

EVOLUTION OF THE TAX ADMINISTRATION OF THE CIAT AMERICAN MEMBER COUNTRIES IN THE PAST DECADE

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1. Background

As an entity specialized in the area of tax administration and by mandate of its members, CIAT has closely followed-up and evaluated its behavior.

At the Mexico Assembly held in 1981, and thanks to the fundamental support of that country's Undersecretariat of Revenue, a very interesting paper was submitted on the evolution of the tax administration of the member countries between 1961 and 1980. On that same occasion, aspects of problems anticipated until the end of the century were also considered.

Since then, CIAT technical meetings and publications have also evidenced the permanent concern for analysing such problems and the solutions available. The "CIAT Tax Administration Manual" initially published in 1981, is a summary of basic tax administration problems, prepared by experts officials from these same member countries. At the 1989 Montevideo Assembly, we also had the opportunity of discussing the main aspects of information systems being applied or in the process of application in the American member countries.

Now, in 1991, at the Washington Assembly, when we are on the threshold of the second year of the last decade of the 20th century, we are updating the information and providing data on the evolution of the tax administration of the American member countries in the 1980's, including 1990. For these purposes, a survey was prepared and answered by the majority of countries. This paper has been based on the answers to this survey and on background information existing at the Executive Secretariat.

In addition to providing a general overview of the evolution of tax administration in the American countries in the **past decade**, the document also describes the most recent technological innovations, as well as incorporated regulations and procedures, and allows for visualizing future projections in these areas.

2. Increasing importance of the tax administration

At the first CIAT Assembly held in Panama in 1967, Professor Shoup stated that "tax administration is the key to fiscal policy". In this way, an expert on the subject, emphatically stressed the importance of tax administration as essential instrument for a better application of tax laws.

Since then, tax administration problems have been given special attention by governments and international organizations throughout the world, especially in the developing countries.

Several reasons, essentially given in the past decade, justify such increasing concern. Among the most important ones are:

- a) The economic crises experienced by most of the developing countries, particularly in the 80's, with continuing fiscal deficits at the government level as a common component.

In a document published in October 1990 by the International Monetary Fund (IMF), it is stated that between 1982 and 1990, the developing countries of Africa, Asia, Europe, Middle East and America, maintained an average fiscal deficit in relation to GDP that ranged between 5 % in 1982 and 3.8 % in 1990. In the case of the countries of the Americas the average deficit was 5.8% in 1982 and decreased to 2.2% in 1990 (Chart No. I).

- b) the significant foreign debt of the developing countries called for devoting a substantial part of government financial resources to the payment of the debt service.

In the aforementioned document, it is observed that the foreign debt of the developing countries in these same regions, increased from 839 billion dollars in 1982 to 1.339 billion in 1991. In the countries of the Americas, the increase of the nominal debt and its service decreased during that period, although they continued to be very significant in financial terms. In fact, the ratio between foreign debt and GDP was 43% in 1982 and 32.7% in 1991 (Chart No. 1).

In view of this situation, the government fiscal policies of the developing countries of the Americas have been oriented, during the past decade, mainly toward the elimination of such deficit and the release of resources for operating public services and paying acquired obligations. In this regard, serious political and social obstacles

have been faced for creating new taxes or increasing the existing ones as well as for the reduction of public expenditures. **These difficulties, then, have been the cause for giving special attention to tax administration, in order to make it more effective and efficient as a means for increasing the collection of taxes.**

In the 1990 Report of the Inter-American Development Bank (IDB), it is observed that, with very few exceptions (mainly Argentina, Panama and Peru), **between 1980 and 1989 the developing countries of the Americas maintained or increased the ratio of their current revenues with respect to GDP.** In 1989, in the majority of the countries, it was approximately 15%, and went up to 33% in the case of Chile (Chart No. 2). These ratios are, in average, high, as compared even with those of the developed countries

In sum, the foregoing statements with respect to the developing countries of the Americas, show, in general, for the 1982-1990 period, a decrease in fiscal deficit and the maintenance and even increase in the "tax effort".

Obviously such "tax effort" must be attributed on the one hand, to significant tax reforms undertaken by the countries and on the other, to the behavior of tax administration, although it is very difficult to differentiate the share of each of these factors.

In this respect, at the CIAT Technical Conference held in Madrid last October, Carlos Silvani recalled that the 1980's was considered as a "lost decade" for Latin America, by reason of the poor results observed in terms of development and economic growth. However, he noted that in the area of tax administration, that decade may be considered as the "decade of achievement", since several CIAT member countries took very significant qualitative leaps in their tax administrations.

Chart No. 3, prepared on the basis of the CIAT survey, shows that in general, between 1980 and 1989 the countries of the Americas have kept a low collection cost, in many cases below 1%. These figures perhaps conceal the significant limitation of resources experienced in many cases by the tax administrations during that period, but on the other hand, they attach due value to the "tax effort" to which we previously referred.

To adequately evaluate the behavior of tax administration, one must also take into account the impact of changes in legislation, which by way of more or less general tax reforms or amendments of special provisions, have been taking place in almost all countries.

These changes range from **structural reforms** as has been the case in Bolivia, Colombia and Ecuador, for example, up to the introduction or modification of **value added tax** (for example, in Argentina, Colombia, Chile, Guatemala, Haiti, Honduras, Mexico, Peru, Dominican Republic, Trinidad and Tobago and Uruguay) and changes in the tax base and income tax rates, (such as, for example, Brazil, Canada, Costa Rica, United States, Mexico, Peru and Trinidad and Tobago).

