

MANAGEMENT IN A TAX ADMINISTRATION WITH GREATER AUTONOMY

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INTRODUCTION

1. A global reform of the Peruvian Tax Administration has been underway within the framework of the process of structural stabilization and reform of the economy.
2. The first actions of this reform have brought about favorable results in tax collection, which increased from 5.4% of GDP in the first semester of 1990 up to almost 9.0% of GDP in 1992 (see chart N° 1). Likewise, there is an expansion of the tax base and a substantial change in the tax structure, to the extent that collection is less dependent on taxes on foreign trade and on fuel and significant progress has been achieved in a system based on the general sales tax (GST) and income tax. For example, the ratio of collection of GST to total tax revenues has increased significantly, going from a level of less than 15 per cent until exceeding 30 per cent of the total.
3. The reform process was fundamentally based on the generalized recognition of the need for effective autonomy in management and decisionmaking in the Tax Administration. By the way, the significant achievements respond, to a great extent, to such recognition.

Chart N°1
PERU: Evolution of Tax Pressure
1980-1992 Period

Year	%GDP
1980	15.6
1981	13.1
1982	13.0
1983	10.8
1984	11.5
1985	13.2
1986	11.4
1987	8.6
1988	8.5
1989	5.8
I Sem 1990	5.4
II Sem 1990	8.6
1991	8.1
(*) 1992	8.9

(*)Preliminary

Source: BCR, Banco de la Nación

Preparation: SUNAT- Economic Studies Management Office

II. THE PROCESS FOR ACHIEVING AUTONOMY

4. Until 1988 the Tax Administration was a line entity of the Ministry of Economy and Finance (MEF); the former General Directorate of Contributions was dependent on the Deputy Minister of Finance, as were Customs and the Directorates of Budget, Treasury and Public Credit. Management of budgetary and financial resources, as well as the human resources policy was fully dependent on the Ministry, to the extent the Budget was approved and executed in accordance with the priorities established by the General Administration Office of the MEF.
5. That year the situation changes on obtaining **formal autonomy**, and the National Superintendency of Tax Administration (SUNAT), is created as a decentralized public institution of the Economy and Finance Sector, with its own net worth and having as revenues, 2% of the taxes it administers.
6. This involved a change of form rather than essence, and even the process of staff evaluation which the norm on the creation of the new institution established as requisite for joining SUNAT, was not followed. The Tax Administration continued to share the same facilities with the MEF, resources continued to be inadequately administered and corruption was an extended phenomenon. Although the new law assigned SUNAT resources of its own, the budgetary norms on expenditure limited an efficient management; likewise SUNAT had no autonomy in designing and applying the salary policy. The limitations in the execution of the budget determined that only one third of the allocated budget was actually spent, as observed in chart N° 2.
7. Nevertheless, the importance of this formal change lied in the fact that recognition was being given by the authorities and public opinion of the need to provide managerial autonomy to the Tax Administration.
8. The government that takes over in 1990 decides to correct the economic distortions being faced by the country. In this context, priority is given to the reduction of the tax deficit, through an increase in collection, which should be achieved through a simplification of the tax system and an expansion of the tax base. After some months, it is recognized that the role of tax administration reform is essential.
9. The reform is implemented in March 1991. This results in a change from **formal autonomy to effective autonomy**. Two elements contribute to achieving effective autonomy: on the one hand, the political support, at the highest levels of government, which support was shared by the majority of political parties and public opinion; and on the other, the

establishment of a team of professionals that should assume management of the institution. It is important to mention that this team of professionals came from the Central Reserve Bank, which was the most important autonomous entity of the country, and therefore, there was personal experience in autonomous management.

10. The national team jointly with International Technical Cooperation (IMF, IDB and CIAT) developed a detailed reform plan. The national team determined that for the administrative reform plan to be successful within short term as well as to ensure continuity through time, it was necessary, as previous stage, to apply a human resources and salary policy rationalization plan.

