/X and 3156/X types) for the auditing area and on the creation of similar forms for those units that do not as yet have them.

Using the existing forms is deemed convenient in order to provide means and channels for their mechanical processing and facilitate their inclusion in the Master Evaluation Scheme.

Scheme for Efficiency Evaluation:

The measurement of industrial productivity is usually expressed by means of the following formula:

$$p_p = \frac{P}{T+I+M+S} = \frac{\text{Output}}{\text{Input}}$$

Abbreviations:

p_p	=	Productivity
P	=	Production obtained in a given period
T	=	Work load
I	=	Input
M	=	Raw materials
S	=	Outside Services

This formula includes inputs irrelevant to a public organization, such as raw materials and outside services, while investments may be considered equivalent in all controllable units.

In this manner, productivity would be reduced to the following formula for our purposes:

$$D_p = \frac{P}{T}$$

This formula provides a system for measuring the specific productivity of the workload which is the main input at the General Directorate of Taxes and a priority element within a management control scheme.

Another item to be considered is the specific cost of the factor:

$$\text{Specific cost of workload per unit of production} = \frac{\text{Input of factor. Average cost}}{\text{Production}}$$

Up to now, we have shown estimates that are required for control through indices of efficiency, we must now see their possibilities for implementation.

POSSIBILITIES FOR IMPLEMENTATION

DEFINITION OF PRODUCTION: The existing criteria is to establish measurements on homogeneous final production. This presents two problems: Defining final production and establishing homogeneity.

FINAL PRODUCTION. Measurements must necessarily be made on the final production since, under current conditions, it is impossible to divide a task into its activities due to lack of uniformity in the sequences. Even if this were possible, their quantification is considered highly complex.

To determine conversion coefficients, the formulation of a pilot plan to collect information on subproducts is proposed so as to make their analysis.

DETERMINATION OF COST: Since management control will be accomplished by controllable units and these units have been defined for operative areas at section level, the following must be done in order to establish average cost per working hour in each controllable unit:

- a) Determine the unit's personnel budget: the sum of average gross salaries of employees and chiefs.

$$P_L = \sum_{i=1}^m n_i SA_i \quad (1)$$

Abbreviations: P_L = Monthly budget of personnel per unit.
 n = Number of employees per unit, discriminated by category.
 SA = Agent's gross salary per category.

- b) Determine the unit's production capacity: This arises as the

product of the number of employees, per working hours, per average number of workdays per month.

$$C_p = \sum_{j=1}^2 n \cdot H_j \cdot N \quad (2)$$

Abbreviations: C_p = Unit's production capacity in man hours.
 H_j = Working hours.
 N = Average number of workdays per month.

The final product should be understood to be the sum of total steps to be taken in the accomplishment of a task, that can be physically evaluated.

Thus, for example, within the area of internal auditing, a task or final product would be the granting of a certificate of non-withholding of taxes and it would be made up of the following activities:

- a) Reception of the Case.
- b) Request for the dossier.
- c) Study of background.
- d) Request for documentation.
- e) Communication of results.
- f) Filing of decision.

HOMOGENEITY: The second problem is to have an availability of homogeneous products in order to obtain significant averages.

This may be illustrated in the following manner: another final product might be an adjustment made as a result of an inspection of returns, however, according to the type of taxpayer - individual taxpayer or corporation - the complexity of the transaction varies.

Faced with this difficulty, there are two alternative solutions:

- a) Assign values to subproducts, bearing in mind the different or similar types of taxpayers.
- b) Homogenize the product by weighting. In this case, the use of coefficients of equivalents is suggested in order to combine various subproducts into one.

The establishment of these coefficients would follow this process:

Supposing we have the following production scheme:

P R O D U C T S		TIME PER UNIT
DENOMINATION	QUANTITY	
A_1	N_1	t_1
A_2	N_2	t_2
A_3	N_3	t_3

If we take: $N_1 t_1 = N_2 t_2 = N_3 t_3$

the result will
be:

$$N_1 = N_2 \frac{t_2}{t_1} = N_3 \frac{t_3}{t_1}$$

production as referred to products will be: A_1 may be expressed
as:

$$P = N_1 + \sum_{i=2}^3 t_i \frac{N_i}{t_1}$$

the time employed will be:

$$T = \sum_{i=1}^3 N_i t_i$$

specific work productivity will be:

$$p_p = \frac{P}{T}$$

the hypothesis in this case is the establishment of $\frac{t_i}{t_1}$ as a constant for "n" periods.

Then, the cost of the work factor per controllable unit in man hours, arises as the quotient between:

$$\text{Unit Cost} = \frac{(1)}{(2)}$$

Total production cost results from the product between input of the factor and its unit cost.

Utilization of this system in determining costs makes sense when faced with the alternative whereby a high level of remuneration - implying high costs - would correlate with a capitalization of experiences leading to increased production.

This concept is valid for the audit area whereas in the collections area, high costs resulting from high remuneration levels of personnel assigned to routine tasks would show us an inadequate distribution of the human resources available.

To accomplish control, it will have to be effected at two levels:
a) vertical: by comparing productivity coefficients and costs per product of each controllable unit; b) horizontal: by following up these coefficients through different periods.

Furthermore, the system will allow us to obtain: a) production per product per unit; b) production per global product; c) personnel budget per unit; d) overall personnel budget per area; e) volume of work pending.