Likewise, the **inflationary phenomenon** determined the need for maintaining or incorporating adjustment systems which involved an active participation of the tax administration for their correct application, as may be observed, among others, in the cases of Argentina, Brazil, Colombia, Chile, United States, Mexico, Nicaragua, Peru and Uruguay).

On the other hand, the tax administration has continued to involve itself in various aspects of management of **"tax incentives systems"**. Except for Bolivia and Brazil, which eliminated or rationalized most of them, the remaining countries have maintained or increased such systems, thus forcing the tax administrations to assign significant resources for complying with those responsibilities.

Also worth noting are the efforts of **simplification of the tax system** undertaken in many countries, which have favorably influenced the work load of tax administration (for example, Bolivia, Canada, Colombia, Ecuador and the United States). According to the CIAT survey, although some countries indicate that there are less taxes administered in 1990 with respect to 1980 (Bolivia, Chile and Mexico), the majority indicate that at the end of the decade there is a larger number of taxes administered than at the beginning of the decade, obviously including the incorporation of VAT.

3. Changes in the organization of the tax administration

A proof of the interest which the countries of the Americas have given to taxation in general, and to tax administration in particular, is the fact that particularly in the past decade, management of this area has been assigned to an Undersecretariat or special entity within the Ministries of Economy, Treasury or Finance. Thus, for example, in **Argentina, Bolivia, Canada, Ecuador, Guatemala, Honduras, Mexico, Paraguay and Suriname**, the Undersecretary or Deputy Minister of Revenue, Income, Public Finance or Taxation, as appropriate, is functionally located immediately under the Minister.

Based on a process for adjusting the federal public administration, in March 1990, **Brazil** created the Ministry of Economy, Finance and Planning, thus merging several ministerial posts. In the Ministry's new organizational structure, the Secretariat of National Finance is established and the Department of Federal Revenues becomes a dependent entity of the latter.

On the other hand, the already existing trend toward the functional organization of the tax administration has been emphasized in the past decade, as is the case with Ecuador and Peru. According to a document periodically published by CIAT, 19 American member countries currently have a functional organization, 5 countries have a basically functional organization with some tinges characteristic of an organization by taxes (Netherlands Antilles, Canada, Honduras, Jamaica and Suriname). - At the end of the 80's, 3 other countries maintained an organization by taxes (El Salvador, Paraguay and Dominican Republic), although the first two were considering the adoption of a functional organization.

Another interesting aspect as regards the organization of tax administration is the existing system for the administration of internal taxes and customs duties. Most countries have separate organizations for their administration, but a trend is observed, although not yet very marked, toward establishing an Undersecretariat or General Directorate for directing the offices administering both types of taxes (as is the case, for example, of the Netherlands Antilles, Argentina, Bermuda, Brazil, Ecuador, Guatemala, Mexico, Paraguay and Suriname). This trend reflects the evident relationship between these taxes.

4. Role of the Governments and National and International Organizations

Greater government understanding of tax administration problems has been observed, especially in the past decade. This may be illustrated, for example with recent statements by the President of Uruguay, Dr. Luis A. Lacalle who, on referring to a verification activity carried out by that country's General Directorate of Taxation (DGI) and addressing its officials said: "When you are making an examination, we are all standing behind each of you. Never hesitate and think that you are alone. You are accompanied by all of us. The DGI is going to fulfill its duty throughout the country."

Several public international organizations such as the Inter-American Development Bank, the International Monetary Fund, the World Bank, the United Nations and CIAT, have given very special attention to tax administration, mainly in the past decade, through technical assistance, meetings and seminars, publications and officials training programs. In the case of CIAT in particular, recognition must be made of the very significant contribution afforded by the governments of the Germany, Spain and France, through technical cooperation agreements that have benefitted the majority of the Center's member countries.

Likewise, national public entities such as the Canadian International Development Agency and the U.S. Agency for International Development have been effective promoters of important technical assistance and training projects in several countries of the Americas.

Also, regional organizations grouping tax administrators such as CATA, COTA, CREDAF and APTIRC, have carried out and continue to carry out important projects in several areas, aimed at improving the efficiency and effectiveness of tax offices.

Another aspect showing the importance and attention being attributed to tax administration is the fact that private international organizations as important as the International Fiscal Association (IFA), have also included tax problems within the topics of its annual Congresses and Seminars.

For all of these reasons we may conclude that the ever better performance of tax administration is an essential condition for the success of the development processes of the countries of the Americas in the 1990's.

5. Most important achievement of tax administration in the 1980's

The most important achievement has been the appropriate identification and application of technology to critical functions. Technological innovations have been in many cases complemented with the adoption of legal regulations that change or adjust criteria and procedures in several areas of the treasury-taxpayer relationships.

With regard to technological innovations, the need for greater efficiency and effectiveness of the tax administration, also determined the urgent need to resort to rational formulas and procedures for handling the large amount of paperwork and data originating from taxpayers and third parties.

Though it is true that this innovating trend began in the 60's, and attained significant progress in the 70's, it was not until the 80's when the actual modernizing development of the tax administration of the countries of the Americas was observed, which incorporated it in the technological revolution.

