



Federal Administration of Public Revenues

39th CIAT General Assembly

The Role of Tax Administration in Society



Buenos Aires, Argentina
April 8-11, 2005

ARGENTINA



Inter-American Center of Tax Administrations - CIAT
Federal Administration of Public Revenues – AFIP



39th CIAT GENERAL ASSEMBLY



THE ROLE OF TAX ADMINISTRATION IN SOCIETY

Buenos Aires, Argentina
April 18-21, 2005

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Executive Secretariat

P.O. Box 0834-02129
Panama, Republic of Panama
Web site: <http://www.ciat.org>
E - mail: ciat@ciat.org
ISBN: 9962-647-09-6

336.2
In8 Inter - American Center of Tax Administrations - CIAT
The Role of Tax Administration in Society / compiled by Damaris Bolaños;
translation by Inter - American Center of Tax Administrations – CIAT: illus. José M.
Canto y Juan M. Bermúdez. — Panama: Inter - American Center of Tax Administrations
– CIAT, 2006.
490 p.; 23 cm.

Original title: El Rol de la Administración Tributaria en la Sociedad

ISBN: 9962-647-09-6

1. TAX ADMINISTRATION 2. HUMAN RESOURCES
3. TAXPAYER ASSISTANCE I. Title

Published by Inter-American Center of Tax Administrations - CIAT

Compiled by: Damaris Bolaños
Diagramming and Set-up: José M. Canto
Translation: CIAT

INDEX

Presentation on CIAT	vii
Inaugural Ceremony	xiii
Inaugural Statement, Mrs. Deborah Nolan, Acting President of CIAT Executive Council (IRS – United States)	xv
Speech by Mr. Jorge Cosulich Ayala, Executive Secretary of CIAT.	xix
<i>Inaugural Lecture</i>	
The Role of the Tax Administration in Society, Alberto Abad, Federal Administrator, Federal Administration of Public Revenues – AFIP (Argentina).	1
TOPIC 1 THE PURPOSE OF TAXATION AND ITS DISSEMINATION IN SOCIETY	13
<i>Lecture</i>	
TOPIC 1 The Purpose of Taxation and its Dissemination in Society, Andréa Lemgruber Viol / General Coordinator of Tax Policy, Secretariat of Federal Revenue – SRF (Brazil)	15
<i>Case study</i>	
TOPIC 1.1 Social Communication Policies and Mechanisms at the Service of the Objectives of the Tax Administration, Edward Kieswetter, Manager, South African, Revenue Service - SARS (South Africa)	45

INDEX

Case study

- TOPIC 1.1 Social Communication Policies and Mechanisms at the Service of the Objectives of Tax Administration, Fernando Peña Ávila, Taxpayer's Service Manager, National Taxes Service - (Bolivia) 55

Case study

- TOPIC 1.2 The Social Role of the Tax Administrations, Beatriz Fontau, Deputy General Director of Human Resources, Federal Administration of Public Revenues - AFIP - (Argentina) 77

Case study

- TOPIC 1.2 The Purpose of Taxation and its Dissemination in Society - Tax Education, Mario Aranguren Rincón, General Director, Directorate of National Taxes and Customs - DIAN (Colombia) 97

Case study

- TOPIC 1.3 Transparency in Tax Administration Management, Paulo José de Ribeiro Moita de Macedo, General Director, General Tax Directorate (Portugal) 113

Case study

- TOPIC 1.3 Management Transparency of the Tax Administration, Deborah M. Nolan, Commissioner, Large and Mid Size Business Division, Internal Revenue Service (United States of America) 139

- TOPIC 2 INTEGRITY AS A FUNDAMENTAL VALUE IN TAX ADMINISTRATIONS AND THE PROMOTION OF ETHICS. 159**

Lecture

- TOPIC 2 Integrity as a Fundamental Value in Tax Administrations and the Promotion of Ethics, Stephen Rigby, Assistant Commissioner Policy and Planning, Canada Revenue Agency - CRA (Canada) 161

Case study

- TOPIC 2.1. The Dissemination of Duties and Rights of the Taxpayers and the Entities and Procedures for Handling their Claims, Luis Pedroche y Rojo, General Director, State Agency of Tax Administration – AEAT (Spain) 181

Case study

- TOPIC 2.1 The Dissemination of Duties and Rights of the Taxpayers and the Entities and Procedures for Handling their Claims, Nahil Hirsh, National Superintendent, National Superintendence of Tax Administration - SUNAT (Peru). 211

Case study

- TOPIC 2.2 The Induction and Preservation of Integrity through Staff Recruitment, Selection and Promotion, Moacir das Does, General Coordinator of Staff Management, Secretariat of Federal Revenues - SRF (Brazil) 239

Case study

- TOPIC 2.2. Taking into Account and Guaranteeing Integrity in the Procedures for the Recruitment, Selection and Internal Promotion of DGI Agents, Olivier Siviude, Deputy Director of Human Resources, General Directorate of Taxes (France) 245

- TOPIC 3 EFFECTIVENESS OF TAX COLLECTION FOR PROVIDING GOODS AND SERVICES TO SOCIETY. 261**

Lecture

- TOPIC 3 Effectiveness of Tax Collection for Providing Goods and Services to Society, Alfredo Gutiérrez Ortiz Mena, Legal General Administrator, Tax Administration Service - SAT (Mexico) 263

INDEX

Case study

- TOPIC 3.1. The Definition of the Legal Powers of the Tax Administration, Juan Toro Rivera, General Director, Internal Revenue Service – SII (Chile) 289

Case study

- TOPIC 3.1. The Definition of the Legal Powers of the Tax Administration, Mario Carmelo Piancaldini, Central Assessment Department Officer, Revenue Agency (Italy) 309

Case study

- TOPIC 3.2 Rules and Mechanisms to Fight Tax Evasion: Plan Zero Evasion, Noel González, National Intendent of Internal Taxes, National Integrated Service of Customs and Tax Administration – SENIAT (Bolivarian Republic of Venezuela) 321

Case study

- TOPIC 3.2 Rules and Mechanisms for Combating Tax Evasion, Marcelo Costa, Deputy General Director of Examination, Federal Administration of Public Revenues – AFIP (Argentina) 333

Case study

- TOPIC 3.3 Information Systems as the Axis of Central Tax Administration Processes, Carlos Herrera Álvarez, Responsible of the International Relations Unit, Tax Administration State Agency - AEAT (Spain) 355

Case study

- TOPIC 3.3 Information Systems as the Basis of Tax Administration's Core Processes, Nelson Gutiérrez González, Director of Operations, Inter-American Center of Tax Administrations (CIAT) 381

Closing Session	409
General Report	
Fernando Díaz Yubero, Director General, Department of Organizational Planning and Institutional Relations, State Agency of Tax Administration (Spain)	411
Declaration of the 39th CIAT General Assembly “The Role of The Tax Administration in Society”	427
Declaration on the Promotion of Ethics in Tax Administration	433
Technical Program	441
List of Participants	451

Presentation on CIAT

Presentation on CIAT

CIAT is a public international organization established in 1967 to promote the improvement of the tax administrations through: exchange of ideas and experiences; technical assistance and training; compilation and distribution of information; and promotion of technical research.

The Center is formed by twenty-nine countries from the Americas, five European countries as full members and two countries: Czech Republic and South Africa as Associate Members. The Minister of Finance or Treasury of each country designates the positions in his tax administration, the incumbents of which are the Representatives at CIAT.

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INAUGURAL CEREMONY

INAUGURAL STATEMENT

MRS. DEBORAH NOLAN ACTING PRESIDENT OF CIAT EXECUTIVE COUNCIL (IRS – UNITED STATES)

In my capacity of acting President of the Executive Council of the Inter-American Center of Tax Administrations, and on behalf of all the member countries of our Organization, I would like to thank the authorities of Argentina for once again allowing us the opportunity of holding our General Assembly in their country. Indeed, this is a valuable demonstration of fraternity and of the high sense of hospitality that characterizes the Argentine people.



Mrs. Deborah Nolan

In this beautiful city of Buenos Aires, rightly recognized for its great cultural activity and heritage, we begin today our annual Assembly, for exchanging experiences on issues of common interest that may allow us to enrich ourselves professionally and thus better serve our countries by likewise promoting greater cooperation between all our tax administrations.

Our Center is faced this year with the selection of a new Executive Secretary, in view of the retirement of Mr. Jorge Cosulich, starting next January 1st. We are all aware of Mr. Cosulich's total dedication and commitment to CIAT whose efforts, as head of the Executive Secretariat begun over twelve years ago, currently allow us to have a consolidated organization, internationally recognized as the most important in the area of tax administration.

At the same time, given the international context wherein we must carry out our functions as tax administrators, we deem it a priority objective to advance ever more toward cooperation and cohesion between our tax administrations. Only by working together in

INAUGURAL STATEMENT

identifying solutions to the problems of a complex environment, where others have already adopted strategies for safeguarding their interests, will we be able to fulfill our commitment of administering taxes in an effective, efficient and equitable manner.

In this same sense and as stated on previous occasions: “Let us together design our strategy and to that end, take advantage of a path that has already been traced and proved fruitful, by strengthening our bonds of mutual cooperation and CIAT as meeting point for the search of consensus, that is, by giving equitable consideration to the interests of all our member countries and respecting their opinions”.

In compliance with our 2003-2006 strategic plan, I must highlight the intense and hard work of the Executive Secretariat during the 2004-2005 period. By way of example I would like to mention the tasks carried out for holding the Amsterdam Conference last October and the Assembly we are inaugurating today. Other activities worth mentioning are the IX Biennial Meeting of Correspondents held in Panama last November, which further strengthened the bonds of CIAT with its member countries through the discussion of strategic issues; the results achieved in the different Working Groups, the successful launching of the CIAT distance learning programs in Taxation and the second intake of the Master’s Program in Tax Administration and Public Finance. Likewise, important changes have been made to the Center’s Web page, through the implementation of the on-line shop and the strengthening of our Virtual Library. Technical Cooperation has been improved through greater control in the development of projects which has brought about greater success in results and products delivered. We have also had an active participation in international activities. For example, we presented a paper at the World Conference on VAT in Italy and likewise participated in the Closing Seminar of the IDB/CIAT/Ecuador Project and the meetings of the Committee of International Organizations of Tax Administration (CIOTA) and the International Tax Dialogue (ITD).

In relation to the fiscal period that is coming to a close, we have seen that, the Executive Secretariat’s staff with its usual high professionalism and commitment to the institution has satisfactorily fulfilled the objectives and goals established at our previous Assembly in Cochabamba, Bolivia.

Now I would like to point out the timeliness and importance of the main theme to be developed through the technical program for this General Assembly.

For some time now, especially following the incorporation of the proposals of the total quality theory in the tax administrations, awareness has been developing with respect to the importance of rendering high quality services to the taxpayer, as part of a favorable strategy for promoting voluntary compliance. We believe that through the discussion of the main theme chosen for this Assembly: "THE ROLE OF TAX ADMINISTRATION IN SOCIETY", we are taking a significant step forward in the strategic analysis of the essence of tax administration and its relationship to its context. It is no longer a matter of identifying ways of acting and strategies from a somewhat commutative perspective, such as "customer service", but rather from an approach that takes into account essential elements for the successful management of a tax administration, namely; the very characteristics and expectations of the society of which said administration is a part.

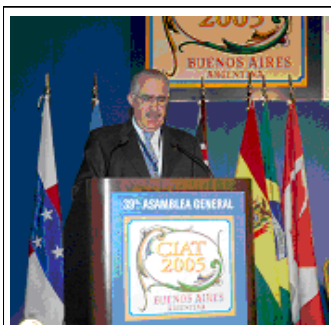
The task we hope to carry out is a very difficult one. Equally difficult is the fact that, beyond achieving a generalized attitude of service among officials of the tax administration, it is necessary to disseminate and make them and the entire community aware that the essential objective of said administration is to contribute to promote the general welfare of the society to which it belongs. This, in sum would be the basis of the new strategy we will begin discussing today.

On concluding, I would like to reiterate our deep appreciation to the Tax Administration of Argentina, for its effort in organizing this General Assembly for the benefit of all our member countries. Our gratitude is also extensive to all those present here for accepting our invitation and joining in CIAT's essential objective which is to promote a broad dialogue in an environment of professionalism and mutual respect that may be useful for the institutions represented here.

Again, we welcome most cordially all the participants in this 39th CIAT General Assembly.

**SPEECH BY MR. JORGE COSULICH AYALA,
EXECUTIVE SECRETARY OF CIAT**

Ladies and gentlemen:



*Jorge Cosulich Ayala
CIAT's Executive Secretary*

My opening words are to convey to Dr. Alberto Abad and the institution he so honorably leads our appreciation and gratitude for sponsoring and organizing CIAT's 39th General Assembly, which shall no doubt be held with the customary technical and social quality and excellence characterizing CIAT's international events and our Argentine hosts in particular.

The General Assembly starting today is deeply meaningful both for CIAT and for me.

For CIAT, because it provides us with the unique opportunity of stopping to ponder thoroughly on the most transcendental role of our tax administrations in a modern and democratic society, namely achieving its entry into a national and international environment marked by the complexity of its social, economic and technological variables which are changing at an accelerated pace and on an on-going basis.

We do this at this forum, featured by the full support and identification of CIAT member countries with their institution, rendering mutual cooperation between and among its tax administrations not only a praiseworthy statement but an efficient reality in terms of the exchange of knowledge, experience and information to combat tax evasion.

OPENING SESSION

On this occasion, Argentina through AFIP, has shown once again its deep sense of solidarity and commitment with CIAT and its member countries by welcoming us not only with a perfect organization but also a conducive environment, a warm reception and many attentions provided by its officials in holding this assembly. I am pleased to announce that, for the first time, the presentations of the Assembly shall be broadcast live over the Web to all CIAT member countries.

It is certainly not by chance that our assembly is being held once again in this beautiful city of Buenos Aires which, as Dr. Abad rightly pointed out, “has been immortalized by poets and tango and welcomes us one more time with its brightest lights, melancholy, mysteries, contradictions, its constant joy and openness toward all who visit it”.

In effect, Argentina played a leading role in the creation of our Center back in 1967, but in addition to that, over the almost forty years of existence of CIAT, we have looked at its directors as a source of talent, capability and support for our activities, which contributed to consolidate and build our Center’s high reputation. Noteworthy among Argentina’s contributions are the organization of four general assemblies and one technical conference, sponsorship of numerous courses and seminars as well as the sponsorship and active involvement in working groups, etc.

I would also like to note that this assembly is being held in Argentina as a result of the wish of all our member countries to acknowledge the great efforts made by AFIP / Argentina to help overcome the serious fiscal crisis the country underwent a few years ago, AFIP having become one of the pillars of the Argentine recovery process – its actions transcended the tax field since its image was respected and accepted by the society and its effective tax administration was a key factor to achieve governance and consolidate Argentina’s democratic institutions.

I said this assembly has a unique meaning for myself too. Three years ago, during the assembly of Quebec, I communicated officially to the Executive Council of CIAT my intent of remaining in my post until December 2005. As you are all aware, CIAT is currently undergoing an open, non-political and transparent process to elect its new Executive Secretary, who shall be selected exclusively on the basis of applicants’ professional and human merits and

qualifications. The final decision in this process, which is to conclude late this year, shall be made by the Executive Council supported by an Advisory Committee made up by distinguished officers who are deeply knowledgeable of the institution and represent countries which are fully committed to CIAT. In this regard, this Buenos Aires assembly shall be the last assembly I have the honor and privilege of leading.

For this reason, it is most timely for me to also reflect upon this dear and unforgettable experience of leading the Executive Secretariat of CIAT, to which I dedicated and committed myself both professionally and personally. With the peace of mind of knowing that I never used any less than my best efforts in fulfilling my work, I can proudly say: the task has been accomplished!

Today at CIAT we are close to completing a stage which, despite being similar to previous stages over the almost 39 years of the Center's existence in that it is being completed successfully, is of special relevance because of two facts: **its achievements and its challenges going forward**. The latter include the difficult and important task of completing successfully the selection process for a new Executive Secretary.

Among the numerous achievements of the stage we started more than a decade ago, it is worth highlighting especially the institutional consolidation, and the consolidation of the programs of international meetings, tax planning and studies, training, technical cooperation, publications, our virtual library and tax portal, all of which are the pillars of our work, which have rendered us a modern institution recognized internationally as the most significant one in the field of tax administration. Although our Center keeps its strong American roots, it has widened its borders to include countries from other continents as full member countries and associate members, such as Spain, France, Italy, the Netherlands and Portugal, as full member countries; and the Czech Republic and South Africa, as associate member countries, which deeply honors and pleases us and gives our organization a rich global dimension.

However, it is also fair to point out that this journey was not without difficulties – we have had to overcome plenty of challenges and obstacles, face risks, make mistakes, accept failures, from which we derived invaluable lessons and good practices which have now become a great asset for CIAT. I would like to honestly apologize to

OPENING SESSION

all of the friendly countries we were not able to accommodate in their legitimate expectations.

Regarding the challenges we see ahead, we should first tackle the challenge of giving continuity and sustainability to the progress we have made thus far, which commits us to strengthen our efforts in favor of cooperation and cohesion among our tax administrations.

Only this way will we be able to generate the essential synergy to efficiently face a globalized and complex environment, where most of the dominant players have already created the strategies that shall lead them to meeting their objectives. In this context, it shall be very important to keep an active presence to carry the voice and concerns of the countries in the region in the decisions to be made which have an impact on every country worldwide.

In the stage which is coming to an end, during which I had the privilege of being your Executive Secretary, I believe I can say with deep satisfaction that the goals and objectives proposed in our various strategic plans were more than met. In this regard, I would also like to mention those whose dedication and efforts have made these achievements possible.

I wish to thank former Executive Secretaries of CIAT, Mr. Menalco Solís and Mr. Edison Gnazzo, for the great task of building the foundations of the organization and paving the way for the future of CIAT.

I extend my deep recognition to the members of the different executive councils and presidents of CIAT, without whose constant support, understanding and guidance it would have been impossible to achieve the goals which we are already leaving behind, faced with new challenges, ideas and aspirations.

I thank CIAT's representatives, the Vice Ministers of Finance and General Directors, without whose support and commitment to CIAT it would have been impossible to develop and consolidate our organization. CIAT's representatives determine the vision and direction of the organization, and are the *raison d'être* and the engine of our organization.

I cannot but mention and thank the network of CIAT Correspondents – the eyes, ears and source of information of our organization, as well as the working groups and the countries that sponsored them. A special recognition goes to our friends from European countries, in particular Spain, France and Germany, who have maintained permanent missions in CIAT to this day and whose contribution and commitment has been essential in the development of our organization.

My special recognition to the Inter-American Development Bank, our great partner and source of funding for the modernization projects within the tax administrations of CIAT member countries.

Finally, I wish to deeply thank those who worked with me directly: Mr. Jorge Eduardo Corradine, may he rest in peace; D. Claudino Pita, Paulo Sérgio Dos Santos, and the new staff and current pillars of CIAT: Nelson Gutiérrez, Márcio Verdi, Francisco Beiner, María Raquel Ayala and Damaris Bolaños, for their dedicated and professional work, as well as every CIAT officer whose hard work has allowed us to fulfill our demanding working plans and budgetary goals.

I wouldn't like to conclude without first referring briefly to the core theme of this Assembly: "THE ROLE OF TAX ADMINISTRATION IN SOCIETY".

In the past two decades we have witnessed and experienced a transformation of the relationships between the State and society.

We could say that the current context leads us to pursue a proactive attitude by tax administrations, in such a way that they direct their strategies toward meeting goals and objectives efficiently and effectively, anticipating the changes surrounding them and the requirements of an increasingly demanding society which calls for higher quality work and a public service orientation, in addition to transparency and integrity and education to the civil society, while pursuing the foremost goal of collecting the revenues the State needs to promote welfare in the society.

Likewise, the new approach to tax administrations-citizens relationships reinforces our organizations' commitment with an integral and transparent action. Perceived corruption seriously limits the tax administrations' capacity to fulfill their mission as they make

OPENING SESSION

taxpayers lose trust and respect for them, thus undermining the fundamental premise voluntary compliance systems are based on.

In this framework, the Santo Domingo Declaration on the Principles of a Healthy and Efficient Tax Administration are very current and serve as an obligated framework of reference for tax administrations' modernization strategies.

On the other hand, and in consideration of the decisions of the Assemblies of Cancun, Mexico, and Cochabamba, Bolivia, of helping member countries to strengthen their integrity programs, CIAT Representatives shall sign a Declaration on the Promotion of Ethics in Tax Administrations at the Administrative Session on Tuesday, which Declaration has been prepared by the Working Group in charge of developing CIAT's Model Code of Conduct sponsored by Canada.

Finally, it is essential for the tax administration to project the image of a public institution committed to the progress and welfare of society at large and, to this end, it shall advance tax education programs which both facilitate comprehension of the role of taxes and the tax administration and improve taxpayers' knowledge of their rights and duties as a means to encourage spontaneous compliance.

Regarding the institutions and personalities who have joined us at this Assembly, I am pleased to share with you that we are honored with the presence of 69 delegations and almost 200 delegates, a record number of participants to an Assembly, which once again confirm CIAT as the most important international forum on tax administration matters.

Our General Rapporteur for the conference shall be Mr. Fernando Díaz Yubero, Director General of the Department of Organizational Planning and Institutional Relations of the Spanish Tax Administration State Agency.

Our distinguished guests of honor at this Assembly shall be Messrs. Leonel Massad and Mario Cigoj from Argentina; Rubén Aguirre from Mexico; Elsa de MENA from Ecuador; Fernando Díaz Yubero from Spain; Socorro Velásquez from the United States; and Clive Nicholas from Jamaica.

I wish you all a happy and fruitful stay in Buenos Aires and, in particular, that the professional growth and strengthening of friendships that motivate these CIAT meetings fully materialize not only for your individual benefit but, most importantly, for the benefit of the institutions you represent.

Thank you very much.



Official Photograph of the 39th CIAT General Assembly
"The Role of Tax Administration in Society"

Buenos Aires, Argentina, April, 18 - 21, 2005

INAUGURAL LECTURE

Inaugural Lecture

THE ROLE OF TAX ADMINISTRATION IN SOCIETY

Alberto Abad

Federal Administrator

Federal Administration of Public Revenues – AFIP
(Argentina)

CONTENTS: 1. The Tax Administration.- a. Objectives.- b. Conflicts and tensions.- 2. Society at Present.- a. The “liquid modernity”.- b. The “era of access”.- c. Strategies.- 3. Final Reflections.

1. THE TAX ADMINISTRATION

a. Objectives

It may be said that the specific objective of the tax administration is focused on ensuring that all taxpayers adequately fulfill their obligations.

At present, it is unanimously agreed that the best means for achieving said goal is by promoting voluntary compliance.

As we all know, the tax administration expanded its goals and to the traditional functions of examination and collection was added the strategy of persuasion, in order to overcome the customary approach fundamentally centered on the sanctioning action.

This does not involve simplifying reality and thinking that the general strategy for promoting voluntary compliance is plain and merely involves a few areas such as: tax education, facilitating compliance, the perception of risk, and the guarantee of integrity in management. There is no doubt that these prescriptions are only indicative when it comes to facing specific situations. For example, as regards tax education,

on which group should the educational activity be focused? Secondly, what type of taxpayer and taxes are priority issues in a facilitation strategy? Let us consider the sensitive issue of risk perception: how is such risk actually structured in terms of the relationship between examination and recovery? Lastly, are we sure we have found the long term strategy that may guarantee the integrity of our officials?

The answers to these questions in many cases are incomplete or involve high levels of uncertainty. This conclusion merely confirms the idea that not only do we perform in an environment characterized by asymmetrical information, wherein the taxpayer is more aware of his own behavior than any tax administration, but also that our action in society is inexorably framed within situations marked by conflict or, at least by tensions that have not been totally resolved.

b. Conflicts and tensions

In addition, the problems of intervention in specific situations take place within the framework of certain “antinomies” that condition tax management, with different emphasis, depending on such circumstances as place and time.

Some of them are the following:

- **Territoriality vs. internationalization:** the very logic of globalization forces the tax administration to deal with events, properties and individuals located in jurisdictions other than those of its country. Thus, the capacity of cooperation in its own territory is insufficient for complying with the objectives, especially when the world income criterion is adopted. In this case, success of management will be conditioned by efforts made so that the administration may face such “internationalization” and, in particular, may count on the necessary instruments for effectively carrying out international cooperation.
- **Public interest vs. private interest:** this antinomy results from the counter-positioning of interests resulting from the application of the tax law. Such application forces the taxpayer to give up part of his income for responding to public needs. Among all antinomies, perhaps this is the one with the greatest impact on management of the tax administration and, at the same time, the one which to a greater extent, renders evident the level of public-spirited culture of a society and the level of internalization of standards or the social commitment of its members.

- **Organizational image vs. governmental image:** regardless of the structure adopted for the tax administration, as autonomous entity or integral part of central public administration, its image before society will always be linked to the government's image. This may entail the need for informing public opinion about the field of action of the tax administration, so as to separate its action from other government areas that are not its responsibility, such as, for example, the allocation and application of tax revenues through public expenditure and, as appropriate, the distribution effect arising from the tax policy implemented.
- **Institutional interest vs. personal interest:** the values that should guide the behavior of tax administration officials, such as credibility, responsibility and diligence, call for setting personal interests aside. Nevertheless, overcoming situations that may involve "conflicts of interest" does not only depend on the attitude of the officials, but rather, is also closely linked to the legitimacy of the organizational culture.
- **Economy under consolidation vs. informality:** the significant informality that is typical of countries with unconsolidated economies creates a certain tension with the economic agents of the formal sector, who may perceive that they are being treated inequitably by concentrating on them the burdens imposed by the legislation (particularly the ones dealing with taxes) and administrative regulations. To overcome this, it is necessary to avoid the sensation of injustice and the eventual noncompliance that is derived from it.
- **Normative simplicity vs. economic-social complexity:** there is no doubt that the simplicity of norms is an element that facilitates understanding of the obligations by the taxpayers and even the tax administration's action. Such simplicity essentially benefits juridical security in the treasury-taxpayer relationship. However, there are situations that must be regulated and which are in themselves complex, either because of the structure of the transactions in question (for example, international operations between associated companies), or the search for greater equity in the distribution of the tax burden (for example, the consideration of personal situations in relation to income taxes).

In sum, the development of the general strategy for promoting voluntary compliance will vary in accordance with the magnitude and relative weight of the conflicts and tensions. The tax administration must

adequately examine and interpret the society wherein it belongs in order to identify the trends and characteristics of said context, to then determine how it will carry out its actions. However, the context which characterizes a society must not be taken as data, but rather as a variable on which the tax administration should act to develop its strategy.

A special warning in examining the situations wherein the tax administration intervenes is to clearly bear in mind that, under current conditions, the context goes beyond the national scale. For this reason, it is necessary to consider the global trends that will affect our future behavior as a society.

2. SOCIETY AT PRESENT

To identify global trends that will perhaps guide the evolution of our social framework, one must consider, as a first approximation, the interpretations which distinguished social science thinkers have given to these trends.

a. The “liquid modernity”

One of the most noteworthy among those interpretations in the field of Sociology is that of Professor Zygmunt Bauman, who, in his essay *Liquid Modernity* points out that the era of solid modernity has come to an end and that the stability and order of its institutions is being swept along by the fluidity of this new liquid phase, characterized by new forms that undergo permanent change.

The “solid” modernity, that may be identified as the classic concept of modernity was the time for overcoming the former order and subsequently establishing an even more solid order, based on the human reason.

Currently, the solids that melt, according to Bauman, are the links between individual elections and collective actions. The withdrawal of the public aspect from strategic activities sharpens the absence of predetermined and stable guidelines in this new privatized version of modernity. Accordingly, the collective structuring of new rules of the game and the responsibility of such process becomes a task to be accomplished by private actors.

Bauman states, on the one hand, that the power is evaporating upwards, toward the domain of extraterritorial businesses. On the other hand, he says that the policy is escaping toward the space of the market forces and the so-called «policy of life »: the space of individuals with faint alliances that carefully try —but with practically null results— to find private solutions to public problems.

This powerful metaphor of a fluid society that dissolves what has been instituted and is in permanent change, renders evident significant modifications in our conception of society and forces us to rethink the conceptual ideas being used.

b. The “era of access”

If we limit the scope of the analysis and observe the economic consequences of the liquid phase of modernity, we are also faced with paradigms in crisis and new relational plots that cannot be easily understood within the framework of the concepts that had been regularly used, to understand the context and manage our organizations.

Jeremy Rifkin, with his characterization of the “era of access” contributes a key idea to understand the revolution that is currently taking place in the new economy. It is a phenomenon that allows for observing how the strength of the so-called liquid modernity swept away concepts of solid economy that seemed to be unmodifiable.

In this new era of access, the markets, traditional place of encounter between supply and demand, are gradually leaving space for complex and gigantic networks of suppliers and consumers where a much greater value is assigned to the possibility of accessing rather than possessing goods.

Given that the market as an institution is also experiencing the solidity crisis, it is to be expected that the concept of property may be revised. In a world of personalized production, continuous innovations and improvements and a dramatic reduction of the life cycle of products, it is senseless to retain and accumulate goods that almost immediately become obsolete or outdated.

If we continue with the argument, it may be seen that the physical (or solid) property may be gradually relegated as compared to intellectual property. Concepts, ideas and images, as symbolic matrices for the

production of other goods, acquire primacy vis-à-vis the goods themselves. In a world ruled by virtuality and computerization, the basis of wealth is displaced from the accumulation of physical capital toward the potential of human imagination and creativeness.

According to Rifkin, in the near future, economic activities will be progressively related to commercialization of several cultural undertakings, relegating that related to goods and services that originate in the traditional industry. Tourism, amusement centers, games, fashion, audiovisual means and virtual spaces will be the axis of a new capitalism that concentrates its commercial activity on access to cultural experiences.

This change in focus implies a significant move from physical production to cultural activity. One cannot expect neutral effects therefrom, since the new economy will concentrate on the last sphere of human activity that remained to be commercialized: the culture.

With a clear strategic vision, Rifkin makes two warnings which we consider essential:

- 1) His doubts as to whether civilization may survive the significant reduction observed in the role of the State and the commercialization of culture. In fact, the dissolution of the centers of political power and the identification of the culture with a commodity, place trade in the place of an all-understanding mediator of human relations. Accordingly, it is not difficult to observe that cultural production will gradually be subordinated to the profit-making principle.
- 2) His concern for the fate of cultural resources which, in the hands of trade run the risk of excessive use and exhaustion similar to those experienced by natural resources during the industrial era.

c. Strategies

Finally, vis-à-vis the two powerful interpretations of society and its current trends, it is necessary to ponder on the context to which we belong and wherein we must act. If the previously stated opinions should not be understood as dogma, they should be taken as a warning, especially when defining our strategies.

By way of complement, it is necessary to evaluate and bear in mind the impact which poverty, illiteracy and social exclusion have on our

societies. It is as if there were a world that moves toward that which is fluid and intangible and another, where the absence of minimum levels of access to subsistence erode social coexistence.

From this provisional and preliminary attempt at characterizing the trends of current society and describing the role of our tax administration in the phase of the modernity we are currently experiencing, it would seem interesting to point out what could be considered as two main conclusions:

- a) Our role is that of social creation. This means that it is not limited to merely technical knowledge and, accordingly, we will be capable of a better performance to the extent we know more about the current situation and the main projections of its evolution. We must overcome the trend toward autism and extend our reflections toward the social area, through the use of a prospective approach that may eliminate the common methodological error of considering the future as a linear projection of the past.
- b) We must seriously commit ourselves to the strategic reconstruction of the State. If the condition of our times, is liquidity and access, we should not deny, on the one hand, the age wherein we have to live, or on the other, the state mission of guaranteeing public order, compliance with the law and protection of rights. In this sense, liquidity has not produced a better alternative than the State for living together.

3. FINAL REFLECTIONS

We deem it of utmost significance that CIAT include in its efforts, the reflection on the role of the tax administration in society. In a context characterized by the instrumentation of thought and by technical specialization, one usually does not take time to overcome the juncture and reconsider the profound tendencies of social changes that will accompany our managerial efforts as officials politically responsible for our organizations.

In our presentation we opted for a simple methodological scheme that initially tried to describe how the central objective of voluntary compliance is threatened, not only as a result of the typical relationship of conflicts and tensions that characterize our interaction in society, but also by the antinomies that are ever present, in spite of their different

impact on the various socio-economic realities represented here.

In order to expand the analytical framework we have incorporated recent socioeconomic visions that allow us greater conceptual scope and, fundamentally, to revise paradigms together with thinkers that travel along the borders of knowledge.

To sum up what has been said up till now and referring specifically to our tax administrations, I would like to highlight the following considerations as final reflections:

- There is no doubt that the best contribution which the tax administration may make as an indivisible part of society is to promote voluntary compliance. This activity generates institutionalization and likewise implies an effort for intelligently balancing the application of the law with the exercise of educational, facilitating actions and commitment to integrity that may evidence the symmetry in efforts and the participation of all those involved.
- A lesson resulting from the examination of important opinions about the foreseeable evolution of life in society is the urgent need of passing from a reactive attitude to systematic pro-activeness. Only thus shall we prepare our administrations to manage the fluidity that surrounds us and the complexities of a new economy, that is continuously de-territorialized and moving toward the structuring of networks and modes of operation that have already begun to modify the characteristics of the market and the forms of appropriation.
- In spite of having a shared diagnosis on the internationalization of the context wherein we must act, we have not moved forward in our need and commitment of mutual cooperation, especially with respect to the exchange of information, at a pace that may be compatible with the acceleration of the environment. Public organizations separated and regulated by norms of the solid phase, cannot provide a satisfactory answer for controlling international transactions and the tax planning strategies promoted by the speedy typical changes of liquid modernity.
- Likewise, within our countries we must undertake initiatives in the area of communication. Some of the antinomies that we have discussed originate from massive ignorance of our functional responsibilities and normative limits. Therefore, we must make

public opinion aware of the clear differences existing between the administration and tax policy. Also, we must encourage concern and public discussion about the social function of taxes and legitimize management with an integral dissemination that may guarantee accountability of all our activities.

- CIAT is a key area for the discussion of these issues. Its composition allows us to bring up different types of experiences in varied economic-social contexts and to systematize achievements and failures. Today, more than ever, we must strengthen and expand the institutional and personal contacts of the top levels of our organizations, in order to improve our capability of response and to keep abreast of the times.
- We find ourselves at a historical juncture where we may strengthen the institutional identity of CIAT by means of shared commitment and efforts. If this is not done, our viewpoints and interests will be diluted in supranational organizations wherein our objectives will not necessarily be predominant and we will have lost an excellent opportunity for anticipating ourselves to undesired futures.

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TOPIC 1

**THE PURPOSE OF TAXATION AND ITS
DISSEMINATION IN SOCIETY**

Lecture

TOPIC 1

THE PURPOSE OF TAXATION AND ITS DISSEMINATION IN SOCIETY

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CONTENTS: 1. Introduction.- 2. The Original Objective: Sustainable Financing of the State.- 3. The Political Purpose: the Ruler-Ruled Relationship and the Citizen-Taxpayer.- 4. The Economic Purpose: the Allocating and Stabilizing Functions.- 5. The Social Purpose: the Re-distributive Function.- 6. Taxation and Morality.- 8. How can the Tax Administration Promote Social Acceptance of Taxes?.- 9. Conclusion.

1. INTRODUCTION

Among the greatest powers granted by society to the State, there is the power to tax. Taxation is included within the nucleus of the social contract established by the citizens among themselves to achieve the common welfare. In that sense, the power to tax is at the origin of the State or Political Entity, since it allowed men to cease living in what Hobbes defined as the *natural state* (or the pre-political life of humanity) and to become a *de facto* society, and manage it by means of a government as well as finance it, thus establishing a clear relationship between the ruler and the ruled.

Accordingly, taxation can only be understood in accordance with the need of individuals to establish organized social co-existence and manage public property through the concession of power to a Sovereign. Thus, in order for the power of taxation to be legitimate, it is necessary (although not a sufficient condition), that it originates from the State, since any private form of taxation would be comparable to encroachment or theft. It is precisely because of its role to achieve social welfare that taxation is given the power to restrict the individual's economic capacity in order to create social economic capacity. That is, the power to tax is justified within the concept that the collective welfare prevails over individual interests, especially because if the State would not exist, there would be no guarantee for private property or the preservation of life.

The possibility to restrict personal income and property, by reducing consumption and the accumulation of wealth is what allows taxation to be at the level of such strong state powers as the maintenance of internal order and the declaration of external war, as well as applying sanctions to individuals. Simultaneously, perhaps it could be said that from all powers originating from the State, taxation is essential or at least, the most important one, because without it, there would be no way to exercise the others.

Therefore, taxation arises to provide the common welfare, due to man's need to associate himself and create a political life. It originates from man's willingness to live in a State, according to the Aristotelian vision that the State is a natural institution and the largest of human associations¹. Thus, on originating for the main purpose of financing the State as a desire of the whole community, once established, taxation acquires a scope that transversally influences all aspects of life in the *Polis*, since it is one of the most powerful public policy instruments whereby the governments express their economic, social, political and even moral ideologies.

For example, the amount of the tax burden – and the subsequent allocation of resources in the economy – may indicate the weight that a specific society may attribute to more individual or collective values. Its composition – or the distribution of its cost among the various social segments – may give an idea of the prevailing values of equity and social justice and the role of the State in influencing it or not. In addition,

¹ Stephen Everson, pp. xx-xxi, "Aristotle's claims that the state is natural and that man is a political animal amount to the same thing. It is only as a citizen of a state that man can achieve the good life and this is what shows that he is a political animal; he is naturally willing to live in a state. The state is the association that allows him fully to realize his natural aptitudes".

many times in history that cost was not even internally borne, but rather deliberately pillaged from the people that were conquered through wars or colonization. In that sense, the so-called relationship between taxation and democracy is a recent notion in our political evolution.

In fact, perhaps no other issue may have been the focus of political, social and economic attention as taxation, because, to talk about taxes is to talk about man's collective life – and, accordingly, of the ideal society we dream of. It is by no mere chance that taxation has been the essence of social revolts wherein the ruled wish to show their disapproval or rupture with the ruling class. To fully understand the current relationship between taxation and society there should be a wide vision of the powers of the State and the various purposes of taxation that are interconnected to the complexity of collective life.

In that sense, to reduce taxation merely to its collection power implies ignoring its strength, since financing of the State is not exhausted per se. On the contrary, it is rather the power to finance the State that projects taxation on many dimensions of collective life. The formulation of any tax policy that does not consider such projection into account will be destined to reduced collection and to myopia of the strategic vision that may be capable, within long term, of rendering it unfeasible.

This paper then, endeavors to analyze extensively the purpose of taxation and its dissemination in society. We will begin by examining the multiple objectives of taxation, which are: the original objective or financing of the State; the political objective, or the establishment of the link between the ruler and the ruled; the economic objective that involves the allocating and stabilizing functions of the government; and the social objective or, the government's re-distributive function. Also, to be discussed is the moral dimension of taxation, which must be present in order that it may effectively fulfill its multiple objectives. Lastly, we will try to identify the factors that allow for a greater social acceptance of taxation, by highlighting, in particular, the actions in the tax sphere that may encourage such acceptance.

2. THE ORIGINAL OBJECTIVE: SUSTAINABLE FINANCING OF THE STATE

Undoubtedly, the essential objective of taxation is to finance the State because, without resources, the State cannot exercise its minimum responsibilities. It is in that sense that taxation gives life to the Public

Entity and establishes a clear relationship between the ruler and the ruled. According to Hamilton, writing in the *Federalist Papers* and collaborating to develop the American Constitution, *“Money is, with propriety, considered as the vital principle of the body politic; as that which sustains its life and motion, and enables it to perform its most essential functions. A complete power, therefore, to procure a regular and adequate supply of it, as far as the resources of the community will permit, may be regarded as an indispensable ingredient in every constitution. From a deficiency in this particular, one of two evils must ensue; either the people must be subjected to continual plunder, as a substitute for a more eligible mode of supplying the public wants, or the government must sink into a fatal atrophy, and, in a short course of time, perish.”*

In this text, Hamilton touches on two important aspects. First, that taxation is the sap of the State, and thus determines its life or death. Second, that in case taxation were not clearly defined and legally and legitimately accepted, other financing instruments – much more traditional up till then, would continue to be used, as were pillage and exploitation throughout the centuries.

It is thus noted that taxation is not the only source for contributing resources to the public treasury. However, when used within the legality and capacity limits of society perhaps it may be considered as the most adequate in terms of long-term sustainability. It is precisely for this reason that taxation has been the source of resources most extensively used by modern democratic States. The way of financing the State evolved to the extent that its own political, economic and social structure moved toward politically democratic, economically self-sustainable and socially more equitable systems.

Accordingly, the question to be posed is why a country deliberately subjects itself to the unpleasant experience of collecting taxes, as it occurs today²? The question is interesting because it might seem there is no doubt that taxing their own people has been the traditional source of political weakening and of the downfall of regimes. Therefore, it would be natural to expect that governments would have used alternatives to taxation. In fact, throughout history, the countries have been using several sources of resource generation, many times with the clear intention of minimizing the direct collection of taxes from the people. The most common alternate sources have been pillage; minting; internal or external indebtedness; the

² This question was posed by R. Bird, in “A Primer on Taxation and Development”, p. 3

sale of goods and services produced through public power; and the direct control of national resources³. Each one of these sources, as well as taxation itself, has its economic, political and social limitations, and each government depending on its historical possibilities, chooses one, or a combination of them to finance itself.

Pillage or Taxation of Other People

To finance oneself with someone else's resources has been a brilliant and widely used political strategy of many governments. Machiavelli already had advised that a prince must be careful with what belongs to him and his subjects, but liberal with what belongs to others. *“Either the prince spends from what is his own and his subjects’ or from what belongs to someone else. In the first case, he should be sparing; in the other, he should not leave out any part of liberality. And for the prince who goes out with his armies, who feed on booty, pillage, and ransom and manages on what belongs to someone else, this liberality is necessary; otherwise he would not be followed by his soldiers. And of what is not yours or your subjects’ one can be a bigger giver, as were Cyrus, Caesar, and Alexander, because spending what is someone else’s does not take reputation from you but adds it to you; only spending your own is what harms you.”*⁴

This type of financing, in general made with gold, natural resources or forced work was the basis for sustaining several political regimes and even one of the reasons for wars seeking the expansion of domains and for the discovery of the new world. The financing of the Athenian “democracy” itself was based on slavery. Mercantilism was based on the pillage of the colonies as a way of sustaining the treasuries of the metropolis. Thus, it is interesting to point out that there is necessarily no strict correlation between taxation and citizenship, at least throughout a great part of our history.

However, on shattering the notion between taxation and citizenship, the use of pillage affects the legitimacy of the social contract and thus, the financing of the State can only be possible, based on extreme force. The use of force, in turn, generates an appropriate environment for revolts and, ultimately, the discontinuity of the very source of resources. Accordingly, it is an easy solution but one of low sustainability and no longer has a place in the modern world.