Chart N° 2
PERU: Budget of the Tax Administration - SUNAT
(in US\$)

Years	Own Receipts(1)	Executed(2)	% of Execution (2) (1)* 100
1989	22,794,905	6,251,512	27.43
1990	36,910,033	12,024,318	32.58
1991	58,922,768	19,899,385	33.77
1992	56,320,000	29,129,388	51.72

- (1) Its own Receipts only include the 2% of collection of taxes administered by SUNAT. Does not include the balances, and interest on deposits in the financial system, among other items.
- (2) The amount executed in 1992 does not include a transfer of 30 million Soles, equivalent to US\$24 million, made by SUNAT to the Public Treasury in the month of December.

Source: Budgetary Formulation and Evaluation Section. OPS/SUNAT.

Preparation: SUNAT-Economic Studies Management Office.

11. The resources plan consisted in the evaluation of the 3,150 employees. Those passing the technical and psychotechnical evaluation process would join the new SUNAT. As an alternative, the employees could choose to resign from the institution, for which there was established an economic incentives program, that was relatively less attractive for the professionals than for the nonqualified staff, and efforts were aimed at guiding the professional staff to opt for the evaluation process.

12. The plan was upheld by a national team before a Special Committee of the Congress of the Republic and unanimously approved with the vote of all the political parties, in May 1991, in such a way that the alternatives were compiled in a law, thus avoiding labor claims.
13. The application of the plan implied the reduction of the existing staff to 800 persons, mostly professionals. The second stage was immediately implemented, which consisted of the approval of the new labor system for the SUNAT staff. In September 1991, the aforementioned Special Congress Committee, approved the new system which basically consisted of:
 1. The application of the labor system of the public sector (Act 4916) with freedom to determine competitive remunerations with the labor market in that sector.
 2. The possibility of recruiting staff with a theoretical and practical training period of 9 months. Only after those nine months may the worker become a permanent employee.

The process of approval of the staff and the incorporation of the new labor system were a success that allowed for anticipating a modern, efficient institution endowed with a particularly special mysticism.

14. Toward the end of 1992, SUNAT has advanced considerably in achieving effective autonomy. Nevertheless, SUNAT is not exempt from some difficulties in budgetary management. It is desirable that the administrative autonomy be constitutionally recognized. This would ensure that there would be no drawing back in the future.

The following chapter will explain in detail the dimensions and effects of autonomy in management.

III. THE DIMENSIONS OF AUTONOMY

15. Finance and Budget.- As already indicated, SUNAT's own receipts originate from 2% of taxes collected, which amount is deposited in an account maintained for such purpose at the National Bank. In this way, inefficiencies are avoided which may result from delays and/or cuts in transfers which the Public Treasury makes to the Central Government entities. These revenues are projected annually based on the parameters of the main macroeconomic indicators (Gross Domestic Product, Tax Pressure, Consumer Price Index).

16. Using the projection of its own receipts as reference, expenditures are budgeted by taking into account the requirements of each of the entities of the institution. The budget is approved by the National Superintendent of Tax Administration and sent to the pertinent organizations to be in turn formally approved through the Annual Public Sector Budget Act.
17. Due to the significant increase in collection, which went from 5.4% of GDP in the first semester of 1990 to approximately 9% of GDP in 1992, SUNAT has been maintaining accumulated cash balances. Since the Government exempted SUNAT from the limitation of keeping its own revenues exclusively deposited in the National Bank, currently such balances may be deposited in financial entities that offer greater yields. It is thus that balances placed on time deposits are yielding additional revenues to those budgeted.
18. Such funds resulted in surpluses that even allowed for making transfers to the Public Treasury, at SUNAT's initiative. However, it must be admitted that this originated in part from the lack of institutional spending capacity.

As it is to be assumed, in a country with precarious tax revenues it was not advisable to maintain inactive balances and therefore, SUNAT proposed to the government a mechanism of reversion of such balances, which has been incorporated in the General Budget Law of the present year, in such a way that SUNAT will transfer to the Central Government the difference between its own revenues received biannually and expenditures determined for said period.