According to experience, there are three essential requirements to be taken into account for ensuring the success of this innovative trend. These are:

- a) the precise identification, on the one hand, of the tax administration's needs and on the other, the adequate technology for responding to such needs;
- b) the rational application of the technology available; and
- c) obtaining political support and ensuring due involvement of the tax administration officials.

The experience of CIAT and of the countries also shows that technology is universal and is initially applied in the larger countries. However, it is not a question of integrally imitating such applications. The significant technological development, has made technology cheaper and more widely diffused, in terms of hardware and software. A previous multidisciplinary diagnostic study will always be necessary for identifying the adequate technology and determining its application to every specific situation.

6. Incorporation of new technology in the tax administration

The incorporated technology consists of the establishment of computer-based information systems aimed at improving taxpayer control and assistance. These systems have allowed for making the critical functions of the tax administration more dynamic and rational. Technology has also been incorporated to improve internal office procedures and tasks.

To give examples of applications in this area, we may differentiate between the experience of countries like the United States and Canada, and that of the other countries of the Americas, members of CIAT. In fact, as seen in **Chart No. 4**, both countries show, for example, a far larger number of income tax returns filed than the rest of the countries, which obviously reflects the dimension of problems faced and resources applied.

The United States began modernizing its tax administration when it entered the computer era in the 1960's. The first computerized applications were implemented at the level of the taxpayer master files, the compliance measurement process (Taxpayer Compliance Measurement Program) and selection of cases for audit (Discrimination Function), which was subsequently adjusted through the adoption of the automated examination system (AES).

In the past years, this process acquired greater significance with the implementation in 1986 of the Automated Collection System (ACS), followed in 1988 by the establishment of the Electronic Filing Program, and more recently by the implementation of the Problem Solution Program (PSP), Information Returns Program (IRP) and at the beginning of 1990, such applications as Artificial Intelligence and Automated Data Preparation.

Also, optical character recognition techniques (OCR) were applied for information input. Finally, the United States is the only country of the Americas currently applying the electronic funds transfer or direct deposit system.

Taxpayer inquiries were handled through the implementation of an automated telephone system for answering inquiries (Tele-Tax), in addition to the application of an automated training system (ATS). In late 1989, the analysis of the Strategic Management Process was begun, which concluded last year with the approval of the Strategic Business Plan for 1991-1995.

Likewise, the efficiency and effectiveness of field auditing was improved by providing examiners with personal computers for assisting them in carrying out their tasks. Office automation reached a high level of refinement with the massive incorporation, among others, of such systems as word processing, electronic mail, pagemaker, multi-channel memo distribution facilities (MMDF) and laser printers.

Canada, on its part, also adopted the Automated Collection System which was complemented in 1989 with the Telerefund Service and more recently with the Computerized Telephone Service (TIPS), Computerized Reassessment of Returns and the Automated Collections Source Deduction Enforcement System (ACSEC). Currently, a pilot project is underway for the electronic filing of returns and a program for the establishment of an electronic funds transfer system.

Also worth mentioning is the Canadian experience in the use of the computer as support in management decision-making, and in particular, the statistical individual income tax model established in 1975 and expanded in 1982. The latter provides speedy and precise projections of changes in the tax population and the impact of proposals for amendment of such tax. Equally important in this area are the resource planning and budgeting system (PROPOS), the time reporting system (TRS), the Appeals Inventory and Reporting System (AIRS) and the Audit Information Management System (AIMS), which are particularly useful in the planning and control of departmental working programs.

With respect to the other countries of the Americas, worth mentioning are the projects begun by CIAT in 1983, with the financial support of the Inter-American Development Bank (IDB) and which comprised, in the first stage, several countries of the Central American area and the Dominican Republic. These were aimed at the establishment of a taxpayer master file and tax current account system.

The success of this project, determined the IDB's support for a second stage in these countries and the approval for carrying out new projects in other countries. Currently, CIAT acts as Specialized Agency in projects underway in Ecuador, El Salvador, Guatemala, Honduras, Dominican Republic, Suriname and Uruguay. Likewise, the IDB finances projects in Costa Rica and Paraguay. At the time of preparing this paper, similar projects for three other member countries are in the process of approval at the IDB.

The fundamental objective of these projects is to establish in the tax administration, computer-based information systems aimed at improving taxpayer control and assistance.

The basic aspects of these systems are:

- a) maintenance of an updated file on those obliged to comply with tax obligations (Taxpayer Master File-RUC). The latter allows for fully and unequivocally identifying all persons legally obliged to file and pay taxes. Its adequate operation allows for identifying unregistered taxpayers as well as nonfilers.
- b) establishment of a current account for each taxpayer (CA). It involves a set of regulations and procedures whose main objective is to keep the taxpayer's tax accounting record, with all the obligations and payments on all taxes for which he is liable. It also serves to timely identify nonfilers to keep an updated statement of account for each taxpayer and to provide precise information for the follow-up and collection of delinquent debts.
- c) creation of a Tax Data Base, with relevant data on the taxpayer's activity and whose processing allows the tax administration to make precise decisions on operational (audit programs and taxpayer assistance, for example) and managerial aspects (management control, identification of tax gaps, etc.)