³ Poorer countries still have international aid, either in money, or in direct donations of goods and services as source of financing.

⁴ Harvey Mansfield (p. 64)

Minting

The issuance of money is another alternative of resources, although it is not sustainable within long term. The issuance of money, in addition to the capacity for absorbing the economy generates inflation, which may be considered a pseudo-tax – and perhaps the most regressive of all, since the poor have no means of monetary correction for protecting themselves from the continuous increase of the prices of goods and services. Those countries that experienced hyperinflationary processes, as Brazil itself, are very aware of the negative impact of inflation on the economic structure and sustainable development.

At the same time, the issuance of money does not perform the macroeconomic stabilization functions allowed by taxation – and here we can see the expansion of the goal and purpose of taxation. The tax, precisely because it takes away acquisition power from the population may be used in the control of prices by helping the monetary policy to control liquidity in the economy. As was mentioned by Bird⁵, in a different interpretation of the purpose of taxes, *“taxes are needed not to provide governments with money but to take money away from the public”*.

Indebtedness

Another traditional source used to finance the State is indebtedness. The greatest restriction to the use of indebtedness is also long term sustainability, since many countries reach a very high debt/GDP ratio, which results in a large amount of interest to be paid, in addition to the difficult access to credit in the international markets. However, it is important to point out that debt merely implies transferring the payment of current taxes to future generations⁶. The option of indebtedness is not precisely an alternative to taxation, but merely its postponement, considering that the country must fulfill its commitments. In this way indebtedness, is similar to pillage, in the sense that both impose the obligation of financing on others – either in jurisdictional or temporary terms⁷.

⁵ A Primer on Taxation and Development, p. 4

⁶ For greater details see Ricardo's theorem of Equivalence, which says that the State's financing based on indebtedness, has identical economic effects to State financing based on taxation.

⁷ There is a lengthy discussion about indebtedness. On the one hand, there are those who say that that, if expenses to be financed through debts will bring benefits to future generations, indebtedness would be justified on moral bases, and our children and grandchildren must pay more taxes for that reason. There is another trend that states, however, that precisely because of the moral responsibility with future generations, one cannot expect them to finance that on which they did not give their opinion or define as a social priority.

Sale of Public Goods and Services

Another alternative to taxation is that the State sell its goods and services by making them available to the population, much like the private market does. That is, why does Public Power opt for taxing and not setting a price to its goods and services? It is interesting that people have a much more positive perception of the price system, even though it excludes part of the population from the possibility of consumption, even of goods considered basic, than of the tax system. The response calls for a better definition of the tax and its differences with respect to the price.

The tax is a compulsory contribution which, based on a broad economic definition, may be paid with goods, forced services or money which the people must give their governments, without any direct consideration in terms of benefits received. According to that conception, the tax also includes the goods and services that the State has the power to acquire and pay at below the market prices, such as, for example, compulsory military service. It is compulsion and the lack of a clear relationship between the payment and the benefit received that distinguishes the *tax from the price*, and allows for doubting its legitimacy and appropriate level and limit.

There are at least two reasons why the State cannot sell all its goods. First, through its own definition, the State administers public goods that, since they are intended for all, cannot be excluded from individual consumption, even in the case where the individual does not pay his price. A traditional example in books on public finances is national defense. If part of the citizens would not want to buy it, even so, they would be automatically defended in case of a war, financed by their neighbors who assumed the entire cost of collection. It is precisely to avoid these *free riders* that the tax is compulsory for everyone. Second, with respect to certain items, even with capacity for exclusion – such as education or health, for example- the State appears as supplier in accordance with its social responsibility, given that, if the price system were barely used, part of the population (the poorest) would be excluded from the consumption of such goods, affecting, within long term, the very notion of society, and certainly generating negative externalities to the entire population. Thus, even though it is feasible and even advisable that the government in some situations sells part of its goods and services, or accepts partial payment, it is impossible to imagine the complete substitution of the tax for a price to finance the public's welfare.

Direct Control of Economic Resources

Lastly, there is still the possibility for the State to manage directly economic resources, which occurs at specific moments such as wars, or in purely communist societies. Interestingly it is in those economies that collectivism reaches such an extreme point that it comes to dispense with taxation. It is as if the tax burden would increase gradually, until reaching such a high level that it would no longer be justifiable to bear the dead weight of the transfer. Accordingly, it would be more rational for the State itself to produce and distribute everything. However, that model turned out to be economically inefficient throughout the XX century and it would appear that at present, it is not an alternative to be considered for state financing.

In sum, there are several ways of providing resources to the public treasury, but currently taxation is the most widely used one. This is so because, even though taxation may also imply evils such as economic inefficacy and social injustice, it still seems to be, when correctly conceived and legitimately applied, the most sustainable source for modern economies. First, because it is the only source which in the case of being sustained in a legitimate social contract, allow for establishing a clear relationship between citizenship and social responsibility. That relationship is nonexistent if the State is financed with inappropriate resources, whether it be through pillage or debt. Secondly, experiences with financing based on inflation, indebtedness and the sale of goods and services, show that such sources, separately, are not capable of generating sufficient levels of resources for responding to the current need of most countries – generally, above 20% of GDP. Accordingly, they are more appropriate as complementary sources of financing or to be used in specific situations. Lastly, in particular pillage, inflation and debt face serious problems of self-sustainability, because they lead other people to rebel or the economy to become internally unstable. When taxation is legitimate and maintains appropriate levels, it does not necessarily generate its own exhaustion and does not depend on external concessions⁸.

⁸ Currently, there is an academic discussion that causes considerable and effective empirical concern regarding the maintenance of taxation in the sphere of globalization – in keeping with what is known as the *vanishing taxpayer*. At the extreme, there are positions such as that of Lord William Rees-Moog and James Dale Davidson who, in the book *The Sovereign Individual*, state that Internet will facilitate tax evasion to such an extent that, instead of the sovereign State, we will have the sovereign individual and thus, the State will be condemned to death by tax starvation.

3. THE POLITICAL PURPOSE: THE RULER-RULED RELATIONSHIP AND THE CITIZEN-TAXPAYER

At the political level, since it is at the *core* of existence of the State, taxation may be defined as the bond between the ruler and ruled in a bi-univocal sense. On the one hand, the fact that someone may have the explicit power to tax others provides for the existence of a kingdom (in a broad sense) and even determines its extension and scope. In other words, no sovereign may tax those who are not subjected to his power, whether it is that exercised legitimately or by force. On the other hand, the fact that someone pays taxes to a Sovereign establishes the maintenance of the social contract, as well as the agreement or need of subordination thereto. As long as taxes are paid, there will be a dependency relationship, between society and the State, whether it is agreed to or not.

Thus, taxation is an essential link between the sovereign and subjects and establishes a political relationship between them. However, it must be necessarily clarified that such link is not precisely democratic. Pillage or taxation by force, without democratic consent, was exercised throughout the centuries by the rulers, with respect to other people as well as with respect to their own people. As far as political evolution is concerned, what happens is that said basic link comes to reflect different values as one moves from slavery or absolutist regimes toward representative democracy.

In fact, the relationship between taxation and democracy was neither used nor desired throughout a greater part of history. In fact, the term democracy itself barely came to acquire its current sense, at the beginning of the XX century by part of the developed countries⁹. A greater part of the developing countries still continues to experience partial or unstable democracies even up to these days.

Within said reality, the wide notion of taxpayer had not direct relationship with the strict notion of citizen. On the contrary, the select group of citizens, or the political and economic elite of societies held power to devolve the obligation to pay taxes, upon the poorest and voiceless, which was the large group of taxpayers. For this reason, there was little awareness of the notion of citizenship with social responsibility. The acclaimed citizen-taxpayer relationship seemed to arise in a more structured manner with the French and American revolutions – not by mere chance, but rather both of them partly motivated by the abuse of the power to tax, either by the sovereign himself or by outside rulers.

⁹ Until then, the vote was a privilege of restricted groups, selected through such varied criteria as race, sex, property ownership and literacy.

In the United States, during the revolution, the property ownership criterion came to be substituted with the payment of taxes, in order to acquire the right to vote. Ironically, the idea was not to establish a broad connection between the voter and the taxpayer, but rather to preserve the connection between the financial *status* of the individual and his capacity to vote – precisely to restrict the universal suffrage. This was ever clearer to the extent the greater the restrictions regarding the type of tax the voter had to pay (in general, taxes on property¹⁰) or its minimum amount.

However, the expansion of the right to vote given to all taxpayers was a natural evolution. The logic was that all those who paid taxes had the right to defend themselves against unfair government policies. In addition, denying the vote to the taxpayers came to be understood as an incentive to anarchy and to tax evasion. As Keyssar¹¹ observes, accordingly “*the logic of ‘no taxation without representation’ had a domestic as well as anti-colonial application.*” It is also very interesting to note that over one hundred years later, women, especially the owners of land, in the struggle for their right to vote (achieved in the United States in 1920), also adopted the same *slogan* and refused to pay taxes as long as they were denied the vote. Keyssar gives an account on the Smith sisters, from Connecticut who, in 1869, refused to pay taxes on their land, as long as they did not have the right to vote, thus forcing tax collectors to go to their property and confiscate the cattle to pay the taxes owed. Nevertheless, they were never given the right to vote and the Connecticut courts did not endorse the argument that taxation and citizenship should go hand in hand.¹²

On the other side of the Atlantic Ocean, in 1789, the Declaration of the Rights of Man and the Citizen explicitly stated the following in its articles 13 and 14: “*For the maintenance of the public force and for the administrative expenses, it is essential to count on a common contribution that must be divided among all citizens in keeping with their possibilities*” and “*All citizens have the right to verify, for themselves or their representatives, the need for public contribution, to freely consent thereto, observe its use and determine the distribution, collection, recovery and duration.*”

There thus arises one of the most relevant notions in the modern democratic States, as of which a link is established between citizenship, legitimacy of the laws, social responsibility, payment of taxes and social

¹⁰ Observe that income tax had not yet been established. This tax was adopted in the United States in 1862.

¹¹ Keyssar, p. 13

¹² Ibid, p. 182

control. The traditional link between ruler-ruled acquires legitimacy by granting the taxpayer voice as citizen to endorse the social contract and to the citizen, the responsibility as taxpayer to ensure and verify the objectives of the collectivity.

4. THE ECONOMIC PURPOSE: THE ALLOCATING AND STABILIZING FUNCTIONS

The economic theory shows that the efficient allocation of resources maximizes social welfare. Taxation is one of the power economic instruments that governments have for executing their public policy and influencing the allocation of resources. According to R. Goode¹³, taxation not simply restricts the expenditure capacity of families and companies, but also influences the allocation of economic resources, recognizes social costs that are not reflected in the market prices and affects the distribution of income and wealth. Thus, taxation has a clear allocating, distributive and stabilizing purpose¹⁴.

Allocation of Resources

There is no doubt that taxation causes changes in the allocation of resources in the economy, altering the way in which they would be allocated in the absence of taxation and this occurs regardless of how small or neutral the tax burden may be. There are three reasons for such influence in economic allocation. First, taxation transfers resources from the private to the public sector – which has different priorities in the allocation of resources.¹⁵ Secondly, its rules, because they are not neutral in practice, generate distortions in the allocation of resources that benefit the activities that are more widely promoted in relative terms.

¹³ Goode, Richard, Taxation: A General Discussion in *Government Finance in Developing Countries*, p. 75, The Brookings Institution, 1984

¹⁴ The re-distributive function, although also influencing the allocation of resources and being the object of study of the economic theory, will be specifically dealt with in the sphere of the social purpose of taxation, section 5.

¹⁵ In addition to the public option per se of making allocating decisions different from the private option, in representative democracies we have the traditional problem of the principal-agent, since the representative does not necessarily express in his decisions de preferences of his constituents. According to Stiglitz, in *Economics of the Public Sector*, p. 158: "In private decisions the decision maker knows his own preferences. In public decisions the decision maker has to ascertain the preferences of those on whose behalf he is making the decision." e "Collective decision-making is difficult because different individuals have different views, for instance, about how much should be spent on public goods." With respect to the problem of the principal-agent (p. 202): "The principal-agent problem is simply the familiar problem of how one person gets another to do what he wants. Here, the problem is, how do citizens (the principals) get their employees, public servants (the agents), to act in their interests?"

Lastly, its own existence generates an obstacle, which is the loss of the dead weight of the tax that is ultimately not allocated and transforms itself into inefficiency. Accordingly, there is nothing like talking about a completely neutral tax policy and, accordingly, the allocating purpose has to be considered in the elaboration of the tax policy.

With respect to the transfer of resources, the level of the tax burden explains how much resources are being transferred and allocated according to a public option, and to the detriment of the private option of economic allocation. Such level is as great as society is willing to spend in public goods and services. The impact with respect to the allocating efficiency due to that public option is doubtful. On the one hand, such transfer implies inefficiencies due to the loss of the dead weight and possible inefficiencies in the government's own action. As is proven by economic theory, if the market fails, so does the government. On the other hand, the government participates complementing and even stimulating the participation of the private sector, in addition to implementing corrective actions. Accordingly, to choose between the larger or lesser burden depends on a country's more or less collective culture, but also of an analysis as to which combination between the public and private sectors is more efficient for the model in question.

In any case, although it may affect the neutral allocation of resources, extreme visions should not be assumed as that which says that taxation is opposed to property and private production, precisely because it takes away resources from the private sector and brings it to the public one. Or, that greater taxation necessarily implies stagnation of economic growth. As Brooks¹⁶ mentions, "there could be no property without taxation " and "one of the purposes of taxation is to allow the structuring of the private market". This is so, because the idea of a free, natural and self-regulated market is pure idealism. The real market is the result of structuring a complex regulation of the public sector, with laws and standards, including the right to property and copyright, and of the application of sanctions in the case of violation of contracts. Accordingly, the State and taxation exist to create the market and property and not to be against them.

However, it is worth mentioning that the allocating function of collection not simply refers to public allocation of resources to the detriment of private allocation, but above all, to its influence in the allocation of private resources as such, by means of economic incentives. Clear examples are the tax benefits granted to specific sections or regions, which show

¹⁶ P.50

the power of taxation for shifting investments, even while considering that there are more important influential factors, such as qualified labor, political stability and infrastructure. Other examples of how taxation influences the behavior of private agents are: *lock-in effects*, when high rates applied to capital gains, thus stimulating the longer permanence of money in long-term investment accounts, in case rates may be decreasing through time. There is also the trend to tend toward idleness to the detriment of labor, when marginal income tax rates may be too high. There are even more extravagant examples that do not necessarily involve economic allocation, but rather religious allocation. Thorpe mentions that one of the tools used by the Caliph to extend the Islamic empire was taxation. "The Caliph did not oblige his subject to be Muslims, but the Islam followers paid lower taxes. Millions became real subjects."¹⁷

Thus, taxation influences the direct and indirect allocation of resources in the economy, thus being capable of becoming an important instrument for promoting economic growth, if used correctly. However, if misused, it may also negatively influence the competitiveness of the companies and the allocation of resources. In many cases, as in the current tax competition for attracting direct foreign investments, the allocating purpose of taxation even prevails over the collection purpose. Accordingly, it has been frequently said that that such policy will lead to a *race to the bottom* type of effect and it is clear that the power to exempt is as desired as the power to tax.

Another purpose of taxation is to assist society in incorporating externalities to the price system, which are in themselves failures that the private market, in general, cannot manage to correct by itself. This occurs precisely because the private decision does not take into account the impact of its decisions on society and the extent to which such allocations may affect the collectivity. The classical example is the pollution that private companies tend to generate at a level above the social optimum, because they do not consider in their price the harm done to others. Once again, the tax may be used as a bridge that leads to transforming individual decision into collective ones. In this case, the tax is a means for incorporating in the price of a chemical product, for example, the externalities which the latter causes in the environment.¹⁸

¹⁷ Thorpe, p. 85.

¹⁸ This type of tax is called Pigouvian Tax, after the English economist A. C. Pigou, who defended the use of corrective taxation especially for the environmental purpose.

Stabilization

Taxes have a long-term macroeconomic stabilizing purpose because they contribute to control the level of aggregate demand, by compensating the natural economic cycles and the inflationary pressures. In the strong growth economic cycles, taxation allows for reducing the “heated” aggregate demand, by reducing the inflationary pressures resulting from the fact that the economy will be operating at full capacity. In recessions, the reduction of taxation may favor the renewal of investment and production, thus generating employment and revenues.

5. THE SOCIAL PURPOSE: THE RE-DISTRIBUTIVE FUNCTION

There is no way to separate taxation from the notion of social justice. Regardless of how one has been recently aiming at limiting taxation for achieving the redistribution of revenues, since its inception, taxation brings with it the distributive purpose as to who must sustain the State’s financing and how much he should collaborate. The notion of justice – regardless of how variable it may be from society to society – has been at the base of all revolts and reactions contrary to tax policy throughout history. Said otherwise, the perception of tax justice is one of the main sources of the legitimate acceptance of taxation and of its compliance by society. If the population were asked as to which should be the guiding principles of the tax system, justice most surely will be among them, and very probably in the first place. Taken to an extreme, this notion implies that when taxation is socially perceived as unfair, it involves the collapse of the social contract and turns thus into pillage or illegal confiscation on the part of the sovereign power.

There are several examples showing how the notion of equity is a sensitive and important issue for defining the tax policy. An example was the massive reaction of English society against the adoption of the *poll tax* in Margaret Thatcher’s administration – which, even contributed to her political defeat. *Poll taxes*, or *per capita* taxes, are considered economically the most efficient by not distorting the economic allocation. However, they are perceived as unfair, precisely by making the rich and the poor pay the same amount of taxes. There is no need for an extensive investigation to determine that most tax systems do not adopt this type of tax but, on the contrary, seek to adapt taxes with certain progressiveness.

Thus, in tax policy's *trade-off* decision between equity and efficiency, society has systematically shown its preference for the first. The reason for such preference may be explained through the State's own role – whose origin, as we have seen, is interconnected to taxation. To some extent, it seems clear that the private market has supremacy with respect to the allocating decision – that is, in seeking the efficient optimum allocation of resources through the price system. Here appears the notion of Adam Smith's invisible hand and, in some way, of the already proven inefficiency when the State comes to directly manage and control economic resources. On the other hand, there appears to be no doubt that the efficient allocating decision does not necessarily generate a socially acceptable as well as fair allocation. On the contrary, an efficient market allocation may result in having individuals who would not be capable of surviving. Social justice is something that seems the private market cannot ensure by itself. It is thus where the State enters to play its role in its distributive purpose and, even though there are many theories on distributive justice, very rarely do they afford the State the power of rendering revenues and wealth equal.¹⁹

Nevertheless, even after agreeing that the government must play a re-distributive role there is still a strong discussion as to why taxation should be an instrument whereby the State will fulfill its re-distributive purpose. Recently, there have been strong recommendations, especially to the developing countries where the distribution of income is quite concentrated, that taxation must be kept neutral and as a priority, expenses should be oriented toward redistribution. Many countries have adjusted their tax systems to this recommendation. In relation to this issue, there are three aspects worth mentioning.

First, it must be made necessarily clear that taxation and expenses are two sides of tax policy and strong indications as to the State and society's preferences in terms of equity. Obviously, it is not worthwhile to have progressively strong taxation and expenditure mostly oriented toward the richest classes²⁰. However, this does not mean that taxation should necessarily be neutral or regressive and the distribution of income fully complied or compensated through expenditures. A wise combination of

¹⁹ One of those exceptions takes place in Nozick's vision of the Minimum State, which alleges that the State's function should be simply limited to the protection of property and life. In his opinion, the State is not given the prerogative of distributing income in the way it is perceived by the individuals. The reason being that, any distribution made would be based on subjective value criteria that would have no moral validity on affecting the individual, whoever he may be.

²⁰ A good example of regressive expenditure is Brazilian public education, which invests in excellent public universities that are totally free (with no payment on the part of the students) and which mostly take care of the children of the rich classes, because the poor do not receive a quality basic education so as to have access to superior level education.

both policies may afford greater effectiveness to the distributive policy. According to Brooks, “*even libertarians have traditionally preferred that redistribution be achieved through the tax system as opposed to other forms of government intervention because the tax system preserves the basic processes of free exchange*”. That is, taxation has the advantage of affecting the distribution of income, although allowing the allocating decision to be made and strongly determined through prices. In that sense, the negative income tax itself, or any distribution of money to the poor, appears as the most efficient solution, rather than the distribution of goods or basic baskets. The consumer, rich or poor, should have sovereignty in his purchasing decision.

Third, it must also be made necessarily clear that taxation, although strongly progressive, will not be capable of separately solving serious distributive issues in developing countries, particularly the Latin American ones – which jointly have the worst distribution of income in the world. Other more effective instruments must necessarily be used, within long term, to change the profile of the generation of income such as investment in education. However, countries like Brazil, with a Gini coefficient close to 0.6, face a dilemma. If, on the one hand, they desperately need a better distribution of income to economically grow and avoid serious rural and urban social conflicts, on the other, they do not have sufficient taxable income to finance the State’s social and distributive responsibilities. Accordingly, they end up being financed through taxation on consumption – which has a regressive characteristic and further worsens the distribution of income.

In sum, the issue of distributive purpose of taxation is one of the most conflicting ones, on being very influenced by the social value judgment, regarding the concept of justice. Although such subjective values may be relative from society to society, our only certainty is that they have to be considered in the elaboration of tax policy. Failure to consider the distributive purpose and impact of taxation, regardless of what it may be, involves disregarding one of the basic principles that taxation must be just – regardless of what the concept of justice, which has been so socially acclaimed throughout history.

Therefore, it is necessary that any basic systematization dealing with tax equity be at least explained to society. For example, the tax system may endeavor to follow such principles as horizontal equity – where individuals with similar situations must be taxed similarly – and that of vertical equity – where individuals with different situations must be taxed

differently. One may argue as to which should be the distributive base of taxation: if it should be the payment capacity (those with greater economic capacity must pay more, regardless of what they may receive from the government) or the benefits received (individuals must contribute in proportion to what they receive from the State, regardless of what they earn or possess). In the case of payment capacity, how much more should be contributed by those who earn more? To what level of progressiveness would it be fair to tax without discouraging the wealthier to work more, to send their income abroad, or simply to evade taxes because, in their peculiar notion of fairness, they are more than proportionally sustaining the State? As Stiglitz says (p. 479), “*Although economists (or philosophers) have not resolved the basic issues involved in the choice of bases for judging fairness, still much can be said*”. What should not be done is to focus on the short-term collection purpose of taxation and to assume that fairness is not fundamental for the very sustainability of tax revenues within long term.

6. TAXATION AND MORALITY

From the previous analysis, there arises the depth and projection of taxation in various aspects of our collective life and the complex interrelationship existing between its different purposes. However, regardless of its purpose, since we are dealing with taxation in the sphere of the legitimacy of modern democracies, there is an ingredient that consolidates all those relationships, namely: morality.

However, the moral dimension is usually ignored in modern tax discussion. Morality involves the values that sustain our standards and regulations, the values that guide us, as society, to distinguish between what is correct and incorrect. Because of the fact that taxation is at the core of social coexistence, of common welfare and of the State, it cannot be separated from morality, from the values which society respects and which give origin to customs and culture²¹. However, there is very little said and written about tax culture, about the customs of each society with respect to this tax duty and about morality, or the values that sustain such culture.

²¹ According to Ríos (1993), p. 21, “In daily life we see that the concepts of ethics and morals are confused or identified. Not without any reason. If we go back to the etymological origin of the words, we find the words *ethos* (Greek) and *mores* (Latin), which both means custom, way of being. Custom refers us to cultural creation. There is no custom in nature. Custom causes the establishment of a value for the human action created, verified by men themselves, in their relationship one with another.”

In an article that precisely points out the lack of a clear definition of tax culture in the literature and in modern debate, Nerré states that tax culture is part of the national culture – that is created and modified in keeping with history and the moral values of a nation. According to the author (p. 288): *“a tax culture specific to a particular country emerges – coined by the tradition of taxation (e.g. an accentuation of [in]-direct taxes) on the one hand and by the interaction of the actors and the cultural values like honesty, justice, or sense of duty on the other hand”*. In that sense, Nerré proposes a definition of tax culture: *“A country-specific tax culture is the entirety of all interacting formal and informal institutions connected with the national tax system and its practical execution, which are historically embedded within the country’s culture, including the dependencies and ties caused by their ongoing interaction”*. These actors include the taxpayers, tax administrations, the most diverse “experts” such as attorneys, economists and accountants that work with taxation, academic experts and politicians. The relationship between those actors is part of the national culture and brings with it the values – the morality – in the treatment of the tax issue.

It is precisely on the basis of the moral dimension that a society must judge tax evasion, contraband, corruption within the sphere of the tax administration, the approval of tax laws that seek to benefit certain economic sectors in exchange for political favors, among other “practices” that are common in our reality. The existence of such a power instrument as taxation, with noble and multiple purposes in our society is worthless, if in practice its moral values are degraded and it is reduced to being an instrument of individual privileges.

There are countries where the generalized practice is tax evasion, corruption in their governmental entities that culturally began to accept such condition as “natural”. Under those conditions, taxation loses its social intention to seek the common welfare and again is transformed into pillage, an instrument where the strongest or the sharpest receives individual privileges to the detriment of the rest of society. There is a rupture of the link that makes taxation an instrument of cohesion and social responsibility, of citizenship, of allocation of resources for the purpose of sustainable development, of stabilization and self-protection throughout the economic cycles, of fair distribution of income. In the absence of moral values, it is reduced to a means for the exchange of particular interests and benefits – and gives way to a contrary reaction on the part of society, to revolt against governments, to generalized civil and tax disobedience.

Indeed, the practice of evasion is not only a matter of morality, but rather of a country's own economic structure and the effective application of sanctions against taxpayers and public officials, only to mention some of the most common factors. In the same way, tax evasion not only degrades the tax culture of a nation, but rather when it is generalized, it also affects the allocation of resources, competitiveness between companies and the equity of the tax system. In other words, evasion ends up affecting other purposes of taxation, not only collection. This issue is well synthesized by Tanzi:

“The policy implications of tax evasion would be quite different depending on whether evasion is an individual or a social phenomenon. A single tax evader in a country of honest taxpayers typifies the behavior of just that individual. However, a tax evader in a country where tax evasion is a national sport is a somewhat different phenomenon. Tax evasion has implications for the efficiency of the tax system, for both its horizontal and its vertical equity. It has implications for the efficiency of the tax system and even for the competitive market framework. For example, it is impossible to have pure competition when some of the sellers can evade taxes, while others cannot. In this case, the former will be able to undersell the latter. Tax evasion affects the productivity of the tax system reducing the amount of revenue that could be raised given the statutory system. It affects the general attitude of citizens vis-à-vis the government, often building cynicism about the role of the public sector. Often it affects even the statutory system in the sense that the tax laws begin to anticipate the tax evasion by particular groups and try to penalize tax evasion by increasing the tax rates for those particular groups. This often results in increased horizontal inequity since not all the taxpayers in those groups behave like the average.”

Accordingly, taxation cannot be separated from morality as we have seen in many countries. It is not sufficient that the law provide for a democratic system and a tax system, for taxation to be legitimate and socially accepted. It must necessarily be combined with the values which society deems correct and good. Perhaps it is no coincidence that religions – that preach values in the sphere of morality – have stated their opinions on tax aspects throughout history.

The most recent example was a book published by the bishops of England and Wales entitled: “Taxation for the common Welfare “. The church itself inquires as to its role in the tax debate and its answer is morality. *“Debates about the levels and incidence of taxation are part of the staple diet of political discourse in our society. They are issues on which our political parties will often hold sharply differing views. What is it, then, that a Church might have to add to the debate? The answer is a moral context. What*

is often missing from debates about taxation is a realisation of what taxation represents in terms of a shared commitment as citizens to building up a society that serves the common good. [...] Rather, it aims to call attention to something that is recognised by all but rarely articulated - that taxation is a sign of social health, and a moral good. Our willingness to pay it is a sign of our solidarity with one another and of our humanity.”

Other cultures, literatures and religions express the same concern with reflections about the moral nature of taxation. Living in a perturbing period of Chinese history, in a society traumatized by war and disorder, Lao-Tzu, old and learned man decides to leave his country. Precisely at the border, a customs official stops him and inquires about his teachings. He then decides to go back and write the Tao-te Ching, classical work of Chinese literature where he criticizes the social values of his time. With respect to taxation, he says that “People are hungry when the strong and powerful collect excessive taxes: that is why he is hungry “, phrase which reflects the disorder caused when taxation comes to be used by the “strong and powerful” for their own benefit.

7. HOW TO PROMOTE ACCEPTANCE OF TAXATION BY SOCIETY

Based on the theoretical structure developed in the previous sections, it is possible to begin reflecting on the means existing for favoring the acceptance of taxation by society. It is, based on a broad and systematized understanding of the nature of taxation and its purposes that we may understand how something that is compulsive may be accepted and, even, voluntarily paid by society.

It is essential to rescue the notion of the tax as an instrument legitimately given to the State, through a social contract in order to achieve common welfare. It is precisely the rupture between the payment and direct benefit – that exists in the very definition of the task, in contrast to the notion of price – which must be restructured when moving from the individual perception to the social perception, thus assuming a shared notion of collective responsibility. To this end, it is essential that society participate in the public option and that it be informed and benefit from the goods and services provided by the State.

There are some fundamental issues that must be promoted and be present in the elaboration of the tax policy, in order that society may more easily accept the tax. They are related to the purposes and uses of taxation that were previously systematically described.

Politically, it is important that society have a clear notion of taxation as a legitimate link between the ruler and the ruled, and that the State respect such link in keeping with the democratic restrictions and controls, that the population perceive taxes as a means for structuring common welfare, wherein all must participate in its selection, monitoring and benefits.

Economically, the most important thing to facilitate social acceptance of the task is to clearly communicate why the tax system is designed in a certain way, what is its long term objective, why certain sectors pay more than others, why are there exemptions and benefits in force, or why they are being abolished, and how such decision will contribute to the country's development, etc. That is, aware that the tax system affects the allocation of resources, the government must inform society, why the latter was designed to influence in the original economic allocation (neutral in the absence of taxation), in a certain sense and how in fact, it has achieved its objectives. Undoubtedly, no matter how complex a tax system may currently be and how difficult it is to isolate its economic variables and impacts, at least the logic behind its main guidelines must be clear, coherent with the country's reality, there should be an objective as far as long-term development is concerned and it should be effectively communicated to society.

Socially, the fundamental issue is equity and the notion of tax justice. It is true that in theory, there is no way to define justice, but in practice, every society knows and responds when the tax system comes to be seen as unfair. The issue of equity and justice is not very different, in practical terms, from what we discussed before about the economic aspect. The government must be clear as to why the tax cost must be socially distributed in a specific manner and what to do to make it fairer and more coherent with the distribution of the country's income. Such information must be effectively transmitted to society.

Morally, society must perceive that the tax system is administered in keeping with the highest values of honesty, uprightness, integrity and the impartial application of the laws. Precisely because of the fact that taxation deals with money and it may give way to behaviors that affect the aforementioned values, it is one of the government areas that should be guided by good example and the punishment of any offense against the appropriate use of public resources. On the one hand, it must be shown that the public machinery as regards tax treatment (tax administrations, legislative body, policy formulating entities, etc.) is concerned with being exempt from corruption and the application of private privileges, including the permanent monitoring and the application of sanctions to officials with

a proven irregular behavior. On the other, this same machinery must endeavor to punish the taxpayers' evasive behavior in an upright and fair manner.. Above all, actions should be undertaken for reducing informality and evasion, which in many countries affects a significantly high proportion of the gross domestic product. One should act and show that the economic elites are paying their contribution for financing the common welfare and that they are not left outside of tax control. Besides, the importance of ethics must be extended throughout the government, because the correct allocation of public resources, without deviations, is an important factor in order for society to accept taxation.

The most important actions to ensure that these goals are achieved are: representativity, legality, restrictions to the power to tax, transparency, accountability, respect for the social contract and its continuous adaptation to reality and effective social communication.

- Representativity.

It should be ensured that society has vote and voice with respect to taxation and that its representativity be legitimate. Representativity with respect to taxes has been a historic clamor and it should be taken into account even now, especially when we believe that because we are living in representative democracies one should no longer be concerned with representativity. However, there are still certain fundamental issues. First, when the legislative power mostly represents the interests of the economic elite, the latter may end escaping from taxation and those bearing the tax obligation may end without a voice to express themselves. According to Brautigam (p.11) , *“Taxation has to bite directly to stimulate calls for political change”*. Secondly, in order for the population to have a voice, it is necessary to have tax awareness and a strong notion of citizenship and that is where tax education comes to play its role. We cannot say we live in a full democracy if a greater part of the population is not aware of its rights and duties and does not even have any notion as to which taxes they pay and how much they pay. Third, if the Executive Body comes to legislate on tax issues by means of instruments with force of law, the legitimacy of taxation also diminishes.

- Legality and Limitations to the Power of Taxation

Taxation should be based on the law and respected, even in relation to tax exemptions and benefits. However, legality goes beyond. To the extent

possible, the law must be simple and with the lowest possible number of exceptions. The latter, for ensuring a broad understanding of taxation by society. In addition, a tax system based on treatments of exception may more easily conceal privileges to particular sectors. The laws should have stability, avoid constant changes and be clearly communicated to the population. Another important point is to establish legal limitations to the taxation power. As we have seen, the power to tax is one of the largest powers of the State and should allow the latter to reduce savings, consumption and the accumulation of wealth by individuals. Since it is so broad, the law should restrict it, in order to give individuals security as to how far the State may go in the use of its power.

- Transparency and Accountability in the Public Entity's Management

There is only one way in which society may know that its taxes are being, in fact, used for the common welfare: through transparency in the treatment of the information managed by the government, by the continuous rendering of account to the population. In this respect, it is important that there not only be transparency on the side of collections (that is, clearly indicating the amounts collected, their composition by tax, economic sector and region, the undertaking of economic and statistical research, showing who pays and how much he pays, among other things), but also with respect to expenditure. How are the collected resources applied?, in which project, region? How many benefited? Who were the beneficiaries? The taxation-expenditure relationship is one of the most important to guarantee social acceptance of the taxes because, in general, the population tends to duly comply with the tax obligation when it is satisfied with the government's performance. When expenditures are not duly applied and managed, the population sees no results from the taxes it pays and comes to think that it is worthless to invest in something that affords no return. It is merely through the rendering of accounts that the taxpayer may perceive that the tax he pays is actually being used for social welfare²².

²² On the other hand, the individual perception is merely that "I pay too much and receive nothing in exchange." The truth is that the poorer the country and the more concentrated the income, the greater the social deficit and, in fact, the richest pay to mitigate poverty – and taxpayers will have very little perception that they are receiving something in exchange. In Brazil, for example, even though the top-level classes may pay taxes on sales and on income, the level of public services offered to those classes are of a poor quality – since they have to be distributed to the entire population. Thus, the wealthier classes must continue to pay for private education and health, for example.

- Respect for the Social Contract and Adaptation to Reality

Taxation, as a social pact carried out and voted under certain historical conditions, must always be supervised so that it will not lose its adequacy to the socio-economic reality in force. According to Schumpeter, “*every tax ideal has got its historical, economic and sociological boundaries*”²³. In that sense, it is essential that the government be willing to analyze and reconsider it, if the tax laws are no longer aligned with the “real world” and society begins to demand changes. There are many examples in this respect. In the past decades, the main economies of the world have been changing their structure, from industry-intensive to service-intensive. However, if current taxation – which was designed for a physical and industrial production environment – does not adapt itself to capture the intangible operations originating from the service area, there will clearly be a lack of adaptation between the laws and reality, thus affecting one sector to the detriment of the other. Another common example is that of the taxation of nominal values in inflationary environments. Many times the government, due to collection issues, does not readjust current values in the tax laws in spite of inflation. However, to encumber further the taxpayers because the acquisition power is devalued is also a clear inadequacy between the laws and the country’s economic reality. There are several examples with respect to tax benefits. Many of them granted under the argument of protection of the new industry or less developed regions continue to be perpetual, even decades after certain industries and regions have achieved economic maturity. These are privileges that are no longer justified vis-à-vis the socio-economic reality, but taxation continues to protect some to the detriment of others. In sum, the inadequacy between the tax law and a country’s socio-economic reality ultimately generates legitimate pressures for changes and reforms. If the government is not mindful, the perception of injustice and tax inadequacy will contribute to the non-acceptance of taxes by society.

- Effective Social Communication

Even for practitioners, taxation is not a simple matter in our times. It is complex legislation, formed by several levels of laws and infra-legal regulations, normally with many exceptions, documents and different payment terms. In general, any act of a tax administration, such as the cancellation of registration numbers, or the extension of the term for filing a return, affects millions of taxpayers. Accordingly, the

²³ Quoted by Nerré, p. 288

communication policy as regards taxation must be carefully planned and executed in order to provide information in a precise manner and within a reasonable period. In this way, involuntary errors and omissions by the taxpayers are avoided, as well as unnecessary lines in the tax administrations. Without clear, direct and effective social communication aimed at every public target, compliance with the tax obligation becomes more difficult and costly. It is thus necessary that society be informed about the tax system, that it correctly understands the logic behind that tangle of laws and regulations, that it may easily access information, statistics and studies on performance, cost and use of taxation.

8. HOW CAN THE TAX ADMINISTRATION PROMOTE SOCIAL ACCEPTANCE OF TAXES?

The tax administration is an entity where the State applies and exercises the taxation power entrusted to it. Since taxation is the basic link between the ruler and the ruled, the tax administration is an institution with the clear attribution of serving as a bridge between the citizen and the State. Undoubtedly, it is one of the most complex governmental bodies because it works directly and almost uninterruptedly with the citizen, considers issues as sensitive as the financial resources collected from the population, it must offer services, inform and orient, but at the same time must be strict and sanction whenever appropriate. Few bodies require so much time to decide as regards the dilemma posed by Machiavelli between “being feared or being loved”.

However, within said complexity few bodies are as important for the long-term institutional development of a country as the tax administration. Brautigam mentions that (p. 14): “*Studies of governance repeatedly point to revenue - raising as the foundation of state capacity. Kaldor’s 1963 analysis threw a spotlight on the link between state capacity and taxation: ‘No underdeveloped country has the manpower resources or the money to create a high-grade civil service overnight. But it is not sufficiently recognized that the revenue service is the point of entry; if they concentrate on this, they would secure the means for the rest.’*”

Accordingly, within its responsibility as classical State institution and aware of multiple purposes of taxes and their effects on the most varied areas of society, the tax administration should not barely act for the purpose of short-term collection, but rather the long term sustainability of financing. To this end, it must endeavor to promote the social acceptance of taxation and, although some of those factors previously listed that

encourage such greater acceptance are outside its immediate competency, there is much in said sense, that the tax administration may do in its sphere of action. Then, how can the tax administration encourage society to accept taxation better in that area which is under its competency?

In order that society may see the tax administration as an exemplary State institution that fulfills its functions and accept taxation because it trusts this institution, it must:

- conduct itself in accordance with the strict principle of legality and not abuse the power to tax under any hypothesis;
- where there is the opportunity for discretionary action (and such opportunity exists in any human organization), decide on the basis of clear, objective and transparent criteria;
- clearly transmit to its officials the principles of honesty, uprightness and courtesy in dealing with the taxpayers and effectively monitor and sanction the irregular and corrupt behaviors existing within it;
- effectively control and sanction taxpayers who practice evasion, in keeping with the law, showing impartiality in the application of the sanctions and not tolerating exceptions, that may end up affecting those who are honest and comply with their duty, according to the impunity of the transgressors;
- perform with efficiency and celerity in its acts;
- administer the tax system with the greatest possible transparency, through the dissemination of statistical data and information on the taxes collected by it, by observing tax secrecy and protecting the confidential information of the citizens and taxpayers;
- periodically publish its management report and explain the actions carried out and the results achieved.

In order for society to understand the importance and ultimate purpose of taxation and accept taxation on understanding the need to structure common welfare, it must:

- endeavor to disseminate and communicate to society the objectives of the tax system as regards its socio-economic impacts and its effects on the country's development, through studies, statistics, interviews, explanatory notes and other appropriate means;
- endeavor to disseminate and communicate to society, together with the government area in charge of the expenditure, where taxes are being applied, who are the greatest beneficiaries of

public investment and how the government exercises control over expenditures;

- promote and sponsor tax education activities, so as to show future taxpayers the importance of their contribution for financing social welfare;
- endeavor to have a direct dialogue with those who act as intermediaries between the tax administration and the taxpayer, such as attorneys, accountants and consultants, in order to inform them about changes in legislation and administrative procedures.

9. CONCLUSION

It seems paradoxical to talk about social acceptance with respect to something compulsory. After all, it is precisely the exercise of sovereign power for compulsorily taking the resources of the individuals what makes of taxation such a controversial and complex issue in our history. Therefore, its voluntary acceptance only appears possible by means of respect and full understanding of the social contract established and the clarification and correct understanding of the purpose and use of taxation. In other words, given that taxation originated in order provide common welfare, its social acceptance becomes easier to the extent the notion of collective structuring and social responsibility is disseminated in the population.

In that sense, the tax administration should act in a proactive manner, by not merely appearing as an entity that collects resources and reduces the taxpayer's economic capability, but fundamentally as a bridge between the capturing of funds for financing and the structuring of common welfare, to allow society to develop as a whole. As Brautigam states (p. 10), "Through its key role as the tie that binds the ruler and the ruled, taxation supports representation, accountability, and state capacity. Yet taxation and revenue are rarely mentioned as democracy and governance issues in developing countries. A concern with taxation should be at the core of development efforts, yet it is not."

Therefore, the tax administration, especially in the less advanced countries, should promote its resource collection mission to a much wider platform that may consider the various dimensions and purposes of taxation, its cultural and moral role, and importance for achieving sustainable development. The tax administration should ensure, together with the various segments of the population and other government

TOPIC 1

entities, that taxation may be effectively perceived as something that originates from and returns to society – with a value added. Moreover, as mentioned by Schumpeter, in his classical work: *History of Economic Analysis (1954)*, “*Nothing shows so clearly the character of a society and of a civilization as does the fiscal policy that its political sector adopts.*”

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Case study

TOPIC 1.1

**SOCIAL COMMUNICATION POLICIES AND MECHANISMS
AT THE SERVICE OF THE OBJECTIVES OF THE TAX
ADMINISTRATION**

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CONTENTS: Introduction.- Meeting the Developmental Agenda in Partnership with the Community.- Creating Awareness and Improving Access in Support of Compliance.- Tailoring Compliance Response and Communication to Taxpayer and Trader Behaviour.- Compliance approach.- Risk management.- Social communication methods and mediums.- Engagement with all Taxpayers Regardless of Behaviour.- Improving Service Through Better Knowledge Management and Communication.- Improving Enforcement Impact Through Communicated Credible Threats of Detection.- Concluding Remarks.