19. Acquisition of assets and hiring of services. In the acquisition of assets and hiring of services, SUNAT, like other Public Sector institutions is obliged to strictly abide by the Single Regulations on Acquisitions (SRA) and to call Public Bids whenever amounts exceeding certain levels of expenditures are involved. This procedure has on many occasions posed inconveniences for SUNAT, especially when speedy verification actions must be undertaken and when it is necessary to maintain the required reserves.
20. In spite of these difficulties, in 1993 it has been possible to exempt SUNAT from the requisite of Public Bids in the acquisition of real estate, when the seller is a state entity or enterprise at the price determined by the Technical Valuations Entity of Peru. It is also empowered to construct or acquire real estate for administrative headquarters and to acquire vehicles for transportation of the staff. These measures are of particular importance, since they are directly linked to the need for expanding the effects of the Tax Administration's Reform toward the Offices in the country's inland, by providing them the necessary infrastructure, staff and equipment. As

a result of these measures, the level of expenditures in goods and services per employee has increased from US\$221 in 1989 to US\$6.969 in 1992. (See chart N°3).

21. It must be noted that the obligation to frame expenditures in goods and services within the set of budgetary norms in force for the Public Sector, even with the exceptions made, still constitutes one of the factors that prevents achieving a level of efficiency in the use of resources similar to that existing in the most profitable private enterprises.
22. With regard to the hiring of staff, it must be noted that since 1991 SUNAT was empowered with hiring staff under the labor system for the private sector (Act 4916).

Previously, there was a significant reduction of the existing staff. First of all, there was a group of employees that accepted the economic incentives which the Government offered to those who voluntarily resigned from the Public Administration in general. Then, as a second step, SUNAT implemented a process of technical evaluation of the remaining staff, so that only the staff that passed the respective examinations would remain in the institution. Lastly, the staff was allowed to pass from the public employee labor system to that of the private sector employee. The result of this process was that in October 1991, SUNAT's staff only represented 33% of the total that belonged to the institution in December 1989. (See chart N° 4).

Chart N° 3
PERU: Goods and Services Expenditures at the
level of the Tax Administration - SUNAT
(in US\$)

	1989	1990	1991	1992
Expen. in Goods & Serv.	683,086	2,470,334	6,351,028	10,961.253
Num. Employees	3,089	3,140	1,034	1,573
Exp. p. Employee	221	787	6,142	6,968

Note: The Goods and Services item comprises the acquisition of various materials and services mainly linked to the integral improvement of working conditions of SUNAT employees.

Source: 1989 SUNAT Report. Budgetary Formulation and Evaluation Section.

Preparation: SUNAT-Economic Studies Management Office.

23. The incorporation of SUNAT workers to the private system allowed for offering remunerations that are competitive with those of the private sector, which opened the possibility of attracting qualified and honest staff. The new labor system allows SUNAT to determine its own remunerations policy, with the approval of the head of the organization and the consent of the President of the Republic. This has allowed for increasing the average monthly remuneration from a level of US\$65 in September 1991 to US\$635 in July 1992, that is, almost 10 times more than that in force two years ago. (See chart N ° 5)
24. On the other hand, the drastic reduction of staff in 1991 has called for developing a systematic policy of staff incorporation. In this respect, this year's Budget Law allows SUNAT to make appointments, reassignments and hiring of staff under any modality. To this end, very strict procedures have been established for selecting those professionals showing an academic, professional and moral level adequate for the objectives of the institution. The massive response which young professionals -graduating from various higher education institutions of the country- have given to SUNAT's public announcements, is a good indicator of the Tax Administration's current labor attraction, something that had never happened before. As an example of this we may mention that on the four occasions in which announcements have been made for filling vacancies in the Large Taxpayer System offices in Lima and in the five main cities in the country's inland, a total of 8,695 graduates and professionals have applied for filling a total of 234 vacancies. As may be seen in chart N° 6 only 2.69% of total candidates qualified for admission to the institution, following a strict selection process, which indicates the level of exigency and qualification required of each of the candidates.
25. We may affirm that the effective autonomy granted to the Tax Administration with regard to the staff, afforded it the necessary capacity for attracting a significant number of qualified professionals. As compared to previous years, these professionals no longer approach SUNAT mainly for acquiring experience to subsequently have better opportunities of finding a job in the private sector. They have the clear intention to develop a career in Tax Administration.
26. Lastly, it must be noted that promotions to upper hierarchical positions and the consequent increase in remunerations, since they are functions requiring reliability, are decided at the uppermost level of the institution.