The three foregoing aspects allow the tax administration to maintain precise control on its "customers", as regards compliance with their basic tax obligations. This is essential for operating an efficient and effective organization

We must begin by admitting that various obstacles have been faced in fulfilling the projects. In general terms, there have been serious limitations resulting from management staff changes at the Ministries of Finance and the tax administrations, as well as difficulties for timely counting on specialized staff and maintaining the latter within the tax administration. With regard to the taxpayer master file, among the problems being overcome are those of defining the characteristics of the identification number, debugging the existing files for leaving in operation only those with active taxpayers, and establishing functional systems for the maintenance of the file. In relation to the current account, there have been difficulties for establishing effective returns and payments processing procedures.

In spite of the foregoing, the projects carried out by CIAT until now, have implied a real "transfer of technology" toward developing countries, especially in relation to the following aspects:

- a) involvement and availability of staff with knowledge of the new technology (especially in the areas of projects management, structured systems analysis and design, elaboration of procedures and functions manuals, generation of computerized applications, laptops, electronic mail, laser printing, telecommunications, micrography, automated publishing systems, data communication software, word processing, programming languages, data base management systems, and training systems) and capable of applying such knowledge in their jobs. This is complemented with the elaboration of the Project Manual which clearly determines responsibilities and procedures for its execution in each case.
- b) use of information for decision-making at the operational and management levels
- c) application of techniques for facilitating and accelerating tasks (for example, batch processing of documents, information crosschecks processing)
- d) decentralization of data processing, by taking advantage, for example of the facilities afforded by minicomputers.
- e) execution of organizational restructuring programs, aimed at rationalizing the management of tax administrations.
- f) design and approval of changes to legal and administrative regulations, for simplifying internal procedures and relationships with the taxpayers.
- g) analysis and adjustment of administrative procedures and forms used, fundamentally with regard to filing and payment forms, by promoting their simplification and best use of the information considered necessary. An important result of this analysis has been that many times, information requested from the taxpayers is excessive and sometimes not even used by the administration.

The diffusion of fundamental aspects of these projects through CIAT technical meetings and publications, as well as the interest shown by international organizations such as the IDB and IMF and the government authorities of the developing countries of the Americas, have been determining factors in the achievement by most of these countries of significant specific results, following the incorporation of these information systems.

A fundamental element in the design and implementation of these systems, has been the group of high level tax administration officials who, with great faith and resolution, endeavor to effectively serve their countries through the improvement of their tax offices.

Almost all countries have achieved significant progress in identifying and assigning a single tax number to each taxpayer.

In cases like Bolivia, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago and Uruguay this number has been approved by the laws or regulations and in most of this countries, it must be obligatorily shown by the taxpayer when carrying out certain acts, while also being used for organizing support listings for several of the administration's programs.

On the other hand, most of the countries have also advanced in structuring the taxpayer automated current account system.

In countries like Bolivia, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Mexico, Panama, Paraguay, Dominican Republic, Trinidad and Tobago and Uruguay, implementation of the system endeavours the real time capture and registration of data originating from the taxpayer returns and payments. In most countries, this system currently includes only certain taxpayers or taxes, but all countries are clearly oriented toward the improvement of the system. For example, in Argentina, Colombia, Costa Rica, Guatemala, Mexico, Nicaragua and Uruguay, it has been applied at the level of large taxpayers, based on the fact that they represent the greater proportion of collection.

According to the CIAT survey, Argentina, Bolivia, Brazil, Colombia, Costa Rica, Chile, Ecuador, Guatemala, Honduras, Mexico, Panama, Peru and Uruguay, use to a greater or lesser extent, the banking network for collecting taxpayer payments. Some countries, such as Bolivia, Brazil, Colombia, Ecuador, Guatemala, Honduras, Mexico and Panama, also use banks for receiving returns, although with certain limitations. This has called for developing procedures to regulate relationships with the banks, training of banks staff and in many cases, delivery to the tax administration of information captured in magnetic tapes, for its verification and validation.

An ever larger number of countries are using the computerized system for obtaining useful information aimed at a more rational compliance of the tax audit function. This is especially valid for the selection of cases and specific taxpayer audits.

Practically all countries involved in the CIAT/IDB projects, currently use computer-based systems for obtaining information to guide audit programs, the selection of cases and specific taxpayer audits.

Other countries also use similar systems.

Thus, **Argentina** implemented the Relevant Economic Transactions Information System (SITER), which compiles third party information for verification against taxpayer returns.

Bermuda, uses computerized support for operating a debts management system.

Brazil has two computer-based programs (SAFIRA and PRONAFISCO). The first describes the taxpayer violation and its possible effect on other taxes. The second allows for decentralized verification and is in charge of companies keeping their files on magnetic media.

The Internal Revenue Service of **Chile** (SII) established several years ago the Taxpayer Referential Analysis System (ARCO). Through this system, the SII captures information from internal and external sources, whose processing determines and classifies the taxpayer's possible behavior and orients the verification procedure. The system ensures the administration's objective decision, allows for a more efficient allocation of verification resources and improves the image of the tax office vis-a-vis the taxpayers.

In **Colombia**, the approval of the tax reform act in 1987 gave way to a significant process of tax administration changes.

The structuring of the "Integral System" is currently under full development. The latter involves computerized applications fundamentally for: a Taxpayer Master File; a system for the receipt, processing and validation of information from the taxpayer returns and payments forms and documents originating from sources outside the administration; a system for handling, processing and validating actions originating in the tax administration and which affect the taxpayers' accounting and current accounts; a current account system for the banks, as initial receivers of taxpayer returns and payments; a recovery system that allows for identifying delinquent taxpayers and pursuing pending collections; a verification system for identifying potential tax evaders; a management control system; and a statistical system.