INTRODUCTION

I thank you for the opportunity to participate in the 39th General Assembly of CIAT and present our thinking on the importance of “Social Communication Policies and Mechanisms at the Service of the Objectives of our Tax Administration”.

Mr. Pravin Gordhan, the Commissioner of the South African Revenue Service (SARS), extends his sincere wishes to all participating Members. Regrettably, he could not be here personally. I will therefore be delivering the presentation on his behalf.

Your invitation comes at an interesting time in the history of South Africa and the South African Revenue Services' (SARS) as the tax and customs administration. About two weeks ago, Mr. Trevor Manuel, the Minister of Finance, announced that, in keeping with the trend of improved revenue collection established in the first Decade of Freedom, SARS had exceeded its original revenue target by R21 billion for the 2004 / 2005 financial year. Part of last year's collection success can be attributed to a buoyant economy and, part also to an improved culture of compliance. This, for example, is evident in a 65.88% increase in the number of income tax returns received during the 2003 / 2004 filing season as compared to the 2002/034 filing season.

We acknowledge that our role as a tax administration extends beyond the collection function, to promoting the general welfare of all who live in South Africa.

SARS exists to improve the quality of life for all South Africans through the taxes it raises and the trade it administers. It fulfils a number of roles in the reform process of South African society through its collection of revenue to fund Government programmes, the facilitation of trade and economic security and contributing to an economy that supports growth and development. SARS' mission is to optimise revenue collection, to facilitate trade, to raise the levels of compliance with South African tax and customs laws by promoting awareness of the obligation to pay tax and to provide a quality and responsive service to the public.

Against this background, we pose ourselves the challenge of further improving compliance and maintaining the upward trend in revenue collection. Improving compliance, however, introduces its own set of challenges and, particularly communication challenges, as brought on by our past legacy and current realities.

These include:

- Awareness of tax was low, even non-existent, in many sectors;
- Low levels of tax compliance;
- The varying levels of education and literacy of our people;
- The complex business environment characterized by the existence of a First and Second economy;

- The differing needs of large, medium and small business;
- The existence of eleven official South African languages;
- The increasing number of foreign taxpayers and traders not conversant in any of the official South African languages; and
- The economic marginalization of our people.

How best, then, do we communicate with our people and inspire them to become fiscal citizens given these challenges?

SARS believes that a proper understanding of social communication and its tools, and the application of the most appropriate of these social communication tools for a particular target audience lies at the heart of achieving compliance. In other words, social communication properly pitched is a tool of compliance. That means that, in addition to our mandate, our social communication approach is largely informed by our compliance approach.

So, what then are the key drivers for SARS' social communication approach?

One – in order for SARS to fund Government's developmental agenda, SARS cannot go it alone but has to work in partnership with the rest of Government, society and regional and international partners. Such partnerships are sustained through ongoing dialogue.

Second – taxpayers and traders would be more compliant if they were aware of their obligations and if those obligations could be met with relative ease. Communication is central to awareness building.

Third – Social communications should be targeted at all stakeholders of the tax administration and not be limited to taxpayers currently on the administration's radar. However, it is critical that the communications are directed towards a target audience based on informed segmentation of its tax base, and that the channels used and the messages conveyed be aligned with each of the different stakeholder groups.

Fourth - although we move from the premise that SARS' response to a particular taxpayer is determined by the behaviour displayed by that particular taxpayer, we remain committed to continuously engage with all taxpayers regardless of their behaviour.

Fifth – SARS will be more "outward-looking", proactive and accessible in improving levels of service and providing additional channels of interaction to taxpayers and traders. Specific services and channels

are being developed to meet the needs of various segments with an emphasis on large business and small business. Communication is used to determine taxpayer and trader expectation and inform taxpayers and traders about services. In addition, communication is used to execute services.

Sixth - In order to have impact, enforcement must embody a communicated credible threat of detection.

Each key driver will now be unpacked briefly.

MEETING THE DEVELOPMENTAL AGENDA IN PARTNERSHIP WITH THE COMMUNITY

SARS' mandate extends beyond revenue collection and is informed by the SARS Act and Government policy directives. In terms of the SARS Act, SARS is required to:

- To collect all revenues that are due;
- To ensure optimal compliance with the legislation;
- To provide a Customs service that will maximise revenue collection, protect our borders as well as facilitate trade; and
- Advise the Minister of Finance on tax and trade policy.

In addition, SARS is required to support Government's broad developmental objectives of increased investment in the economy, lowering the cost of doing business, improving economic inclusion and providing the skills required by the economy.

SARS, however, cannot go it alone. SARS recognises the need for partnerships to ensure that it delivers on its mandate. In providing such support, SARS has teamed up with other South African Government departments, the private sector through Public Private Partnerships, society, regional and international partners. Examples of these initiatives include partnering with other Government departments and agencies to establish Multi-Purpose Community Centres to better service the needs of small business and expanding bilateral arrangements with its major trading partners. SARS will strengthen existing relations and forge new partnerships through continuous social dialogue.

CREATING AWARENESS AND IMPROVING ACCESS IN SUPPORT OF COMPLIANCE

“SARS is making the filing process easy and understandable for the taxpayer”.

“By paying your taxes you have played a critical part in 10 years of achievement and progress.”

“SARS thanks you for allowing us to bring you the service monitoring office, dispute resolution, e-filing service etc.”

SARS core message in Outreach Campaign 2004

SARS aims to create awareness among its citizens of their obligations and the reasons for paying tax. It does so in a manner that is easy for them to clearly understand through the implementation of an integral communications strategy that includes forms, guides, public information, education and assistance in a simple language.

SARS seeks to promote the social acceptance of taxes through appropriate interventions, which include conducting campaigns (for example, tax education campaigns, filing campaigns such as the successful Outreach campaign, walk-about/visibility campaigns, tax-help campaigns, de-normalisation campaigns akin to the anti-smoking de-normalisation campaigns and character based campaigns such as the SARS Case for Khanyi Khumalo), providing hands-on assistance to taxpayers (through community tax helpers, walk-about, call centres), assisting in nurturing their businesses (for example, small retailer package, small business VAT package, small business tax guide, guide for taxation of film owners), hosting interactive television and radio programmes and streaming operations to provide efficient services to its taxpayers (for example, segregating processing and enforcement centres).

TAILORING COMPLIANCE RESPONSE AND COMMUNICATION TO TAXPAYER AND TRADER BEHAVIOUR

Compliance approach

Compliance is a democratic imperative for SARS. Constitutionally and in terms of the SARS Act, SARS has no discretion in this regard but to ensure optimal compliance with tax legislation.

SARS has adopted a compliance model that seeks to balance education, service and enforcement and embraces dialogue, empathy and positive reinforcement of change. We take the view that compliance levels and practices are affected by many factors which can be classified as business, intellectual, sociological, economic and psychological factors, all of which are informed by South Africa's historical legacy, its present realities and its new role in globalization and internationalization.

Against this background, our experience and international benchmarking has taught us that compliance cannot be achieved through enforcement alone, but that compliance levels are influenced by a range of factors. Our compliance approach is centered on incentivising compliance, disincentivising non-compliance and reducing the opportunities for evasion, which are achieved through a combination of engagement, service and enforcement-related activities.

Risk management

How these activities are undertaken will be informed by an understanding of specific taxpayer and trader behaviour and preferences. Taxpayers display a range of behaviours toward compliance, each of which typically requires a differentiated approach from SARS. These range from taxpayers who pro-actively take measures in seeking compliance or comply because they have no other alternative, to those who comply creatively or intentionally don't comply. However, the majority of taxpayers are regarded as being compliant, or willing to be compliant unless their behaviour suggests differently.

In order to better understand taxpayer and trader behaviour and preferences and inform our understanding of and response to risk, we have to take account of the differing realities in different segments, sectors, taxpayer types, geographical locations and displayed attitudes towards compliance. This requires sound knowledge management driven by access to third party data, data mining and analysis.

The challenge for SARS in this regard is to adopt a more socially embedded perspective on tax compliance. This will open up a research agenda that aims to interrogate the political and social dimensions of compliance behaviour. Increasingly, we will have to look "below the line" of usual compliance markers to grasp the subtleties of socio-political change and its impact on taxpayers and traders.

Ultimately, our response to risk is two-pronged: on the one hand, where there is a general risk of non-compliance, for example due to the specific practices in a particular type of industry, there is a need to ensure the creation of a credible threat of detection of that non-compliance. On the other hand, where there is a specific risk of non-compliance, for example based on a specific credible allegation of non-compliance, there is a need to ensure that non-compliance is met with relevant punitive action.

The least invasive, most cost- and time-efficient approach will typically receive precedence, with an escalation to more invasive methodologies only where the behaviour of the taxpayer warrants such escalation. As indicated earlier, the consequence and expected outcomes from applying various permutations of these elements is a positive impact on levels of compliance by incentivising compliance, disincentivising non-compliance and reducing the opportunities for non-compliance.

Social communication methods and mediums

There is no single most effective method and medium of communication. The method and medium can only be selected after having obtained a thorough understanding of the particular needs and requirements of the various segments in the stakeholder constituency.

For any communications approach to be effective, it needs to be tailored to the particularities of the respective stakeholders. Consequently, the point of departure must be obtaining information about our stakeholders, their needs and their expectations. One of the ways of doing this is by undertaking regular polls and market research to establish perceptions about the tax administration, and secondly by monitoring all forms of media for a consolidated view of perceptions of, and impact that the tax administration is having.

In tailoring our communications approach to different segments within our constituency, there are a range of generic methods and mediums. SARS has adopted a combination of methods: shotgun, rifle-shot and face-to-face high impact, multi-audience events, interactions and mediums aimed at reaching the greatest number of stakeholders possible in the most effective ways possible in order to convey the message, understand the taxpayer and trader's perspective, seek the co-operation of taxpayers and traders and create widespread positive attitudes towards SARS.

Preferred mediums include informing and educating taxpayers, encouraging compliance, assisting taxpayers in fulfilling their obligations through to warnings in instances of non-compliance. In engaging with stakeholders a useful tool has been business campaigns where the Commissioner of SARS has personally addressed the CEO's and MD's of large corporates, or leaders of representative bodies, to indicate areas of concern and to agree on corrective steps and potential sanctions in respect of non-compliance. Similarly, joint media releases between SARS and large business or representative bodies about the implications of non-compliance, and benefits of compliance, has yielded positive results. We have created a dedicated Corporate Relations capacity, with the primary mandate of liaising with stakeholders. We are also increasingly seeking to create opportunities for stakeholders to participate in the development of policies, procedures and regulations.

In providing targeted education we seek to ensure that various channels are deployed, with specific reference to the requirements of the various segments. These include the use of electronic, face-to-face and telephonic channels. Increasingly, the use of SMS messaging is becoming a valuable tool, as is the deployment of community tax helpers. We are also using sponsorship opportunities to encourage fiscal citizenship.

ENGAGEMENT WITH ALL TAXPAYERS REGARDLESS OF BEHAVIOUR

While engagement is an element of all of our interactions with a taxpayer, the nature of that engagement is adapted based on the behaviour and attitude of a taxpayer. Consequently, engagements range in character from being rewarding and collaborative, to being persuasive and ultimately interventionist, depending on where the taxpayer or trader finds him/herself on the compliance continuum.

IMPROVING SERVICE THROUGH BETTER KNOWLEDGE MANAGEMENT AND COMMUNICATION

SARS is taxpayer and trader centric, proactive and accessible in its approach to providing additional channels of interaction to taxpayers in an attempt to improve its levels of service. Specific services and channels have been and will continue to be developed to meet the

needs of the various sectors, like large business and small business. These services will be rendered against the background of the SARS Service Charter, which contracts SARS to a reasonable expectation of service levels.

Communication is required to inform taxpayers and traders of available services and market such services.

IMPROVING ENFORCEMENT IMPACT THROUGH COMMUNICATED CREDIBLE THREATS OF DETECTION

SARS has already adopted a risk-based approach/response to taxpayer and trader behaviour and preferences. SARS acknowledges that the behaviour of taxpayers and traders vary from compliant to “accidental” non-compliance to gross evasion. These behaviours determine the nature of SARS administrative responses always ensuring that the sanction is proportional to the offence.

However, for any enforcement activity to be truly effective, it needs to constitute a credible threat of detection of non-compliance. Part of institutionalizing this credible threat depends on deploying suitable risk and intelligence mechanisms, employing suitable staff and deploying rigorous processes. But these alone cannot constitute a credible threat – for the threat to be real, and to impact of compliance-related behaviour, it needs to be communicated adequately.

CONCLUDING REMARKS

As long as there have been tax systems to finance Government policies, tax compliance and evasion has been a public fiscal issue. In South Africa, the construct of taxpayers and traders as “consumers” has brought with it organizational changes and new thinking on service and efficiency. Added to this, the new knowledge society requires SARS to strive for improvement through constant innovation and learning and through information sharing and social communication thus producing an agency that focuses on efficiency, accessibility and responsiveness.

Promoting tax compliant behaviour requires of SARS to understand the many factors that affect taxpayer and trader behaviour. Overall this requires SARS to develop a more holistic approach to tax administration- an approach evident in the SARS compliance model.

This approach represents a significant change in terms of impacts on both products and processes. As far as products are concerned, SARS focuses on engagement, education and service to encourage greater compliance, rather than fear of getting caught. In relation to processes, the SARS compliance model requires a change of attitude on the part of all officials in terms of how they do their work and see their role in promoting compliance through social communication. Officials have to think broadly and laterally and be aware of how their own behaviour and attitudes towards taxpayers and traders affects future compliance outcomes. Officials must believe that the majority of taxpayers want to comply. Negative and unprofessional treatment may cause taxpayers and traders to resent the agency and motivate them to work against the agency. Providing courteous and respectful assistance and understanding will lead to improved compliance and increased revenue collection.

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Case study

TOPIC 1.1

SOCIAL COMMUNICATION POLICIES AND MECHANISMS AT THE SERVICE OF THE OBJECTIVES OF TAX ADMINISTRATION

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CONTENTS: I. Introduction.- II. Communication Policies.- 2.1 Internal communication.- 2.2 External communication.- III. The Purpose of Communication Policies.- IV. Target Audiences of Social Communication in the Tax Administration.- V. Most Efficient Means and Mechanisms for the Social Communication of the Tax Administration.- 5.1 Internal means and mechanisms.- 5.2 External means and mechanisms.- 5.3 Means and mechanisms to facilitate the dissemination in social communications means.- 5.4 Means and mechanisms to measure the impact of social communication.- VI. Conclusions.

I. INTRODUCTION

Today, Tax Administrations seek to get closer to taxpayers and society-at-large; communication policies and strategies become the basic elements to achieve the strategic and social objectives of the organization.

These policies and strategies must endeavor to achieve the following objectives:

- facilitate taxpayers' voluntary compliance with their fiscal obligations;
- create a tax culture in taxpayers and society-at-large;
- show the benefits of collection results in the economic and social development of the country;
- create an internal culture and philosophy directed towards service to society.

Social communication of a Tax Administration in the framework of those objectives must be directed preferably to taxpayers, society at-large and the internal public.

The most efficient means and mechanisms to reach those objectives shall depend on the strategies defined and the target public, but in general may be the following:

- mass media: press, radio and television;
- alternate mass media: posters, brochures, triptych, flyers, newsletters, informational and awareness lectures, tax training courses, Intranet and Internet;
- other means: relations with the press, with opinion leaders and others.

II. COMMUNICATION POLICIES

The effectiveness of communication policies is basically determined by the compliance with three factors:

- the communication systems must depend on the maximum branch inside the organization;
- it must start from the global focus of communication;
- internal communication must be fundamental.

It is fundamental that Communications' staff forms part of the maximum executive branch of the Institution (Executive President), as they currently are, furthermore the person responsible of the Staff has to be a person that is absolutely trusted and has access to information coming from the main executive decisions adopted by the institution, this facilitates the projection of the internal and external image.

Global Communications refers to the actions and means that facilitate the internal and external relations of the institution; therefore, the framework, that comprises and coordinates the internal and external communication of an organization, also means the fluent exchange of messages and ideas within the maximum executive branch of the organization.

Lastly, regarding internal communication, it is important to mention that the public image of organizations is not only based on the large spaces that may be used or paid in information relations and advertising, but, on the picture that its officials give of the same, therefore, the statement that internal communication is the basis and the support of external communication is not mistaken.

Internal communication actions and efforts such as the promotion of internal participation and the exchange of schemes, the search for flow in horizontal, vertical and bi-directional communication, the writing of specialized internal newsletters, the analysis and research of the internal image of the organization, communication audits, etc., generally are focused on the long-term and assigned to the human resources department, however, in the case of the National Tax Service (SIN, acronym in Spanish), first of all it is necessary to recognize the urgency of its implementation, particularly during the initial stage of the renewed Tax Administration.

Having analyzed these three premises, hereinafter the communication policies of SIN are separated into internal and external communication:

2.1 Internal Communication

- The institution, at all levels, must create and strengthen the sense of institutional belonging and awareness of participation, service, and honesty in all officials.
- Internal communication among different hierarchic levels must be bi-directional, that is, search for feedback, to prevent the possibility of distortion, between the desired message and the message received.
- Information that is processed and communicated inside the Institution must be clear, timely and reliable.

- Internal communication must be the support for the new organizational culture of the National Tax Service.
- Internal communication must be capable of motivating attitudes committed with change and the modernization process.
- A training process must accompany the information on the modernization process.

2.2 External Communication

- The National Tax Service must create and strengthen the corporation image that characterizes it as an institution of service that is honest, transparent, efficient, modern and reliable.
- Information on tax compliance obligations communicated to taxpayers, must be simple, precise, timely and permanent, in its substantial content, as well as in the formal aspects of when, where and how it must be complied.
- Advertising must promote the improvement of the Corporate Image of the National Tax Service, achieve to bring taxpayers closer and obtain their positive response. This result is only possible if the taxpayer that goes to the Administration receives excellent service.
- The National Tax Service must convey the security that the taxpayers' rights and obligations are fully understood and respected.
- The communication between the Institution and citizens must create and strengthen tax awareness not only throughout the national territory, taking into consideration the regional, ethnic, cultural and the economic activities differences.
- Communication activities must also be innovative and dynamic in nature, supported by studies and research on the perceptions and attitudes of the population towards the Tax Administration.

- The National Tax Service must promote and facilitate relations with the press and society, seeking to create the image of a transparent, clear and open management.
- The unit in charge of planning and executing advertising campaigns must endeavor the optimum use of financial resources, securing advertising investment based on technical and not discretionary judgment elements.

III. THE PURPOSE OF COMMUNICATION POLICIES

- To involve the entire organization in the development of its strategic vision.
- To project a positive image through officials in their circles of influence.
- To balance upwards, downwards and cross sectional information, by informing each official the functional and corporate aspects, seeking feedback.
- To involve personnel in the project of the institution, by informing officials the manner in which he/she contributes towards achieving corporate goals, in the most personalized manner as possible.
- To consolidate a leadership style, based on the corporate culture of the organization (teamwork, commitment, coordination).
- To generate studies, research and feedback systems inside the organization, and making possible the knowledge on the weak points of internal communication.
- To adapt the organization to the external environment.
- To coordinate activities with other entities (relevant environment).
- To send information on the organization to representatives of the relevant environment.

TOPIC 1.1

- To search for pertinent information for the organization of the relevant environment.
- To project the corporate image of the SIN, through the development of corporate communication programs.
- To generate advertising elements directed toward the knowledge and credibility of the organization and its public image.
- To plan opinion studies on the external image of the Tax Administration.
- To make a feedback system through taxpayer services.
- To inform taxpayers' on their rights, obligations, and the services available for the adequate compliance with their obligations.
- To disseminate the importance of correct compliance with tax obligations for the development of the country and society.

IV. TARGET AUDIENCES OF SOCIAL COMMUNICATION IN THE TAX ADMINISTRATION

Social communication messages have the following target audiences:

Internal Public	External Public
SIN Directorate	Taxpayers who are the Users of the Services
Hierarchic Officials	Taxpayers who are NOT Users of the Services
Operational Level Officials	Related Entities (Government and International Organizations)
Support Level Officials	Opinion Leaders (Press)
	Society at-large

V. MOST EFFICIENT MEANS AND MECHANISMS FOR THE SOCIAL COMMUNICATION OF THE TAX ADMINISTRATION

The experience of the Bolivian Tax Administration in the use of social communication mechanisms and means has led to the definition of the following means as the most efficient in the search for communication objectives:

5.1 Internal Means and Mechanisms

Internal Communication and Organizational Culture

Institutionalization in the National Tax Service is an opportunity of undeniable importance to create a new organizational culture, as from the performance of internal communication actions, directed to unearth the culture of the public servant, which characterizes us, into a culture of participation and service.

The operations that are suggested to be developed in this item are of urgent and immediate execution, basically to prevent the old culture from absorbing the new.

Welcome Manual

Directed to new employees, with the purpose of creating a positive beginning, it must be delivered to each new official with a letter from the Executive President, where he/she is welcomed to the organization. This manual would have to include the following elements:

- The history of the Tax Administration.
- Basic strategic planning elements (mission, vision, objectives).
- The organic and functional design of the organization.
- Brief description of the corporate culture

This text, developed jointly with professionals dedicated to research and the production of the text of the "internal communications" group will be distributed nationally in coordination with the Human Resources Management.

Internal Feedback System

With the former organizational culture, characterized by a high political partisan influence and high levels of official mobility, elements used for feedback resulted in failure. During this stage the use of tools that allow the establishment of the enforcement and use of formal channels as information channels are suggested:

- Surveys.
- Interviews.
- Suggestion boxes.
- Meetings with specific groups.

Diagnose of Organizational Behavior

The diagnose of the corporate behavior of the organization, as from the application of quantitative and qualitative research methods will enable timely intervention for the adequate implementation of the new culture, based on the organizational project in force. The application of questionnaires to all officials is advisable.

Training Module

Since the National Tax Service is a highly specialized entity in tax issues, which will include in its offer to the taxpayer, attention services which require highly trained tasks from the Human Resources Management, it will be necessary to include in each and every course, seminar or workshop programmed by the Institution, a motivational module which disseminates the identity and the values of the corporate culture formed by the following communications tools:

- A 20 minute video.
- Motivational triptych.

Outline of the Organizational Standard

The strategic planning of the organization is sufficiently mature and strong and at the same time is not known by the officials; therefore, its compilation in one document is necessary. Each official is required to have one and submit to its contents to perform better his/her tasks.

This outline will comprise:

- Mission.
- Vision.
- Strategic objectives.
- Policies.
- Organization and functions.
- Code of Ethics.
- Internal Regulations.

Institutional Uniforms

Complementing the tasks previously mentioned, a means recommended to strengthen the sense of institutional belonging of the officials is the uniform, which will be designed in function of the new corporate colors.

Motivational Lectures from the Executive President

As new officials enter into the institution, the organization of groups in function of hierarchy or functions is advisable, in order for the maximum authority to be knowledgeable of, in an informal manner, the institutional plan and the expectations regarding each official.

Similarly, these lectures must also be done with specific groups when rewarding individual behavior, for example, with taxpayer service groups, or when behaviors that may damage the operation of the organization are detected.

Intranet

Corporate Intranets are effective internal communication instruments and in the case of the National Tax Service is possible to have access to the use of this tool since at least at the headquarters has the structure required for the implementation of this service.

Internal Magazine

This traditional communications tool, is useful to inform officials on the organization and activities, especially because it can reach nationally all the dependencies of the Tax Administration.

5.2 External Means and Mechanisms

Public Relations Events and Actions with Society

The President's Communication

The image of the President and the Institution must be the result of the same strategy of the Administration, therefore, harmony and agreement is necessary between the corporate identity and the President's discourse since he/she is the most important image asset of the organization, therefore, the development of a document that establishes the general communication principles from the President is important.

External Feedback System

Taxpayer attention services become an interesting external feedback element and, messages and services directed to taxpayers depend on the reformulation and re-adaptation of the appropriate systematization of the information that is gathered. Currently, we summarize the information in monthly reports, which are sent, raw, without any processing, validation or comments to the Presidency, therefore this important tool is underused.

The systematization of the requirements gathered in these services will be proposed, so that they may be used not only for social communication but also for the other managements.

Assisting the Press in having Access to the Source

In this stage of the consolidation of the institutionalization process and change of corporate culture, the press' access to the primary and secondary sources must be facilitated by establishing an open door policy where communications staff will exercise nationally the control and follow-up of the contacts and will issue the general guidelines so that the information issued through the media is uniform, reliable and timely.

Press Conferences

Communications Staff must establish the adequate moment to convene a press conference, which should only be fully justified in function of the importance and precision of the information to disseminate and the analysis of the social, economic and politic context, where it will be held as well as the schedules.

Press Releases

There is much information on the standards and operational processes of the organization that are of interest to the population in general as well as for taxpayers in particular, information that does not require press conferences or interviews to be conveyed must be channeled through press releases that are sent to credited journalists personally, through fax and Internet.

Follow-up to the Information Treatment in the Radio, Press and Television

Communications staff that performs the follow-up of the treatment of the information in the press through the analysis of the most important newspapers, weekly journals and publications, by cutting the most relevant news and preparing a weekly report which is used to be knowledgeable of the trends in managing information from the media.

The follow-up of the treatment of the information in the radio and television must be outsourced since the same would require investment in equipment and human resources, which is disadvantageous for the organization. Reports sent by the company in charge of this work are evaluated and form part of the weekly reports.

Accredited Journalists

Journalists covering the source are those assigned to the economic area and in some specific cases, such as institutionalization or social type problems, the media assigns others.

In many media means they decide to alternate journalists, therefore, it is very important to maintain the list of journalists updated monthly as a minimum.

TOPIC 1.1

Permanent contact with journalists helps to know the intentions of the same and allows having some possible questions and inquiries prior to press conferences.

Press Items Files and Treatment on Television

Press items once they are reviewed by the Executive President, are filed in function of the following detail:

- declarations and topics linked to the President;
- topics directly related to the Tax Administration;
- topics of relevant context (economy, politics);
- official publications (Administrative Resolutions, edicts, communiqués, etc.);
- campaigns.

This file may be inquired by any official of the institution and it is used on decision-making occasions where it is necessary to review any past topic and which becomes again of interest for journalists.

The follow-up to the treatment on television, which shall be done through recordings of the main news programs, which arrive in VHS with a written summary, at the end of the month this information is consolidated in one video as well as in a written report.

Photographic Archives

Communications Staff has among its assets a professional camera with which they take photographs of the most relevant aspects of the activities carried out by the organization, the same that are used later in developing magazines, newsletters and others.

Similarly, official photographs from the main authorities are also kept to hand them later to the press when they require it.

Information Coverage in the Press

The staff performs follow-up to the information coverage, by sending to the maximum authority all items regarding the Tax Administration and on the other hand, it is distributed to some punctual information areas, such as COFHID for example.

Lists of opinion leaders and columnists

The information developed by SIN for taxpayers as well as for the general public is distributed to opinion leaders and columnists who directly or indirectly know the topic and channel it through their daily activities. Similarly, this list is useful to keep having an updated detail of the persons that may attend important events in the activity of the organization and become important multiplying factors of our achievements.

Persons and Institutions Linked to Taxation Duties

The National Tax Service must establish contacts with personalities and institutions related to taxation to exchange information, which may be useful in the development of some concrete strategies; for this effect, a list with names and directions is kept.

Press Room

The National Tax Service, in consideration of its increasingly importance in the economic context of the country, has become a source of first order for national journalism.

Journalists covering this source do not currently have the infrastructure and technical conditions to perform their tasks properly as radio speakers, for example, they release urgent dispatches and for this require an expedite telephone line.

The communication staff requires a direct line, fax, Internet and recording equipment where the contents of the conferences may be copied for professionals that arrived late.

The direct line is useful not only to facilitate the tasks of the journalists, but basically to call them for press conferences, since most of them use cellular phones, and to provide information which to date is not possible, because internal telephone have usage restrictions.

On the other hand, the telephone is the best tool for public relations task with the press because through this contact they can advance criteria and, whenever necessary, they can also communicate with journalists throughout the country.

Regarding this issue, a proposal specifying the necessary physical and technical requirements will be developed.

Visual Corporate Image

The theory linked to the corporate image considered that visual identity must be intervened in the following cases, when entities have an obsolete visual identity, when corporate dysfunctions take place (important qualitative changes, absorptions or functions or dispersion of visual identity) or when they have a negative image. In the case of SIN, it is evident that the last two considerations are complied, therefore it is urgent that the symbols in force be discontinued and be replaced by others.

Corporate Image Identity Manual

Once the *isologotype* is determined, staff will develop the corporate image identity manual, which will establish the use and applications thereof, as well as corporate colors and typographies and on the other hand, standards for the rational use of the manual.

Institutional Campaigns

It is important to clarify that when we refer to “campaign”, we will not necessarily be using the mass media as the radio, press and television, and on the other hand, contents of a campaign may be immersed in another. In this regard, when we plan the realization of institutional campaigns and launching the new corporate image, specifically, communications tools to be used cannot be specific, that is, staff may use the methods, strategies and actions that it deems appropriate, and these will be adopted once the Executive President approves the same.

Maintaining the New Corporate Image Identity

When most elements of the new corporate image identity are adopted throughout the country, the maintenance campaign considers the permanence of the symbols and colors in all places and items possible, with the supervision of the communications staff as well as the dissemination of all communications material.

Dissemination of the Institutionalization Process

This process has awakened the interest of journalists, opinion leaders and general public, the dissemination campaign must be mainly based on the actions of the free press and subtlety in some institutional or motivational campaigns, for example, in the dissemination campaign of the New Examination Focus which strengthens the image of transparency and the modernization of the Tax Administration.

Information Campaigns

These campaigns have two components: one refers to the information provided to the taxpayer on legal and operational issues and standards and are directed to promote the correct and timely payment of their obligations, and the other, is explanatory or educational, that is, it has many elements that are somewhat more complicated because they mean more involvement from the taxpayer and at the same time more effort from the Tax Administration, for example, changes in the examination function.

Expiration Campaign

As from the determination of the monthly payment of taxes in function of the last digit of the RUC (Taxpayer Master File), a decision was made to publish at the beginning of each month the corresponding almanac with the expiration dates of all taxes, which facilitates the inclusion of all information in one piece.

IUE Campaigns

The Tax on Corporate Earnings (IUE, acronym in Spanish), which applies annually, requires specific campaigns, and expiration dates are published in the almanac, which is published monthly:

- the IUE of Mining companies: this group generates minor collections, therefore an effort shall be made to publish the details, with a specific layout, and will be disseminated through a national strategy, ten days prior its expiration;
- the IUE of Commercial Companies: this sector means greater collection, therefore the campaign strategy considers the use

of the press, radio and television, to be transmitted one month prior to its expiration;

- The IUE of Industrial Companies: it is second in collection importance, therefore, the press and television must be transmitted 20 days prior to its expiration;
- The IUE of agriculture companies: this sector is not very significant for collection; therefore the dissemination strategy will only consider press layouts.

Important Informational Campaigns

Throughout the management and with different activities developed by the Tax Administration, arise the need to inform on different topics that were not previously planned, such as mass operations, new procedures and others not considered in the operations programming, at least two campaigns have been planned during this administration.

Tax Package

One of the instruments that have the highest demand from taxpayers is the taxation calendar, where expiration dates are laid out, the taxpayers and the forms for the payment of internal taxes.

The calendar is printed in two versions, one is a desktop version, directed to Large Taxpayers, and the other is massive, which is distributed among the rest of the taxpayers.

In addition to the calendar, a package is developed for Large Taxpayers, where tax information that is considered necessary is included.

Campaign on Examination

The examination function will incorporate some changes in actions, operations and activities as a consequence of the works in modernizing examination and control processes, which will incorporate the intensive use of proprietary information technologies as well as from other sources to detect irregularities in the payment of taxes.

This campaign requires an information strategy in stages, the first with the purpose to awaken interest and show fiscal presence and the second, which will be very explanatory to better understand the system.

The strategy considers the use of different communications tools, such as triptychs, spots, jingles, press layouts, Internet, free press.

Official Information Campaign

Refers to the dissemination of Administrative Resolutions, Edicts, Summons, Communiqués, etc., which must have in most cases formats and be legally valid, the same are published in nationwide newspapers and magazines and are made at the written request of a specific area.

Motivational Campaigns

Messages that will be advertised through motivational campaigns have the purpose of showing the Tax Administration as a transparent, fair and efficient entity, since, one of the guidelines of the maximum authority in this sense, is to work more on awareness than on coercion.

The National Tax Service changes its mentality, comes close to taxpayers, offers better services, gives the signal that taxes are a need for the common well being, offers transparency in processes, achieving in this manner, changes in taxpayer's mentality.

Taxpayer Services Campaign

The new institutional structure incorporates the Taxpayers' Services Management whose operation and service offer will influence the rupture of old schemes, to begin a stage where the taxpayer may approach the Tax Administration without fears.

In this regard, taxpayers and the public must know about the incorporation of every service and be motivated to use the same.

Communication tools will be diverse and their selection will depend on the type of service, place of adoption, etc.

Later, and in function of the work carried out in internal communication, the service office will not be limited to those offered by the corresponding management, but may be generalized at all places where the taxpayer makes contacts (transactions, discharges, etc.) with the officials of the organization.

Invoicing Motivational Campaigns

One of the important elements in the motivational area refers to invoicing, and this was highlighted during the initial speech of the Executive President, who requested a reform in the mentality of the Bolivian citizen with paying taxes “with an invoice, to Bolivia”. In this sense, invoicing campaigns, which were traditionally focused on coercive messages, now have a motivational nature, which is easy to manage once it is done from a transparent Tax Administration.

Communication tools must be for mass dissemination and long reaching.

Campaign to Strengthen Tax Awareness

Changes made in the Tax Administration particularly as from the anticorruption actions that are being carried out, generate the trust of taxpayers and allow carrying out tax awareness strengthening campaigns, with the purpose that the population will be a part of the consolidation processes of the new image of the SIN.

This campaign will be launched in the very moment when anticorruption actions are effectively carried out – this is an important step in the institutionalization process – and after new services for taxpayers are offered

Rights and Obligations Campaign

The purpose of this phase is to bring the taxpayer close to the Administration, because it is important to disseminate rights and obligations in a friendly manner, with the purpose of promoting the recognition of tax obligations and the security of fair management in control actions.

Coercion Campaigns

End of the year festivities mean an increase in sales, therefore, jointly with massive control actions, which are usually performed during this time, it is advisable to issue a campaign that reinforces fiscal presence and reminds the obligation to issue an invoice.

Disseminations of Management Results

The management results obtained are a useful toll when disseminating actions undertaken by the Tax Administration, the most frequently used method is the Annual Report, the same must be prepared with the participation of all areas of the organization, centralizing the information in Communication for its drafting, style correction and design, the purpose is to disseminate a printed and an electronic version through the Internet or in a CD.

5.3 Means and Mechanisms to Facilitate the Dissemination in Social Communication Means

Annual contract of an Audiovisual Production Company

To keep one line in the communications message defined through policies, we suggest to contract a company that produces television spots and radio jingles for SIN, to which effect we will prepare terms of reference and technical specifications framed within the basic contracting standards of goods and services, with the advice of the Administrative Management.

Contracting Social Communication Means for Advertising

Up to date, Social Communications has worked under the Public Calling of the Social Communication Means to contract social communication means, this system has worked very well, and evidence of this is the adoption of the system by other government entities. However, its creation dates back to 1996 therefore, it is important to modernize it and adapt it to the contracting norms for standards and services in force. Therefore, a proposal will be submitted to the consideration of the Executive President to be adapted and adopted during the 2005 administration, the national Administrative Management prior to its implementation must evaluate the same.

5.4 Means and Mechanisms to Measure the Impact of Social Communication.

Audience Rating Studies

For better management, technical as well as economic, of the media, it is important to have audience rating studies on radio and television and newspaper readership, which are an important variable for the determination of the means to use in advertising campaigns.

Study of the External Institutional Image

The only way to know the real effect of communication actions is through feedback studies, in this case a study on the external institutional image, this will provide us the necessary decision-making elements to evaluate the impact of actions undertaken and this will give us the necessary guidelines to rethink the communications strategies if necessary.

This study must be performed by an external company specialized in the field, which provides a neutral opinion of the image of the organization.

Quality Control and Efficiency in Investing in Advertising

The advertising budget of SIN must be invested adequately, by using certain technical criteria rather than discretionary, the quality control that is transmitted in the spots or the press layout, the verification of the pre-established days and hours for their dissemination, the use of audience ratings and others are the elements that we will use to execute this operation.

VI. CONCLUSIONS

Communications actions will mean that the Tax Administration will be known and recognized for its efficiency, transparency and fairness and its contribution to society.

This recognition will allow the better adaptation of the strategic objectives within the context of their actions, making easier the achievement of better collections, which will contribute to the economic and social development of a nation. Similarly, more commitment and an attitude of service will be achieved in the officials of the Tax Administration and this will have motivational effects in their performance in terms of commitment, transparency and will be mainly projected in an image of commitment with the progress of society at-large.

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Case study

TOPIC 1.2

THE SOCIAL ROLE OF THE TAX ADMINISTRATIONS

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CONTENTS: Why Tax Education?- 1) Structure of the Tax Education Program at AFIP.- 1.1) Regional Tax Education Referees.- 2) Formal Education Actions.- 2.1) Cooperation agreements.- 2.2) Teacher Training Course: Tax Education and Citizen Training.- 2.3) Teacher training for the polymodal level (2nd Cycle of teaching for 15-17 year old students) and Training of Trainers.- 2.4) Curricular updating.- 2.5) External evaluation of Formal Education actions.- 3) Nonformal Educational Actions.- 3.1) Game areas.- 3.2) Traveling Plays.- 3.3) Participation in Fairs.- 3.4) Presence in mass communication media.- 3.5) Publications in children reviews.- 3.6) Tax Education Web Page.- 3.7) Virtual games.- 4) Combined Actions.- 4.1) Contests.- 4.2) AFIP goes to School.- Preliminary Conclusions.

In the past years, the tax administrations have had to face the challenges originating from their own realities as well as from the impact of the international context. In fact, the general consequences of the globalization of trade and finances, as well as the new and more sophisticated maneuvers of evasion, avoidance and contraband, pose to the administrations the need for a constant repositioning that may allow them to respond to these complex circumstances.

To assume such task, they must maximize their efficiency and effectiveness and be concerned about the legitimization of their role, not only from the perspective of their collection and control tasks, but also of the commitment to promote another form of relating themselves to the taxpayer universe and society in general.

Likewise, it is recognized that such relationship must be based on principles of justice and equity, values that should additionally guide all the political decisions made by the State with respect to the provision of goods and services for satisfying public needs. Bearing in mind that the resources contributed by the Treasury are the main source of public financing, the social responsibility of the tax administrations becomes clearly evident.

In our society, however, the link that sustains these relationships is affected and, accordingly, the social dimension attributed to the taxes (as redistributive principle sustained on equity and solidarity for the benefit of society as a whole), is at present, seriously being called into question. The appearance of this tension in the relationship between taxes and the satisfaction of public needs, does not exclusively respond to economic factors, but rather is expressed and found within the framework of a specific culture.

On understanding that the tax issue is part of a complex cultural framework, it was considered that, along with its “traditional” functions the tax administration should face actions aimed at promoting **a new tax culture**, while at the same time consolidating its institutional role in society.

WHY TAX EDUCATION?

To achieve levels of efficiency and effectiveness in compliance with the specific functions of the tax administration and that such standards may be sustained through time, we begin with the conviction that the two main functions – tax collection and Social Security and the control of foreign trade – should be supported by actions of another type that would lead to promote voluntary compliance with the Law. Another approach should have been undertaken in society with respect to the audit and control strategies. It should have been based on a double purpose: on the one hand, that society revalue the social benefits derived from tax collection and, on the other, that it recognize that tax violations are detrimental to the entire community.

In this sense, the series and implementation of these actions are not unrelated to the changes that have taken place at the political, social, economic and cultural levels, which likewise affect the configuration of the relationships in society.

To work in tax education above all implies considering the social dimension of taxes. We stand by the belief that the tax contribution has an eminently social sense and, is therefore of a public order.

We then assume as an essential and long term objective, to contribute to the development of a “*new tax culture*”. To this end, we approach, in particular, those who in the future will be in charge of the decision-making processes: the children. This was thus the origin in late 1998, of our Tax Education Program.

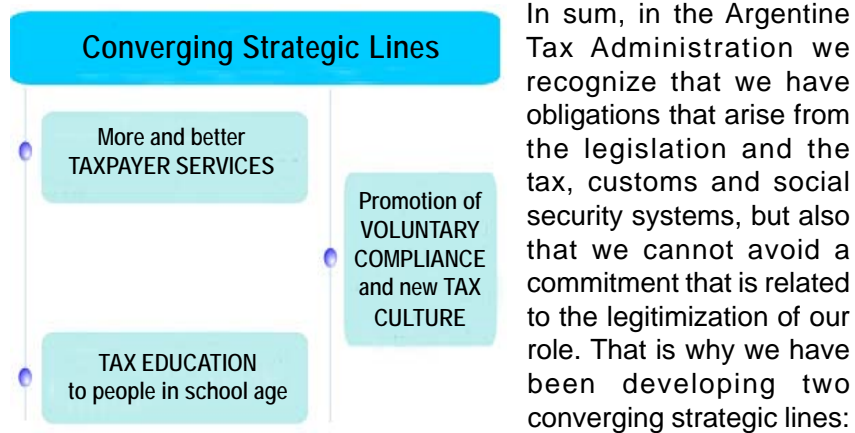
We recognized that in order to achieve these objectives, we required the participation of other social actors, particularly the school, since it is the central institution in the dissemination of knowledge. We believe that the contents linked to the tax issue are part of that series of knowledge which the individual should take advantage of, in its socialization process. However, such contents do not explicitly appear in the curricular designs and to overcome such deficiency is part of our intervention strategies. While this objective is achieved, we continue to rely on the direct work of the teachers, assuming that the educational sphere is the privileged area for bringing about changes, consolidating and sustaining them through time.

To begin teaching this subject matter since the early school years is based on the fact that in this stage, a new meaning is given to the first lessons learned in the relationship with the parents and in the interrelationship with peers. In this process, the word of the teacher (at times, even more than that of the parents) acquires greater importance. The ever more consolidated “environmental awareness” is a good example of a cultural change that originated in the school based on projects implemented by the teachers, children and, in general, the entire educational community.

Now then, the establishment of a new tax culture calls for in-depth transformations, of concepts, perceptions and values, as well as of citizen attitudes and practices. Therefore, we understood that we had to work not only within the sphere of formal education, but also in informal education.

If we are correct with respect to the basic assumptions we maintain and if we are capable of maintaining through time the work of creating awareness, a time will come when, in an autonomous and responsible manner, the citizens will have by conviction, attitudes condemning evasion, contraband and underground work and we will consider that compliance with our tax obligations is a basic responsibility which favors living in a community.