Chart N° 4
PERU: Distribution of the Tax Administration's Staff by
Occupational group
SUNAT-National Level

Occupational Group	DEC 89	OCT 91	DEC 91	JUL 92
Managerial	218	111	114	125
Professional	910	432	449	676
Technical*	1,497	205	210	353
Auxiliary	464	256	261	239
Total	3,089	1,004	1,034	1,393

(*) In 1989 this category includes professional analysts

Source: SUNAT- Staff Management Office
Preparation: SUNAT- Economic Studies Management Office

Chart N° 5
PERU: Evolution of Remunerations in the Tax Administration
SUNAT- National Average
(in US\$ per month)

Occupational Group	SEPT 91	OCT 91	DEC 91	JUL 92
Managerial	204	867	1,427	1,471
Professional	62	485	746	871
Technical	52	325	489	564
Auxiliary	46	217	345	353
Weighted Average	65	389	659	635

Source: SUNAT- Staff Management Office
Preparation: SUNAT- Economic Studies Management Office

Chart N° 6

**PERU: Number of Candidates and Participants in the Tax Administration Courses
(Replica of the Large Taxpayer System)**

Course	Candidates	Participants	%Participants
Arequipa	1,200	46	3.83%
Piura/Quitos	840	50	5.95%
Chiclayo/Trujillo	1,881	60	3.19%
Lima	4,774	78	1.63%
Total	8,695	234	2.69%

Source: SUNAT- Academic Dept. of the Institute of Tax Administration.
Preparation: SUNAT- Economic Studies Management Office.

IV. CONCLUSIONS

27. On concluding this paper, it is useful to pinpoint some conclusions dealing with achievements of the Peruvian Administration for arriving at a real autonomous management, with obstacles found along the way and expectations for the future.

28. With regard to the Tax Administration's autonomy, the long term objective consists of consolidating an institution with full capacity for making technical decisions on the administration of collection; capable of handling possible political pressures from the different economic interest groups existing and, finally, capable of ensuring respect for its decisions and autonomy through time. The purpose is to achieve an autonomous and stable Tax Administration. Although two significant steps have been taken in the past two years, it must be admitted that there is still some distance between the final objective and the present situation. Probably the achievement of this objective may result in the provision of SUNAT's administrative, economic and technical autonomy in the new Constitution of the Republic which is currently being developed. But, beyond that, it is important that the need for an honest, efficient and effective Tax Administration be acknowledged by Peruvian political leaders and citizens in general. The first significant step, however, has already been taken: the members of the institution firmly believe in autonomy and carry out their tasks under that personal premise.

29. The recently achieved level of autonomy has resulted in a more effective and efficient management at the different levels of action that correspond to SUNAT. However, as we have already stated, there are still many areas in which greater trust and autonomy must be achieved. The gradual overcoming of these obstacles must be directly reflected in an increase in collection, as well as in faster, timely and efficient taxpayer assistance.
30. A key element in the consolidation of efficient and autonomous management is the training of the required managerial staff for its development. In this sense, it is important to design and implement professional training and development plans that will allow SUNAT employees to compete and show their best abilities and knowledge. It is necessary for the Tax Administration to appear as a very interesting place for development of qualified young professionals, by allowing equal opportunities for mobility within the institution.
31. Among the limitations worth mentioning is the conception of Management Control that reduces it to the verification of precise compliance with the norms. It is necessary to determine a control criterion in keeping with an administration by objectives and results. However, the yearning for autonomous management should never be confused with the expectation of a lack of control. A way must be found for bringing together both concepts and the resulting practices, as part of a modern Public Administration.
32. Lastly, it is worthwhile to consider the possible limitations there may be within the Public Administration for an institution which, as SUNAT not only counts on a broad level of autonomy, but also on significant financial resources, qualified staff and a good image before the citizens. SUNAT, like other State institutions, is currently a "main element" in the long process of reconstruction of the Peruvian state. Indeed frictions, misunderstandings and mistrust are not and shall not be lacking. SUNAT runs the risk of being considered by other sectors of Public Administration as a privileged Sector, and the power of administrative inertia when it comes to restrain well intentioned policies and reforms is well known. Vis-a-vis this situation, we can only show tangible results socially recognized as beneficial for the country.