The incorporation of the Integral System has been complemented with the adoption of interesting procedural innovations, aimed at simplifying administrative tasks, such as the elimination of the "Clearance Certificate" and the issuance of a single return and payment form.

In Mexico, starting in 1986, the "National Crusade against Tax Evasion" was implemented which, along with the "Capturing Tax Information" program achieved excellent results in identifying unregistered taxpayers as well as those who made mistakes in their tax returns. It is reported that by late 1989, the first program had resulted in a 5.67 % of fiscal presence in the taxpayer universe. These programs were mainly based on information provided by the computerized systems.

7. Taxpayer assistance, information and education

Since the establishment of CIAT, its members have given special attention to the improvement of treasury-taxpayer relationships, especially with regard to assistance, information and education.

In this regard, we may point out as significant events, the Assemblies held in Montevideo (1970), Guatemala (1973), Buenos Aires (1986) and Ottawa (1987). It has been recognized that the closest relationship between both parties constitutes a fundamental element for ensuring the highest level of compliance of taxpayer obligations. Therefore, a more active role of the tax administration in taxpayer assistance, information and education is crucial for achieving such objective.

All the countries of the Americas have evolved very positively in that direction, as shown by the CIAT survey. Below are some examples of this development.

Argentina has a National Inquiries Center established for unifying the administration's criteria. The Tax Control Divisions handle telephone inquiries from the taxpayers.

Brazil has a broad system for taxpayer telephone assistance, including special numbers with short, prerecorded messages which provides round the clock information. Also in operation are the "Electronic Secretaries" which answer inquiries outside the regular working hours.

Colombia has established taxpayer assistance offices in every regional Administration. Likewise, the taxpayer's statement of account is available in the computerized system.

Costa Rica and Panama have also used computerized systems for answering taxpayer inquiries and requests (for example, the issuance of the Clearance Certificate, in Panama's case).

In **Chile** relevant tax information is maintained in the computerized files, which may be consulted by the taxpayers, provided it does not affect a verification in progress or the investigation of a presumptive tax violation.

Ecuador, on its part, has the so-called "Tax Agents", who visit the taxpayer at his domicile to advise and stimulate him to comply with his obligations.

Since the beginning of the decade, **Mexico** has a National Inquiries Center which operates at the national level through 45 Federal Fiscal Administrations. At the end of the decade a computerized system was implemented to carry out two programs for assisting taxpayers in filling out their returns. One of them, PRODEC, is intended for individual wage earners and the other, FACILDEC, for corporations. The Taxpayer Assistance Directorate on its part, has supported administrative simplification, citizen assistance and administrative modernization programs. By the end of the decade, the Directorate for the Prevention and Solution of Taxpayer Problems was established. Also, audiovisual techniques have been used in taxpayer education programs as well as "video packages" for educational television programs.

In **Uruguay** there is an "Inquiries" system readily available for taxpayers and the administration's answers have been filed in the computer.

8. Office automation

Important technological innovations have also taken place in this area, in most of the countries of the Americas, aimed at increasing office productivity, reducing time and costs and improving the presentation of papers. The most usual applications have taken place in areas such as the preparation of correspondence (WordPerfect and Multimate), documents, publications (Pagemaker), electronic mail and files.

It should be noted that CIAT has promoted many of these changes, through the experience accumulated at the Executive Secretariat.

9. Legal innovations and changes in procedures

We previously said that technological innovations have been frequently complemented with the adoption of legal regulations that have brought about changes in procedures and treasury-taxpayer relationships.

In the early 1970's, and as a result of a doctrinary development which concluded with the publication of the "Model Tax Code for Latin America", there began a significant juridical movement in the Latin American countries which resulted, in the past 20 years, in the approval of laws for establishing Organic Tax Codes or Statutes

in Bolivia, Colombia, Costa Rica, Ecuador, Guatemala, Uruguay and Venezuela. In addition to this, amendments were introduced to the Codes and similar laws of Argentina, Chile, Peru and Mexico and studies were undertaken for amending the Fiscal Code of Panama. Currently, most of the countries of the Americas, have modern tax codes in force which stipulate the general principles governing the legal relationships between the Treasury and the taxpayer.

Within this legal development, and as part or even outside the Tax Codes themselves, important provisions have been approved in the following specific areas:

- withholding and advance payment systems
- autonomy of the tax administrations
- sanctioning systems
- exchange of information
- tax lottery

Below is a brief comment on each of them.

10. Extension of withholding and advance payment systems

Costa Rica, Colombia, Honduras and Mexico, for example, have extended the withholding and advance payment systems, thus facilitating the collection of taxes and the control of the tax administration.

Colombia, Guatemala, Honduras and Panama, have eliminated the obligation to file returns for a certain group of taxpayers, who fully pay the tax through the withholding system.

11. Greater autonomy of the tax administration

Traditionally the tax administration has been considered a government agency subject to general legal regulations established for its functional and financial operation. Under these rules, the latter has faced difficulties for adapting itself to the demands imposed by its increasing responsibility in the collection of tax revenues. A very interesting aspect in the recent evolution of the tax administration which also reflects its increasing importance in the process of adjustment and development of the countries of the Americas, is the recent approval of legislation in several countries of the region. Said legislation basically aims to provide the tax administration a certain functional and financial autonomy.