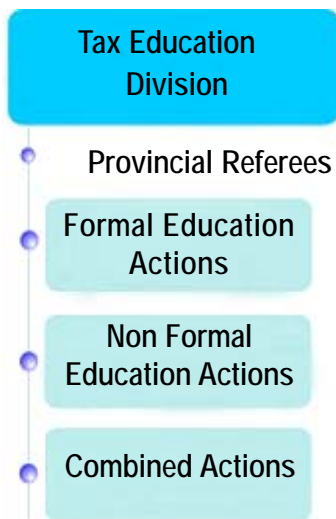
The habit makes the monk and much more so if the monk finds sense in his practice: collection by means of voluntary compliance, from every viewpoint is much more valuable than that which is obtained through fiscal auditing or enforced collection.



In sum, in the Argentine Tax Administration we recognize that we have obligations that arise from the legislation and the tax, customs and social security systems, but also that we cannot avoid a commitment that is related to the legitimization of our role. That is why we have been developing two converging strategic lines:

- ❖ more and better **taxpayer services** to promote voluntary compliance, and
- ❖ **tax education** to generate a new culture.

1. STRUCTURE OF THE TAX EDUCATION PROGRAM AT AFIP



The Program began in late 1998 and starting in 2002, it was decided to strengthen and give continuity to the actions that were being carried out, including other strategies particularly linked to nonformal education.

The design, implementation and evaluation of the actions that are carried out within the Program are under the responsibility of a specific unit that operates under the Training Directorate, which is dependent on the Deputy General Directorate of Human Resources. The members of the team are

from various academic disciplines: Educational Sciences, Psycho pedagogy, Psychology, Social Communications and Economic Sciences this allows for an exchange of views and perspectives that enrich and empower the intervention strategies.

In the country's inland, there are other agents of the institution that act as referees of the Program.

In order to achieve the proposed objectives we designed a series of strategies according to the implementation areas.

1.1 Regional Tax Education Referees

The creation of the figure of the Referee was based on the need to count on an administration official that would act as articulator or facilitator of the various efforts which AFIP is carrying out in the different provinces. Likewise, although there is central coordination, the intention is to federalize the strategies and actions in the various areas such, as for example, replication of the teachers training courses.

Another element that motivated the creation of this figure is the organization of the Argentine educational system and its influence in the development of the Program. The decentralization process undertaken in the 90s afforded exclusive and specific competencies to the Ministries of Education of each province. This situation requires particular relationships with each one of the Ministries which, starting from the central unit, many times are rendered difficult due to operational as well as distance issues.

Ever since the regional referees began their functions, the relationship with the Ministries, as well as with other public and private institutions have been increased and have resulted in the elaboration and execution of joint projects.

2. FORMAL EDUCATION ACTIONS



These were the first to be implemented and were aimed at the training of teachers of the second and third levels of Basic General Education (EGB, acronym in Spanish) (students between 9 and 14 years of age). As they were validated in practice, they began to be diversified.

2.1 Cooperation Agreements

Since our country's education system is decentralized, the possibility for implementing Tax Education actions must be provided in the terms of agreements signed with the educational authorities of each one of the provinces.

We have currently established agreements with 18 of the 24 ministries, mainly providing for:

- ❖ the holding of teacher training courses,
- ❖ the elaboration of updated curricula (at the various levels of teaching),
- ❖ the implementation of other strategies that may favor institutional articulation (for example, Contests, or holding in schools, of plays on the subject).

In these institutional agreements, we have committed the participation of other entities, particularly from the state sphere, such as the provincial and municipal secretariats of finance that have shown an interest in the development of the different initiatives.

2.2 Teacher Training Course: Tax Education and Citizen Training

The training devise was focused on teachers of the 2nd and 3rd levels of Basic General Education (children between 9 and 14 years) from all areas. Since the beginning of the Program we trained over 7000 teachers, which implied an extension to some 210,000 children. The contents were covered from a transversal perspective, in the curricular sense (it is proposed to be done from different disciplinary areas);

institutional (committing the largest number of members of the school community), as well as social (going beyond the sphere of schools). This way of approaching the tax issue is based on an attempt at, complementing the purely technical aspects that at times are only accessible to specialists, to insert them in a context and a process within a cultural complex framework.

Tax Education and Citizen Training

- Development of values
- Democratic coexistence
- Toward a tax culture

The implementation of the course begins with understanding that, in order to develop a new **tax culture**, one must previously work on different aspects inherent in the **exercise of citizenship**. Even more so, before considering the issue of **democratic coexistence** it is necessary to work (with the students as well as with the teachers) in the **development of values**. These basic subjects have not been randomly selected and their location responds to a mode of organization that favors understanding of the contents. Below is a summary of those basic subjects.

↳ *Development of values*

We understand that taxation is the economic mainstay that sustains the democratic State. This leads us to the need to understand the correspondence between the civic rights and responsibilities and the interrelationship of private interests and collective benefits.

We believe that the development of the tax culture is closely related to the training of citizens because it corresponds to the exercise of a responsible citizenship and as such, is closely linked to ethical development.

Among other things, responsible citizenship must be based on criteria of coexistence that reinforce such values as justice, solidarity and cooperation, based, not only on respect and exercise of the rights, but also compliance with the obligations and commitments we assume as members of a community.

↳ *Democratic Coexistence*

The contents for the development of Values and Democratic Coexistence of the individuals do not only originate in the School. Nevertheless, because of its public position, it is a privileged educating agent as regards moral education and citizenship.

Citizenship and Democracy are not merely identified with coexistence or patriotic feelings, nor are they simply reduced to formal terms of rights and obligations. Democracy may be understood as the procedure for political decision-making (democracy as form of government), and as a way of life that implies value options and a referee of standards and ideals.

We consider the development of a tax culture as a meeting point between the *Development of Values* and the exercise of *Citizenship*.

↳ *Toward a new Tax Culture*

We believe that tax issues should constitute the transversal contents of teaching since they are constitutive elements of citizenship and are closely related to the incorporation of values and attitudes. The school may undertake actions aimed at a culture that may incorporate the ethical and civic value of taxation as one of those elements of responsible citizenship.

We deem it important to point out that Tax Education not only involves explaining to students why and for what purposes “are taxes paid”, but also developing attitudes of responsibility and commitment vis-à-vis the common welfare and the rules that govern coexistence. To achieve these objectives, one cannot and should not wait until citizens become adults, stage at which they already have “fixed” habits, preconceptions and internalized a specific idea as to “what is moral”.

Formal stages of the course – workshop with teachers

The courses are carried out in four days, wherein the conceptual bases are covered. Thereafter, a mixed modality is applied, with tutoring and individual work (reading of material, activities and planning design). For the approval of the course, teachers must submit and uphold in a meeting, a teaching plan stating the contents of TE with the specific aspects of the curricular area. Once the individual project has been approved, it is implemented in the classroom and as closing of the training activity, there is an exchange of experiences.

Instructional materials

All the teachers participating in the course receive free instructional material for their own training, for their students, as well as a set of instructional games.

The ***Student's Booklet*** is based on the experiences of a group of kids and provides for reflections and activities in relation to citizen rights and responsibilities. The ***Teacher's Module*** conceptually reinforces his learning during training and guides his work as regards the implementation of the activities and tasks with the group of students. The contents of the instructional materials are updated and revised, taking into account the new requests and contributions of the teachers. This allows for arriving at a sound product which, at the same time is coherent with the needs arising from the educational area.

Since the inclusion of games in the teaching-learning task is a strategy that facilitates adaptation of the contents and a more active participation of the students, we produced table games with tax, customs and social security contents to provide instructional tools that would enrich teaching. For example, in the game called ***"The Citizen's Treasure"***, the board simulates a city where one must deposit the contributions in the Treasury for the maintenance of the public institutions. Another game is ***"Tour of the Country"*** wherein the children must represent by means of drawings or mimicry, values, elements of citizenship, economic activities or taxes.

2.3 Teacher Training for the Polymodal Level (2nd Cycle of Teaching for 15-17 year old students) and Training of Trainers

In the past year, we have had initial training experiences in these teaching levels. In the province of Mendoza we gathered professors from the polymodal levels, who teach in centers oriented toward Economics and Organizations Management. A total of 50 teachers participated and their contributions (that were included in the evaluation on impact) are being incorporated in the training device to be used in conducting the courses this year.

Another area of intervention is the teacher training institutes. In this respect, we conducted two workshops (in the provinces of Formosa and Misiones) where the teachers, as a condition for their approval, had to elaborate proposals for curricular updating and the training of teachers. This evaluation instrument served a double purpose: that the teachers, based on the needs and their own productions, were able to incorporate the contents of tax education in the local curriculum. On the other hand, that they, through allocations of funds from the ministry, could extend their training experiences to their peers.

2.4 Curricular updating

The incorporation of Tax Education contents in school curricula is a desirable and necessary condition, although not sufficient to ensure the maintenance of the subject in educational institutions.

The reform of the Argentine educational system delegated to the Ministries of Education of the provinces, the power to design and implement their own curricular contents, by taking into account a series of general guidelines elaborated by the country's Ministry of Education. This situation requires that the incorporation of new contents within those designs, be undertaken at the local level. Although there is receptiveness for analyzing the issue, it is not an easy task to introduce changes in the formal contents and up till now, we have had relative success in this respect.

When a specific decision is made to act on the issue, the production of documents for the curricular updating is undertaken jointly with the technical teams of the educational area of each province

We believe that the final inclusion in the curricula of the Tax Education contents is one of the actions requiring in-depth consideration and an effort for increasing the institutional exchanges with the different ministries. However, while this transfer is achieved, there are no obstacles to continuing with the teacher training workshops and related activities that allow the gradual insertion of issues dealing with tax awareness.

2.5 External Evaluation of Formal Education Actions

In view of the level of development of the Program, we considered it convenient to count on an external evaluation that would allow us to make corrections or improve the proposal.

To this end, the Federal Administration signed an agreement with the School of Humanities of the University of Buenos Aires, under which one may find the Bachelor of Science in Education career and which also has a well-known technical consultancy service.

We asked this academic institution to examine:

- ❖ the teacher training devise,
- ❖ the instructional materials produced, and
- ❖ the impact of teacher training.

Thus, the University undertook the external evaluation of our strategies and contributed ideas to strengthen the actions.

In evaluating the impact of teacher training an evaluation was made, on the one hand, of the course per se, (objectives proposed and achieved, the role of trainers, etc.), and on the other, the analysis of the impact which the program generated at different levels (classroom, institutional, family and perception of AFIP's institutional image).

Shown below are the main conclusions of the Impact Report:

- ✓ The **impact** of the Program at the **school level** was **positively** evaluated.
- ✓ **The course** was very favorably evaluated, with **over 9 points in a scale from 1 to 10**.
- ✓ There is a **high level of adequacy between the objectives proposed and compliance** therewith.
- ✓ The performance of **AFIP trainers** was considered **very adequate** by 70 % of those trained.
- ✓ The level of satisfaction achieved by the **instructional materials exceeded 9 points**; while it is pointed out that they favor classroom work.
- ✓ The evaluation of the **implementation** of the projects within the **classroom context exceeded 8 points**.
- ✓ **80%** of those consulted **incorporated the contents of tax education in the following year's** planning.
- ✓ The weight with respect to the **application of the project in the institutional context is close to 8 points**.
- ✓ Teachers indicate that there is **greater "tax awareness"** in the institution.
- ✓ As the **impact "outside the institution"** (family group, reference community) is evaluated, the score is reduced as compared to the other spheres.
- ✓ With the holding of the course, **the teachers recover a more "humane" look of the institution**, particularly by including the tax issue in the development of values and in the structuring of a democratic citizenship.

Much in the same way as the teachers that were part of the sample evaluated, the instructional materials were also examined by the Faculty's research team. In this case they made a series of specific observations with respect to certain situations that occur in the field of contemporary ethical reflection. In general terms, the evaluation made by this group of professionals coincides with the evaluation made by the teachers with respect to the impact.

In order to improve the design still being elaborated, of a training device for the polymodal level (comprises adolescents of 15-17 years of age), the UBA team produced, based on certain guidelines given by the Tax Education unit, specific instructional materials for said level, emphasizing the areas of: History, Ethical and citizen development, Economics and Geography.

3. NONFORMAL EDUCATIONAL ACTIONS

After consolidating the central aspect of the Program, the actions were aimed at taking a qualitative jump of a greater impact, for which reason strategies were diversified in order to directly reach the child population.



The development of a new **tax culture** requires the implementation of different mass dissemination strategies that aimed to include the subject in the areas of cultural consumption of children and adolescents. As we said, the school is the privileged area of socialization and transmission of knowledge, but it is not the only one. The development of subjectivities also takes place in other spheres and it is adequate to insert oneself therein, following the development of innovative and effective tools as a necessary complement to the tasks involved in school mediation.

The massive attendance of children to these sites and the comments received, indicate that these modalities reinforce systematic actions and contribute to disseminate tax education. Each of them is briefly described below:

3.1 Game Areas

✓ *Island of inventions (Rosario – Prov. of Santa Fe)*

This is a cultural center for children (which adults also enjoy) where we recently inaugurated “The Ideal City” module where the public present discusses and makes group decisions about the composition of that city’s budget. The project includes the development of two other

TOPIC 1.2

modules: one linked to Customs and its role of privileged witness in determining the identity of the city of Rosario, very linked to its port. The other is related to the Social Security, which is depicted as a toy factory from the logic of a playful production.

✓ *Itinerary: game area (La Plata – Prov. Bs. As.)*

In a large estate, the buildings of a Republic (Executive, Legislative, Judicial Bodies, banks, museums, etc.) are reproduced at scale, although with an architecture of varied styles. In one of those buildings we constructed the Tax Education module, establishing a game itinerary that recreates the path of the tax money, the relationship between resources and public needs; the functions fulfilled by AFIP, the Congress of the Nation, the Ministry of Economy and other state institutions.

The development of this area was based on the need to revalue the social function of taxes, the exercise of responsible citizenship, the recognition of the rights and obligations of the citizens and the strengthening of the sense of ownership of the public space.

✓ *Children's Museum (City of Bs. As.)*

It is an interactive museum that reproduces the city space, where children play, imitating the adults (businessman; journalist; operator; etc.).

In this area we use the game modules "The paths of the treasure" and "The port and Customs Office", whereby a reproduction is made of the path followed by public resources and the role performed by state institutions and the operation of the Customs Office in the port sphere.

✓ *Tour of the country: thematic exhibition (S. Clemente del Tuyú – Prov. de Bs. As.)*

In a marine thematic park located in a resort area, we set up a space to exhibit our country's natural and cultural heritage. Families as well as school groups visiting it, had the opportunity to see how the State, with public resources contributes to preserve the Argentine natural reserves and cultural heritage.

3.2 Traveling Plays

✓ ***At Ojotas I and II***

During the vacation season and for the second consecutive year, we organized a play that is presented throughout the resorts of the Atlantic coast based on TE issues.

✓ ***It Happened at Villa Linda***

A puppet show for smaller children was also presented at different public areas in the city of Mar del Plata.



3.3 Participation in Fairs

We set up stands with several games and entertainments where children participate in various cultural and educational activities. We had a special participation in the Children and Juvenile Book Fair in the City of Buenos Aires for two consecutive years, with an attendance of over 400,000 people. In this way, we endeavor to be present in each province's most important cultural event for children.

3.4 Presence in mass communication media

We are aware that mass communication media is a means for disseminating cultural issues to children, especially television to which they devote a greater part of their free time. Last year we entered into an agreement with a television production company to include contents in a children's program conducted by a hostess who is well known among the children population.

We sponsored a program developed by the Ministry of Education “ScopicMedia”, to make children aware of the development of new communication technologies. The programs are broadcasted during the school time allotted the children to work.

We deal with different citizen issues in an educational television program, by introducing such topics as contraband, underground work, payment vouchers, cooperatives, financing of public places, etc.

3.5 Publications in children reviews

In collaboration with well-known cartoon writers, we have developed comic strips that are published weekly in children reviews, which also include games, riddles and other activities that may arouse the child’s interest on the subject.

3.6 Tax Education Web Page

We developed an agile and entertaining page intended for children, teachers and the public in general. It shows games, instructional sequences, concepts of tax culture explained to children and teachers, information on the activities we carry out in different areas of the country.

3.7 Virtual games

The trends in children’s cultural consumption indicated that there was an exponential increase in the time children devote to play in their PCs. In all of the country’s cities there has been an increase in premises devoted to providing Internet services, especially to play on-line.

The elaboration and development of a virtual game will allow us to bring the subject to children from an instrument with which they are familiar. We are working on the initial technological requirements and other specific guidelines for the interactivity of the game. In this sense we are going to promote the use of this product with educational mediation.



4. COMBINED ACTIONS

Under this category we are considering the strategies that have been implemented and originated outside the school but which require the school sphere in order to be carried out.

4.1 Contests

This area is mainly intended for students in middle level schools, which we have not yet fully covered from the perspective of the training of teachers. Up till now we have held successful contests in some provinces.

✓ *My Invoice, Please*

This contest is intended for students in their last year of the polymodal cycle. Its objective is to instill in adolescents the habit of requesting payment vouchers, understood within the framework of exercising a responsible citizenship.

This contest is carried out in the Province of Mendoza during the school year and this year, 2005, we will be holding the third version, with the participation of the provincial Directorate of Income.

In the year 2004, a total of 98 schools participated, which in turn implied the participation of approximately 30,000 students.

✓ *Creativity*

It recognizes creativity in the design of advertising, whose slogan in the first version held in 2004 was "why is it worthwhile to pay taxes".

It was held in 5 provinces with over 600 divisions of students in their next to last year of the polymodal system of public schools.

4.2 AFIP goes to School

This is carried out at schools in the city of Buenos Aires, by means of different playful-educational activities and delivery of materials for the in-depth consideration by teachers and students of tax education issues in classroom work. This is another of the actions that combines workshop activities with the presentation of plays dealing with responsible citizenship issues.

PRELIMINARY CONCLUSIONS

The external evaluation of Formal Education actions and opinion surveys undertaken by the administration on Nonformal Education actions confirm that we are on the right path.

We had previously said that a new Tax Culture could not be separated from Democratic Coexistence and the Development of Values. We cannot disregard the fact that, at present, what prevail is that which is contingent, critical, where the focus is not beyond short term objectives. We believe, without losing sight of the foregoing, that our contribution and our goals must be long-term oriented. Cultural changes occur within long periods and in the transformation processes the school plays an essential role. It is true that a culture cannot be changed merely from the school, but it is no less true that it cannot be changed without it.

One last consideration with respect to Tax Education actions is that certain “accessory benefits” are derived therefrom. In this sense, two that are closely associated are worth noting:

- ❖ The first contact which this large part of the population (the children) have with the Tax Administration is “friendly”, linked to learning and playing. And that experience in many cases, is not forgotten: children work in an area with a visible presence of AFIP or receive quality instructional material. The social image we endeavor to develop around us is that of an institution that serves everyone and invites us to participate in a common area.
- ❖ The parents and teachers who come in contact with the proposal say that they had never imagined that the Tax Administration is ALSO that. In general, they are pleasantly surprised that we take time to think and act within long term; that we attempt to change an aspect of our culture that may allow us all to live in a better country.

Our intention, considering the perspectives of Tax Education, is to expect that within a few years, in Argentina and in Latin America we will no longer need to work in developing tax awareness.

Perhaps those who are currently children and adolescents may find “sense” in a citizen practice such as the payment of taxes and may fulfill their obligations not only because of the risk involved in not doing so, but rather because this act will make them feel as citizens in the full sense and participants in what is common to the society of which they are a part.

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Case study

TOPIC 1.2

THE PURPOSE OF TAXATION AND ITS DISSEMINATION IN SOCIETY - TAX EDUCATION

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(Colombia)

*CONTENTS: 1. Introduction.- 2. General Considerations.-
3. Colombian Experience.- 3.1 Background.- 3.2 The Strategic Path.-
3.3 A Tax Education and Culture Project for the New Conditions.- Annex
1. Normative Aspects.- The strategy.- Administrative Aspects.- Annex
2. Strategic Map of the DIAN.*

1. INTRODUCTION

I would like to thank CIAT for this opportunity to share with you some criteria that I consider important for this debate, in relation to the role that should be played by the Tax Administration as stage agent, in the process of consolidation of a culture of contribution in contemporary society and especially, in the development of new generations.

First of all, I believe it would be useful to identify some elements that support the argument from the conceptual and theoretical standpoints, followed by the review of some aspects applied to the Colombian

experience, to conclude with the formulation of general guidelines that we believe should support the design, implementation and operation of the strategy for strengthening the tax culture, based on an educational model related to contribution that may be sustainable through time.

In sum, the educational strategy should be designed in keeping with the Tax Administration's progress and capacity for response and based on the new educational trends, which in turn must be based on sustainable technologies that may facilitate fluid communication and interaction between the administration and the citizens.

All of the foregoing is based on the purpose of determining some elements of analysis that may allow our tax administrations to legitimize their organizational activities before the citizens, within the framework of a democratic, modern State that may respond to the needs of society and the pressing demands resulting from the economic globalization processes, as well as to respond to the questions posed in the suggested methodological guide.

Which is the strategy adopted for promoting tax education as regards the priorities of the target groups considered?

Which are the means and mechanisms used for developing the tax education programs?

How can tax education actions developed be grouped by categories, in relation to their immediate goal (creating awareness, dissemination of standards, etc.)?

2. GENERAL CONSIDERATIONS

Let us look at some considerations dealing with the role of the Tax Administration in society that are necessary for this analysis.

- The strategy adopted must be in keeping with the function of legitimizing the Tax Administration before society, based on the following considerations:
 - The structuring of a shared vision of the Tax Administration that involves the stakeholders, (State – Citizen – Society – Communications Media, etc.).

- The consolidation of the Tax Administration model capable of providing trust to citizens through the systematic reduction of the levels of evasion, contraband and corruption, as well as the rendering of an adequate service which must be systematically evaluated by the citizens.
- An integral approach of a systemic nature that may involve adequate accountability as an essential element of transparency throughout the public administrations, in such a way that the citizen may become aware of the use made of tax collection.
- The massive dissemination of the duties of citizens toward the Tax Administration which should be approved by them and the consequences of their noncompliance from the legal and social levels, given the need to harmonize the State and Society in a contract wherein both parties consider the public treasury sacred.
- The need for all citizens to be aware of their rights vis-à-vis the tax administration and the way of demanding their recognition and respect. In this sense, it is urgent for all of society to disseminate and familiarize itself with them.
- The message to society based on the ultimate goal of satisfying public needs and the welfare of society.
- The accuracy of the scope of the Tax Administration whose operation at the national, regional and local level administering various taxes, rates and contributions, is many times confusing to citizens.

3. THE COLOMBIAN EXPERIENCE

3.1 Background

It must be mentioned by way of diagnosis that the process of developing a culture of contribution in general and an educational system dealing with taxes in particular, had not been permanent and systematically undertaken in Colombia. Likewise, this process has not been forcefully included within the Tax Administration's organizational strategy, since it is characterized by specific actions that respond more to a current

junction than to a long term strategy, for which reason it has been impossible to establish the impact generated by collection, the decrease in the levels of evasion, avoidance and contraband, the improvement of compliance with obligations or the change in tax habits on the part of the citizens.

However, it must be noted that the actions undertaken in this respect, have had a limited and disjointed results as may be seen in annex 1. These actions range from creating sensitivity and research, up to the penetration of areas that are common to the Colombian educational system, among numberless actions aimed at the development of a tax culture.

3.2 The Strategic Path

Currently, and as a result of the strategy adopted, the DIAN has been consolidating an integral management model known as Single Automated Revenue, Service and Control Model (MUISCA by its Spanish acronym) which endeavors to align the Tax and Customs Administration processes, technology and organization in keeping with the strategy, in order to respond to the problems of the Tax System, based on an integral and integrated information system that endeavors to put up with the management of Tax Administration, increase collection, improve control and service, while at the same time reducing the gaps of noncompliance by those obliged.

The ultimate goal of the vision determined for the coming years is that society in general may perceive a strong Tax Administration, capable of guaranteeing compliance with the tax law in accordance with the principles of justice and equity. If this is not so, the DIAN's image of capability for institutional response will be weakened before society and the citizens' trust in the Tax Administration will be lost.

I will now refer very briefly to the general guidelines of the strategy adopted by the DIAN and especially to the aspects dealing with the development of tax awareness undertaken within the entity.

3.3 A Tax Education and Culture Project for the New Conditions

Within the previously described context, the DIAN has reformulated its tax culture project as a result of the strategy adopted, which includes the following main actions:

3.3.1 Definition of a long-term integral strategy which develops the organizational vision.¹

According to the vision determined until the year 2010, the DIAN has been developing an integral strategy that is based on the following corporate objectives established in the strategic framework (see Annex 2).

- Achieve excellence in the operation.
- Redirect the entity toward service.
- Consolidate the autonomy and legitimacy.
- Contribute to the country's competitiveness.

These constitute the spinal column of the organizational transformation process we have undertaken and which is based on strategic objectives, among which it is worth highlighting those intended to strengthen the relationships between society and the treasury:

- maximize the importance of the DIAN's name;
- communicate the results of the use of State resources;
- modify, align and shield the processes against subjectivity, corruption and the violation of the values;
- strengthen the prevalence of the tax authority;
- generate the culture of transparency commitment and generation of value;
- transform the internal culture toward customer service.

All of the foregoing endeavors to combine the organizational efforts as the basis of an expeditious relationship between a sound and credible Tax Administration and a society that legitimizes it, within the framework of a fair and equitable tax system that may afford juridical security and stability at medium and long term.

3.3.2 Consolidation of the Single Automated Revenue, Service and Control Model – MUISCA, as a management model of the DIAN which supports the Tax Administration's action.

¹ "In 2010, the Directorate of National Taxes and Customs of Colombia will have consolidated the tax authority of the State, the institutional autonomy, high levels of voluntary compliance with the obligations it controls and facilitates, integral and full use of the information, of the processes and regulations, the contribution of technical elements for the adequacy of the tax burden and the simplification of the tax, customs and exchange systems, counting on a team of public officials committed and trained to safeguard the interests of the State with a sense of service, integral technological support, permanently updated and a special administrative system characteristic of a modern entity that responds to the needs of society, officials, taxpayers and users."

The integral and systemic nature of the solution seeks, based on the adequate use of technology, to determine the behavior of the taxpayers as economic agent and as part of a production chain, while at the same time contacting the citizen and the administration through the technology, it being the responsibility of the DIAN to facilitate this through the rendering of a quality service based on sustainable state-of-the-art technologies.

The timely and reliable management of information strengthens the credibility of the Tax Administration, which is perceived as an entity guaranteeing the custody of tax revenues, capable of detecting noncompliance and responding immediately by means of legal actions that may guarantee tax equity.

Likewise, the service is perceived to be prompt, due to the support given by the information system, which provides complete and integral information on the citizens' statement of account, switching the emphasis from attention to real-time response to the citizens' needs.

We see then, that in the context of the Single Automated Revenue, Service and Control Model – MUISCA, the entity's orientation toward facilitation, service and improvement of the institutional image and the generation of a voluntary compliance culture constitute the two complementary aspects of the State-Citizen relationship at the taxation level.

It is our intention to reconstruct the Tax Administration as an organization close to the citizen and open to his concerns, which one may trust because of its neutrality and efficiency. This is what corresponds to us under the new conditions as entity responsible for the collection of the taxes under its responsibility, required to finance the State's expenses and to provide substantial support to those carrying out foreign trade activities.

3.3.3 Permeate all the scenarios dealing with the stakeholders, through an educational project.

The taxpayers, those responsible, the users and other customers of the DIAN find an appropriate scenario for understanding, through the expeditious relationships between the citizen and the administration, based on a better knowledge about them, especially their economic reality and their needs.

The identification of the characteristics of each one of the stakeholders allows a better knowledge of each of the customers of the Tax Administration. In that sense, efforts have been made for penetrating into their behavior from an individual perspective and from their interrelationship as economic agent participating in a productive chain, which aspect allows the Tax Administration to develop accurate control instruments and to identify the strengths inherent in the rendering of a service in keeping with the needs of each of the customers, as main input for the tax law dissemination and updating program, the procedures and processes before the administration, the tax calendar, and the catalogues of duties and obligations, among others.

In addition to the taxpayers, it is necessary to clearly identify, know and establish the requirements of other agents that interact with the DIAN (which must fulfill their obligations, such as those dealing with the provision of exogenous information that constitutes a fundamental input for corporate intelligence and the assessment and collection processes) notaries, chambers of commerce, banking institutions, among others.

Equally important is the attention and follow up of the needs and obligations of some third parties related to the DIAN, such as Banks, Customs Intermediation Companies, Warehouses, Withholding Agents, etc.

3.3.4 Educational strategy.

Based on the elements previously analyzed and as a complement to reinforce the DIAN's management model, a strategy has been designed for the massive dissemination of the duties and obligations of the citizens, through external interaction and communication in keeping with the learning habits and methods identified in the Colombian educational system and with modern learning techniques.

To achieve such objectives it is necessary that today's children and youth become aware that the rights and guarantees we are enjoying are a collective structure that involves a cost and that as soon as they enter the productive process, they must contribute to finance it, to the extent of their real capabilities, extending through time, the State's capability to fulfill the redistributive demands that are ever greater in quantity and quality of a population that must successfully face the challenges of the globalized world.

In the sphere of social policy, education currently requires the greatest efforts and concerns of modern states throughout the world. It is thus acknowledged that education is a fundamental instrument to simultaneously influence equal access to opportunities, economic development and the establishment of citizenship.

The introduction in the curricula of citizen competency standards make that a significant part of the topics that were considered in our first experience as essential for tax education and culture become now part of the knowledge and skills developed by basic formal education since the early school years. Other aspects such as basic notions of economic and public finances have their place among the social science competency standards.

This new organization for the transmission of knowledge allows us to concentrate on our objective: ensure that all of society will rightly respond to the great basic question that must be solved by a tax culture and education program: why must we pay taxes?

3.3.4.1 A Tax Education and Culture Project for the new conditions.

Within the context of that previously described and as part of the institutional transformation process undertaken by the DIAN, the following educational strategy has been determined.

Objective

Contribute to compliance with tax, customs and exchange obligations, especially to the increase in the number of registered taxpayers, timely compliance with their tax obligations and collection of the correct amount of taxes, through internal and external activities intended to develop a taxation culture among the Colombian population and, in particular, among the group of obliged individuals and corporations.

Target Population

- The **citizens**, understood as the totality of Colombian nationals, whether or not living in the national territory.
- The **taxpayers**, defined as the individuals or corporations that relate themselves with the DIAN for purpose of complying with their tax, customs or exchange obligations. For carrying out the programs of the project they will be grouped by economic and/or geographic sectors, or by unions or the like.

-
- The **citizens elected** by the Colombian society and its regions for the legislative body, which constitute a fundamental part of the processes that are related to changes in the tax regulations.
 - The **DIAN group**, formed by the persons who work to ensure compliance with the institutional objectives, either as permanent, career or free appointment and removal officials, with or without leadership, supernumeraries, consultants, contractors, etc.
 - The **state institutions** that are directly or indirectly related to compliance with the mission of the DIAN.
 - The **tax advisers** and **Customs Intermediation Companies**, individuals or corporations whose activity is to counsel taxpayers in relation to tax, customs or exchange issues or their intermediation before the DIAN to undertake related procedures.

3.3.4.2 General Activities of the Project.

The project will be carried out through the following educational actions:

- Formal tax culture programs for middle and university level education to be carried out by means of agreements with the Ministry of Education and the universities.
- General information and development of opinion campaigns and programs that may contribute to a massive understanding of why we pay taxes, the means to do so and the importance for the country of our attitude of respect for the law and compliance with our obligations.
- Tax, customs and exchange technical training programs to strengthen the citizens' and entrepreneurial capability with respect to tax management.
- Internal campaigns and programs.
- Opinion surveys and polls.
- Programs being agreed to strengthen the tax culture and anti-corruption attitude among public officials.

Based on the actions of our Tax Culture project, we will endeavor to make a classification according to immediate objective, it being noted that an action may impact more than one immediate objective.

3.3.4.3 *Creating awareness.*

We define this category as that whose objective is that everyone fully understand, through the incorporation of elements of historical, political and economic knowledge, why we pay taxes and the ethical importance and dimension of this act.

The following actions are classified:

1. formal tax culture programs for middle and university level education, to be carried out by means of agreements with the Ministry of Education and the universities;
2. general information and development of opinion campaigns and programs that may contribute to a massive understanding of why we pay taxes, the means to do so and the importance for the country of our attitude of respect for the law and compliance with our obligations;
3. internal campaigns and programs in relation to the program for verifying compliance by all of the DIAN officials with their tax obligations;
4. surveys and polls. As regards the measurement of general opinions about taxes, tax system, services;
5. programs being agreed to strengthen the tax culture and anti-corruption attitude among public officials.

3.3.4.4 *Information.*

Formal tax culture programs for middle and university level education, to be carried out by means of agreements with the Ministry of Education and the universities, as regards the component of the tax structure and general information on obligations and procedures.

General information and development of opinion campaigns and programs that may contribute to a massive understanding of why we pay taxes, the means to do so and the importance for the country of our attitude of respect for the law and compliance with our obligations.

With respect to the information component regarding the tax calendar, normative changes, services, forms, etc.

Internal campaigns and programs with respect to information aspects regarding the tax structure, obligations, procedures, services.

Programs being agreed to strengthen the tax culture and anti-corruption attitude among public officials, as regards general information aspects regarding the tax system, obligations, procedures and services.

3.3.4.5 Development of tax management capability among economic agents.

Tax, customs and exchange technical training programs to strengthen the citizen and entrepreneurial capability with respect to the management of taxes.

3.3.4.6 Dissemination of regulations.

Although not a part of the culture project, the dissemination of regulations is implicit in all of the scheduled activities.

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ANNEX 1

Normative Aspects

The Colombian Constitution, issued in 1991, provides within the duties and obligations of citizens, the obligation to comply with the constitution and the laws, in particular and with respect to the treasury, that of “Financially contributing to the State expenses and investments in keeping with the concept of justice and equity”².

In 1995, legislation was issued on tax rationalization which provides that “The Directorate of National Taxes and Customs will undertake an educational task intended for schools and colleges to develop a tax culture in the country, with a view to educating the citizen with respect to the constitutional duty of contributing to the public burdens”³.

Subsequently in one of the tax and customs administration reforms in 1999, there appear for the first time, functions dealing with compliance with said legal mandate. Specifically, the regulation provided that the DIAN should “Promote programs for strengthening voluntary compliance with tax, customs and exchange obligations, by educating children and youth, informal sectors of the economy and, in general, the different members of society”⁴.

In the internal distribution of functions, this task was assigned to the Secretariat of Institutional Development, which traditionally and until very recently, managed it through the Tax and Customs School, within the normative framework already defined.

The Strategy

Children and youth registered in the formal elementary and high school education cycles were used as target groups, according to the provisions of the Law (223 of 1995).

The strategy for this group was implemented in three stages:

- ***Creating Sensitivity***: involved the training of officials as sowers of the contribution and the holding of workshops with the participation of 150,000 students throughout the national territory, directed by the sowing officials.

² Numeral 9, article 95 of the Political Constitution of Colombia.

³ Article 157, Law 223 of 1995, Congress of the Republic of Colombia.

⁴ Article 18 of Decree 1071.

- **Research:** stage where the conceptual development of the program took place. Between 1998 and 2000, jointly with the Ministry of National Education, the Social Studies Center of the School of Human Sciences of the National University of Colombia and the National Pedagogical University, the concept of contribution was introduced in the curricular guidelines of Political Constitution and Democracy, and the research and design was undertaken of the adequate curricular guidelines of education in tax culture, the studies plan and methodology for school training.
- **Education:** included the organization of seminars with mixed groups –officials, students and teachers – for the study and discussion of curricular issues resulting from the research stage, the training of public school teachers in the city of Bogota, although at a reduced scale, in agreement with the district educational authority and the publication on paper of the results of the instructional research and the text “Education in Tax Culture”. Also, workshops were conducted for groups of students.

The programmatic contents were designed to cover the entire basic educational cycle, beginning with preschool and ending with the eleventh grade, last of the basic high school.

It covered topics for citizen training such as the distinction between public and private properties, the rights and duties of the citizen, state-citizen relationships and the generalities of social control; basic concepts of economics, such as exchange and money; of public finances, such as the general budget of the nation and the development plans and finally, the specific tax issues –history of taxation in Colombia, taxation today and the tax culture -, which topics were dealt with in the eighth grade.

Administrative aspects

The financial resources of the program were allocated from the DIAN’s investment and operation’s budget and support was received from the GTZ for expenditures involving the printing of materials.

The qualified human resource was selected from among the officials participating in the sensitivity development workshops and also, consultants and researchers from prestigious universities were hired. They contributed the necessary academic weight for the soundness of the educational proposal.

**Annex 2
Strategic Map of the DIAN**

	A. Achieve excellence in the Operation		B. Redirect the entity toward Service		C. Consolidate autonomy and legitimacy		D. Contribute to the country's Competitiveness	
Finances	Maximize tax revenues according to the standards							
	Optimize the cost/benefit Relationship		Optimize Coverage in The collection Of taxes	Optimize Integral Revenue by Customer	Maximize the Value of the DIANname	Maximize Revenues Through Access to National and International Cooperation Resources	Reduce costs Associated to Compliance with Obligations	Reduce Customer Costs Associated to Customs Operation
Customer	Discourage evasion, avoidance, contraband and exchange violations Build trust, credibility and improvement of the image							
	Provide the Customer Permanent Assistance	Improve Reaction yimes Before the Customer	Increase the level of Customer satisfaction		Mobilize communication of results With respect ta use of State resources		Mobilize Simplification And Harmonization Of TAC Legislation	Provide Stability and Legal security With unity of Criterion
					Promote Transparency And interact with The community	Generate Voluntary Compliance Culture		
Processes	Strengthen Infelligence And integral Control	Ensure Reliability of The processes	Guide, Speed up an render Flexible the entity's processes Toward Knowledge of the Customer and the delivery of Value		Modify, align and protect the Processes against subjectivity, Corruption and the violation of Values		Lead the Development of A national Massive Management And service Network	Actively Contribute to Speeding up The strategy And planning The standards
			Facilitate and Optimize Customs Operations	Develop the Network of Services Rendered by Third parties	Develop Qualified Strategic Alliances	Strengthen the Prevalence of The tax Authority		
	Speed up, simplify and Render the processes flexible				Render flexible the Administrative standards			
Learning And innovation	Generate the organizational Capacity for use of the Information		Transform the Internal Culture toward Customer Service	Prioritizethe Vocation to Serve in the Official Career plan	Generate the Culture of Transparency, Commitment And Generation of Value	Innovate with Effective Control tools	Improve the Capability of the Corporate Intelligence Process	Strengthen the Strategic skills Of the entity
			Investigate and innovate in Service models and means					
	Consolidate the organizational capability for complying with the mission and achieving the vision							
	Strengthen and implement a system to continuously and adequately attract, train, develop, evaluate, retain and compensate the staff							
	Ensure the generation, administration and dissemination of knowledge required throughout the organization and its chain of value Have available reliable information and the adequate and sustainable technological support							

Case study

TOPIC 1.3

TRANSPARENCY IN TAX ADMINISTRATION MANAGEMENT

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CONTENT: Summary.- I. Introduction.- II. A Transparent Tax Administration – Essential Aspects.- 1. A tax administration whose legal framework of operation is clearly defined by law.- 2. A tax administration which keeps citizens informed about their rights and obligations in a simple and expeditious manner.- 3. A tax administration which keeps citizens updated about its own operation.- 4. A tax administration which proceeds efficiently and effectively.- 5. A tax administration which avoids or properly manages any “conflicts of interest”.- 6. A tax administration with low corruption levels.- 7. A tax administration which fights tax evasion and fraud.- III. Transparency in the Portuguese Tax Administration.- 1. General aspects.- 2. Means used in publicizing management results.- 3. Access by taxpayers to information about their tax status.- 4. Implementation of an integrated system for taxpayers’ service – under study.- 5. Performance of the organization and taxpayers’ opinion.- Conclusions. -Annex: Analysis of survey replies.

– SUMMARY –

It is widely accepted that the way tax administrations interact with their public – the taxpayers – is a determining factor both in taxpayers’ perception of the quality of the tax system and in increasing voluntary compliance: taxpayers who are duly informed about their rights and

obligations and treated fairly and efficiently by the tax administration are better inclined to meeting their tax obligations voluntarily.

Thus, transparency is essential for greater acceptance of the work of tax administrations by their public – the taxpayers – and, therefore, it is a maximizer of voluntary compliance with tax obligations and a deterrent of tax fraud and evasion.

Furthermore, transparency allows a larger number of interested taxpayers to control not only the work of the tax administration, but also that of individual staff / officials within it, thus becoming a deterrent for corruption inside the organization.

Transparency in tax administrations revolves around seven essential variables. The more developed these variables are, the higher the level of transparency of the tax administration. A transparent tax administration is one:

- **Whose legal framework of operation is clearly defined by law:** technical and administrative procedures should be defined by law, as should taxpayers' rights. If this condition is met, the tax administration knows how to operate and within which limits. In turn, taxpayers are aware of their rights and may control the tax administration's compliance with the operating rules imposed to it by law;
- **Which keeps citizens informed about their rights and obligations in a simple and expeditious manner:** citizens / taxpayers must be informed about their rights and obligations, as well as their tax status and that of the processes they have outstanding with the tax administration. Access to information must be enabled through the use / availability of multiple interaction channels. Regarding this variable, it is also important for the tax administration to have diagnostic tools available to assess taxpayer satisfaction and identify opportunities for improvement and expansion of the services provided;
- **Which keeps citizens updated as to its own operation:** tax administrations must openly publicize information to allow citizens to assess its performance and lead to perceived equity, fairness and transparency of the system. In this connection, citizens must have access to information regarding the resources allocated to the tax administration, the activities

carried out and the outcome of same. Equally relevant is the publicity of data regarding taxpayer selection mechanisms, average response times to taxpayers' requests, and average collection times;

- **Which proceeds efficiently and effectively:** betting on uniformity and automation as factors leading to a more equal treatment of taxpayers and a better definition of their expectations, thus fighting tax fraud and evasion successfully and collecting due tax revenues. This implies proceeding in a clear and uniform manner by punishing taxpayers who incur infringements and facilitating interaction with taxpayers who meet their obligations;
- **Which avoids or properly manages any “conflicts of interest”:** through the definition of a legal framework ensuring citizens that the interests pursued by the administration is always public interest rather than specific officials' interests. This legal framework should also be complemented by enforcing systems of “good practices” to reinforce integrity in officials' performance;
- **With low corruption levels:** corruption levels must be minimized. In this area, the way the tax administration interacts with its officials is critical. Thus, it is essential for the tax administration to demand these high standards, both at the level of ethical behavior and professional competence and, in compensation for that, to assure all necessary professional and ethical training and remunerate them in accordance with the technical and responsibility levels required;
- **Which fights tax evasion and fraud:** fighting tax fraud and evasion is another major component of transparency, since it results in citizens' perception of a tax administration which ensures law enforcement and does not tolerate abusive or fraudulent behaviors. It is clear that if the level of tax evasion and fraud are minimized, the possibilities for distortions, inequalities and unequal treatment among taxpayers are likewise decreased.