Thus in 1988, in Argentina the General Directorate of Taxation became an autarchic entity, with its own administration, management, bodies, resources and control procedures. Then in 1989, the "Special Hierarchy Account" was approved. It provides for the establishment of a Fund, that will comprise up to 0.60 % of the amount of collection by the General Directorate of Taxation and will be used for remunerating the latter's staff, based on a system that will take into account the salary, attendance, performance and efficiency of the officials.

In Colombia, on the other hand, act No. 49 of December 28, 1990 granted the President of the Republic special powers for a certain period of time, to organize the tax administration as an entity with legal personality, administrative and budgetary autonomy. Simultaneously, the "Tax Management Fund" was established for increasing the remuneration of tax administration officials. Currently, said process is being fully developed.

In turn, in Mexico an initial financial decentralization process is observed, with the management of intergovernmental fiscal relationships through the National Fiscal Coordination System.

Finally, in Peru, in 1988, the National Superintendency of Tax Administration (SUNAT) was established to substitute the General Directorate of Taxation. It will operate as a public decentralized institution with functional, economic, technical, financial and administrative autonomy. Following an initial inactive period, at present, the new authorities aim to execute the provisions that originated said entity.

With regard to this topic, the CIAT survey shows that only four countries, Argentina, Colombia, Mexico and Uruguay, currently have legal provisions to regulate the staff performance evaluation and measurement systems. This is directly linked to the special autonomy systems previously indicated and also with special remuneration systems, as is the case of the Participation Fund established in Uruguay in 1986. Nevertheless, the survey showed that most countries have systems for evaluating the tax administration officials.

12. Sanctioning system

The need to structure a realistic and at the same time dissuading sanctioning system has given way to the approval of legal regulations in several countries.

In Argentina, the "penal tax act" No.23771 of 1990 provided for imprisonment of taxpayers committing evasion, either through tax fraud or other violations of the tax law, such as nonissuance of invoices when obliged to do so, nonregistration in the tax file, or the nonfiling of returns. It is also provided that in the case of corporations, the directors, managers or representatives participating in the punishable act shall be subject to imprisonment.

Uruguay recently approved an act which authorizes the General Directorate of Taxation to close commercial establishments which may have incurred in tax fraud.

In Colombia and Mexico, provisions approved in the past years, authorize taxpayers to spontaneously correct their tax returns, thus reducing the sanctions to which they would be subjected.

13. Exchange of information

The increase and ever greater sophistication of international commercial relations, has resulted in the development and increasing activity of transnational enterprises and a greater relationship between persons from different countries, which in turn has also given way to an additional problem for the tax administrations. It is no longer a question of combatting evasion and avoidance at the internal or domestic level, but now it must also be pursued abroad.

Comprehensive tax treaties to avoid double taxation have traditionally been the instrument for exchanging information, which is essential for counteracting international tax evasion.

Except for Argentina, Barbados, Brazil, Jamaica and Trinidad and Tobago, the developing countries of the Americas have been, until now, unwilling to enter into such treaties. For this reason, the possibility has arisen for negotiating tax treaties only in relation to the exchange of information. In this regard, we may mention, as examples, the treaties signed starting in 1989 by the United States with Mexico, Dominican Republic and Costa Rica and those signed, although not yet ratified, with Honduras and Peru, as well as a similar treaty signed between Canada and Mexico. Likewise, in 1990 CIAT developed a "Model Treaty for the Exchange of Information" that may be eventually used as reference framework in the negotiation of this type of treaties between the member countries and third countries.

14. Tax Lottery

The tax "lottery" or "prize" system has been provided in the legislations of Colombia (1990), Costa Rica (1989), Chile (amended in 1986) and Honduras (1988). It consists of granting prizes to taxpayers having the winning tickets and invoices from drawings administered by the tax authorities. The system aims to control the printing of said vouchers and to promote their issuance by businessmen subject to income and sales taxes. Other countries like Panama and Uruguay, are presently considering the application of similar systems.

15. Training of Tax Officials

An interesting aspect in the evolution of tax administration, especially in the past decade, has been the significant effort devoted to tax officials training programs.

Training of officials implies not only teaching and learning of the knowledge and abilities required for the better performance of tasks, but also strengthening the ethical behavior of the official. Unfortunately, the image of the tax administration is many times deteriorated by the inadequate behavior of officials and this causes a significant psychological effect which affects taxpayer voluntary compliance.

All countries in general, offer examples of the increasing attention being given to the training of tax administration officials. A very significant part of the projects which CIAT has been carrying out with IDB support is aimed at strengthening the training units or departments. Changes in tax legislation and technological innovations are aspects that should be known and precisely applied by officials, as well as adequately transmitted to taxpayers when appropriate. Worth mentioning here is the project recently approved by the IDB for a regional management course intended for high level officials of the tax administration, with the participation of the U.S. Internal Revenue Service, CIAT and the School of Public Finance of Venezuela.

The CIAT projects are also oriented toward structuring a "training system" by establishing guiding rules or principles that may allow for developing structured and permanent training programs for those who are in real need thereof.