I. INTRODUCTION

Transparency is probably one of the most important features of civil service in the rule of law. It is transparency that allows citizens to control the performance of those to whom – directly or indirectly – they entrusted the management of public affairs and the fulfillment of public interests.

Transparency is of particular importance for tax administrations, which are charged with the demanding and seldom understood task of collecting taxes. In recognition of the unpopular nature of this task, transparency may contribute toward further acceptance of the role of tax administration, higher levels of taxpayer compliance with tax obligations and lesser temptation of resorting to tax fraud and evasion.

In fact, it is widely accepted that the way tax administrations interact with their public – the taxpayers – is a determining factor both in taxpayers' perception of the quality of the tax system and in increasing voluntary compliance: taxpayers who are duly informed about their rights and obligations and treated fairly and efficiently by the tax administration are better inclined to meeting their tax obligations voluntarily.

Likewise, transparency is a deterrant for corruption – the more transparent organizations are, the larger the number of interested taxpayers who can control the respective officials' performance and, therefore, the lower the leeway for corruption.

Transparency is, ultimately, an absolute imperative given the current context for governmental activity, which is characterized by a growing scarcity of financial resources, the need to control both the quantity and quality of service supplies, the structure of public service demand, fiercer competition for available resources, growing, desirable and more rigorous performance assessment, awareness of the costs incurred by civil service onto other organizations, and the exponential increase of “customer” (i.e. taxpayers) expectations.

II. A TRANSPARENT TAX ADMINISTRATION – ESSENTIAL ASPECTS

In my opinion, transparency in tax administration revolves around seven essential variables. The more developed these variables are, the higher the level of transparency of the tax administration. A transparent tax administration is one:

- whose legal framework of operation is clearly defined by law;
- which keeps citizens informed about their rights and obligations in a simple and expeditious manner;
- which keeps citizens updated as to its own operation;
- which proceeds efficiently and effectively;
- which avoids or properly manages any “conflicts of interest”;
- with low corruption levels;
- which fights tax evasion and fraud.

Let us consider what exactly each variable translates into:

1. A tax administration whose legal framework of operation is clearly defined by law

A clear definition of the legal framework of operation for the tax administration is the first feature of a transparent tax administration. Technical and administrative procedures, however complex from the technical perspective owing to their specificity, should be defined by law, as should taxpayers’ rights. If this condition is met, the tax administration knows how to operate and within which limits. In turn, taxpayers are aware of their rights and may control the tax administration’s compliance with the operating rules imposed to it by law.

Nevertheless, tax administrations’ operations should be subject to controls by independent entities so that compliance with their legal obligations are certified and guaranteed.

2. A tax administration which keeps citizens informed about their rights and obligations in a simple and expeditious manner

In an ideal scenario, the tax system is simple and stable. Taxpayers understand the rules applicable to them and those rules are usually maintained until the need for a “reform” is evident. These two features – stability and simplicity – are essential to ensure that citizens know

the tax system and, thus, are aware of their rights and obligations as well as the procedures inherent to these. This leads to further transparency in the relationship between taxpayers and the tax administration. Conversely, a tax system which is complex and undergoing constant mutation generates uncertainty and insecurity among citizens, and might introduce opacity in their interaction with the tax administration.

Although the tax administration may contribute toward simplicity and stability of the tax system, it is not the lawmaker, and for this reason it cannot change the law. Hence, its primary responsibilities are ensuring citizens have access to information about their tax status, and supporting them in complying with their tax obligations.

In today's world, this function calls for the use of multiple channels (Internet, face-to-face, telephone, e-mail, fax or mail service) to ensure quality, essentially translating into simplification of matters and clarity of response, with the resulting expediency.

To this end, it is also essential for the tax administration to have tools available to assess customer – taxpayers – satisfaction recurrently, particularly at the level of service, and to identify opportunities for improvement and expansion of the services provided.

3. A tax administration which keeps citizens updated as to its own operation

In parallel, it is equally important for the sake of transparency to keep information available relative to the tax administration itself in order that citizens can assess its performance.

Thus, information regarding resources allocated to the tax administration, operations and activities it has carried out and the outcome of same should be widely publicized ensuring access by citizens at large.

In this context, it is particularly relevant to publicize data regarding taxpayer selection mechanisms for control and audit purposes, average collection times, average response times to information requests and others having a determining role in the perceived equity, fairness and transparency of the system.

4. A tax administration which proceeds efficiently and effectively

This variable refers to efficiency and effectiveness of the tax administration, since these factors lead to further transparency in the organization.

Efficacy is increased mostly by standardization and uniformity of procedures to the extent this is feasible. Uniformity results in a more equal treatment of taxpayers and a better definition of their expectations.

In this connection, investments in automation are essential. Automation of all processes and procedures, provided it is feasible, as well as the inclusion into work flow processes of those which cannot be automated, translates into unquestionable advantages in terms of organizational efficacy, thus rendering the respective operations more transparent, since greater uniformity and management control are ensured.

I believe it is essential to prioritize automation of the areas of fast-track collection, taxpayer selection for inspection purposes and inspection processing.

Efficiency of the tax administration is also conducive to further transparency. An efficient tax administration is characterized, among other features, by fighting fraud and tax evasion successfully and collecting adequate / due revenues. This implies proceeding in a clear and uniform manner by punishing taxpayers who incur infringements, on the one hand, and facilitating interaction with taxpayers who meet their obligations, on the other.

5. A tax administration which avoids or properly manages any “conflicts of interest”

The tax administration is responsible for meeting the public interest. Relative to this variable, transparency of the tax administration translates into taxpayers feeling certain that officials working on their tax affairs are not motivated by personal interests and, therefore, enforce the law with integrity.

Situations of conflict of interests can be identified, firstly, by defining the clearest and most comprehensive legal framework possible, which ensures citizens that civil service pursues the public interest rather than the specific interests of the official who manages a given situation.

In addition, and given that it is virtually impossible for the law to appropriately provide for all situations, it is also essential to implement a system of “good practices” to guarantee the inexistence of conflicts of interest on a case by case basis.

6. A tax administration with low corruption levels

Corruption undermines citizens’ trust on the work of civil service in general. Perceived or suspected corruption in the tax administration on the part of citizens triggers lower compliance with law-derived tax obligations.

Tax administrations where corruption levels are low can more readily “impose themselves” on taxpayers.

In this area, the way the tax administration interacts with its staff / officials is very important. It is essential for the tax administration to be at once demanding in terms of ethical behavior and professional competence and to ensure appropriate professional and ethical training, as well as remuneration according to the technical and responsibility levels required.

7. A tax administration which fights tax evasion and fraud

Especially in recent years, the phenomenon of tax evasion and fraud has deserved increased attention both from Governments and experts alike, as well as from public opinion itself. The reasons for this are naturally linked to raised awareness in the sense that when these practices reach significant proportions, they pose serious issues in terms of tax and general equity, the efficacy of healthy competition in the economy, morals and desirable social behaviors and, last but not least, the tax revenues needed in public budgets. It should be added that tax fraud and evasion affect voluntary payments and minimize an important instrument of economic policy, with special significance for countries lacking autonomous monetary and exchange policies, as is the case of Portugal and most EU-member countries. Thus, it is essential to fight this phenomenon systematically and efficiently.

In addition, the fight against tax fraud and tax evasion conveys two messages to taxpayers: on the one hand, that the tax administration ensures law enforcement and, on the other hand, that abusive or

fraudulent behaviors are not tolerated. It is clear that if the levels of evasion and fraud are minimized, the “temptation / opportunity” of deviations from the standards / loops defined for tax administration purposes are likewise decreased due to lack of motivation and the unlikelihood of distortions, inequality and different treatment among taxpayers.

III. TRANSPARENCY IN THE PORTUGUESE TAX ADMINISTRATION

I will now go over some of the topics mentioned earlier from the perspective of the Portuguese tax administration, focusing first on the more general aspects and then on a specific approach regarding the “informative and communicational variable” of transparency.

1. General Aspects

The Constitution of the Portuguese Republic compels civil service to observe the basic principles of equity, proportionality, justice, impartiality and good faith.

Transparency is not a direct part of this group of principles, although it is an absolutely essential tool for the Administration to be able to operate in strict observance of same.

Thus, and in a more traditional view, transparency is undeniably safeguarded by the legal framework regulating tax administration operations – the technical and administrative procedures, however complex owing to their specificity, are defined by law, as are taxpayers’ rights.

In addition to programmatic and generic references made repeatedly in the Constitution, taxpayers’ rights are systematized in specific instruments (in particular, the Tax Law) which contain specific provisions on this matter. The following are noteworthy among these:

- *access to tax justice and expediency of decisions*: access is ensured to the tax justice system and all actions affecting legally protected rights or interests may be objected or appealed in the terms of the law, the taxpayer being entitled to a decision within a reasonable period;

TOPIC 1.3

- *the principle of cooperation*: tax administration bodies and taxpayers are subject to a duty of mutual cooperation, assuming both parties proceed in bonafide;
- *the principle of participation*: taxpayers have the right to participate in decisions which affect them through the right to a prior hearing. The new evidence produced at the hearing is to be reckoned with in the grounds for the decision;
- *the right to information*: taxpayers have the right to receive information regarding the status of procedures and expected dates of completion, their specific tax status, etc.;
- *the principle of testimonial truth*: testimonies given by taxpayers in the framework of the law are deemed truthful and bonafide.

The tax administration and its officials are bound by law to respect taxpayers' rights, under penalty of illegality of the respective actions. Tax administration officials are compelled to inquire about the taxpayers' tax status, controlling and auditing compliance with the tax obligations they are subject to.

In this regard, it would be fair to say that taxpayers' rights and obligations are defined clearly and broadly in the law in connection with all taxes, and are usually respected and used in practice.

Coexisting with this traditional view, which is pursuant to the rules and principles established by law, there is a more current view of transparency whereby, in parallel to the previous one, the tax administration takes a more proactive attitude focused on taxpayers, widely publicizing the outcomes of its operations / management and attempting at identifying taxpayers' needs and expectations. The objectives of this procedure are to improve the services provided to citizens and businesses, safeguarding information and support to the different types of taxpayers, and making available multiple access paths to said information, and to improve the efficacy and effectiveness of the tax system.

In all cases, these are enhancers of voluntary compliance with tax obligations and, therefore, they help prevent and fight tax fraud and evasion. Equally noteworthy is the on-going bet on improving the technology platforms used with the purpose of enhancing automation opportunities.

2. Means Used in Publicizing Management Results

Publicity of management results is one of the essential variables of tax administration transparency.

In the past, the Portuguese tax administration (the General Tax Directorate), used to provide this information through the summary annual action plan and the projected tax revenue as per the Public Budget, and the respective actual results. The work performed was subject to external control by other entities such as the General Finance Administration – which, like the General Tax Directorate, is part of the Ministry of Finance – and the Auditing Office.

Currently, the type of information made available as well as the means used for this purpose have been increased as a result, on the one hand, of the raised awareness regarding the importance of being informed about the activity and the outcome of same – be it by the tax administration, the citizens at large or even by a social communicator – and on the other hand by the potentiality introduced in these areas by new technology.

Thus, at the level of type of information, regular statistics are made available regarding tax revenues collected through the different taxes, both on the amounts declared by taxpayers voluntarily (voluntary revenue) and on those derived of tax inspections and, consequently, on the corrections made to the amounts declared by taxpayers.

In addition, publicity is given to the new services and features made available for taxpayers, as well as enforcement of automatic controls and information matching and results obtained, inspections carried out by tax inspection services on sectors deemed as posing higher risk and the respective results – stated in aggregate form to safeguard tax secrecy.

The means of dissemination used are basically specialized agencies, the tax administration's website (the preferred means for this purpose), social communicators, with a special emphasis on the media, and the tax administration's quarterly magazine.

This is a key area for the tax administration, since keeping citizens informed about the work carried out and the outcome of same is a maximizer of voluntary revenue and a deterrant of fraud and tax evasion, as indicated earlier.

This type of knowledge is also increasingly demanded by taxpayers in view of the greater sensitivity towards the costs civil service in general, and the tax administration in particular, generate for the remaining organizations (“contextual costs”). This in turn translates into an increased demand relative to the results obtained, especially in connection with the tax administration’s levels of efficacy and efficiency.

3. Access by Taxpayers to Information about their Tax Status

The right of taxpayers to be informed regarding the interpretation of tax rules or their specific situation is enshrined by law. Taxpayers may access said information through different means – face-to-face, by telephone, over the Internet, by e-mail, fax or mail.

Face-to-face

The face-to-face modality is provided by the Finance Services, which are local offices spread out countrywide. There are a total of 372 of these. In addition, there are Taxpayers Support Services located in major urban centers.

Telephone

The telephone means, together with the Internet, will be prioritized. A call center has been created whose first phase started on March 28 last, and which has the purpose of providing taxpayers a single contact number to access information regarding all taxes, for both general and specific inquiries. The objective is to allow taxpayers to obtain the explanation or information requested through a single point of contact with the administration, without prejudice of the fact that certain situations call for expert intervention for which the telephone service is not suitable.

This *call center* is supported by an IT application which enables dynamic management of the resources allocated to the calls based on waiting time analysis. In addition, reports are provided based on management indicators. It should be added that the fact that all telephone calls are recorded identifying the topics inquired about and the replies given ensures, on the one hand, the possibility of controlling the service quality provided and, on the other hand, identification of the most frequently asked-about topics and, therefore, the preparation of a dynamic database of FAQs and their respective answers. Making these FAQs available to operators,

through the same IT application, makes service provision more expeditious and, therefore, induces significant productivity gains. These gains are further increased by the availability of the FAQs over the Internet – at the tax administration’s website – allowing taxpayers to access the same information without ever contacting the administration and, therefore, freeing up resources for the other interaction means, in particular telephone and face-to-face.

In situations where it is not possible to provide an immediate reply to the taxpayer, especially due to the complexity of the matter, the inquiry is routed to the back office and a reply is eventually provided either by email or telephone.

Furthermore, when a large number of questions are received on the same topic, the tax administration will act proactively by sending taxpayers an e-mail with brief, yet understandable, answers to said questions and, if applicable, a link to the legal provisions applicable in that specific situation.

Internet

The Internet is a strategic means for the Portuguese tax administration. The following types of information and features are currently available for taxpayers in the website:

General Information

Noteworthy among the general information which has been made available in the website is all tax legislation in force, FAQs on the different taxes and other tax-related matters, the interpretations provided by the administration in the sequence of related information requested by taxpayers, administrative instructions publicized by the services, which in many cases translate into regulation interpretation – circulars, official letters, etc. - , the tax calendar containing taxpayers’ tax obligations and the respective due dates as well as tax settlement simulation software.

“News” is also posted on the website regarding the main proceedings carried out by the tax administration, particularly in connection with control and audit actions, with the purpose of sensitizing taxpayers about the work performed by the organization. The posting of these “news” also seeks to have a preventive effect, since the citizens’ knowledge about said actions inhibits irregular behaviors.

Specific Information

The website on electronic returns already contains relevant information on the taxpayer's specific status as per the registry. Taxpayers are now allowed to change their address from the website, and shortly this will also be possible of other changes associated with the registry. Also available is information on the status of tax returns filed by taxpayers, in particular regarding the status of settlements.

At present, taxpayers may file over the Internet almost any tax return, while this is the only means allowed for legal entities and individuals with professional or corporate activities.

In recent years, particularly in 2004, there has been a very significant uptake of filings using this means, even by taxpayers for whom it is not mandatory, as shown in the following chart.

Tax Return Filings over Internet

	= 2001 *	2002	2003	2004
IRS - Fase 1	75.989	78.011	152.942	441.961
IRS - Fase 2	49.010	48.051	132.497	507.802
IRC	16.674	76.517	184.719	390.730
Declaração anual	45.209	139.860	285.615	671.057
Modelo 10	-	-	-	488.410
IVA	106.297	217.522	918.060	2.878.616
Retenções .IRS/IRC/Selo	-	-	-	3.214.497
Total	293.179	559.961	1.673.833	8.593.073

Finally, I would like to reiterate that in the sphere of the recent property reform carried out in Portugal, which entered into force on January 1, 2004, a strong bet was made on automating procedures relative to the taxes involved – Municipal Tax on Real Estate and Tax on Property Transfers. Thus, in addition to the filing of returns, taxpayers may use the Internet to request matrix certifications and property books and simulate property appraisals on the geographic information system. Later this year, other features will also be available, such as delivery of exemption requests and settlement requests on these taxes, queries regarding on-going processes (appraisals, exemption requests, grievances) and queries on property and tax status (property registry, exemptions and settlements).

E-mail, fax / mail

In addition to the means described earlier, taxpayers may also request information of the tax administration by e-mail or even by fax or mail.

4. Implementation of an Integrated System for Taxpayer Service – Under Study

In spite of the progress made by the Portuguese tax administration in the sense of diversifying the means of access available to taxpayers, which support them in meeting their tax obligations and provide them with the information they seek, it was deemed necessary to define a strategy to manage taxpayers' needs and expectations over the life of their interactions with the tax administration.

This strategy shall take into consideration the various types of functions, ranging from those which can be fully automated to the ones which can only be solved by experts, the various interaction means and taxpayers' specificity. The different functions and means shall be designed to provide a unique and integral view of each taxpayer, with access to back-office systems, work flow process resources, databases accessible by those who need to take action by making decisions or providing information.

In this regard, a study is being conducted seeking to contribute to the strategy definition to implement an Integrated Taxpayer Service System (SIAC), whose key development aims are:

- improving the tax administration's relationship with taxpayers by reorganizing its services in such a way as to ensure quality and expediency in service provision;
- making available different access means, prioritizing self-service, and ensuring the coordination of services and the quality of data provided regardless of the means used;
- optimizing taxpayer service processes, ensuring coordination among the different tax administration services and, whenever possible, among the different government agencies.

It is unquestionable that voluntary compliance with tax obligations, taxpayer satisfaction and increased effectiveness and efficiency are achieved by prioritizing a taxpayer-oriented approach with prevalence of automated processes and their availability over the Internet or other

means deemed appropriate. Enhanced use of these means assumes that taxpayers know of the existence and objectives of the services made available; user-friendliness and permanent availability of the means; distribution to the population of automated access means (Internet, e-mail, SMS, etc.) to the services used; telephone, e-mail and other types of support to answer questions regarding the use of on-line features; and centralized knowledge, accessible to all in a distributed fashion, of taxpayers' integrated information.

Therefore, it is essential to pursue the following basic objectives:

- maximizing self-service performance;
- prioritizing the face-to-face means for the highest value added tasks;
- making available different interaction means with total integration among them;
- ensuring differentiated service models;
- ensuring quality, expediency and efficiency.

5. Performance of the Organization and Taxpayers' Opinion

Information is gathered both externally and internally regarding taxpayers' opinion about the tax administration's performance.

As to external sources, it is worth mentioning the recent studies commissioned to independent entities, such as international consulting firms Deloitte and McKinsey which, in addition to providing a diagnosis, including a SWOT analysis of the current status of the Portuguese tax administration and its performance, presented a proposal of specific measures seeking increased levels of effectiveness and efficiency.

On the other hand, the Portuguese tax administration's activities and performance are subject to rigorous scrutiny by social communicators, which makes this another important source of public opinion about the organization's activities.

In the sphere of the study of the implementation of SIAC – the Integrated Taxpayer Service System – mentioned earlier, a diagnostic tool was developed to enable the repeated use of given metrics to assess services and taxpayer satisfaction.

The methodology used consisted of a mix of surveys made available over Internet as well as surveys and face-to-face interviews targeting specific users, with the purpose of finding out:

- which functions, services and access means are most widely used in the relationships with the tax administration;
- which is the satisfaction rate of the various types of users in their relationship with the tax administration;
- which are the major difficulties felt in that relationship;
- suggested improvements.

Two surveys were made available on the Internet: one targeted specifically to Accountants, since these professionals represent a significant volume of interactions with the tax administration; the other one targeted to users of the Internet means at large. Approximately 4,000 and 5,000 responses were obtained from the first and second survey respectively.

In parallel, interviews were held with face-to-face users by a market research firm with professionals trained in this kind of activity, at 10 Finance Services located in different regions of the country. 1,000 responses were obtained.

The analysis of responses shows that both usage and the overall rate of satisfaction with the functions available on the Internet are high, which leads to the conclusion that there is high taxpayer acceptance of the Portuguese tax administration's strategy of making services available on-line. Thus, the importance of the development aims which have already been completed was confirmed, as well as that of the initiatives underway and those planned for the middle and long term.

In effect, availability of services over Internet is viewed by most users as a clear opportunity for simplification and de-bureaucratization of processes, with clear advantages for taxpayers and reduced face-to-face contact with the Finance Services, which not only ensures better service provision for the remaining taxpayers, but also frees Service officials' time for more added value tasks such as taxpayers' assistance and revenue collection.

Regarding the telephone and e-mail means, the need for significant improvements were identified, which also matches the priorities set by the tax administration, especially regarding the implementation of a call center.

In turn, the face-to-face means shall continue to be a preferred access means, undertaking less work relative to collections and treatment of taxpayers' tax obligations – to be routed to the Internet – and more work regarding taxpayers' analysis and assistance with a view to helping the tax administration become more effective in fighting tax evasion and fraud and securing more revenue.

Attached is a summary containing the main conclusions of the analysis of responses to the surveys administered to accountants and Internet users in general.

CONCLUSIONS

To conclude, I would like to reassert the main points and conclusions of our presentation:

Conclusion 1

Transparency is an essential factor in obtaining citizens / taxpayers' trust and respect, which in turn enhances voluntary compliance with their tax obligations. Thus, transparency is an important factor in deterring tax fraud and evasion. These reasons would be sufficient to justify why transparency is a priority objective for the tax administration. However, yet another reason is added, namely its effects on the significant reduction of leeway for corrupt practices.

Conclusion 2

Transparency is also an essential phase in the current context of civil service activities, characterized by scantier financial resources, the need to control the service offering, the public service demand structure, fiercer competition for the resources available, the growing, desirable and more rigorous performance assessment, awareness regarding the costs incurred by the civil service on other organizations, and an exponential increase of "customer" (citizens) expectations.

Conclusion 3

Transparency also calls for a tax administration whose legal framework of operation is clearly defined by law; one which informs citizens about their rights and obligations in a simple and expeditious manner; which communicates its own activities to citizens; which proceeds efficiently and effectively; which avoids or properly manages any conflicts of interest, where corruption levels are low and whose fight against tax evasion and fraud is conducted efficiently and recognized by the society.

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ANNEX

Analysis of survey replies - Summary

I. Survey administered to accountants (TOCs) – made available over Internet from November 26, 2004 to January 12, 2005

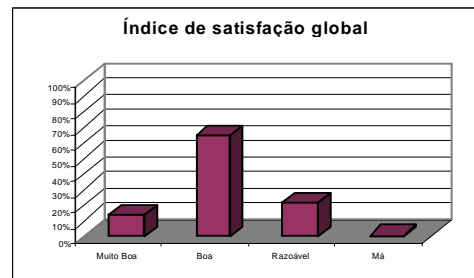
The **most frequently used features** by TOCs– in decreasing order of importance – are “filing returns”, “obtaining supporting documents”, “querying tax status” and “tax payment”, with an average of “very frequent” answers of approximately 65%.

In addition, the following widely used functions were identified: “domicile change”, legislative / applications “change follow-up” and “application download”.

The Internet means is highly popular among the TOCs who answered the survey, being used by 90% of them for almost all transactions of “filing returns”, “obtaining supporting documents”, queries of the “tax calendar” and “querying tax status”.

In effect, **approximately 75% of the respondent TOCs use the Internet means in over 75%** of their interactions, which confirms the importance of the strategy adopted by the tax administration. This means of service provision must continue to be prioritized.

Overall **satisfaction rates of the use of features available over Internet** are “good / very good”, having confirmed that the least used services are those which have not yet been implemented for all situations, a few significant examples of which are: “changing data in the registry”, which only allows changes of domicile for individual taxpayers, and the query of the taxpayer’s checking account, which is still available only for VAT.



Regarding the **remaining means of access**, the degree of satisfaction is reasonable / good. Major improvements pending are: reduction of waiting time in the telephone service and assurance of timely replies to e-mail queries.

In the use of the Internet means, in addition to improving access to the website and the help desk and the greater ease in obtaining requested information, stated as very important were the expansion of existing features such as “changing data in the registry”, “accessing taxpayers’ checking accounts for all taxes”, “making payments and special payments from the account”, and sending e-mail alerts.

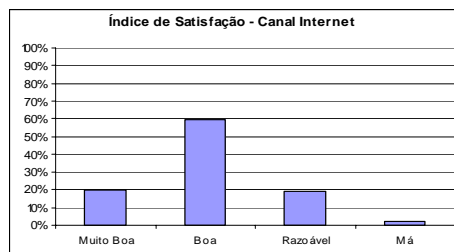
II. Survey administered to Internet users – made available over Internet from December 15, 2004 to January 24, 2005.

The universe of users who replied tends to be young – from 25 to 49.

Of the **services currently available over Internet, the most widely used are**, in decreasing order among the replies to “very frequent”: “filing returns”, with 84% of replies, “obtaining supporting documents”, with 70% of replies and “querying tax status”, with 51% of replies. Regarding “obtaining / using tax simulators”, “querying tax information / legislation”, “obtaining printed papers and forms” and “tax calendar”, services are also widely used, which translate into the following percentages of replies obtained to “relatively frequently / very frequently” (78%, 72%, 62% and 53%, respectively).

In this context, 60% of respondent taxpayers successfully solve 75% of all their needs by interacting with the tax administration over Internet, thus avoiding the need to go physically to a Finance Service and benefiting from greater expediency in obtaining the service requested. These are the major reasons for using this communications means

The rate of overall satisfaction with the use of Internet is “good / very good”, with close to 80% of replies obtained, and only 1.7% of users rating their overall experience as “bad”.



Regarding the **service obtained through the Electronic Return help-desk**, the rating is average / high, and approximately 81% of respondent users thought the service was provided in a friendly and polite

manner; 68% thought the information provided was clear and useful; 62% said they only needed one contact to solve / clarify their question; and 47% thought the information provided was complete.

In addition to “ensuring speed of access to information and services”, Internet users indicated significant **suggested improvements**: “availability of integrated tax help while completing tax returns”, “assistance in the evolution of the procedural status” and “access to the taxpayer’s checking account for all taxes”. Improving the telephone and e-mail service is also considered highly important by almost all respondents.

III. Conclusions

Upon analyzing the replies obtained from the different surveys, one concludes that, in general, the different types of users agree with the strategy the tax administration has been implementing in terms of making services available over the Internet, there being requests for expansion of the services available across some of the respondent universes.

In effect, this bet on the Internet is viewed by most users as a clear opportunity for simplification and de-bureaucratization of processes, with clear advantages for taxpayers, and for reduction of taxpayers’ physical visits to the Finance Services. This not only ensures better service provision for the remaining taxpayers but also frees Service officials’ time for more added value tasks such as taxpayers’ assistance and revenue collection.

In this context and despite the belief that the face-to-face means of taxpayers’ access must continue to be prioritized, it shall undertake less work relative to collections and treatment of taxpayers’ tax obligations – to be routed to the Internet – and more work regarding taxpayers’ analysis and assistance, thus using the resources available for higher value added tasks.

Case study

TOPIC 1.3

MANAGEMENT TRANSPARENCY OF THE TAX ADMINISTRATION

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CONTENTS: Introduction.- Why Transparency is Needed.- 1. Openness in designing and implementing public policy.- 2. Provides accountability (Promotes trust/confidence in the integrity of the system and sets standards for conduct).- 3. Deters corruption/bribery.- 4.- Influences taxpayer behavior (Presents incentives for compliance & deterrents for noncompliance).- How Transparency is Accomplished.- 1. Public access to information.- 2. Public participation in policy-making & Partnerships with the private sector.- 3. Oversight (Monitoring & Reporting Mechanisms; Internal Controls).- Practical U.S. Examples.- 1. Taxpayer / voter input on Legislation.- 2. Freedom of Information Act.- 3. Taxpayers rights.- 4. IRS Oversight Board.- 5. IRSAC/IRPAC.- 6. Service to Each, Service to All.- 7. TIGTA/GAO.- 8. Taxpayer Advocate.- 9. Disclosure Provisions & Code of Conduct (OGE).- Taxpayer Transparency.- 1. Matching Programs (1099, W-2, SSNs).- 2. Corporate Transparency (SOX, M-3, Circular 230, CAP).- Compliance Assurance Process (CAP).- Summary / Conclusion.

INTRODUCTION

*“Taxes are the price we pay for a civilized society.”
[Oliver Wendell Holmes]*

The term “civilization” in a democratic society takes on certain minimum requirements. In general, and at a minimum, this includes duties of defense, justice, public works, and education. However, these services are not free, are provided at a cost for the society, and the cost generally comes in the form of taxation. In a democratic society, its people decide the appropriate balance and extent they are willing and able to fund each of these activities. It is through their active participation that “transparency” is born, for in a democratic society, the government is but a representative of its peoples. It is incumbent on their elected officials to allow citizens to see openly into their activities and participate in the process as much or as little as they wish, rather than allowing them to be conducted in secret.

The term “transparency” in this instance means that reliable, relevant and timely information about the activities of government is available to the public.¹

WHY TRANSPARENCY IS NEEDED

Greater “transparency” in government-business interactions can improve investor confidence, spur economic growth, provide better public services to the population, and increase public confidence in democratic institutions.² While there are many good reasons for transparency, some of the more common are addressed below.

1. Openness in designing and implementing public policy

“Transparency, as a key element of good governance, includes ensuring openness about policy intentions, formulation, and implementation. A nation’s budget is the single most important policy document of governments, where policy objectives are reconciled and implemented in concrete terms. Therefore, transparency in the budget process (fiscal transparency) is of paramount importance.

Budget transparency is defined as the full disclosure of all relevant fiscal information in a timely and systematic manner. A key recommendation is that the budget be comprehensive encompassing all government

revenue and expenditures. The best practices include specific disclosures like economic assumptions and tax expenditures. Finally there are processes and systems that are crucial in aiding transparency including the role of the legislature, the revenue authority and the public.”¹

Tax administration is also an integral aspect of budget policy in that it serves as the revenue source and means of implementation of the budget policy.

2. Provides accountability (Promotes trust/confidence in the integrity of the system and sets standards for conduct)

“Administration begins with the law in place. The law represents a component of the context or environment in which a revenue authority operates and it is from this environment that we discern the compliance risks associated with administration of the law. The challenge for revenue authorities is to administer the law in a manner that sustains community and confidence in their administration. As a participant in the community, a revenue authority must administer within community standards.

A number of empirical studies have shown that compliance is nurtured by trust. The key to creating trust for a revenue authority is to act in ways that the community will experience to be fair. People’s judgments about trust are linked to their evaluations of the procedures by which authorities act. The term “procedural justice” is used to describe the perceived fairness of the procedures involved in decision-making and the perceived treatment one receives from the decision-maker. Evidence shows that people who feel they have been treated fairly by an organization will be more likely to trust that organization and be inclined to accept its decision and follow its directions.

The perceived fairness of an organization is to a great extent based on personal experience from earlier encounters, other people’s experiences and media reports. This suggests that an authority should treat citizens fairly and respectfully, listening to them and providing clear explanations for different actions. Treatment must also be even-handed and consistent: the perception that one group has been dealt with more or less favorably than another will rapidly undermine trust.

A very important conclusion is that the behavior of the revenue authority should be regarded as a part of the overall treatment strategy for influencing taxpayer behavior. Each encounter with a taxpayer provides an opportunity for the authority to strengthen the loyalty and support of

members of the public. Trust is a resource like no other; it is not depleted through use but rather through lack of use. A lack of integrity destroys trust. Corruption in any administration cannot be tolerated because trust and corruption cannot coexist.”³

3. Deters corruption/bribery

Good governance means above all, clean government. Probity and integrity in the public service is central to proper functioning of public administration. Nothing is more powerful in combating corruption than conducting transactions openly and with public knowledge of the rules and criteria to be applied.¹ Transparency in tax administration also facilitates fair and equitable treatment by eliminating conflicts of interest.

Where corruption is rampant, citizens are apt to lose faith in democracy. The 1997 World Bank Development Report noted that corruption violates the public trust and corrodes social capital and political legitimacy “where even non-corrupt officials and members of the public see little point in playing by the rules.”²

4. Influences taxpayer behavior (Presents incentives for compliance & deterrents for noncompliance)

Transparency in the tax administration promotes compliance by facilitating perceptions of fairness and equity of the tax law.

- “The perceived fairness of a taxation system is important, with taxpayer’s behavior influenced by two perceptions: that the system treats them unfairly compared to others, and that the government is doing too little with the revenue it collects. Taxpayers who believe the system is unfair or who have personal experiences of unfair treatment are less likely to comply.
- In many ways, good law underpins the tax authority’s ability to deliver procedural fairness in the conduct of its administration. If the community perceives the law to be unjust or inappropriate according to community mores, then inevitably, there is an increased risk of non-compliance behavior.”³

Fairness is also an essential component of enforcement because without it, public support for a program can easily evaporate, forcing the government to spend more and more of its revenues on coercive efforts to force compliance.⁴

HOW TRANSPARENCY IS ACCOMPLISHED

The most basic way for citizens to hold leaders responsible is by voting in elections and by serving on juries in open courtroom proceedings. But these are not the only ways. In the United States and in other democracies, citizens can influence government on a daily basis. Numerous other opportunities can, and should, exist to ensure that both elected and non-elected public officials remain accountable to the people.⁴ While there are many good ways to accomplish transparency, some of the more common are addressed below.

1. Public access to information

Access to information or freedom of information laws can provide crucial transparency by allowing journalists and citizens the opportunity to evaluate what their governments are doing.²

Transparency in the public administration is enhanced by strong public scrutiny based on solid legal provisions for access to information. In strengthening public access to information: Governments must ensure that information is complete, objective, reliable, relevant, and easy to find and understand.¹

2. Public participation in policy-making & Partnerships with the private sector

Strengthening relations with citizens is a sound investment in better policy-making and a core element of good governance. Investing in openness allows governments to tap new sources of policy relevant-ideas, information and resources when making decisions. Equally important, it contributes to building public trust in government, raising the quality of democracy and strengthening civic capacity.¹

A revenue authority may also gain significant leverage in its compliance activities by building and sustaining relationships with industry associations, tax practitioners, trade unions and other community groups. From a tax administration resource perspective, the use of trusted intermediaries to achieve a leveraged compliance outcome makes excellent sense. It makes positive use of the relationships that the taxpayers have with the trusted intermediaries to help balance the compliance outcome with achieving increased community support. Achieving this balance is, after all, what tax administration is all about.³

3. Oversight (Monitoring & Reporting Mechanisms; Internal Controls)

“Opening up transactions through specific disclosure mechanisms will level the playing field, while protecting all the actors from unfounded accusations of conflicts of interest or unethical, even illegal, behavior. Three initiatives can improve transparency:

- party and campaign finances regulation and disclosure;
- financial disclosure requirements;
- corporate codes of conduct”.²

Transparency in government can be found in the rules imposed on people who run for public office and for federal leaders through ethics regulations and codes of conduct, and by requiring them to complete certain financial disclosures which are also available to the public. The purpose of these regulations is to restrict the influence wealthy people and politicians would have over them and to ensure there are no conflicts of interest on the job.⁴

PRACTICAL U.S. EXAMPLES

Like many countries, the United States imposes an income tax on its citizens. The tax is administered by an agency with the Treasury Department called the Internal Revenue Service (IRS). Examples of transparency in the U.S. tax administration are discussed below.

How Transparency is Accomplished	Practical U.S. Examples
Public Access to Information/Fairness	<ul style="list-style-type: none"> - Freedom of Information Act - Taxpayer Rights - Service to One/Service to All
Participation in Policy Making and Partnerships	<ul style="list-style-type: none"> - Taxpayer/voter input on legislation - IRSAC/IRPAC
Oversight	<ul style="list-style-type: none"> - IRS Oversight Board - TIGTA/GAO - Taxpayer Advocate - Disclosure Provisions and Code of Conduct

1. Taxpayer / voter input on Legislation

While the U.S. tax administration system is somewhat complex and may have some flaws, “American taxpayers have opportunities to influence the system in a variety of ways, beginning with the creation of tax legislation. The actual tax laws are written by members of Congress and signed by the president after much debate and testimony from citizens, businesses, and lobbying groups. The entire set of laws, the Internal Revenue Code, is just one part of the tax world. The IRS issues regulations that interpret the laws in greater detail. The entire system is quite complex, with nearly 50,000 pages of laws and IRS regulations that are available to the public on the IRS web site (www.irs.gov).

Even after tax legislation is passed, US citizens can have an influence on how it is applied, and as a part of its customary practice, the government asks for comments on how to best implement the law.

The most basic way for citizens to hold leaders responsible is by voting in elections. However, through the Federal Register, a newspaper published every business day, Americans can read about rules or regulations that federal agencies are proposing before they are adopted. Federal agencies are required to publish notices about certain major policy issues in the Federal Register, and by law, anyone can comment on proposed policy changes. Comments are usually made in writing, but there are often opportunities to express an opinion by email or in person during a public hearing.

In addition to commenting on existing regulation, an individual or organization can file a petition advocating new policies that federal agencies should follow.”⁴

2. Freedom of Information Act

“The Freedom of Information Act (FOIA) enables American to get greater access to information on the activities and operations of the U.S. government. The premise of the FOIA is that the public has a right to know what goes on in government without having to demonstrate a need or reason for the information.

Under another law, the Privacy Act, citizens also have a right to see records that the federal government has assembled on them and request that these be corrected if there are errors.”⁴

However, as a means of ensuring that proper balance exists, and that taxpayers/citizens also have a right to personal privacy, disclosure provisions (Internal Revenue Code Section 6103) also exist for protecting confidential returns and return information. IRC 6103 provides that all returns and return information are confidential, and no employee may access or disclose them with certain specific exceptions. Civil and criminal penalties also exist as possible sanctions for unauthorized disclosures.

3. Taxpayer Rights

The IRS provides a great deal of resources and publications to assist taxpayers in meeting and understanding their obligations. First and foremost of these is Publication 1, "Your Rights as a Taxpayer". This publication is routinely provided to taxpayers before an examination or any enforcement activity is initiated. The publication explains a taxpayer's basic rights and also goes into specific detail regarding specific compliance activity such as examination and collection action. Basic rights included in this declaration are:

- protection of Rights;
- privacy and Confidentiality;
- professional and Courteous Service;
- representation;
- payment of only the Correct Amount of Tax;
- help with Unresolved Tax Problems;
- appeals and Judicial Review;
- relief from Certain Penalties and Interest.

Examples of specific rights concerning examination/audit activity include: explanation of the rules and procedures for conducting an audit/examination, options for meeting with a supervisor if there are disagreements concerning proposed changes or increases to taxes, and procedures for claiming a refund.

4. IRS Oversight Board

In 1997, the National Commission on Restructuring the IRS recommended the creation of the IRS Oversight Board to provide a new governance and management body that would provide focused attention on strategic issues facing the IRS. The following year, the IRS Restructuring and Reform Act (RRA) of 1998 established the Board to "oversee the IRS in its administration, management, conduct, direction

and supervision of the execution and application of the internal revenue laws or related statutes and tax conventions to which the United States is a party.”

The Board is composed of 9 members, 7 of which come from the private life and are appointed for 5-year terms by the President of the United States and confirmed by the Senate. These private life members have professional experience or expertise in key business and tax administration areas. The Secretary of Treasury and the Commissioner of Internal Revenue also serve as members of the Board. However, to preserve its independent oversight responsibilities and objectivity, neither the Secretary nor the Commissioner the Board’s annual report, although their comments and guidance are both solicited and welcomed.

RRA requires the private life members of the Board be appointed without regard to political affiliation and solely on the basis of their professional experience and expertise in one or more of the following:

- management of large service organizations;
- customer Service;
- federal tax laws, including tax administration and compliance;
- information technology;
- organization development;
- the needs and concerns of taxpayers;
- the needs and concerns of small businesses.

The Board operates much like a corporate board of directors, but is tailored to fit a public sector organization. RRA gave the Board specific responsibilities to review strategic performance plans of the IRS, review IRS operational functions, review the selection, evaluation and compensation of IRS senior executives, and review the budget request of the IRS prepared by the Commissioner.

5. IRSAC/IRPAC

The Internal Revenue Service Advisory Council (IRSAC) provides an organized public forum for IRS officials and representatives of the public to discuss relevant tax administration issues. The council advises the Commissioner on issues that have a substantive effect on federal tax administration. Members are composed of individuals from diverse backgrounds who bring a breadth of experience to bear on the agency’s policies, program, and procedures.

Because of the large and diverse membership of the IRSAC, they further divide into separate sub-groups to focus on Division specific issues. Since 1999, the Large & Mid-Sized Business sub-group has focused on issues such as Implementation of the Restructuring and Reform Act (RRA), Reengineering and Currency Initiatives, and Corporate Tax Shelters.

The Information Reporting Program Advisory Committee (IRPAC) advises the IRS on information reporting issues of mutual concern to the private sector and the federal government. The committee works with the Commissioner and other IRS executives to provide recommendations on a wide range of information reporting administration issues.

6. Service to Each, Service to All

In 1998, after some negative publicity regarding taxpayer treatment, the IRS Restructuring and Reform Act (RRA) was implemented and gave the IRS a clear mandate to do a better job in meeting the needs of taxpayers. The mission statement was updated to reflect the increased emphasis:

“Provide America’s taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.”

And other customer focused initiatives were implemented, including a new performance standard for all employees that requires fair and equitable treatment of taxpayers, as well as a requirement for contact employees to provide their name, telephone number, and identification number.

The RRA also required the IRS to implement a balanced measurement system which emphasized service as equally as business results. As a result, the IRS formulated three strategic goals and built a measures system around three goals:

- top-quality service to each taxpayer in every interaction;
- top-quality service to all taxpayers through fair and uniform application of the law;
- productivity through a quality work environment.

From the taxpayer's perspective, this change reflected significant benefits in terms of both transparency and fairness. Some of these included:

- more useful help in understanding and filing taxes;
- fast, accurate service in response to questions about taxes owed or refunds due;
- professional, courteous help in determining the best way to meet tax obligations;
- professional, courteous treatment during the examination process;
- greater confidence in the fairness and equity of tax administration;
- clear and effective means of identifying and communicating problems of law or regulations that cause unfairness or disproportionate administrative burdens.