The effort of the countries of the Americas in the training area is also evident, for example, in the creation of special schools and institutes for such purpose. Practically all the countries of the Americas currently have Training Centers or Institutes for finance and in particular, for tax administration officials. In some countries, such institutionalization has acquired particular relevance, as is the case of the School of Finance Administration (ESAF) of Brazil, the Training School of the Internal Revenue Service of Chile, the Training Center of the Ministry of Finance (CECAMH) of El Salvador, the National Training Center of the Ministry of Finance (CENADIH) of Honduras, the School of Finance and Accounting Administration (FACT) of Jamaica, the National Institute of Fiscal Training (INCAFI) of Mexico, the National Institute of Tax Training (INCAT) of the Dominican Republic and the National School of Public Administration and Finance (IUT) of Venezuela.

In this regard, it is only fair to mention also the enriching training programs in the area of tax policy and administration carried out each year by the IMF Institute and the School of Public Finance of Spain, which have trained many officials from the CIAT member countries.

16. Conclusions

It is a recognized statement that efficient behavior of the tax administration is an essential element for ensuring the success of economic programs aimed at development.

The decade of the 80's came to be known by the significant technological innovations incorporated in the tax administrations of the countries of the Americas, complemented in most cases with the adoption of legal regulations and new procedures, all of which gave way to an actual modernization process of the latter.

CIAT has actively participated in that modernization process through the execution in several countries of technical assistance projects mainly financed by the IDB.

The fundamental objective of these projects, as well as the innovations carried out in other countries is to establish in the tax administrations, computer-based information systems intended to improve taxpayer control and assistance.

The identification and application of adequate technology, the involvement of tax administration officials and the permanent support of government authorities are crucial aspects for the success of technological changes.

To keep the pace of technological development and ensure correct performance of their responsibilities by the officials are the main challenges faced by the tax administrations until the end of the century. National authorities and international organizations have a fundamental role to play in facing these challenges.

ANNEXES

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Chart No. 1

Developing countries: Fiscal balances of the central government (Percentage of GDP)									
	1982	1983	1984	1985	1986	1987	1988	1989	1990
Developing countries	-5.1	-5.5	-4.9	-5.1	-7.2	-6.8	-6.7	-8.0	-3.8
By regions									
Africa	-6.8	-7.5	-5.1	-4.8	-6.7	-7.1	-8.5	-5.3	-4.9
Asia	-4.3	-3.3	-2.8	-3.1	-3.9	-3.5	-3.3	-3.4	-3.1
Europe	-0.8	-0.7	-0.6	-0.7	-0.8	-0.7	0.2	-1.8	-0.1
Middle East	-6.8	-10.0	-10.4	-8.2	-13.7	-12.1	-11.6	-9.9	-9.7
America	-5.8	-5.8	-5.3	-7.1	-9.2	-9.2	-9.4	-15.5	-2.2

Developing countries: Foreign debt and debt service									
	1982	1983	1984	1985	1986	1987	1988	1989	1990
Foreign debt									
Developing countries (billions of U.S. dollars)	120.8	135.4	134.9	151.6	173.2	162.3	144.5	129.5	123.6
	839.2	889.4	931.8	1,004.6	1,098.6	1,220.3	1,234.8	1,237.0	1,302.6
By regions									
Africa	154.1	169.3	172.2	194.7	246.9	253.1	251.3	240.5	233.3
Asia	89.4	94.4	90.2	102.8	105.4	91.7	79.8	69.2	67.0
Europe	143.8	146.5	140.2	159.6	172.3	177.3	153.7	146.7	146.9
Middle East	50.8	67.0	74.7	89.0	122.4	117.2	119.1	106.0	100.3
America	269.9	290.4	273.7	293.0	347.9	345.7	298.7	272.2	254.7

Total foreign debt in relation to export and GDP; 1982-91 GDP 1982-91 ¹ (Percentage)									
	1982	1983	1984	1985	1986	1987	1988	1989	1990
Ratio of foreign debt to GDP									
Developing countries	31.1	33.0	34.1	35.9	37.9	37.8	35.2	32.4	31.3
By regions									
Africa	34.9	37.6	41.9	47.2	50.0	49.9	49.3	53.1	53.3
Asia	21.9	23.0	23.9	26.3	29.5	28.2	26.2	21.9	21.2
Europe	34.0	35.6	38.1	42.0	42.0	45.7	43.8	43.2	43.3
Middle East	24.0	25.8	26.8	28.5	32.9	33.1	32.5	30.4	29.8
America	43.0	46.8	46.4	45.2	43.9	44.0	39.4	37.6	35.5

Source: "Perspectives of the World Economy". International Monetary Fund, Washington D.C., October 1990.

Chart No. 2

Chart C-1. Current Revenues of Central Governments
(Percentage of GDP)

Country	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989*
Argentina	12.7	11.5	11.5	5.9	5.7	10.5	15.1	12.0	4.7	6.3
Bahamas	19.8	22.1	19.0	18.6	19.5	20.3	19.8	18.0	18.4	17.7
Barbados	24.3	23.4	24.4	25.8	24.4	25.8	24.9	24.0	26.4	29.4
Bolivia	9.4	8.7	4.9	3.3	1.9	2.9	5.4	7.0	7.0	n.a.
Brazil	22.3	24.4	24.8	25.3	22.9	25.6	n.a.	n.a.	n.a.	n.a.
Colombia	8.4	7.9	7.6	7.8	8.0	9.0	9.7	10.6	10.2	9.9
Costa Rica	12.8	13.6	14.4	16.6	16.6	16.2	15.4	15.7	15.2	15.0
Chile	32.9	34.3	35.6	30.3	31.6	31.2	32.5	33.4	34.4	33.1
Ecuador	12.8	11.3	11.1	10.7	12.3	17.1	14.3	13.9	14.7	16.0
El Salvador	11.4	12.6	12.3	12.4	13.2	13.4	14.4	11.9	10.4	8.2
Guatemala	9.5	8.6	8.4	7.8	7.3	7.7	8.9	9.4	10.1	9.2
Guyana	29.6	34.7	35.8	38.3	38.7	39.0	46.2	33.2	39.9	40.3
Haiti	9.5	10.1	10.8	11.5	11.7	12.8	12.0	11.9	11.2	10.4
Honduras	14.9	13.4	13.4	13.3	15.1	15.6	15.6	16.3	16.1	15.6
Jamaica	24.8	28.3	28.1	25.6	28.6	28.1	33.4	30.0	29.6	31.4
México	15.3	15.3	15.6	17.8	16.9	16.9	16.0	17.0	16.5	18.6
Nicaragua	21.3	24.1	25.3	30.9	34.9	32.1	32.0	27.7	20.5	18.9
Panama	19.5	20.4	19.8	20.7	20.1	20.5	20.3	20.5	13.4	12.6
Paraguay	9.2	8.3	9.3	8.0	8.0	7.9	7.8	8.1	7.9	11.3
Peru	17.1	14.3	13.8	11.5	13.1	14.0	12.0	9.0	8.4	6.4
Dominican Republic	13.3	12.5	9.4	10.6	11.4	15.8	12.9	13.8	15.6	15.9
Suriname	32.1	30.6	34.1	28.7	29.3	28.3	26.6	26.1	28.2	30.4
Trinidad & Tobago	42.1	42.1	36.3	35.0	35.5	36.4	31.4	30.5	28.7	28.5
Uruguay	16.2	17.3	15.2	15.9	13.5	14.5	15.3	15.4	16.0	14.8
Venezuela	20.9	27.6	21.7	21.0	24.4	23.9	20.6	22.3	18.1	20.0

Source: "Economic and Social Progress in Latin America", 1990
Report, Inter American Development Bank, October 1990

Chart 3

Cost of Collection							
Period: 1980 - 1989							
(Local Currency in Millions)							
Country	Tax Administration Budget		Collection		Collection Cost \$100 *		% Variation of Cost of Collection
	1980	1989	1980	1989	1980	1989	
United States	2,946	8,449	519,375	1,013,322	0.57	0.83	45.6
Brazil	n.a.	2,497	86,157	113,912	—	2.19	—
Argentina ^{1/}	1,099,697	n.d.	49,719,635	41,023,306	2.21	—	—
Mexico	11,543	218,412	1,039,258	98,023,952	1.11	0.22	-80.2
Uruguay	122	7,286	12,490	699,592	0.98	1.04	6.5
Chile	2,763	7,151	206,530	955,783	1.34	0.75	-44.0
Colombia	1,880	10,949	168,774	1,615,841	1.11	0.68	-38.7
Ecuador	226	2,151	15,785	327,201	1.43	0.66	-53.8
Costa Rica	38	426	3,288	43,157	1.15	0.99	-13.9
Panama	4	7	529	441	0.76	1.59	109.2
El Salvador	16	40	989	2,457	1.62	1.63	0.6
Trinidad & Tobago	17	37	4,826	3,132	0.35	1.18	237.1
Suriname	n.d.	11	326	505	—	2.20	—
Jamaica ^{2/}	n.d.	79	n.d.	4,319	—	1.83	—

* Local currency at current prices.

n.a. Figures not available.

1/ Figures in millions of Australes of Nov./90.

2/ Refers to 1987 in US\$

Chart 4

Number of Income Tax Returns Filed
Period: 1980 - 1989

(in 000's)

Country	1980	1989	Absolute Variation	% Variation
Argentina	606.1	479.3	-126.8	-20.9
Barbados	76.6	n.d.	—	—
Bolivia	17.1	317.1	300.0	1,754.4
Brazil	8,337.8	10,334.3	1,996.5	24.0
Canada	15,230.6	18,312.0 *	3,081.4	20.2
Colombia	—	888.1 ^{1/}	—	—
Costa Rica	n.d.	34.4	—	—
Chile	319.4	894.5	575.1	180.0
Ecuador	1,060.4	1,692.1 ^{2/}	631.7	59.6
El Salvador	107.5	168.4	60.9	56.6
United States	105,950.2	153,840.4	47,890.2	45.2
Jamaica ^{4/}	24.0	36.5	12.5	52.1
Mexico ^{3/}	869.2	1,808.5	939.3	108.1
Panama	57.3	80.3	23.0	40.1
Peru	354.3	278.9	-75.4	-21.3
Dominican Republic	59.6	82.1	22.5	37.7
Suriname ^{5/}	140.0	68.3	-71.7	-51.20
Uruguay	n.d.	61.0	—	—

* 1988 Figures.

1/ Exclusively annual returns.

2/ 1987 data, since starting in 1988 individuals whose gross income does not exceed 30 general vital minimum salaries, as well as taxpayers in a dependency relationship, are not obliged to file.

3/ 1987 figures.

4/ Period of comparison (1984-1987).

5/ Period of comparison (1984-1988).