7. TIGTA/GAO

The Congress, the Office of Management and Budget (OMB), the U.S. General Accounting Office (GAO), and the Treasury Inspector General for Tax Administration (TIGTA) constantly monitor federal agencies to ensure agencies:

- effectively and efficiently carry out their operations;
- follow reliable financial reporting;
- comply with applicable laws and regulations.

Following annual audit plans or acting on congressional requests, GAO and TIGTA frequently review operations at the Internal Revenue Service (IRS) and share audit findings with the Congress, other federal agencies, and the public. IRS officials take audit work very seriously because of the high visibility of the programs selected for review and the adverse impact that audit findings could have on the IRS.

TIGTA:

Treasury Inspector General for Tax Administration—investigates misconduct, waste, fraud or abuse by an IRS employee.

TIGTA was established in January 1999 in accordance with the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98) to provide independent oversight IRS activities. As mandated by RRA 98,

TIGTA assumed most of the responsibilities of the IRS' former Inspection Service.

TIGTA consists of auditors, investigators, attorneys, and support staff to execute the duties and responsibilities of an Inspector General organization on matters relating to the IRS. TIGTA is organizationally placed within the Department of the Treasury, but is independent of the Department and all other Treasury offices, including the Treasury Office of the Inspector General (OIG). TIGTA focuses entirely on tax administration, while Treasury OIG is responsible for overseeing the other Treasury bureaus.

TIGTA's Office of Audit identifies opportunities to improve the administration of the nation's tax laws by conducting comprehensive, independent performance and financial audits of IRS programs, operations, and activities to:

- assess efficiency, economy, effectiveness and program accomplishments;
- ensure compliance with applicable laws and regulations;
- prevent, detect, and deter fraud, waste, and abuse.

The Office of Audit program is comprised of reviews mandated by statute or regulation, as well as reviews identified through the Office of Audit's planning and evaluation process. TIGTA publishes its Annual Audit Plan at the beginning of each fiscal year, and issues approximately 180 final reports each fiscal year.

GAO:

The U.S. General Accounting Office (GAO) is an independent, nonpartisan agency that works for Congress. GAO investigates how the federal government spends taxpayer dollars.

GAO gathers information to help Congress determine how well executive branch agencies are doing their jobs. GAO's work routinely answers such basic questions as whether government programs are meeting their objectives or providing good service to the public. Ultimately, GAO ensures that government is accountable to the American people. To that end, GAO provides Senators and Representatives with the best information available to help them arrive at informed policy decisions—information that is accurate, timely, and balanced.

GAO supports congressional oversight by:

- evaluating how well IRS policies are working;
- auditing IRS operations to determine whether federal funds are spent efficiently, effectively, and appropriately;
- investigating allegations of illegal and improper activities.

GAO's workforce is comprised almost exclusively of career employees who have a strong knowledge of IRS programs and policies. GAO issues approximately 50 final reports ("blue books") on IRS programs each fiscal year. These reports translate into a variety of congressional actions, including hearings and legislation.

8. Taxpayer Advocate

The Taxpayer Advocate Service is an independent organization within the Internal Revenue Service that provides a system to assure that tax problems, which have not been resolved through normal channels, are promptly and fairly handled.

TAS is committed to protecting taxpayer rights. This mission includes ensuring taxpayers have access to necessary information and services, as well as receive clear, correct responses to inquiries.

In addition to TAS' work with specific cases, the TAS Office of Systemic Advocacy studies issues that negatively affect large groups of taxpayers and, where warranted, develops proposals for administrative or legislative change

By law, the National Taxpayer Advocate (NTA) must submit two reports to Congress each year. The Objectives Report, delivered each June, contains the goals and activities planned by the Taxpayer Advocate for the coming fiscal year. The Annual Report, delivered at the end of December, includes a summary of the 20 most serious problems encountered by taxpayers; recommendations for solving those problems; and other IRS efforts to improve customer service and reduce taxpayer burden.

9. Disclosure Provisions & Code of Conduct (OGE)

The Office of Government Ethics (OGE), a small agency within the executive branch, was established by the Ethics in Government Act of 1978. Originally part of the Office of Personnel Management, OGE became a separate agency on October 1st, 1989 as part of the Office of Government Ethics Reauthorization Act of 1988.

The Office of Government Ethics exercises leadership in the executive branch to prevent conflicts of interest on the part of Government employees, and to resolve those conflicts of interest that do occur. In partnership with executive branch agencies and departments, OGE fosters high ethical standards for employees and strengthens the public's confidence that the Government's business is conducted with impartiality and integrity.

Standards of Conduct:

Public service is a public trust. Each federal employee has a responsibility to the United States Government and its citizens to place loyalty to the Constitution, laws and ethical principles above private gain. To ensure that every citizen can have complete confidence in the integrity of the Federal Government, each employee is expected to respect and adhere to certain principles of ethical conduct:

- public service is a public trust, requiring employees to place loyalty to the Constitution, the laws and ethical principles above private gain;
- employees shall not hold financial interests that conflict with the conscientious performance of duty;
- employees shall not engage in financial transactions using nonpublic Government information or allow the improper use of such information to further any private interest;
- an employee shall not, except as permitted by subpart B of this part, solicit or accept any gift or other item of monetary value from any person or entity seeking official action from, doing business with, or conducting activities regulated by the employee's agency, or whose interests may be substantially affected by the performance or nonperformance of the employee's duties;
- employees shall put forth honest effort in the performance of their duties;
- employees shall not knowingly make unauthorized commitments or promises of any kind purporting to bind the Government;
- employees shall not use public office for private gain;
- employees shall act impartially and not give preferential treatment to any private organization or individual;
- employees shall protect and conserve Federal property and shall not use it for other than authorized activities;
- employees shall not engage in outside employment or activities, including seeking or negotiating for employment, that conflict with official Government duties and responsibilities;

- employees shall disclose waste, fraud, abuse, and corruption to appropriate authorities;
- employees shall satisfy in good faith their obligations as citizens, including all just financial obligations, especially those—such as Federal, State, or local taxes—that are imposed by law;
- employees shall adhere to all laws and regulations that provide equal opportunity for all Americans regardless of race, color, religion, sex, national origin, age, or handicap;
- employees shall endeavor to avoid any actions creating the appearance that they are violating the law or the ethical standards set forth in this part. Whether particular circumstances create an appearance that the law or these standards have been violated shall be determined from the perspective of a reasonable person with knowledge of the relevant facts.

Financial Disclosure Forms:

The Ethics in Government Act of 1978, as amended, requires senior officials in the executive, legislative, and judicial branches to file public reports (Form 278) of their finances as well as other interests outside the Government. Confidential financial statements (Form 450) are also required to be filed by some mid-level employees. The SF 278 is available to the public.

Although a financial disclosure report sometimes reveals a violation of law or regulation, the primary purpose of disclosure is to assist agencies in identifying potential conflicts of interest between a filer's official duties and his/her private financial interests and affiliations.

TAXPAYER TRANSPARENCY

The U.S. Federal Government and IRS also have numerous programs aimed at increasing taxpayer transparency and the disclosure of information to IRS.

1. Matching Programs (1099, W-2, SSNs)

Document matching programs are those programs where income and expense reporting documents are matched or cross-referenced (through automation systems) by payer/payee to the appropriate tax returns.

These programs have been especially effective in addressing compliance issues of individual and small business taxpayers. Income information reporting forms (such as Forms W-2 and 1099) help ensure that income amounts are appropriately reflected on tax returns. Examples of matching programs to ensure deductions claimed on tax returns are appropriate include matching of social security numbers to ensure dependent exemption deductions are valid and not duplicated on other tax returns, and matching of household related expenses (taxes, mortgage interest) via Form 1098 to ensure the deductions are not overstated.

2. Corporate Transparency (SOX, M-3, Circular 230, CAP)

A need for increased corporate governance and transparency have been driven most recently due to a number of factors including legislation, growth of abusive tax avoidance transactions, and several highly publicized corporate scandals. In response to the changing environment, IRS also implemented a number of initiatives aimed at improving taxpayer transparency.

Sarbanes Oxley (SOX):

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002. The Act—which applies in general to publicly held companies and their audit firms—dramatically affects the accounting profession and impacts not just the largest accounting firms, but any CPA actively working as an auditor of, or for, a publicly traded company.

- Public Company Accounting Oversight Board (PCAOB)—Moving to a different private sector regulatory structure, a new Public Company Accounting Oversight Board (the Board) was established and is overseen by the SEC. The Board, made up of five full-time members, oversee and investigate the audits and auditors of public companies, and sanction both firms and individuals for violations of laws, regulations and rules.
- New Roles for Audit Committees and Auditors—The relationship between accounting firms and their publicly held audit clients is more independent.
 - Auditors Report to Audit Committee.
 - Audit Committees Must Approve All Services.
 - Auditor Must Report New Information to Audit Committee.
 - Offering Specified Non-Audit Services Prohibited.
 - Audit Partner Rotation.
 - Employment Implications.

- Criminal Penalties and Protection for Whistleblowers. Tougher penalties for those who destroy records, work-papers, commit securities fraud and fail to report fraud were established.
- Financial Reporting and Auditing Process Additions—Issuers of public stock and their auditors must now follow new rules and procedures in connection with the financial reporting and auditing process.
 - Second Partner Review and Approval of Audit Reports.
 - Management Assessment of Internal Controls.
 - Audit Reports Must Contain Description of Internal Controls Testing.

Schedule M-3:

Schedule M-1 is one component of the tax return for corporate taxpayers, and the purpose of the schedule is to reconcile the books and records for financial statement purposes to the books and records for tax accounting purposes. The current Schedule M-1 has remained virtually unchanged for decades, and over that same period of time, large and mid-size corporations have changed dramatically in the ways they are structured and conduct business and in their corresponding financial and tax accounting. The current Schedule M-1 does not provide a uniform reporting requirement for net income per books, nor does it provide uniform disclosure requirements for reporting differences between financial accounting net income and taxable income.

Treasury and IRS recently released a new Schedule M-3, “Net Income (Loss) Reconciliation for Corporations with Total Assets of \$10 Million or More”. The new schedule is designed to increase transparency and disclosure of affected corporations’ tax accounting and benefits the government by providing clear and complete data needed to perform efficient risk analysis. The current M-1 requires reconciliation using taxpayer books and records. The M-3 requires reconciliation in much greater detail, and from the taxpayer’s certified financial statements.

Major features of the Schedule M-3 include:

- a complete reconciliation from financial accounting net income to taxable income;
- a detailed reconciliation of all corporate entities not included in both financial statements and the taxable income group;
- an expansion of the current reconciliation between financial accounting net income and taxable income required on Schedule

M-1. Schedule M-3 requires greater, standardized detail on specific line items listed on the schedule as part of that reconciliation. Schedule M-3 requires reporting of gross, not net, amounts of financial accounting and tax differences and requires that each difference be separately stated and adequately disclosed;

- the reconciliation requires designation of differences between financial accounting net income and taxable income as ‘permanent’ or ‘temporary’.

Circular 230:

As part of an ongoing effort to improve ethical standards for tax professionals and to curb abusive tax avoidance transactions, the Treasury Department and the Internal Revenue Service issued regulations amending Treasury Department Circular 230.

Circular 230 is applicable to attorneys, accountants and other tax professionals who practice before the IRS. The revisions to Circular 230 provide standards of practice for written advice that reflect current best practices and are intended to restore and maintain public confidence in tax professionals. These revisions ensure that tax professionals do not provide inadequate advice, and increase transparency by requiring tax professionals to make disclosures if the advice is incomplete. The new provisions provide more tools to battle abusive tax avoidance transactions and to rein in practitioners who disregard their ethical obligations.

Specific standards addressed in the new provisions include:

- required disclosures (such as relationships, fees and other services provided);
- evaluation of significant Federal Tax issues;
- relating the Law to the Facts;
- competence to provide Opinions;
- establishment of Advisory or review committees;
- sanctions for failure to conform to the regulations.

Compliance Assurance Process (CAP):

Recent developments in the corporate world have also provided the IRS with the opportunity and the obligation to develop an alternative approach to compliance and examinations.

Under the CAP pilot, specific corporations will be assigned an account coordinator, who will work with the taxpayer and coordinate additional IRS resources as needed, to review economic events and material tax transactions in a contemporaneous manner to resolve issues prior to filing. Where agreement on the proper tax treatment can be reached the taxpayer will receive an acceptance letter from the IRS, minimizing the need for post-filing review of the specific transaction or issue. Increasing transparency is essential.

SUMMARY / CLOSING

People in the United States know that transparency in government, as practiced in the real world, has its flaws, including the fact that permitting ordinary citizens to influence the government regulatory process can be slow and even expensive. But as Thomas Jefferson, the primary author of the U.S. Constitution put it in 1791: "I would rather be exposed to the inconveniences attending too much liberty than to those attending too small degree of it." Most Americans, like Jefferson, believe that allowing the sun to shine on government activities is worth these drawbacks. In return, U.S. citizens receive the benefits of a transparent, participatory democracy.⁴

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TOPIC 2

INTEGRITY AS A FUNDAMENTAL VALUE IN TAX ADMINISTRATIONS AND THE PROMOTION OF ETHICS

Lecture

TOPIC 2

INTEGRITY AS A FUNDAMENTAL VALUE IN TAX ADMINISTRATIONS AND THE PROMOTION OF ETHICS

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CONTENTS: Introduction.- 1. The Significance of Values and Ethics in the Organizational Culture.- 1.1. Values and ethics – a framework for decision-making and leadership.- 1.2. Values and ethics – a question of trust.- 1.3. The role of values and ethics in modern government management.- 2. Mechanisms for the Promotion of Ethics in Tax Administrations.- 2.1. Commitment and participation of management in the process.- 2.2. Employee involvement – at all levels.- 2.3. Code of Ethics and Conduct.- 2.4. External and internal oversight mechanisms.- 2.5. Communication plan.- 2.6. Training and awareness strategies.- 2.7. Use of technology.- 3. A Progress Report on the Accomplishments of the CIAT Steering Committee on Ethics.- 3.1. CIAT “Model” Code of Conduct.- 3.2. Inventory of best practices in the promotion of ethics in tax administrations.- 3.3. CIAT “Declaration on the promotion of ethics in tax administrations”.- Conclusion.

INTRODUCTION

The promotion of ethics is a prominent issue for all public sector administrations and governments worldwide. Integrity should cement the legal, managerial and operational elements of these institutions.

The challenges to achieve and maintain integrity in our tax administrations are widely known, and the need to preserve the concomitant trust of taxpayers with whom we interact is the corollary.

Confronting the challenges of safeguarding integrity and fighting corruption in the public domain is at the forefront of agendas for the international community and many representative organizations, including the Inter-American Centre of Tax Administrators (CIAT).

At the outset, it is to be noted that for this paper, the terms “integrity”, “values” and “ethics” shall be used interchangeably. There are doubtless possible distinctions from a philosophical perspective. However, the discussion is grounded in the less lofty and more tangible issue of tax administration.

It is widely accepted that the tax administration plays a highly significant role in the ability of a government to meet its social and economic goals. The notion of taxation as an instrument to address an immediate and temporary situation – for example, personal income tax in Canada was introduced in 1917, as a temporary measure to support the costs of World War I – is now effectively folklore. Today, the tax administration is a critical function of state governance that provides a continuous source of funds to bolster economic and social endeavours of the state, although temporary taxes or rate adjustments are still used as levers in particular situations.

The topic of this paper, “Integrity as a fundamental value in tax administration and the promotion of ethics”, has, in one way or another, been the subject of attention over the past few years, particularly since the adoption, in 1996, of the CIAT Charter-document “Minimum Attributes for a Sound and Effective Tax Administration”. The Charter addresses three obligations: specifically: to earn the trust of taxpayers; to establish the integrity and impartiality of tax administrations; and to ensure its continued stability through sound internal human resource and administrative practices. This paper speaks most directly to the achievement of the second obligation.

The conclusion that can be reached in this paper can be stated quite simply. If a tax administration does not demonstrate integrity in all of its policies and practices, taxpayers eventually will not trust it. When taxpayers have doubts as to the tax administration’s ability to

deliver legislatively based, transparent and equitable service, they will certainly be less likely to voluntarily fulfill their tax obligations. The promotion of ethics, therefore, must be at the heart of all revenue administrations.

Since the adoption of the CIAT Charter-document, and the subsequent efforts to realize its goals, the debate has largely focused on how to achieve ethical behaviour. Never has the debate about “ethical behaviour” been so spirited; never has the need for everyone’s attention been greater.

The paper will not focus on defining integrity and ethical behaviour, but rather on the challenges in developing, implementing and maintaining a culture of ethical behaviour.

The paper is divided into three parts:

1. the significance of values and ethics in the organizational culture of a modern government management;
2. mechanisms for the promotion of ethics in tax administrations; and
3. a Progress Report on the accomplishments of the CIAT Steering Committee on Ethics.

1. THE SIGNIFICANCE OF VALUES AND ETHICS IN THE ORGANIZATIONAL CULTURE

Reports of wrong doing by Enron, WorldCom, mutual fund managers and various Wall Street companies just over the last few years, have generated a significant deterioration in public faith in corporate leaders. It is one of the reasons that issues of basic corporate governance are such common subjects these days around corporate boardrooms.

High standards of conduct in the public service have also become a critical issue for governments worldwide. In recent years, public sector management reforms involving greater devolution of responsibility to lower levels of management have been popular, coupled with more robust accountability frameworks. However, such

reforms can be jeopardized by instances of malfeasance and mismanagement. Concurrently, surveys (including in Canada) show a decline of confidence in public institutions and have prompted governments worldwide to review their approaches to enhancing ethical conduct.

Dr. Peter Eigen, Chairman of Transparency International (TI) noted in the TI Global Corruption Perception Index 2004, that a total of 106 out of 146 countries scored less than 5 against a clean score of 10.

If a country is to attract investment and industry, if it is to have the confidence of the world and of its citizens, it is vital that its tax administration operate in an ethically sound way. A country or a tax administration with a reputation for poor integrity will find it much harder to develop those business partnerships that are essential to economic development. A poor reputation for integrity also dissuades international donors from committing to financial and technical assistance, and thus inhibits development of a mature market economy.

For tax administrators particularly, a lack of integrity subverts the fundamental premise of voluntary compliance and self-assessment systems that many of us depend upon. In short, even a small degree of corruption undermines both the attempts to create the infrastructure of good governance and the endeavour to attract vital investment. Realistically, our efforts will never be one hundred percent effective. Consequently, initiatives to advance ethical conduct and corporate values must remain front and centre in our priorities on the personal level and on the institutional level.

1.1 Values and Ethics – A Framework for Decision-Making and Leadership

As managers of tax administrations, we must question our values and ethics and consider our responsibilities in advancing an integrity agenda in our organizations.

A popular definition of “values” or “ethics” that has some appeal can be stated as: “the way one acts when no one else is around”. If there were no one watching our behaviour, would we take advantage of a situation, whether it is in terms of money, or influence or power? Or would we act responsibly, honestly and fairly. As managers, how do

we interact with our peers, our staff and taxpayers? What personal values do we exhibit with other people on a daily basis?

In 1999, the Canadian government established the Office of Public Service Values and Ethics, charged with addressing issues of values and ethics across government.

Since then, a number of studies and reports have been written on the topic. The person responsible for this office reminded us recently that: "An ethics regime is not a single initiative but rather a comprehensive series of initiatives, mutually supporting and complementing one another."

This statement reflects the Canadian government's position. One could also suggest that it should be the lines of thought to be followed in reflecting on values and ethics in tax administrations: no rule(s) alone can encourage taxpayers or public service employees to develop the conciliatory spirit that will enable them to act responsibly, honestly and fairly.

While integrity is a cornerstone of the Canada Revenue Agency's commitment to citizens, the CRA does not have an integrity program per se. A commitment to integrity is enshrined in our vision and strategic goals, and programs are designed to ensure openness, fairness and transparency. The question of integrity is built into our business lines with a goal to maintain confidence in the integrity and impartiality of the CRA.

The CRA has four enduring values that guide our organization - values that we believe help build an ethical culture and engender trust, which we all know can be fragile at times. These include:

- **Integrity** - is the cornerstone of our administration. It means treating people fairly and applying the law fairly.
- **Professionalism** - is the key to success in achieving our mission. It means being committed to the highest standards of achievement.
- **Respect** - is the basis for our dealings with employees, colleagues, and clients. It means being sensitive and responsive to the rights of individuals.
- **Co-operation** - is the foundation for meeting the challenges of the future. It means building partnerships and working together toward common goals.

The Manager's role and responsibilities in promoting our values, ethical behaviour and good conduct are spelled clearly in what we call our Managers' Charter. It is really a declaration of leadership. The Charter lays out in clear statements that identify what we, as leaders in the CRA, believe to be the optimum practices and behaviours for moving forward with confidence, and embedding strong leadership, communications, integrity and accountability in our daily work. We are pleased to say that it has been fully integrated into our accountability process. It has also become a key part of our management training programs.

We have learned how we can apply the Manager's charter in a concrete, meaningful way. We know that employees expect to be kept informed about changes within their organizations, and they expect to hear about these changes from their managers. We know they rely on their managers to support them in matters related to workload, career development, and learning. We also know they want us to encourage innovation, and recognize their contributions.

There is no doubt that people in management positions have a responsibility to lead by example. From past experience, it has become clear that people do the right thing when given a choice. Given this fact, as organizational leaders the first question should be "how does one help people make the right choice?" How does one stop unethical behaviour before it happens?

The general answer to these questions is that it comes back to providing guidance and doing so in a positive, affirmative fashion. We must assume full responsibility to create values-based environments in our organizations. We must exercise leadership and devise initiatives to identify and preserve corporate values and ethical conduct. This means – entering into an honest dialogue with employees in an effort to identify real issues or problems in the workplace, and to identify actions to address or remedy these problems.

1.2 Values and Ethics – A Question of Trust

The public's trust in the integrity of the CRA is something very precious. It's something that the CRA strives to nurture and protect, because it's absolutely critical to our ability to carry out our business.

Over the past few years, a lot of thought was given specifically on the values and ethics side of management. In discussing management issues, it seemed that more often the emphasis fell squarely on questions of process – on the mechanisms we needed to bring about greater efficiencies or to improve service standards. But we quickly realized that we should not lose sight of the greater picture. We needed to take time to consider some of the more fundamental questions at the heart of modern management: not just what we were trying to accomplish but why and how. What our efforts said about ourselves, our relationship to each other and to the people that we serve.

Talk of values often made some people in management circles a little nervous because the subject itself can, at times, be a little nebulous – a little subjective. It lacks the stark black and white simplicity of say, audited financial statements. After all, when we speak of values, there are rarely absolute truths. While we all share certain common beliefs, when it comes to articulating those beliefs one often needs to be very nuanced.

We quickly recognized that it was not enough for any of us to say the Canada Revenue Agency is ethical. And certainly not enough to say our intentions are good - “trust us”.

It was clear that we needed to demonstrate that trust was justified day after day. The need to operate in a manner that holds up to the most intense scrutiny remained paramount. The actions, at every level of the organization from the Minister and the head of the tax administration to the front-line worker, had to be consistent with our words. Mistrust of government has serious potential repercussions.

At a purely operational level, it undermines our ability to attract the people we need. Who wants to work for an organization that is viewed with suspicion? Good people do not like working for organizations whose values they mistrust.

At the broader level, a loss of confidence in governmental institutions weakens the foundation of our democracy, as citizens become more and more disillusioned and less and less interested in participating in the governing process.

For tax administrations, such apathy could have serious repercussions as we strive to promote the principles of self-assessment and voluntary compliance.

A number of studies conducted by institutions such as the World Bank, the International Monetary Fund, Transparency International, note that a citizen's perception of a government's trustworthiness and integrity is moulded to a great extent by how he or she perceives the tax administration.

Creating a climate of integrity, of course, is easier said than done. It is difficult to imagine any part of a public service that is as well-placed, as convenient, for corruption as are tax administrations. They have wide discretion and an administrative monopoly, and this can be a potent and dangerous mix!

So, how can negative public concerns about the integrity of the tax administration be changed? How can the public be re-engaged?

There are no quick solutions because there is no panacea. Once lost, rebuilding trust takes time.

In Canada, the CRA recognized that there was a need to act across a broad front, including:

- To improve our performance and our management practices;
- To have the right rules and frameworks to promote accountability;
- To ensure leaders hold people responsible for their actions;
- To discipline those who betray public trust and do so quickly but fairly;
- To ensure we have the right people in place – individuals who are guided by a strong ethical compass;
- To acknowledge the importance of business processes that encourage transparency and prudent stewardship;
- To never question the importance to find ways to bring the taxpayer closer to government;
- To find means of upholding taxpayers' rights while maintaining the administration's ability to exercise authority.

CIAT has over the years discussed why a culture of ethics in a country's tax policies and administration is important. We have acknowledged what makes up that ethical culture. I think it is worth re-emphasizing the specifics of what makes up that culture.

These can be grouped under four broad headings: **political commitment, fairness, professionalism and accountability.**

Political commitment – Sustained and visible leadership by government from the top down is fundamental to creating the necessary climate for a fair, rules-based tax administration;

Fairness – There needs to be a regime of tax laws that is fair and equitable. This is vital to ensuring the legitimacy of the system in the eyes of the taxpayers.

Professionalism – To foster an ethical environment, employees of the tax administration need to see themselves and be seen by others as professionals. This requires employees to be properly trained and adequately paid.

Accountability – Strong accountability systems are key components of good governance everywhere, but particularly in tax administration, and even more so in controlling corruption. To ensure public support, there have to be effective oversight provisions, responsive redress mechanisms, and functioning political accountability.

1.3 The Role of Values and Ethics in Modern Government Management

It is important to talk about some of the frameworks and policies that are needed to promote integrity in tax administrations, and reflect more broadly on some of the cultural changes that may be required around the management table.

In Canada, there has been a great deal of discussion over the last decade on the “new public management” and the need to move away from the rigid command and control structures of the past. This meant adopting flexible regimes and a more mature approach to risk management. It meant doing a better job of balancing innovation with control and accountability.

But having a more empowered and values-based regime does not mean abandoning rules and regulations. Focusing on values is not inconsistent with having an array of rules and policies. In fact, it’s quite the contrary. You need clear direction so that people know what is expected. “Empowerment” can be a misleading concept. Too often it is a euphemism for giving people more responsibility, but not telling them how they should exercise that responsibility.

Even in the most flexible and ethical of workplaces, you need to have certain key touchstones to direct people. There must be a number of key policies and regulations to provide a common and clear understanding of what is and is not appropriate.

Conflict of interest guidelines are a good example of this. It's important to spell out what your organizational stand is on things such as accepting gifts. Harassment is another. One needs to make it clear what actions are deemed unprofessional and what avenues are open to protect people.

Whistleblowing is yet another good case in point. There is a need to have a strong regime to deal with individuals who betray the public trust. Equally important, people who have the courage to come forward and expose wrongdoing must be protected from reprisal.

The need to have rules to deal with specific situations like these is critical, there is a danger that the dialogue on values becomes too focused on rules and on the negative side of things. We do a disservice to our organization if we allow the actions of a few individuals to hijack the values and ethics agenda in our organizations.

As managers, it is important to consider the cultural change that needs to take place at the management table to truly imbed values into management practices.

Management decisions must match our values. There is a need to be more aware of the ethical dimensions of decision-making.

To help us do just that, the government of Canada introduced a *Management Accountability Framework*, which is designed to assess how well federal departments and agencies are being managed by looking at 10 key areas such as human resources, accountability and financial management. The *Framework* is designed to gauge the health of an organization from an integrated management perspective. One of the most important aspects of the *Framework* is the fact that it presents a holistic view of management. A manager might be great at balancing the books, but unable to deal with staff on a personal level.

Tools like Code of Ethics and Conduct, Management Accountability Frameworks, and the numerous values and ethics –related policies and regulations are all important mechanisms to promote more ethical decision-making and, in turn, to restore public confidence in government. But the best tools in the world cannot always take us where we need to go.

Public service values and ethics are not shaped in isolation. When we articulate core values in a way that is meaningful to the organization and its employees, a statement alone is not enough. We need – to use a rather tired phrase – to be able “to walk the talk”. Organizational values have no importance if they are not demonstrated daily in our actions and decisions. They will be ignored and discarded if they are seen simply as another workload that gives few returns. Cynicism will only grow worse if employees continue to perceive a gap between what we say and what, in fact, we do.

This again speaks to the need for us to lead by example. The need for more ways to support, nurture and elaborate both the values of the organizations and the ethical behaviour that demonstrates those values. We need to show how values and ethics can deliver concrete results. Fundamentally, a statement of principles must be integrated in the day-to-day ethical thinking of employees, which informs their conducts and influences their decision-making. We need to assist people in the early recognition of ethical dilemmas, find ways for people to figure out how to balance competing values, and be supportive of those who practice ethical decision-making.

This leads to the next point - the need to establish internal mechanisms to promote and safeguard integrity in tax administrations.

2. MECHANISMS FOR THE PROMOTION OF INTEGRITY IN TAX ADMINISTRATION

A number of practices have been adopted over the years to promote and safeguard integrity in tax administrations.

First and foremost - values and ethics are not something that should be relegated to a single box on an organizational chart. Values and ethics must permeate the organization. Everyone sitting around the management table should, in their own way, be a values and ethics specialist and should view their work through a values-based lens.

Creating a culture based on values and ethics is a long-term undertaking, and once in place, the culture must be sustained. The first step is to establish a long-term goal and a road map for getting there. We must take responsibility to integrate values and ethics in our very busy working lives. We can actually save time and improve our working life when we are able to recognize emerging ethical problems quickly and react promptly. This can be achieved through dialogue and effective internal mechanisms to help good people do the right thing the first time around.

Some of the important pre-requisites to promote ethics include:

2.1 Commitment and participation of management in the process

The participation and commitment of senior management in the process cannot be underestimated. Involvement and commitment of senior management from the start, followed by middle-management buy-in is critical in the development and implementation of an ethics program. This point cannot be over-emphasized.

2.2 Employee involvement – at all levels

Promoting ethics is a shared responsibility. Employees' involvement in the process is another very key factor to foster an ethical environment.

Also of importance is to ensure that employees of the tax administration see themselves and are seen by others as professionals. They need to take pride in their organizations and the work they do. They need to be properly trained and adequately paid. This is not only an important shield against corruption, it also contributes to maintain the taxpayers' trust and confidence.

2.3 Code of Ethics and Conduct

A Code of Ethics and Conduct is an excellent management tools to define expected standards of conduct. Even in the most flexible and ethical of workplaces, you need to have certain basic touchstones to direct people and help them in their day-to-day decisions. There

must be a number of key policies and regulations to provide a common and clear understanding of what is and is not appropriate in various situations.

Ethical behaviour often involves making decisions in the face of competing loyalties, priorities, responsibilities and accountabilities. It is also about how to deal constructively with ambiguities and uncertainties.

The public service exists to put into action decisions made by the government of the day. The government of the day is accountable to the public. Public confidence in the public service is important to the proper government of the State. That confidence will be lost if the public believes that the public service is not implementing government decisions, or if the public believes that employees are influenced in their decision-making by motivations that the public finds unacceptable.

2.4 External and Internal Oversight Mechanisms

The government of the day, and the minister responsible for the tax administration, must be – and be seen to be – answerable and accountable for the just and competent functioning of the tax system. This requires effective external and internal oversight mechanisms.

In Canada, the Auditor General conducts independent audits of the federal government operations, and reports directly to Parliament. These audits cover not only a department's management of its expenditures, but its performance in providing "value for money" to Canadians as well. More directly in terms of the topic at hand, our Auditor General, also reports on incidents of impropriety or unethical behaviour. This is a very important oversight element in ensuring an ethical administration.

Internal oversight mechanisms are also very important. An Internal Affairs Division is an important body within any effective tax administration. It conducts investigations into alleged or suspected employee misconduct such as: fraudulent activities like theft of assets, revenues or seized goods; conflict of interest; unauthorized access and disclosure of information; misuse of information technology systems; improper handling of public complaints. Appropriate procedures and sanctions must exist to deal with misconduct.

Within the tax administration we cannot operate in a true partnership with our clients and stakeholders without accountability. This can be achieved through periodic reporting of actions, initiatives, performance and expenditures to the legislators and the public. This forthright disclosure of operations serves not only to ensure public accountability, but also to institutionalize confidence.

2.5 Communication Plan

Another very important element is the development of a communication strategy that informs employees and the public of our values and ethics agenda.

A communication plan should include: the dissemination of the Code of Ethics and Conduct; the dissemination of values and ethics brochures, flyers, pamphlets; the public display of posters on the importance of trust and integrity.

The CRA has recently launched a Values and Ethics Website on the Intranet dedicated to promote values and ethics and deliver key messages from senior officials. The website also refers employees to a number of websites dealing with ethical issues.

2.6 Training and Awareness Strategies

Training is no doubt one of the most important elements of an effective strategy to promote ethics in the tax administration. Key initiatives include: providing training and development on “expected standards of conduct” for employees and clear messages on corrective measures if there is misconduct. The Canada Revenue Agency offers all new employees an “awareness session” and annual period refresher sessions on the Code of Ethics and Conduct and other internal staff relation policies and guidelines.

2.7 Use of Technology

Technology allows tax administrations to organize and manage their information holdings efficiently, make the best possible use of information and continuously work towards eliminating the unnecessary collection of information. At the same time, taxpayer information must be used with integrity to protect personal information from misuse.

In the CRA, the Security Directorate is responsible for the establishment of safeguards and programs to ensure the protection of CRA employees information and assets; conducting investigations into suspected or actual employee misconduct; monitoring electronic networks, establish fraud prevention methods, and providing intelligence services for the protection of employees and assets.

In the context of CIAT's work on the promotion of ethics in tax administration, the following provides a report on progress to date.

3. REPORT OF THE CIAT STEERING COMMITTEE ON ETHICS

At the 37th CIAT General Assembly, in Cancun, Mexico, in March 2003 and at the 38th CIAT General Assembly, in Cochabamba, Bolivia, in March 2004, delegates acknowledged that it is in the national interest for governments and tax administrations to vigorously promote public ethics. Delegates endorsed the need for CIAT to support its members to strengthen their individual integrity programs.

A Working Group was established consisting of Argentina, Brazil, Canada (sponsor), Peru, Spain, Trinidad and Tobago and the CIAT Secretariat. The Working Group was two-tiered, the Steering Committee made up of heads of administrations, and a working-level group. The Working Group was mandated with the development of a Declaration on the Promotion of Ethics in the tax administration, of a CIAT model Code of Conduct, and the development of an inventory of best practices.

The mandate of the Steering Committee included:

- the elaboration of a CIAT Model Code of Conduct;
- the identification of mechanisms for promoting ethics in tax administrations and the collation of an inventory of best practices; and
- the elaboration and adoption of a CIAT "Declaration on the promotion of ethics".

The Steering Committee on Ethics presented its report to the Executive Council in February 2005 and members endorsed the proposed CIAT Model Code of Conduct and the "Declaration on the promotion of ethics".

3.1 CIAT “Model” Code of Conduct

To start, it is important to ask ourselves a few basic questions. Why should tax administrations have a Code of Conduct? What is the purpose? Is it to regulate behaviour, or to inspire? Different kinds of documents serve different purposes. What are the benefits of having a Code of Conduct?

It is recognized that a Code of Conduct is an excellent tool to:

- promote a sound and effective tax administration;
- promote the organization’s mission and values;
- define expected standards of conduct;
- promoted high standards of service delivery;
- demonstrate to the public the tax administration’s commitment to safeguard integrity; and
- provide a benchmark for employees to use for self-evaluation.

A recent study conducted by William Mayville a consultant with the World Bank Tax Policy Group notes that: “Reform of revenue administrations has become a staple of government efforts to restore economic stability and encourage private sector growth. Often the most difficult part of tax and customs reform is the effort to deal with integrity issues.”

The study also notes that: “designing, promoting, and enforcing a formal code of ethics and conduct, tailored to the conduct of business in the tax and customs administrations now has become fundamental to any modernization effort.”

Simply drafting and disseminating a Code of Conduct is not enough to produce any results. It must be part of a more comprehensive Human Resources Management and anti-corruption strategy. This fact cannot be overstated.

The proposed Model Code of Conduct was developed taking into consideration recommended essentials for Codes based on international practices.

The Model is a tool to assist CIAT representatives in the development and implementation of a Code of Conduct. It is provided

as a general guide only and must be modified to particular circumstances and country-specific legislative requirements. Of course, no two codes will be the same.

The proposed Model Code of Conduct contains general instructions and recommendations on what to consider before starting the process. The Model proposes that the Codes of Conduct should contain, at a minimum, the following:

1. Objectives.
2. Scope of Application.
3. Principles regulating the conduct of tax officials:
 - Compliance with the law.
 - Personal commitment.
 - Relations with internal stakeholders.
 - Relations with the public.
 - Bribery.
 - Gifts and Hospitality.
 - Conflict of interest.
 - Public statements.
 - Confidentiality and use of official information.
 - Use of government resources.
 - Purchases of government property.
 - Work environment.
 - Off-duty conduct.
4. Consequences for non-compliance.
5. Glossary (optional).

When reviewing your individual Codes of Conduct or beginning the process of developing one, CIAT member countries are encouraged to use the model as a guide, consult each other and share best practices.

The CIAT Steering Committee was also mandated to develop a Training and Communication Strategy for the dissemination and implementation of a Code of Conduct. Work is already in progress and this will be a priority for the working-group level in the coming year. The Strategy will be of great help to all of us when we consider developing or strengthening existing integrity programs in our organizations.

3.2 Inventory of Best Practices in the Promotion of Ethics in Tax Administrations

International experience demonstrates that a number of best practices to promote ethics have proven successful. The Steering Committee was mandated to develop an inventory of 'best practices' applied in CIAT member countries to promote, manage and maintain the integrity and impartiality of the tax administration.

The survey asked all CIAT member administrations to provide 'best practices' in the areas of:

- laws, policies or procedures linked to operations;
- human Resources Management;
- use of Technology;
- communication; and
- training.

The information collected is now being condensed into a comprehensive CIAT inventory of current best practices being applied worldwide in the promotion of ethics.

The inventory will also include the name of individuals in each CIAT member country that can be contacted for assistance and for sharing approaches in developing and implementing a specific 'best practice'.

3.3 CIAT "Declaration on the Promotion of Ethics in Tax Administrations"

And finally, the Steering Committee on Ethics was mandated to develop a CIAT "Declaration on the promotion of ethics in tax administrations".

The Declaration aims to reiterate and strengthen our commitment to the principles of the Charter document "Minimum Attributes for a Sound and Effective Tax Administration".

Given the tremendous work done by CIAT in the area of ethics, it is very timely for CIAT representatives to collectively and publicly affirm their commitment to take every measure possible to safeguard integrity in their tax administration.

CONCLUSION

No doubt integrity, values and ethics are key to good governance. In a robust accountable organization, ethics permeates all decision-making and action at all levels – it should be an integral part of policy analysis, and decision-making through to implementation.

The current interest in ethics expressed in the media, in governments and in the private sector is an indication that close attention to values and ethics is becoming vital to organizations.

It is important to emphasize that the values and ethics framework is about a journey, not a destination. Creating a culture based on values and ethics is a long-term undertaking, and once in place, the culture must be sustained. What is needed is a view of the long-term goal and a road map for getting there.

CIAT should continue to demonstrate its commitment to the promotion of ethics in its member tax administrations. In this regard, the CIAT Steering Committee on Ethics has been mandated to develop a Strategy to support CIAT members in the development and implementation of measures aimed at promoting ethics within their tax administration.

And finally, the Americas region will be host to a very important international event next June. Brazil will be hosting the Fourth Global Forum on Fighting Corruption and Safeguarding Integrity (GF4) in Brasilia, from June 7-9, 2005. The GF4 is an inter-governmental Forum devoted to fighting corruption. It brings together elected officials, ministers responsible for controlling corruption, and experts in public ethics and anti-corruption from all parts of the world, in a joint effort to combat corruption. The primary objective is to promote and facilitate the international exchange of effective methodologies and experiences with anti-corruption measures. This may be a very good opportunity for CIAT to promote its work on the promotion of ethics in tax administrations.

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Case study

TOPIC 2.1

**THE DISSEMINATION OF DUTIES AND RIGHTS OF THE
TAXPAYERS AND THE ENTITIES AND PROCEDURES FOR
HANDLING THEIR CLAIMS**

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*CONTENTS: I. Diffusion of Taxpayer Rights and Obligations.-
I.1. Impersonalized information and assistance.- I.2. Personalized
information and assistance.- II. Electronic Administration.- III. Specific
Attention to Selected Group.- III.1. Tax Education.- III.2. Information
and assistance to the disabled.- IV. Departments and Procedures to Deal
with Taxpayers' Claims.- IV.1. Tax Procedures.- IV.2. Remedies and claims
regarding administrative acts and actions.- IV.3. Complaints and
Suggestions filed before the Taxpayer Advocate Council.-
IV.4. Complaints filed before the Ombudsman.- V. Transparency and
Other Citizen Participation Means.- V.1. Transparency.- V.2. Citizen
participation in surveys, studies and analysis.- VI. Conclusions.*

Since its creation in 1992, the Tax Agency has been entrusted with effectively applying the state's tax and custom system, as well as applying any other resources from other National Administrations or Public Entities, or from the European Union, which administration was entrusted to it by Law or Agreement.

Its creation was framed within the general modernization process of the State's Administration, based on the idea that the Administration's ultimate goal is to serve citizens effectively and efficiently. In this sense, effectiveness and efficiency, as ruling principles of the actions of the administration are present, in these two largest objectives towards which the Tax Administration directs its activities: on one hand, facilitate taxpayer's compliance with their tax obligations by greatly reducing indirect fiscal pressure, and on the other hand to pursue and correct fiscal fraud phenomena.

To attain these objectives, the Tax Agency is supported on two fundamental pillars. First, the dissemination of taxpayer rights and obligations, in a manner that the execution of their obligations can be easier, permitting them to identify illegal demands from the Tax Administration and its officials, and secondly, the articulation of an adequate system of departments and procedures which allows taxpayers to file their claims, present complaints and suggestions.

I. DIFFUSION OF TAXPAYER RIGHTS AND OBLIGATIONS

The dissemination of taxpayer rights and obligations is a requirement that characterizes the actions of modern Tax Administrations, and it comes from the need to reach a balance between the taxpayers' legal position, and the Tax Administrations.

This need has been continuously present during the tax reform process of our legal system since the enactment of our Spanish Constitution in 1978 and where Law 1/1998, of February 26th stands out in importance regarding Taxpayer Rights and Guarantees, which main objective is to reinforce the substantive rights of taxpayers and to improve their constitutional rights among the different taxation procedures, by reinforcing the correlated obligations of the Tax Administration. Today, the rights contained in the above mentioned Law 1/1998, of Taxpayer Rights and Guarantees, has been incorporated into the regulation of the new Law 58/2003, of December 17, the General Tax Law (hereinafter referred to as LGT).

The new LGT recognizes, among others, taxpayer's rights to be informed and assisted by the Tax Administration, on their duty to exercise their rights and their compliance with their tax obligations [article 34.1.a)]. In the same manner, and to complete this recognition, it establishes that the Administration is obliged to provide taxpayers with the necessary information and assistance regarding their rights and obligations. (Article 85.1)

These generic information and assistance duties are gathered up in a series of instruments, collected by the LGT, which can be structured into two large groups:

I.1. Impersonalized information and assistance

1. Publication of updated books containing tax laws and administrative doctrine, and,
2. Communications and information actions performed by the services directed to such effects, within the departments of tax administration.

I.2. Personalized information and assistance

1. Communications and actions performed by services intended to such effects, within the departments of the tax administration.
2. Replies to written inquiries.
3. Previous assessment actions.
4. Taxpayer assistance when filing a return, self-assessments and tax information.

A particular aspect of Spain's judiciary system, regarding information and assistance, is that the performance of the Tax Administration has to take into account the different languages used in the State of Spain. In this manner, the Tax Agency, has been promoting the different Spanish languages used for documentation and communication that are aimed to its citizens, such as a method to improve the knowledge that taxpayers have regarding their rights and duties and to facilitate these citizens' exercise of their obligations using different joint official languages.

I.1. Impersonalized information and assistance: Provided to all citizens in general, without any special requests received from them. The following administrative actions are instructed as general dispositions:

I.1.1.- On the subject of Publication of updated tax norms and administrative doctrine:

a. Distributed by the Department of Treasury, during the first trimester of the year, contains updated material concerning the state's regulations, regarding the most important tax laws and Royal decrees that has created variations in respect to actual materials from the previous year, as well as any relation of any tax disposition that has been approved during the said year (article 86.1 LGT).

b. Information that the Tax Administration provides to the taxpayer in relation to administrative regulation (article 87 LGT) mainly refers to as:

- established administrative criteria that enforces tax laws,
- consultation of informal bases where said criteria is contained, and,
- remission of communication destined to inform about some institution's tax practice, activities or income origin.

By publicizing updated tax laws and administrative regulation materials, is significant to mention the effort made by the Ministry of Treasury's web page, www.portal.minhac.es, where a related link "Laws and Regulations" describes the laws when enforcing a specific issue, and regulations depending on the department where it comes from (General Tax Management, Economic-Administrative Court, etc.).

In the same manner, it is useful that in this field, the Tax Agency has developed a web page, www.agenciatributaria.es, where you can access updated tax laws and institution resolutions such as the General Tax Management, Central Economic-Administrative Court, etc.

I.1.2.- In reference to the Communication and impersonalized performance, the most relevant actions are:

a. *Letter of Services*,¹ has by objective to notify citizens, that the Tax Agency makes available to their usage, quality commitments assumed by their tax payment, and known rights in relation to the Tax Administration.

¹ Approved by the General Manager of the Tax Administration State Agency on July 26th, 2001 and it will be updated during the first quarter of 2005.

b. The information transmitted through *public* campaigns, such as institutional character, as well as specific products or Tax Agency campaigns that are created through different communication media, newspaper and television.

c. *Informative publication* editions which objective is to offer taxpayers, specific information regarding tax payment that could affect them.

d. Sending *informative letters* – in 2004 reached the amount of 17,434,177 letters and the practical editions of *guides and manuals*, for the creation of diverse tax return (basically Individual Income Tax - IIT, Corporate Tax, Value Added Tax and fulfillment of any other formal obligations). In fact, the number of manuals edited in 2004 ascended to 504,900².

I.2. Personalized information and assistance. Includes all information services that the Tax Administration provides its citizens and comprises a series of administrative performances that shall be grouped as follows:

I.2.1.- In the matter of Communication and personalized information performance:

a. Provides, at the request of those interested, *the integration of counsel or specific resolutions book*, comprising all references and data that can identify those people affected.

b. *General telephone information* centralized under one telephone number for the national territory and independent from the Branch of Administration and Information Services that makes possible general tax information.

c. *Voice recognition units* (901 12 12 24). Are automated telephone units, which schedule could reach 24 hours of consecutive assistance and offer mainly the following services:

- identification card request, tax certificates or fiscal data for tax returns;

² Data related to the Year 2004 contained in this document is temporary.

- automatic information regarding tax refunds, VAT and Corporations.

The number of calls processed by these Units in 2004 was 3,180,339.

d. *Post Office Box 993* carries out among others, the following functions:

- resolution of tax concerns;
- complaints filed against different Tax Administrations;
- information regarding the status of any administrative file that the interested party requests;
- timely acceptance and process of any related documentation, suggestion or problem regarding the application and interpretation of tax laws;
- distribution of certain publications of the Tax Agency.

e. *Sending fiscal data*. This is a service specialized by its objective, to provide information and preventive assistance that is offered to citizens that have filed a tax return, or it is offered through specific public campaigns. Those interested, file their requests through automated voice units, internet or directly to the Tax Agency office, and in return, the information is sent to the interested party fiscal address,³ by mail, attaching an explanatory letter for possible corrections and rectifications, that could have been included in the tax return envelope or could have been sent through the Internet to those that filed their return in such manner, so that in the future can be used as proof of filing. The number of fiscal data requests in 2004 was 7,368,121.

f. The *INFORMA* software that assists the taxpayer, consist in a group of information, made of questions and answers to the taxpayer, and is the principal reason to obtain from the Tax Administration, written information regarding tax information, it also works as an essential technical instrument that supports information services. The number of consultation to INFORMATION in 2004 was 2,984,408, in comparison to 1,377,618 that were made through the Internet.

³ Never on the interested party to assure confidentiality.

I.2.2.- Impersonalized information and assistance is also given by the Response to written consultations. (Article 88 LGT).

Obligated Taxpayers, as well as specific collective entities, can create written consultations to the Tax Administration. These consultations could be defined as requests made to the Administration so that a topic can be created for those affected, and could be referred to interpretation uncertainties related to the completion of material obligation, to the execution of rights or the execution of formal material obligations or to management, classification or tax qualification and that in each case belongs to the taxpayer.

The response from written tax consultation, formulated by legal terms before mentioned,⁴ is characterized by containing:

- Binding nature,⁵ in such manner that the department in charge of tax enforcement shall be adjusted to what has been answered depending on the consultation made.

In consequence, if the taxpayer follows the criteria contained in the consultation's response, then the Administration shall limit their efforts to verify the coincidence between the issue inquired and the reality of the taxpayer situation and the application of the criteria contained in the response.

- To extend binding effects to a third party, in such manner that the Tax Administration department, that oversees the application of taxes, shall apply the criteria contained through written tax consultation to any taxpayer, provided the identity between the facts and circumstances of said taxpayer and those who are included in the response.

⁴ Written Tax consultation shall be made before the end of an established time frame to exercise their rights, declaration presentation or self-assessments or the execution of other tax laws, through a letter directed to a competent office for its response, which the rules contains.

Consultation response time belongs to the tax Administration department that has been appointed to carry out this disposition, tax consultations, proposals or interpretation (General Tax Department).

The competent tax Administration shall answer with a written response to those consultations that fill the established requirements, in a six-month time frame from its presentation. Lack of response within this time shall not be taken as the acceptance of that criteria expressed in the letter by the taxpayer

⁵ To maintain binding effects the following must be present:

1^o That the circumstances are true, evidence and other data collected in the consultation's response.

2^o Legislative modification or to the jurisdiction shall not be made. This means that, as a rule, the Administration shall accommodate its interpretative criteria when referring to consolidated jurisdiction, independent from any consultation made before hand. In any case, there shall be no binding effects for the Tax Administration's response to inquiries that have been made and which are regarding the objective or transaction of a procedure, remedy or an existing claim.

I.2.3.- Another instrument for information and assistance is made by prior assessment actions.

This type of performance has two concrete manifestations in the Spanish judicial law:

- a. previous information to the acquisition or transfer of real estate property (article 90 LGT) and,
 - b. previous valuation agreements (article 91 LGT).
- a. **Information prior to the purchase or transfer of real estate** refers to as the value of real estate, which shall be the object of purchase or transfer and has binding effects with the Administration during the next three months following the notice by the interested party.⁶
 - b. **Previous valuation agreements** try to eliminate juridical insecurities that is produced when tax laws use concepts or certain confusing terms that can mean two different things for two different subjects, such as the taxpayer and the Administration. These have to be written and shall have ties with each other, in such manner that the legislation shall not be modified or that the circumstances that established the value shall not be modified significantly, the tax Administration that dictates the taxpayer's duty on a maximum time of three years, unless otherwise provided for by the Law.⁷

I.2.4.- Regarding the Assistance to Taxpayers when filing returns, self-assessments and tax communications.

It is an instrument whose objective is to facilitate the taxpayer the execution of its duties. The main functions of the Tax Agency regarding this matter are:

- a. **Telephone Attention Center:** is a telephone service that is vital for living citizens that are not obliged to file for an income tax return. Provides information on how to get a fast refund, filing status and calculates how much this person is going to get back, takes care of any doubts or discrepancies that has been produced and allows taking other actions without physically going to the Agency.

⁶ Entailing effects require that a request has been filed before the deadline to present self-assessment or declaration and factual and sufficient data has been given to the Tax Administration. Lacking a response does not mean accepting the value agreement that in some cases shall be included in the initial request from the interested party.

⁷ The Administration shall be able to prove the identity between factual acts outlined in the proposal and those made by the taxpayer, but a different value shall not be possible in the measure the identity has been confirmed. On the other hand, lacking a response by the Administration during this time frame, implies that the Taxpayer's proposed value has been accepted by the Administration

- b. **Information software to help prepare the most important tax returns:** among them, the one that stands out the most for its importance is “Assistance Program for the Individual Income Tax Return” (PADRE), the main objective of this software, is to help taxpayers to file a return for this tax.⁸ Nevertheless, taxpayers that do not own a personal computer or if they preferred, they can prepare their taxes by telephone, or go to the Tax Agency office or go to other collaborating office to have prepared their personal income tax return by qualified personnel in the use of the PADRE Program.

Other programs that are available to those interested are referred to as the annual withholding summary of labor and movable capital, annual return of operations with third parties, intra community summarized return, VAT annual summary-return, Corporate Tax return (simplified), retirement funds annual return, and annual summary of income over rented property or urban property, etc.

Finally, we shall point out that in all Tax Agencies Offices and Administrations, preparing tax returns regarding Economic Activities, business owners can use an Objective Estimation software program, to declare income tax payments for Individuals and every quarter Value Added taxes.

The total number of tax returns filed in 2004 through computer programs was 12,336,034, which represents at least 96% of the total returns presented in IIT, 80% in VAT, 97% of the total returns of payments using Objective Estimation and the 95% of all returns presented by Corporate Tax.

- c. **IIT Pre-made return.** Is a service started by a test during the 2002 Tax campaign and placed into effect during the 2003 Tax campaign, and it allows the taxpayers to present their IIT statement, make them comply with the legal established conditions, and asks that the Agency gives them, for just informational reasons, a pre-made income tax statement.

Once the pre-prepared return has been received, and if the taxpayer considers that, this reflects their tax condition regarding their income, can confirm it and file it, by which case the confirmed pre-made

⁸ This program can be obtained in CD Rom or downloaded through the Internet so that each taxpayer can prepare their own return, print it using the PDF code (*portable data file*) –which makes possible to access at any time through the computer and to present as any established model, file through the Internet, but having the need to obtain an electronic signature.

statement shall have all the effects of an IIT return. On the contrary, the taxpayer has to fill the corresponding statement.

We shall point out that the confirmation can be done as follows:

- at any office within Spanish territory or in an authorized agency,
- automated Teller Machines,
- electronic Banking,
- telephonic Banking or any other Banking systems not present at any authorized agency,
- through the Internet.

In addition, if the statement shows a quantity that needs to be returned or a negative balance, confirmation can also be made through the following:

- calling telephone number 901 33 66 33,
- sending a SMS message to numbers 50 25 or,
- at any Office or Tax Administration Agency.

The number of blank statements sent in 2004 was of 4,292,111.

- d. *Expedition of Tax Certificates*: during previous years, new treaties have been made between the Tax Agency and entities that requests these certificates from citizens, so the offices integrated in the State General Administration need to substitute this service and provide the certificates by electronic transmissions.⁹

In the same manner, certificates of compliance in the IIT are being sent to citizens, that on one hand helps them, so they can give it to any public office that is asking for it, avoiding the necessity of the IIT to inform them of how much is their true collaboration to public expenses, differentiating between funds given to the State and Autonomous Communities.

Finally, the number of tax certificates requested (and sent) in 2004 was 4,804,758.

⁹ Royal Decree 209/2003, February 21st.

- e. *Services regarding customs assistance*: most important for its specification and their success, and their main goals are to:
- make faster custom process and favor the execution of tax obligations from passive subjects,¹⁰
 - presentation of Intrastad statistical return necessarily through computerized means,
 - facilitate the taxpayer's relation between the Internet and filing Special Taxes and Taxes over Minor Sales of specific Hydrocarbons (IVMDH).
- f. Finally, establishing *debt payment plans* constitutes an essential element to the taxpayer when it comes to returns, self-assessments and tax communication. Among these benefits the most important are:
- payment plans and partial payments of debts, for those that are under a voluntary payment or executive period,
 - payment of debts for property that shares a portion with the Spanish Historical Patrimony, and, especially,
 - payment made from debts through contributing authorized entities. The importance of the contributing authorized entities is such, that up to December 31st 2004, the number of authorizing entities were 190 and the total of funds collected was above 173.366 millions of euros.

¹⁰ Among other we shall mention the following:

- Computerization of customs warehouses and others bonded warehouses, which supposes to substitute inventory accounting controls performed by the respective control customs for an online computerized management.
- Implementation of Internet as a communication system between the operator and Customs to send customs returns.
- The implementation of a new inquiry and control tool in the NCTS system, called *help-desk*, through which any event that takes place in all NCTS movements may be followed from its issue to its conclusion.
- The development of a new computerized application to unify the registry of all operations performed in Spain, regarding the movement of protected goods and covered by the TIR transit Agreement.
- Computerization of "the goods recognition prior to dispatch" (C-5).
- The establishments of the goods withdraw communication made to the e-mail, which may be address to the mobile device, which is acquired as an option in each tax return.
- The possibility of the correction of export returns through an EDI via messaging.
- Contacts with Border Inspection Services has increased to substitute paper filing of certificates issued in paper by these Services for an encrypted computerized information system which generates a complete reference number (NRC).

II. ELECTRONIC ADMINISTRATION

New technologies are representing an essential function when it comes to the diffusion of taxpayer's rights and duties. The importance of such function is recognized by the General Tax Law that contains a generic mandate to promote electronic techniques and means, as well as the necessary information and computerized means, necessary for the development of this activity and the actions of the Administration's competencies.¹¹ (Article 96 LGT). Individual and/or the actions developed by the Administration through these techniques have the following characteristics:

- juridical position from one and another and the validity of the process do not vary in respect to the development through traditional methods.¹² and,
- documents submitted by whatever means, through electronic transfer, information and computerized means by the Tax Administration, or those that the latter provides as copies from the originals, shall have the same validity and effectiveness just as the originals, provided its authenticity, integrity and conservation is guaranteed and, in this case received as such by the interested party.

Since 1996, year in which the Tax Agency web page was opened to offer mainly information services, the development of new technologies has made possible the use of extensive services by the taxpayer through the Internet (www.agenciatributaria.es), the most important are:

- general information services regarding the Tax Agency structure and functions, annual information, telephone numbers, list of services and addresses, different office e-mail addresses, etc.;
- service access to a specific rule, page for most frequent questions and also automatic update of software;
- tax information services, taxpayer calendar, INFORMA software, tax legislation, questions asked to the General Tax Office, etc.;

¹¹ With the limitations, establish by the Constitution and the laws.

¹² Unless the observance of the specific provisions which in each case may result from the application (i.e., computerized notices)

- questions regarding customs, foreign trade statistics, in the matter of Special Taxes or collection of Community Customs tariff (TARIC), expediting authorities in Special Taxes, return situations, goods to be transported and pending to be transported by the Department of Collections of the Tax Agency;
- inquiry services regarding tax returns, request for fiscal data and identification cards, and getting tax models to prepare returns;
- download service from the Internet of those programs that help in the preparation of returns and in estimating tax withheld and the pre-approval of those electronic returns filed through the Internet;
- services such as *on-line* inquiries, using fiscal data, and identification card print outs, detail information on the return and notification of change of fiscal address;
- requesting and receiving specific tax certificates, census questions by intra-communities, established in different Estates throughout the European Union, questions regarding account activity and the tax balance, electronic email regarding updates and new features in the Agency's web page;
- telematic filing of the return is, without any questions the most significant service provided by the Internet and it is based on the taxpayer's identification by using an electronic signature, which guarantees full security and confidentiality between the Tax Agency and the taxpayer;
- in the year 2004, the number of returns filed through Internet was more than 20,790,000, which at least 12 million of these belongs to customs returns, more than 3.5 million to the IIT return, more than 1.7 million of electronic returns, more than 2.1 returns from Small and Mid-size Businesses and some 177,000 Corporate Tax returns;
- in the same manner, it offers citizens, the possibility to make a payment of self-assessment through Internet, request monthly payments and partial debt payments, present the refund of resources and other tax requests. Also it is possible to participate in "*online*" auctions of property seizures, inquire and pay debts notified, the possibility to request an appointment to prepare personalized returns and self-assessments (the number of citizens served by an appointment in 2004 was approximately 3,380,000), inquiries regarding the verification of the second tax payment of Individuals through Internet, granting and revoking representation to file seizure resources or to present other tax requests through Internet.

III. SPECIFIC ATTENTION TO SPECIFIC TAXPAYERS

Among the frame of taxpayer rights and duties diffusion, a series of acts within the Tax Administration are the most important, and are outlined in the following manner:

III.1. Tax Education.

III.2. Information and assistance to the disabled.

III.1. Tax Education

Actions concerning Tax Education are one of the most efficient ways to disseminate rights and obligations to taxpayers, and they are materialized by adopting preventive measures that facilitate the knowledge of rights and obligations by younger citizens, this promotes voluntary compliance of obligations by the taxpayer and allows the creation of a fiscal awareness in society.

The recent Fraud Prevention Plan proposes to develop a plan for tax education that can reach children and adolescents and can give them a basic idea regarding fiscal responsibility that can help them incorporate into their role of taxpayers with a clear understanding that this is logical and rational behavior in a democratic society. The formation of a true fiscal awareness consists in assuming that above all concrete options and fiscal models, which are changing as it is foreseeable in any dynamic society, there are a series of justifiable criteria for joint financing of public and common needs.

The development of the Tax Education program, together with its corresponding context, is specifically designed for children and adolescents that residing throughout the national territory, and the purpose is to secure their perception from an early age, on voluntary execution and taxpayer obligations as a citizen value. It includes a group of actions, adapted to the cycles that comprise the Spanish education system, among which we can highlight:

- holding open door events at the offices of the Tax Agency,
- teaching lectures at schools, and,
- soon an Internet portal on tax education will be launched.

III.2. Information and Assistance to the Disabled

The year 2003 was declared the European Year of People with Disabilities,¹³ the Tax Agency decided to develop an assistance plan for people with disabilities, their relatives and representatives which purpose is to provide updated information on their rights and provide support and advice in complying with their tax obligations, so that in this manner they feel that the Administration is coming close to them.¹⁴

In this scope one of the most important milestones that has taken place has been the signing on March 25, 2004, of the Collaboration Agreement between the Tax Agency and the Committee of Representatives of People with Disabilities of Spain (CERMI, in Spanish) and Foundation ONCE, which constitutes a fundamental tool on the issue of collaboration with the representatives of people with disabilities and this permits consensus for the actions that the Tax Agency is going to perform within the scope of interest of the collective.

The following actions have been developed by the Tax Agency to assist people with disabilities:

- the promotion of information transfer with agencies responsible for certifications (Autonomous Communities and IMSERSO¹⁵) associated to this organization, which prevents Management departments of the Tax Agency from taking control actions;
- information and assistance measures in Income Tax Campaigns, among which the Prior Appointment for the Hearing Impaired Service, with the assistance of sign language interpreters stands out;
- visits to the collective domiciles at the main offices of the Associations of people with disabilities, hospitals and managed care senior residences, to assist in completing and filing Income Tax Returns;

¹³ According to the Decision of the Council of the European Union, adopted on December 3rd 2001.

¹⁴ In this respect, we can mention that, whilst in Spain Disabled People are 9% of the population, which supposes 3.528.222 people, the Tax Administration Spanish Agency carry out transactions with 2.290.377 Disabled People, which supposes 5,6% of the total population in Spain, where 79% of the same are direct taxpayers and the remaining 21% spouses, ascendants and descendants of the titular.

¹⁵ Institute of Migrations and Social Services.

- information Services which include advertising, in general communication means as well as in specific media, the publication of Information Brochures (which are also edited in Braille) and the presentation of Informational lectures at the Delegations of the Tax Agency and at locations lent by the Associations and Confederations of persons with disabilities that collaborate with the Tax Agency;
- other actions such as open door events for hearing impaired children, information meetings with Associations of people with disabilities, personnel from the Agency working as sign language interpreters, obtaining a certificate for the computer filing of returns, parking spaces placed at the disposition of disabled people;
- regarding new technologies, the Tax Agency has proposed to face the elimination the technological barriers that exist in its web page, having developed determinate actions, especially in the Income Tax Campaign, which refer to information on tax benefits applicable to disabled people and their family members, the manner in which the accreditation of the underprivileged person is performed, the Agency's telephone help lines and the taxpayer calendar.¹⁶

IV. DEPARTMENTS AND PROCEDURES TO DEAL WITH TAXPAYERS' CLAIMS

The mere identification of the rights and duties by taxpayers would be to no avail if procedures and departments are not defined and established to attend their claims.

The new General Tax Law has meant an important approach of the tax regulation to the general norms of Administrative Law,¹⁷ with the consequent increase of legal security in the regulation of tax procedures.

¹⁶ To facilitate access to this information, search links have been included in magazines and associations of the collective.

¹⁷ Act 30/1992, of 26 November, of the Juridical Regime of the Public Administrations and the common Administrative Procedure.

Within these departments and procedures placed at the service of taxpayers to attend their claims there are the following:

1. Tax procedures.
2. Resources and claims regarding administrative acts and actions.
3. Complaints and Suggestions before the Taxpayer Advocate Council.
4. Complaints filed before the Ombudsman.

IV.1. Tax Procedures

The existence of pre-established tax procedures, with a source system perfectly outlined in the General Tax Law and a systematic and outline of rights and obligations legally gathered, this is an essential guarantee which allows the taxpayer to identify illegal demands of the Tax Administration and its officials within the range of the tax procedures that affects the taxpayer.

Among the common standards on tax actions and procedures, it is relevant to mention:

- 1.1. Facilitate exercise of rights and obligations: at all times during the development of tax actions and procedures, the Administration must facilitate for taxpayers the exercise of their rights and compliance with their obligations (article 99 LGT).

Specifically, in tax control procedures (limited verification actions and inspection procedure), the beginning of the procedure must be notified to taxpayers through a communication, where the nature and the range of said control actions will be expressed as well as information on the taxpayer's rights and obligations during the course of such actions (articles 137.2 and 147.2 LGT).

- 1.2. Hearing proceedings: the existence of a hearing proceeding prior to the proposed resolution is provided for, the same shall not be less than ten days or more than fifteen and it may only be omitted when records of the proceedings are signed with an agreement or when in the regulation standards of the procedures an allegation procedure after said proposal is foreseen (article 99 LGT).

- 1.3. Express resolution: The Tax Administration is obliged to expressly solve all issues that are stipulated in taxation application procedures, as well as notifying said express resolution (article 103 LGT), with the exceptions provided for in the Law.¹⁸

Without detriment to the above, the Law expressly stipulates that the effects of the lack of an express resolution in tax procedures shall begin ex officio at the party's request.

- 1.4. Motivation of the acts: The Law establishes the obligation of the motivation of the acts, with succinct reference to the facts and legal basis of the Law, in the cases of liquidation acts, value verification, those that impose an obligation, those that deny a fiscal benefit or the suspension of the execution of tax enforcement actions, as well as many others that are provided for by the regulatory scheme in force (article 103 LGT).

- 1.5. Term for the resolution: A maximum term for the service of the resolution of the tax procedures, which shall be established by the ruling regulatory scheme of the corresponding procedure shall be allowed, this term may not exceed six months, unless provided for by a norm that has the rank of law or that it is proved for in the European Union regulatory schemes.¹⁹ When the norms regulating the procedures do not establish a maximum term, this will be of six month (article 104 LGT).

¹⁸ The obligation to expressly resolve in procedures pertaining to the exercise of rights that must only be the purpose of communication by the taxpayer and in those where expiration occurs, the sudden loss of the purpose of the procedure, the waiver or the voluntary dismissal of the interested parties. Notwithstanding, when the interested party expressly requests the Tax Administration to declare that one of the circumstances mentioned has taken place, the latter will be obliged to answer its petition.

¹⁹ The actions of the examination procedure must conclude in a twelve-month term as from the date of the notice of the beginning thereof to the taxpayer. It shall be understood that actions end on the date on which the administrative act resulting from the same is notified or understood that is notified. Notwithstanding, this term may be extended, with the scope and requirements that are determined by the regulations, for another term that may not exceed twelve months, when in the actions some of the following circumstances takes place:

- a) When they are especially complex.
- b) When during the development thereof, it is discovered that the taxpayer has concealed from the Tax Administration any business or professional activity that it performs.

Agreements to extend the term that has been legally established will be, in any event, motivated, with reference to the facts and legal basis of the Law.

- 1.6. Service of process regime: stipulate in the administrative norms with determinate specialties provided for in the General Tax Law (article 109 LGT).
- 1.7. Entry into a Domicile: to enter or perform a search of a home of a taxpayer, which is protected by Constitution, the Tax Administration must obtain the consent of the former or timely obtain a judicial authorization (article 113 LGT).

IV.2. Remedies and claims regarding administrative acts and actions

The Spanish legal system grants taxpayers, as a legal defense means to attempt to enforce their rights, the possibility of filing administrative action remedies or claims when they are in disagreement with any act or resolution decreed in an administrative procedure of tax nature. Furthermore, once the administrative actions have been used, taxpayers may have the possibility of resorting to the contentious-administrative jurisdiction.

Administrative action remedies and claims may be systematized as follows:

- IV.2.1. Remedy or complaint ordinary proceedings, and,
- IV.2.2. Special review procedures.

IV.2.1. Remedy or complaint ordinary proceeding is the normal course to review administrative acts at the request of the interested party and includes the appeal for reversal and economic-administrative claims.

a. Appeal for Reversal (articles 222 and following LGT).

This is an ordinary administrative procedure, discretionary in nature, and is prior to the economic-administrative claim, which allows the review of the legality of the acts decreed by the Tax Administration ²⁰ by the same authority that decreed the act.

²⁰ Acts decreed by the Tax Administration that may be object of the appeal for reversal are those susceptible of economic or administrative claim.

b. Economic-administrative claims (articles 226 and following LGT):²¹

The knowledge of economic-administrative claims exclusively pertains to the economic-administrative authorities. These authorities are formed by the Ministry of Economy and Treasury, through the Secretariat of State of Treasury and Budget – and unrelated to the Tax Agency -, they act functionally independent in exercising their competencies and are following:

- the Central Economic-Administrative Court,
- the Regional and Local Economic-Administrative Courts, and,
- the Special Division of the Court for the Unification of the Doctrine.

IV.2.2. Special review procedures. These are exceptional courses for cases appraised, they are submitted to specific limitations and generally begin ex officio, even though, from time to time, they may begin at the request of the party. The General Tax Law distinguishes the following classes of special review procedures (article 216 LGT):

- a. review of null actions as a matter of law,
- b. declaration of the detrimental nature of annullable actions,
- c. correction of material mistakes, de facto or arithmetical,
- d. return of illegal income,
- e. annulment.

a. Review of null actions as a matter of law (article 217 LGT):

This special procedure, that may be filed at the initiative of the Administration or the interested party, pursues the annulment as a matter of law of the acts and resolutions (of the economic – administrative authorities), that have ended administrative actions or that have not been appealed within the term, in the cases provided for by the Law.²²

²¹ This constitutes an ordinary procedure of challenging with administration actions the following acts decreed by the Tax Administration:

- a) Acts that provisionally or definitely recognize or deny a right or declare an obligation or a duty,
- b) Proceedings that decide, directly or indirectly, in the substance of the issue or which end the procedure,
- c) Determinate acts on the issue of the enforcement of taxes, and,
- d) Acts that impose sanctions.

²² Cases in which the rule of the law is applicable:

- Violation of constitutional rights
- Manifest incompetent actions by authorities
- Impossible content acts
- Acts that constitute a penal violation or that are decreed as a consequence thereof
- Total and absolute omission of the procedure or omit standards that contains essential rules for the formation of the will in the collegiate authorities
- Acts contrary to the legal system
- Any other expressly provided for in a legally ranked provision.

b. Declaration of the detrimental nature of annulable actions²³ (article 218 LGT):

The Tax Administration may proceed to declare detrimental for public interest acts and resolutions that are favorable to the interested party that incur in illegalities, which are not considered annulable as a matter of law and, later, challenge these before the jurisdiction for suits under administrative law.

c. Correction of material mistakes, de facto or arithmetical (article 220 LGT):

This procedure is applied by the authority or body that had decreed the act or the resolution of the claim to rectify material mistakes, de factor or arithmetical, ex officio or at the petition of the party, provided the time limit for legal action has not elapsed. It will be particularly useful to rectify the acts and resolutions from economic-administrative claims where a de facto mistake has been incurred, which results from the documents incorporated into the records of the case.

d. Return of illegal income (article 221 LGT):

This special procedure that may be initiated ex officio or at the request of the party, allows the recognition of the right to refund illegal income in the event that:

- there has been duplicity in the payment of tax debts or sanctions,
- the amount paid has been higher than the amount to input,
- amounts corresponding to debts or sanctions have been inputted after the prescription term has elapsed or,
- it is provided for in the tax standards.

e. Annulment of tax imposition actions and the enforcement of sanctions decreed by the Administration for the benefit of the interested parties (article 219 LGT):

One of the great novelties of the new LGT regarding the positive juridical regulation contain in the already annulled Law 230/1963, General Tax

²³ The ex officio review of the annulable acts has experienced an important reform after the new LGT, which has meant the homogenization with the general system of the ex officio review, suppressing the possibility for the Administration of annulling on its own for legality defects actions favorable to the interested party unlike the annulment as a matter of law.

Law, which did not rule in this regard,²⁴ this is the regulation of the reversal between the possible special review procedures.

In this regard, the Law expressively stipulates “*the Tax Administration may revoke its acts for the benefit of the interested parties*” (article 219). Said provision supposes that:

- The annulment power is of discretionary nature for the Tax Administration,
- The annulment shall only be acceptable in regards to encumbrance acts,
- The possibility of making this procedure simultaneous with the economic-administrative action does not seem to set forth problems.²⁵

The annulment is only possible by the following reasons stipulated in the Law:

- When considered that it manifestly violates the law,
- When circumstances suddenly occur, which affect a particular juridical situation evidence the illegality of the act decree or,
- When during the transaction of the procedure the lack of proper defense of the interested parties has taken place.²⁶

Similarly, annulment powers are submitted to a series of limitations (articles 66, 213.3 y 219.1 y 2 LGT):

- a common limit to all review procedures, which is that formed by *res judicata*, which prohibits the review of enforcement acts, imposition of sanctions and resolutions of economic-administrative claims when they have been confirmed by a final executable judgment;

²⁴ Nevertheless, a sector of the doctrine believes that such novelty only pertains to the understanding that the express regulation of the annulment of the encumbrance actions by the Administration itself was not precise, since you could resort to it without observing a special proceeding for the guarantee of the interested party, since the ex officio review guarantees and limitations only made pronouncements on the review of adjudicative decrees.

²⁵ To such effects, article 238 of the LGT stipulates the extra-procedural satisfaction of the cause of action as a means for the termination of the economic-administrative procedure, which may be done through the mentioned annulment in the administrative action.

²⁶ The lack of defense takes place as a result of: the omission of the mandatory hearing proceedings to the interested party, the unjustified denial of the relevant means of evidence, the absence of motivation of the actions and resolutions or the defects of the notices which have prevented the knowledge of the action or the relevant resources, though in this case it may also be understood that the remedy action may continue to be open.

- the reference that the Law makes to the “Tax Administration” determines that it is impossible to revoke economic-administrative resolutions as well as the acts that have been the purpose thereof;
- a temporary limit, such as the tax prescription;²⁷
- the annulment cannot constitute, in any event, a dispensation or exemption not allowed by the tax laws, and it cannot be contrary to the principle of equality, to public interest or the legal system.

From the procedural point of view, the annulment has the following characteristics:

- the beginning will always be ex officio, without detriment that, as set forth in the General Regulation draft bill for Review issues,²⁸ interested parties may promote its beginning by the competent Administration by means of a writ that they will address to the authority that decreed the act.²⁹ In any event, the ex officio initiation agreement will be notified to the interested party;
- all interested parties that may result to be affected by the act to be annulled shall be given hearing court proceedings;³⁰
- the report from the authority with legal advisory functions shall be included in the annulment records of the case, this report shall be preceptive and is not required to be favorable.³¹

²⁷ The elapse of the time of the prescription constitutes a moment when the principle of juridical security prevails on the subject of legality. There is a consideration that some annulment causes may surface specifically in the case of nullity causes as a matter of law, in which event the review is indispensable, it may not be exercised through a repeal procedure, but through a procedural course of a decree of nullity as a matter of law and taking into consideration its own limits.

²⁸ The State Council is currently reporting to it.

²⁹ In this case, it seems that the Administration will be exclusively obliged, as it is, continues to be provided for in the Regulatory draft bill, to acknowledge receipt of the petition.

³⁰ As provided for in the General Review Regulation draft bill, it is advisable for the hearing proceedings to be held before the request of the juridical report.

³¹ It is not a requirement for the report to be from the State Council or an equal consulting body of the Autonomous Community, if any, therefore the corresponding report from the corresponding juridical service, which has been instructed to legally counsel the competent body to solve the annulment, shall be sufficient.

- the maximum term to notify the resolution of the procedure shall be of six months, as from the moment in which the interested party is notified of the ex officio initiation agreement of the procedure. Once this term has elapsed without having expressly notified the resolution, will result in the expiration of the procedure;
- resolutions that are decreed in this procedure will end administrative actions.

IV.3. Complaints and Suggestions Filed Before the Taxpayer Advocate Council

The new LGT has supposed an elevation of rank of the normative base of the Council from the regulatory level of Royal Decree 2458/1996, of December 2, which created it by indicating its functions, up to the level of the Law, maximum expression of the will of the people.

The Taxpayer Advocate Council is formed as a collegiate agency, in the Ministry of Treasury through the Secretariat of State of Treasury and Budget, which has been entrusted with consulting as well as advising functions in solving complaints and attending suggestions, which are filed by citizens. Specifically, as provided for in paragraph 2 of Article 34 of the General Tax Law, it is charge of:

- overseeing the effectiveness of taxpayer rights,
- attending complaints that take place as a result of the enforcement of the tax system, which are performed by the State departments, and,
- making the relevant proposals and suggestions, in the manner and with the effects that are determined by regulation.

The procedure to formulate, transact and respond to complaints, claims and suggestions, as provided for in the Resolution of February 14, 1997, of the Secretariat of State of Treasury, establishes that all complaints and suggestions filed shall be answered by the Council, and once the reply has been received, if the interested party does not agree with the reply received, it may file a non-conformity writ during the following fifteen days. In any event, the interested party may request, at any time, information on the status of the proceedings of the file to the unit that receives the complaint or suggestion filed.

It is also important to mention that the formulation of a complaint does not prevent the filing of remedies or claims provided for in the laws against administrative acts.

On the issue of Complaints and Suggestions to the Taxpayer Advocate, by activity areas, the reduction experienced in 2004 on the number of complaints and suggestions presented before this body and referred to the Tax Agency. Consequently, while in 2003 its number increased to 6,031, in 2004 the figure declined to 5,502.

IV.4. Complaints Filed Before the Ombudsman

The Ombudsman is a figure taken from the Nordic experience and introduced in the Spanish legal system by the Spanish Constitution of 1978 (Article 54), where it is established as a high commissioner of the General Courts, appointed by these for the defense of citizen freedoms and fundamental rights, to which effect it may supervise the activity of the Administration, by reporting to the General Courts.

For the performance of this protecting activity, the Ombudsman has competencies to begin and prosecute, ex office as well as at the request of the party, any investigation leading to clarify the acts and resolutions of the Public Administration and its agents, in regards to citizens. To these effects, any person, an individual or body corporate, alleging a legitimate interest, may file its complaints before the Ombudsman who once the proceedings has been admitted, will provide timely investigation to clarify the suppositions thereof, and all public powers shall be obliged to assist all investigations and inquires (Articles 9, 10, 18 and 19 the Organic Law 3/1981, of April 6, of the Ombudsman).

The Tax Agency, as a Public Administration, is subject to the exercise by the Ombudsman of the competencies of supervision that it has entrusted and it must furnish all information requested by it to perform inquiries that will lead to clarify the acts and resolutions of the Agency and its agents, based on the possible violation of any fundamental right set forth in Title One of the Constitutional Text.

To this effect, the General Directorate of the Agency approved in 2002 an instruction³² which established the general action guidelines of the departments of the Tax Agency that result from the exercise by the Ombudsman of its supervision functions, which undoubtedly has given said actions greater speed and efficacy. The number of complaints filed at the Ombudsman that have entered into the Tax Agency in 2003 was of 118, while in 2004 its number has declined to 109.

³² Instruction 5/2002, of March 27, of the Directorate General of the State Agency of the Tax Administration, on actions of the departments of the Agency on the occasion of the exercise by the Ombudsman of its supervision functions.

V. TRANSPARENCY AND OTHER CITIZEN PARTICIPATION MEANS.

V.1. Transparency.

V.2. Participation of citizens in surveys, studies and analysis.

V.1. Transparency

The promotion of transparency as one of the principles that must rule the activity of the Tax Agency, is a key piece to allow taxpayers, and citizens in general to participate in building a modern, effective and efficient Tax Administration, where the knowledge by taxpayers of their rights and duties and that the claims, complaints and suggestions that they file are addressed.

This transparency, which covers, not only the activity but the results of the Agency as well, by safeguarding at all times, the duty to reserve and keep confidential the information pertaining to citizens, this must take place inside the organization as well to society. Inside, so that the different departments and personnel that form part of it are knowledgeable of its goals and targets and the results obtained, and to society so that citizens, institutions, etc. can be knowledgeable about and evaluate the level of efficacy and efficiency of the activity developed.

The search for the maximum transparency has been one of the principles that, recently, have guided the elaboration of the Prevention Plan against Tax Fraud, where two phases may be distinguished:

1. An initial phase of elaboration, where:

- the weak points were identified as well as strategic, organizational or coordination issues, susceptible of being improved in the control model of the Tax Agency,
- responsible experts were appointed for its study and the elaboration of a report-proposed which must contained, in any case, a situation diagnose, improvement proposals and a timetable to develop measures,
- these reports – proposals were transferred to the Departments, where they were informed to, and later be approved by the Directorate Committee of the Agency, and,
- a draft of the Prevention Plan was developed.

2. A second phase, where the draft of the Prevention Plan was submitted to a *public report*, which has allowed the enrichment of its contents and direct it to the demands of society on the issue of preventing tax fraud. Over 500 individual suggestions and 21 reports from professional associations, unions, professional associations, etc. have been received, which have been the purpose of the analysis and study inside the Agency prior to the definite approval of the Prevention Plan against Tax Fraud.

Finally, and probing further into the search for greater transparency, the “Agreement of the Delegated Government Council for Economic Affairs on Improvements in Transparency within the compass of Economic and Statistical Information furnished by the Government” has highlighted the importance of statistical and economic information to know the economic and social reality of the country and has mentioned that the State, in collaboration with the Autonomous Communities and Local entities must oversee that this information be supplied on time and adequately, without further restriction than that imposed by the legal system to the dissemination of information in general and statistics in particular, with the maximum possible quality and making sure that its access is universal.

This principle of transparency affects not only the amount of economic and statistical information supplied, but also mainly, the quality thereof. Said group of information must be published periodically and in a foreseeable manner, by complying with some calendar that the citizen knows, so that he can adapt in the same his rhythm of knowledge on the public powers. Furthermore it must be published in a manner that is useful to citizens, that is, with sufficient separation to give an exact idea of the operation of the public powers and on the assistance that is accessible, adequate to modern techniques and which allows its study and analysis.

The Ministry of Economy and Treasury, as well as the rest of the Ministry formed by the Delegated Government Council for Economic Affairs, has assumed the commitment to continuously update and revise this agreement to adapt it to the new needs and new information requirements, in compliance with the general principles incorporated therein.

V.2. Participation of citizens in surveys, studies and analysis

Another means offered to citizens to collaborate in improving services, programs and documents of the Tax Agency is the possibility of manifesting its opinion in surveys, studies and analysis that are performed, by the Agency, or by other public bodies,³³ and which allow the Tax Agency to improve the quality of the services that it provides to citizens and continue advancing in the modernization process of the organization.

To measure the sociological impact of the services offered by the Tax Agency, the actions taken to fight fraud, three main instruments are used, and the same have been developed based on personalized surveys to taxpayers:

- a) the Fiscal Barometer prepared annually by the Tax Studies Institute and which main objective is to measure the evolution of the opinion and the fiscal attitudes of Spaniards;
- b) the public opinion and fiscal policy survey which is applied every year by the Sociological Investigations Center;
- c) The study on positioning and image of the Tax Agency carried out by the organization, performed every two or three years.

Furthermore, the Tax Agency carries out surveys on specific issues and services, such as the survey on services rendered during Income Campaigns or services offered through Internet.

VI. CONCLUSIONS

The dissemination of taxpayer rights and duties and the existence of departments and procedures to attend their complaints constitute two essential pillars to continue advancing in the implementation of a modern Tax Administration, which efficiently and effectively provides services taxpayers.

On these lines of gradual advance, which in no event must neglect actions in favor of the least favored groups of society, the use and application of techniques and electronic and computerized means by the Tax Administration, for the development of their activities and relations with taxpayers, stands out. In this regard, Electronic Administration is not only a reality, but also the key to progress on the

³³ Among others, the Sociological Research Center (C.I.S., in Spanish) or the Tax Studies Institute.

issue of the dissemination of taxpayers' rights and duties and an interesting road to cover in regards to complaints and claims filed by taxpayers.

The Tax Agency will continue with its efforts to consolidate its web page by implementing new computerized services, improving the Virtual Office of the Tax Agency – in function of the user profile – and enabling the transaction of any procedure. The following are among the initiatives foreseen:

- establishing the domicile of self-assessment when they are filed through Internet;
- the implementation of the application of the computerized Registry which allows receiving any document through Internet and which enables paper document scanning, to not use paper supports;
- the establishment of the mandatory filing of determinate information returns through Internet;
- the promotion of the filing through computer means of all customs dispatch documents as well as the implementation of new computer application to manage the different customs economic regimes.

Finally, and incorporated into the framework of the “Agreement of the Delegated Government Council for Economic Affairs on Improvements in Transparency within the compass of Economic and Statistical Information furnished by the Government,” the Tax Agency will continue promoting transparency as the ruling principle of this actions, in the belief that this is the qualified means to allow citizens become a part in building a modern and efficient Tax Administration, which guarantees taxpayers the knowledge of their rights and duties, at the same time that it addresses their complaints, suggestions or claims.

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Case study

TOPIC 2.1

**THE DISSEMINATION OF DUTIES AND RIGHTS OF THE
TAXPAYERS AND THE ENTITIES AND PROCEDURES FOR
HANDLING THEIR CLAIMS**

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CONTENTS: Introduction.- A. Powers of the Tax Administration.- B. Tax Procedures.- C. Other Acts and Facts that Link Taxpayers with the Tax Administration.- D. Taxpayer and Customs User Advocate.- 1. Dissemination of Duties and Rights of the Taxpayers.- 1.1. Importance of the dissemination of the duties and rights of the taxpayers.- 1.2. Legal instruments.- 1.3. Dissemination of the rights of the taxpayers.- 1.4. Diffusion of the duties of the taxpayers.- 1.5. Diffusion Strategy.- 2. Specific Procedures and Agencies to Attend Taxpayers' Complaints and Suggestions.- 2.1. Organization of the Taxpayer Advocate Office.- 2.2. Functions of the Taxpayer Advocate Office.- 2.3. Channels to file complaints and make suggestions.- 3. Internal Processing of the Complaints and Suggestions Made by Taxpayers and Possible Consequences in the Event Said Complaints Are Upheld.- 3.1. Attention to complaints and suggestions.- Conclusions.

ABSTRACT

Formal background that we find on the issue of the diffusion of the duties and rights of the taxpayers in Peru are rather recent, notwithstanding, the permanent effort of the National Superintendence of Tax Administration (SUNAT) for creating and sustaining different communication channels, orientation and access to tax information for the benefit of the taxpayers. In effect, recently with Law No. 27038 of December 1998 the taxpayers or citizens' rights are systematically ordered in the Tax Code.

The paper herein, attempts precisely to systematize the experience of SUNAT on very important issues such as the diffusion of taxpayer rights and duties, as well as the respect of the agencies and procedures for the attention of their complaints. For such effect, we consider important to provide a panoramic vision of the main powers of the Tax Administration of Peru, since this will make it easier for the reader to understand the reasons of the complaints filed by taxpayers. This issue is covered in the introduction.

In the following three sections, we specifically cover the work developed by SUNAT regarding the dissemination and protection of the rights and duties of the taxpayers. Therefore, in Section 1, we cover the means used for the diffusion mentioned, particularly insisting on its importance and the works that we are currently developing.

Section 2 covers the procedures and specific agencies that SUNAT has established to attend taxpayer complaints and suggestions, understanding that the concept of "complaints" as a complaint that is not an administrative remedy in nature.

Finally, in Section 3, we present the internal processing followed by taxpayer complaints and the measures adopted in the event that these are upheld. As we shall see, complaints and suggestions that taxpayers present follow internal processing specially designed to facilitate the exercise of this right.

The impact that diffusion of the rights and duties of the taxpayers has on Peruvian society may be evaluated by means of the growing approval and frequent use of the means and channels placed at their disposition, regarding situations that motivate a complaint and/or suggestion. This is allowing the development of a more fair tax

culture, which recognizes the power of the Administration to enforce the compliance with the tax obligations of the taxpayers, but – at the same time – sets the limits as from which these claim and exercise their rights.

INTRODUCTION - ACTS AND PROCEDURES THAT LINK TAXPAYERS WITH THE TAX ADMINISTRATION

Article 74 of the Political Constitution of Peru establishes the State's taxation authority; however, it specifies that this authority shall be exercised by the State, by respecting the principles of reserve of the law, equality and respect to the fundamental rights of the person. Consequently, taxes must not be intended to confiscate.

In the origins of the State's taxation authority, we find the powers of collection, assessment, examination and sanction attributed to the Tax Administration, which are ruled in the Sole Ordered Text (TUO, in Spanish) of the Tax Code. In exercising these powers, within the tax procedures, the Tax Administration performs different administrative acts and issues charges, such as payment orders, assessment resolutions and fine resolutions. However, taxpayers may challenge these acts, in order to express their disagreement. Similarly, the relevant norms grant taxpayers the power to file a remedy in the event that they consider inadequate the actions of the Tax Administration and/or its officials. Hereinafter we shall see each of these aspects and their relation with the duties and rights of the taxpayers.

A. Powers of the Tax Administration

The main function of the Administration is to receive and collect taxes (*Collection Power*), as stipulated in Article 55° of the TUO of the Tax Code. In this regard, the actions of the Tax Administration is mainly directed to establish the most efficient mechanisms to receive the voluntary payment of the tax obligation (determined by the self-assessment done by the taxpayer), as well as receiving the payment done as a consequence of the management of the Tax Administration. Those payments may be performed by persuasion (therefore, the starting point are the assessments made by taxpayers) or because collection has been done by coercion.

On the other hand, Article 59 of the TUO of the Tax Code establishes that the assessment of the tax obligation may be performed by the taxpayer as well as by the Tax Administration (Assessment Power). In the first case, the taxpayer verifies the realization of the fact that generated the tax obligation, establishes the taxable base and the amount of the tax, actions which jointly constitute the called self-assessment, that is – notwithstanding – subject to examination or verification by the Tax Administration. In the second case, the Tax Administration, in addition to verifying the realization of the fact that generates the tax obligation, establishes the taxable base and the amount of the tax and identifies the tax debtor.

The determination of the tax obligation performed by the Tax Administration is materialized through the performance of different administrative acts (payment orders, assessment resolutions, fine resolutions), which constitute documents that determine the existence and scope of the tax obligation. However, the taxpayer is entitled to challenge the same.

Similarly, according to Article 62 of the TUO of the Tax Code, the *Examination Power* of the Tax Administration is exercised in a discretionary manner and it includes the inspection, investigation and control of the compliance with the tax obligations. In order to carry out these tasks, the Administration has among other prerogatives, the power to require taxpayers and third parties to show the documentation and present reports, as well as to request that they appear to make a statement.

However, the above does not lessen the rights of taxpayers as set forth in the Constitution, in the Law of the General Administrative Procedure, in the Tax Code and, in general, in all standards of the national juridical system. Therefore, the taxpayer may validly oppose to the presentation of the information that violates its rights to privacy, secrecy and the non-violation of communications and private documents and professional secrecy. Furthermore, during the examination process, the taxpayer may exercise his right to defense, requesting access to its file, filing writs and evidence supporting its position, oppose evidence proceedings, which it does not deem pertinent, etc., simultaneously oversee the respect to due procedure.

Finally, as provided for in Articles 82°, 165° and 166° of the TUO of the Tax Code, the Tax Administration has discretionary power to objectively determine and administratively sanction tax violations

committed by taxpayers or third parties as provided for in said Code (*Power to Penalize*).

The objective nature of the determination of the tax sanction and the application of the corresponding sanction exempts the Tax Administration from the task of evaluating, investigating or crediting the existence of intention when the violation was committed, the verification of the commission of the act as provided for in the corresponding standards shall be sufficient. Without detriment thereto, the Fiscal Court has established as exceptions to objectiveness, and therefore, exempting the liability of the offender, that the violation be a result of force majeure or acts of God, or for an action attributable to the Tax Administration, among other reasons.

B. Tax Procedures

Article 112° of the TUO of the Tax Code indicates that the tax procedures, apart from the ones established by law, are:

1. Enforce Collection Procedure.
2. Tax Litigation Procedure.
3. Non-contentious Procedure.

Enforced Collection Procedure

This procedure is executive – administrative in nature, and begins with the notice to the taxpayer of the corresponding Enforced Collection Resolution, which contains a mandate for the cancellation of payment orders or resolutions in collection under the warning that precautionary measures will be decreed or an enforced collection will begin, in the event that these have been filed. Precautionary measures stipulate different forms of embargo.

However, Article 120° of the TUO of the Tax Code recognizes to the third party that is the owner of the goods seized the right to file a prejudicial property intervention (third party claim to ownership) before the tax officer for enforced collection at any time prior to the beginning of the auction of the goods.

Finally, Article 122° of the TUO of the Tax Code establishes that after the Enforced Collection Procedure has concluded, the taxpayer

may file an appeal before the Superior Court of Justice within twenty days after the notice of the resolution that ends the procedure.

Tax Litigation Procedure

The purpose of this procedure is to resolve a controversy of administrative – tax nature between the Tax Administration and the taxpayer. It is designed to exclusively solve conflicts produced by the enforcement of taxes, without discussing the legitimacy thereof. Thus, taxpayers exercise their right to file a remedy against the actions of the Tax Administration, when it assesses a tax debt that affects them.

Article 124° of the TUO of the Tax Code stipulates the following as stages of the Tax Litigation Procedure:

- a) Complaints before the Tax Administration.
- b) Appeal before the Fiscal Court.

The Payment Order and the Fine Resolution, as well as the resolution imposed on non-contentious remedies, resolutions establishing sanctions for the confiscation of goods, temporary bond of vehicles and the temporary closure of the establishment or office of independent professionals, as well as the resolutions that substitute them and the acts that have a direct relation with the assessment of the tax debt, may be filed against the Assessment Resolution. Similarly, resolutions deciding refund requests are subject to complaint as well as those that determine the general or particular fractioning loss.

On the other hand, the express resolution that contains the pronouncement of the Tax Administration may be appeals, in regards to the complaint remedy filed by the taxpayer and which concludes the complaint stage, or the implied resolution that dismisses said remedy. Therefore, a remedy to appeal must be filed before the agency that decreed or should have decreed the resolution challenged, which shall take the file to the Fiscal Court.

It is important to mention the complaint remedy stipulated in Article 155° of the TUO of the Tax Code. This is not the case of a remedy to challenge such as the complaint and the appeal, but it is a procedural remedy that may be filed solely by the taxpayer, when

there are actions or procedures that directly affect or violate the provisions of the TUO of the Tax Code. Consequently, it may be filed against the agencies of the Tax Administration or against the Fiscal Court with the purpose of guaranteeing compliance with the proper administrative process.

In this regard, it is important to mention that whenever it is not in order to apply the mentioned complaint, therefore the purpose is to determine the responsibility of the officials for their illegal or undue actions, the complaints for defects in transactions, ruled by Article 158° of the General Administrative Procedure Law may be applied complementarily.

Non-contentious Procedure

Through this procedure those requests where, in principle, there are no controversies or conflict issues between the Tax Administration and the taxpayer, such as the refund requests, fractioning requests, requests for registration in the Printing Registry, among others.

Notwithstanding, in the event that the taxpayer does not agree with the pronouncement (denial) of the Tax Administration regarding the request filed, the taxpayer may challenge this decision by converting the procedure into a procedure challenging the central administration, and the same must be transacted pursuant to the corresponding standards.

Similarly, it is important to mention that Article 162 of the TUO of the Tax Code considers the existence of two types of non-contentious requests: those related to the assessment of the tax obligation and those that are not related. The former must be transacted pursuant to the rules of the TUO of the Tax Code, while the latter, must be pursuant to the General Administrative Procedure Law.

In this regard, in agreement with Article 163° of the TUO of the Tax Code, resolutions resolving contentious requests not linked to the assessment of the tax obligation shall be appealed before the Fiscal Court, excepting those that resolve refund requests, which shall be complaints issues.

C. Other Acts and Facts that Link Taxpayers with the Tax Administration

Notices

As mentioned previously, administrative acts affecting taxpayers' obligations, duties, rights and interests are issued within the different tax procedures, the same must be informed to the interested parties through a notice. Therefore, this notice is a requirement for the efficacy of said acts, consequently, actions must be carried out at the taxpayer's fiscal domicile, as provided for in Article 103° of the TUO of the Tax Code.

Furthermore, it is important to mention that the notice is the taxpayer's guarantee for the respect of its rights vis-à-vis the Tax Administration. In effect, compliance with the provisions of the administrative act requires that the taxpayer be knowledgeable of the provisions of the Tax Administration, this will enable it to timely react in the event of deeming it convenient.

It is important to mention, as indicated in Article 106° of the TUO of the Tax Code, that notices are effective on the day following their receipt or last publication. This aspect is especially important when considering that one of the most important aspects of the notice is the computation of the terms. In this manner, all terms, excepting those that have an express legal or administrative mention of the moment that they commence, will begin to compute on the business day following the date of the notice. This rule obviously determines the efficacy and the effects of administrative tax acts.

Filing and payment of tax obligations

The Tax Administration signs agreements with entities of the banking and financial system, so that these will be in charge of receiving the return and the payment of the taxpayer's obligations. However, said entities are not delegated or transmitted the authorities of the Tax Administration, they are simply collaborating agencies, therefore, any non-conformity on the part of the taxpayers regarding the nature and/or validity of the returns and the payments made must be solely served by the Tax Administration, without detriment to the report that on this regard may be gathered by the banking or financial agency, if it results to be relevant.

Tax orientation and proceedings

Article 84° of the Tax Code establishes that the Tax Administration will provide orientation, verbal information, education and assistance to taxpayers. To comply with this obligation, the Administration has made available attention offices to taxpayers. In the case of SUNAT, Taxpayer Service Centers are operating, where officials provide personalized tax information and orientation, and answer inquiries. Furthermore, these same services are provided through an Inquiry Exchange (call center).

Similarly, Articles 93° and 94° of the Tax Code rule the proceedings of inquiries formulated by entities that represent the economic, labor and professional activities, as well as the entities of the National Public Sector, in regards to the meaning and scope of tax norms.

On the other hand, Taxpayer Service Centers also grant taxpayers the possibility of performing the different transactions linked to the administration of their Taxpayer Master File (RUC, in Spanish), payment vouchers, among others. On this issue, it is important to mention that the number of transactions that may be done through the Portal of SUNAT in the Internet have continued to gradually increase, this reveals to taxpayers the need to approach any Taxpayer Service Center.

D. The Taxpayer and Customs User Advocate

In this general framework of the acts and procedures that link taxpayers with the Tax Administration, the creation on February 5, 2004¹, of the Taxpayer and Customs User Advocate (DCUA, in Spanish), an entity under the Ministry of Economy and Finances. The DCUA is responsible of guaranteeing the rights of taxpayers and the public in general, in the actions that they perform or transact before the Tax Administrations and the Fiscal Court.

One of the functions assigned to this entity is to receive complaints and suggestions,² and to transact the same information may be gathered from other jurisdictional tax agencies, to oversee that the actions of the Tax Administrations and the Fiscal Court are performed without

¹ Legislative Decree N° 953.

² Supreme Decree N° 050-2004-EF, published on April 15, 2004.

excesses and within their competences, they may propose regulatory and procedural modifications. It is also in charge of informing on the appropriateness or not of the requests made by SUNAT to file legal actions under administrative laws against the resolutions of the Fiscal Court. The purpose is to prevent that the power given to the collection agency of resorting to judicial means to be completely open.

In spite of its recent creation, the DCUA has gradually increased its presence in Peruvian society, seeking to attend – among other aspects – the concern that tax norms approved within the framework of the fiscal policy of the country may generate in taxpayers. Concerning its interaction with SUNAT, this is pertaining to complaints of administrative nature filed by taxpayers before the DCUA, these complaints are promptly attended, as mentioned hereunder, the DCUA intervenes in the process prior to filing of the legal actions under administrative laws by SUNAT, for this purpose, it has a 30 calendar day term.

After a general review of the main scenarios where taxpayers interact with the Tax Administration, as well as the challenge remedies that they have to express their non-conformity during the development of tax procedures, hereinafter, an analysis of the specific manner in which the work developed by the SUNAT regarding the rights and duties of the taxpayers is carried out, from the perspective of their diffusion and caution through the Taxpayer Advocate Office, a branch of SUNAT which is in charge of the suggestions and complaints that do not have the nature of an administrative remedy.

1. DIFFUSION OF THE RIGHTS AND DUTIES OF THE TAXPAYERS

The formal antecedents that we find on the issue of the rights and duties of taxpayers in Peru are rather recent, notwithstanding the permanent practical effort of SUNAT to create and sustain different communication, orientation and access channels to tax information for the benefit of taxpayers and the community.

In effect, recently with Law No 27038 – published on December 31, 1998 – taxpayers' or citizen's rights are ordered systematically in the Tax Code. Although these rights already existed, until now they were dispersed. The aforementioned law expressively states the obligation of the Tax Administration of guaranteeing their compliance and clearly establishes taxpayer rights, including the comprehensive list contained in Article .92°. The main items are detailed herein:

- To be treated with respect and consideration by personnel at the service of the Tax Administration;
- To require the refund of excessive or unduly paid amounts, pursuant to the norms in force;
- To substitute or correct their returns, pursuant to the provisions on the issue;
- To file a complaint, appeal, legal action under administrative law and any other challenge remedy provided for in the abovementioned Code;
- To know the status of procedures transactions of which it is a party;
- To request the non-application of interests and sanctions in the cases of reasonable doubt or dual criteria as provided for in Article 170^o;
- To file a complaint for omission or delay in solving tax procedures or for any other non-compliance with the provisions stipulated in the Tax Code;
- To make an inquiry through the representative entities, pursuant to the provisions of Article 93^o of the abovementioned Code, and obtain due orientation regarding their tax obligations;
- The confidentiality of the information provided to the Tax Administration under the terms set forth in Article 85^o of the abovementioned Code;
- To request a copy of the returns or communications made or filed before the Tax Administration;
- To not provide documents already filed and which are in the hands of the Tax Administration;
- To have the individualized counsel that they deem necessary, when their presence is required;
- To request the deferral and/or fractioning of tax debts pursuant to the provisions of Article 36^o of the abovementioned Code;
- To request from the Administration the statute of limitations for the tax debt;
- To receive efficient service from the Administration and the necessary facilities to comply with tax obligations, pursuant to the standards in force.

Later in May 2001, the Taxpayer Advocate Office was created – at the initiative of SUNAT -, an agency that is under the National Intendance of Taxpayer Services of SUNAT. It is important to mention that this is the first action directed to create an agency that protects taxpayer rights in the Peruvian Tax Administration and which constituted the precursor for the later creation of DCUA under the responsibility of the Ministry of Economy and Finances.

Also in 2001, as a part of the institutional strategy, a plan was design for the dissemination – nationally – of taxpayer rights and the work that the Taxpayer Advocate Office would develop.

Currently, diffusion tasks are permanently developed through graphic materials as flyers, posters, brochures, among others, and through the institutional web page (virtual SUNAT).

1.1. Importance of the diffusion of the duties and rights of taxpayers

Marking the limits of the duties and the rights of the taxpayers and the attributes and obligations of the Tax Administration is essential in the juridical tax system, because in developing countries such as ours, affected and exposed to corruption indexes, this directly or indirectly leads to qualify the relationship between the tax creditor and debtor as disproportionate and unbalanced.

A means to maintain the balance of the tax juridical relation between the Administration and the taxpayer, is precisely through the adequate diffusion of its duties and rights, as well as the existing agencies to attend their complaints and suggestions, as guarantee in the exercise of its rights and in response to the principles of equality in taxation and legal certainty.

The diffusion of the duties and rights of taxpayers also helps the Tax Administration to protect not only the general interests, but individual rights and duties as well, that is, taxpayers' rights, motivated not only by an interest to collect but by the application of an efficient and objective administration that strengthens the system.

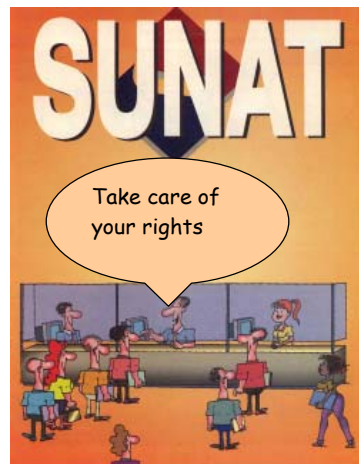
1.2. Legal instruments

- The Political Constitution of Peru of 1993, Arts. 2, 3, 74.
- Law 27038 Law that modifies the Tax Code and related norms, Art. 92.
- Superintendent Resolution No. 012-2001/SUNAT: Approves the organizational structure of SUNAT.

- Superintendent Resolution No. 073-2002/SUNAT: Provisions to file Complaints and Suggestions before SUNAT.
- Circular 009-2004: Explicitly states the proceedings to file and attend complaints and suggestions that concern the Taxpayer Advocate Office.

1.3. Diffusion of taxpayer rights

Since the creation of the Taxpayer Advocate Office, SUNAT has disseminated taxpayer rights through radio programs, press notes, lectures, participating at national fairs, publishing Articles in tax magazines, lectures at University Meetings organized by SUNAT as part of the Tax Education Program, directed to young university students of the different universities of the country, among other media.



A sample of this effort made by SUNAT in disseminating taxpayer rights, appears here at the right, and this informed taxpayers of their rights and the work performed by the Advocate Management Office. Some 120,000 posters were printed and distributed in a newspaper with national circulation.

The Programming Management and Administration of Taxpayer Services permanently provides dissemination material on taxpayer rights and guarantees, as provided for in Article 92° of the Tax Code, and the same is distributed at Taxpayer Service Centers and at institutional offices of business unions, professional schools, private entities, as well as mass activities developed by SUNAT (lectures, fairs, among others).

1.4. Diffusion of the duties of the taxpayers

Following the strategic line that SUNAT designs each year on dissemination, the Programming and Administration of Taxpayer Services Office, is responsible for editing the contents of information material to be used in orienting taxpayers that use Services Areas, its work has increased during the past three years, since it has been developing diffusion material on taxpayer duties, on internal tax issues as well as on customs' taxes, as seen in the following tables:

Themes on Internal Taxes

Triptychs	Flyers
1. General Regime	1. RUC Individuals
2. General Tax on Sales	2. RUC Bodies Corporate
3. Fiscal Credit	3. Suspension and Re-starting Activities
4. Leasing	4. Authorization for payment vouchers
5. Domestic Workers and Special Regimes	5. File and pay your taxes at SUNAT Virtual
6. Sales Voucher	6. Assistance at Banking Agencies
7. Invoice	7. Taxpayer Attention Centers
8. Receipt for fees	8. Returns and Payment Reports
9. Ticket	9. Report on Valuables
10. Purchase liquidation	10. Request for the SOL Code and password
11. Debit Note	11. PDT without the amount to pay
12. Credit Note	12. Easy payment
13. Carrier's Remittance Guide	13. Refunds
14. Addressee's Remittance Guide	14. Visit SUNAT Virtual
15. Undue or Excess Payment Refund	
16. Foreign Artist Tax Obligations	
17. Filing Withholdings and Contributions on Remunerations	
18. Temporary Exports	
19. Reestablishment of Tariffs Rights	
20. Entry of Travelers' Accompanied Luggage	

Themes on Customs Taxation

Triptychs	Flyers
1. Definite Exports	1. File and Pay without a Form
2. Temporary Exports	2. File and Pay through Internet
3. Simplified Dispatch	3. Request for the SOL password
4. Reestablishment of Tariff Rights	4. Benefits and Advantages of SUNAT Virtual
5. Entry of Travelers' Accompanied Luggage	5. Filing without the amount to Pay, only through SUNAT Virtual
6. Refund of Undue or Excess Payments	6. Suspension of Withholdings
7. Guide to Modify the Data of Right Owners	
8. Obligations of Foreign Artists	
9. Declaration of the Fifth Category Income Tax Withholdings	

1.5. Diffusion Strategy

The diffusion strategy may be summarized pursuant to the following methodology:

- a) Advertising.- Refers to the contracting of spaces in the mass media, such as radio, television, newspapers and magazines, to reach taxpayers regardless in a massive and homogenous manner.
- b) Propaganda.- Mass media is also used through the distribution of press notes, interviews and conferences. i.e., Reports, interviews, related events, etc.
- c) Direct Communication.- This kind of communication is without intermediaries, more selective and personalized. i.e., Letters, telephone communication, etc.

- d) **Communication at the Point of Attention.-** Refers to communication inside the Taxpayer Service Centers and dependencies of SUNAT, to report and orient taxpayers that are directly related to the campaigns in force. Posters and information materials are used as support.

- e) **Product Communication.-** The purpose is to inform taxpayers on tax issues, by using the different products that SUNAT has available as support. It is important to mention that this means serves only as a support to an idea that has already been channeled more extensively in other media. For example, in this manner, the address of SUNAT's Portal, known as SUNAT Virtual, appears in all our products, as well as the location of the Service Centers and the inquiries telephone line.

A relevant aspect is the increase in the diffusion coverage from 75 to 96 points, where diffusion materials are distributed, as a result of the merger by takeover process of SUNAT with the institution in charge of customs tax collections, which began in July 2002.

During times that are increasingly marked by the development of Information Technologies and Communications, the use of means of diffusion that are more sophisticated and transcend the use of the website, inclusive, is unavoidable.

In addition to the institutional portal, WAP attention services and the Telephone Inquiries Exchange, SUNAT will soon be implementing Mobile Service Centers, which will benefit locations that are far from Taxpayer Attention Centers, facilitating proceedings, the filing of returns and the payment of taxes.

2. SPECIFIC PROCEDURES AND AGENCIES TO ATTEND TAXPAYERS' COMPLAINTS AND SUGGESTIONS

With the approval of SUNAT's new Organizational Structure, carried out during 2001, the Taxpayer Advocate Office was created, an agency under the National Intendance of Taxpayer Services.

2.1. Organization of the Taxpayer Advocate Office

The attention of complaints and suggestions is done decentralized and nationally. Therefore, the Taxpayer Advocate Office fulfils its functions through the Reception Unit and the Evaluation Unit, which allow providing timely attention to complaints and suggestions filed.

a) Reception Unit (*UURR, in Spanish*)

Formed by personnel appointed from each dependency or Taxpayer Attention Centers nationally, and it carries out orientation and reception tasks and attends complaints and suggestions filed.

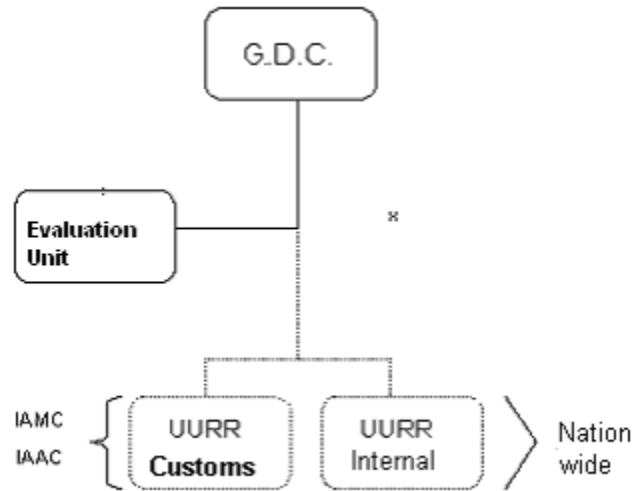
The Units are located in each decentralized dependency nationally (internal revenue) and at the Air Customs National Intendance of Taxpayer Services of Callao-IAAC and the Maritime Customs National Intendance of Taxpayer Services of Callao-IAMC (customs revenue).

b) Evaluation Unit (*UE*)

Formed by personnel appointed to the Taxpayer Advocate Office, and it is responsible of:

- The study, investigation, report and coordination in solving complaints that cannot be attended immediately at the reception units.
- The development of recommendation projects that generate complaints and suggestions received.

**FUNCTIONAL FLOW CHART
TAXPAYER ADVOCATE OFFICE OF SUNAT**



2.2. Functions of the Taxpayer Advocate Office

The Taxpayer Advocate Office fulfills a double role in the development of its tasks:

1. Process complaints and suggestions filed by taxpayers and citizens, and
2. Alert the Administration of those factors that determine dissatisfaction or initiative, related to the actions thereof, to guarantee the respect of taxpayers' rights, foreign trade users and general public.

Complaints attended by this Management comprise expressions of discontent made by taxpayers, foreign trade users and the public in general, as a result of any action or lack thereof by public servants and/or officials of the different dependencies of SUNAT, which puts their rights at risk, such as:

- Excessive waiting times.
- Poor quality in the response receives.
- Inadequate treatment of personnel.
- Negative of the person in charge of attending or receiving documents.

- Existence of error, omission or delay in transactions and/or procedures.
- Request of documents that were already presented.
- Demand for requirements not considered in a legal provision.
- Diffusion of information provided to SUNAT, which is qualified as reserved.
- Inadequate diffusion of tax provisions or related services.
- Omission, delays or faulty information that SUNAT sends to other institutions.
- Delay in issuing provisions or regulations that are the competence of SUNAT.

On the other hand, suggestions referring to initiatives formulated by taxpayers to improve the quality of the services, simplify administrative transactions or suppress those that result to be unnecessary, as well as any other measure of general nature that contributes to the exceptional development of SUNAT.

To attend complaints and suggestions made, the Taxpayer Advocate Office interacts with other internal agencies of the institution, to promote actions and decisions that allow solving situations forewarned by the Taxpayers or the adoption of control actions, as the case may be.

It is important to mention that after the merger process of SUNAT with Customs, the Institutional Plan of the project “Adaptation of complaints and suggestions mechanisms for foreign trade users” was adopted under the responsibility of the Taxpayer Advocate Office. In this manner, a mechanism to attend complaints from foreign trade operators who consider that they have not been properly attended or that their rights were violated, was incorporated.

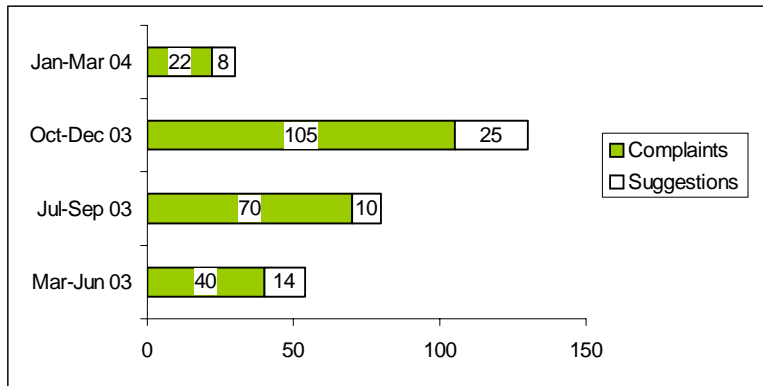
The implementation of this project was translated into the following actions:

- The adaptation of the Complaints and Suggestions System for the reception, qualification and later management of complaints in customs affairs.
- The establishment of points of attention at the most important Customs Intendance, with personnel that develops the double function of Reception Unit and provides guidance on internal revenue issues.

- The incorporation of specialized personnel to attend complaints and suggestions in customs affairs under the responsibility of the Evaluation Unit of the Taxpayer Advocate Office.
- The realization of diffusion tasks for the acknowledgement and acceptance of the service.

The adaptation of the Complaints and Suggestions System allowed the adequate follow-up and management of complaints in customs affairs. As it may be seen in graph N° 1, as users become familiarized with this service, the input of complaints and suggestions increases in customs issues, which allows the improvement of attention in the different aspects claimed.

Graph N°. 1



Considering that customs activities are centered in the main Intendance offices at Callao, on April 28, 2003, two attention points were implemented for foreign trade users at the Air and Maritime Customs Intendance Offices of Callao, under the responsibility of the Taxpayer Advocate Office. Later, two professionals from the Taxpayer Service Centers Division were appointed to perform orientation tasks on internal revenue and to attend the Reception Units implemented in the aforementioned superintendence offices.

Currently, personnel working at the Reception Units at the Customs Intendance Offices mentioned have specialized on customs issues, and have been trained on internal revenues and experience in providing attention at the Taxpayer Service Centers. Furthermore, all personnel from the Evaluation Unit participated in customs training courses.

Outside the institution, the Taxpayer Advocate Office collaborates with institutions in charge of overseeing citizens rights and guarantees, such as the Ombudsman³ and the Taxpayer and Customs User Advocate, ascribed to the Ministry of Economy and Finances, as covered in the introduction to this paper, to support attention in the cases filed by citizens before these entities.

2.3. Channels to file complaints and make suggestions

Complaints handled by the Taxpayer Advocate Office, may be filed by taxpayers without detriment to the other remedies or actions that they may be entitled to. This is because complaints made by taxpayers in this instance are not administrative remedies in nature; that is, their presentation does not interrupt or suspend the terms established to transact or solve tax procedures in force.

To file their complaints and suggestions taxpayers have three channels at their disposition:

a) *In person Channel*

Complaints and suggestions may be filed personally at any Reception Unit nationally by using the form specifically designed for these purposes (Form N° 5020).

b) *Virtual Channel*

To file complaints and suggestions through this means, a virtual form of mass use, is available 24 hours a day at the on-line Complaints and Suggestions, through our Internet Portal www.sunat.gob.pe. This avoids the mobilization of taxpayers to our offices.

³ The Ombudsman is the autonomous constitutional body created by the Constitution of 1993. Its mission is to protect the fundamental constitutional rights of the individual and the community and oversee compliance with the State's administration duties and the provision of public services to the population.

c) *Telephone Channel*

Complaints and suggestions may also be made through a telephone call. The mere communication to the Inquiries Exchange and the indication to the *telephone-assistant* the transaction to be performed is enough for the latter to input the complaint or suggestion and once the operation concludes, the *telephone-assistant* will provide the file number with which the respective inquiries can be made.

Furthermore, the on-line Complaints and Suggestions Module (Internet Portal) is available through the Virtual Channel, whereby taxpayers wishing to know the situation of their complaints and suggestions, filed by any means authorized by SUNAT, may make the relevant inquiry at any time and without having to visit our attention posts.

Of the channels available, taxpayers prefer the Virtual Channel. As from its implementation in 2002, the use of the on-line Complaints and Suggestions Module has increased, especially during the past year, as a result of the dissemination of the service and greater facilities provided, as well as the increase in the virtual products available.

Consequently, during the 2002-2004 period, 50.9% of the complaints were inputted through the Virtual Channel, while the difference (49.1%) represents the filing of the paper form. The importance that the Virtual Channel has generated is more evident when considering that in 2002 only 19.5% of the complaints were channeled through this mean, in 2004 this participation increased to 57.7%.

In this regard, we must consider that most of the success in the use of this channel is a result of its 24 hour availability, which also implies a reduction in costs for the taxpayer in terms of time and travel to the offices of the Administration.

Similarly, the facilities that the Tax Administration has provided to taxpayers to file complaints has enabled the same to see greater transparency, which also contributes to an increase observed in the number of complaints inputted.

On the other hand, in the case of suggestions, similar behavior to that displayed by the complaints has been observed: an increase in suggestions inputted during the 2002-2004 period, with an increase in the participation of the Virtual Channel (70.5% of total inputs accrued during said period).

The raise in complaints as well as suggestions, is a product of the increase in the dissemination of the presentation channels, more facilities given, as well as the expansion of the virtual products; it is an indicator of the trust that taxpayers, foreign trade users and the general public has in the work developed by the Taxpayer Advocate Office, this situation commits SUNAT to continue improving its processes, provide better service, and, therefore, respect taxpayer rights.

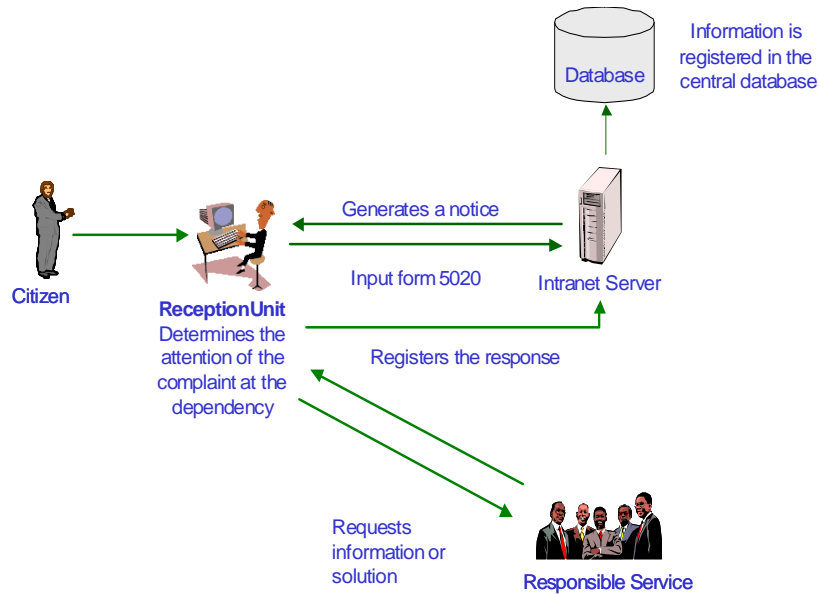
3. INTERNAL PROCESSING OF THE COMPLAINTS AND SUGGESTIONS MADE BY TAXPAYERS AND POSSIBLE CONSEQUENCES IN THE EVENT SAID COMPLAINTS ARE UPHELD

Complaints and suggestions filed by taxpayers, following an internal processing especially designed to facilitate the exercise of this right, which is done through the Reception and Evaluation Units, which form the Taxpayer Advocate Office.

a) Reception Unit

When presenting its complaint or suggestion, officials of the Tax Administration assist the taxpayer. Data inputted in the respective form (Form 5020), are recorded by the Reception Unit in a database (SQS) available in the Intranet environment, and proceeding to the reception of the form and the documents submitted by the taxpayer for the better knowledge of its complaint or suggestion.

Immediately after, the Reception Unit determines if the attention to the complaint may be done at the same dependency, in which event, the later must perform the corresponding coordination with the Responsible Services and provide a solution to the issue that is the purpose of the complaint. The result of the proceedings carried out for the solution of the complaint must be informed verbally to the interested party.



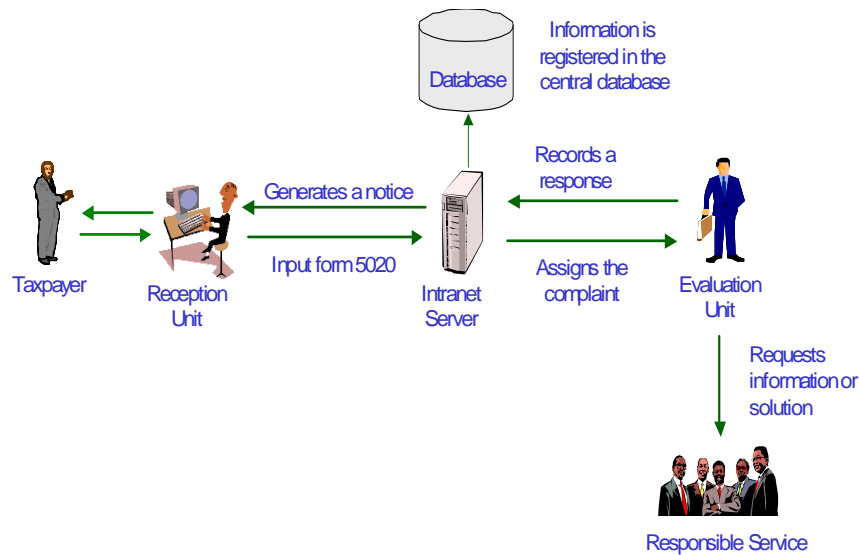
Evaluation Unit

Complaints that have been sent to the Taxpayer Advocate Office are assigned to personnel that forms part of the evaluation unit pursuant to the topic of the complaint.

Once a complaint has been assigned, the evaluation unit proceeds to analyze the legal provisions, procedures and internal provisions, which are linked to the topic that is the issue of the complaint. Similarly, it determines the areas or servers involved for the attention thereof.

After the analysis, it gathers the necessary information for the proper knowledge of the problem, and, coordinates with the responsible services, as the case may be, to adopt actions pertaining to the issue that is the matter of the complaint.

Once these proceedings have concluded, personnel from the evaluation unit prepare a report and a response writ, it contains the measures adopted, and these are informed to the interested party.



3.1. Attention to complaints and suggestions

It is important to mention, as stated above, that the use of virtual products and services has generated the massive input of complaints and suggestions, which has given place to – in relative terms – a decline in the percentages of complaints and suggestions handled vis-à-vis total inputs. However, the amount of complaints and suggestions handles during the past two years has following a marked upwards trend.

Complaints and suggestions attended mainly concern the following issues:

- Virtual products and services.
- Confirmation of the fiscal domicile declared.
- Tax refund.
- Attention or orientation.
- Audit.
- Enforced collection actions.
- Accreditation for social security (ESSALUD and ONP).
- Customs affairs.

Cases presented are evaluated individually, by providing Taxpayers personalized attention and are informed to the competent areas of the institution to improve the services that it provides, by promoting the implementation of new features to take care of the needs that have been observed, for example:

- Attending inquiries regarding the status of pending refunds through the areas of orientation, instead of the operational areas, by providing first hand updated information.
- Providing inquiry end users and modules to reduce the number of mistakes in returns, which affect workers in obtaining benefits from social security.
- Improving the control of notices made through messenger companies, for those that are performed by the issuing dependencies.

CONCLUSIONS

The impact that the diffusion of the rights and duties of the taxpayers is experiencing, may be evaluated through the growing approval and frequent use of the means and channels placed at their disposition, concerning situations that motivate a complaint and/or suggestion. Along these lines, the active participation of citizens increases in the case of defending their rights, and the Tax Administration is committed to this all through its good performance.

A sample of the work that SUNAT's Taxpayer Advocate fulfills in guaranteeing the rights and duties of taxpayers is supported on the information and recommendations that it conveys to decision agencies, on the need to implement or modify internal procedures to speed-up administrative transactions, improve telematic products, which further facilitate the payment of taxes, place at the disposition of taxpayers specific inquiries through SUNAT Virtual, assure adequate treatment to taxpayers, fine tune and prioritize the attention to cases pertaining social security, as well as promoting normative modifications.

Therefore, the effort that the Tax Administration of Peru has been performing during the past years on the issue of the diffusion of the duties and rights of the taxpayers is reflected in the development of a more impartial culture. The same recognizes the authority of the Administration to enforce taxpayers' tax obligations, but –at the same time– establishes the limits as from which taxpayers may file complaints and exercise their rights.

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Case study

TOPIC 2.2

**THE INDUCTION AND PRESERVATION OF
INTEGRITY THROUGH STAFF RECRUITMENT,
SELECTION AND PROMOTION**

Moacir das Dores

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The story tells us that on a bright sunny day, a Greek scholar went out in the streets with a lit candlestick. Questioned about the apparent contradiction of his act, he answered that he was looking for a man capable of solving the most serious problems of his city. However, he did not find him.

We are not aware of the profile of competencies the Greek thinker was looking for among the citizens of his time. We do know, however, that Greek society considered ethical behavior as the basis of all the virtues of a good man.

This conclusion is fully evident when one meditates on the lessons of Socrates that came to us through the writings of Plato.

TOPIC 2.2

Centuries after this incident, and in spite of the cultural and temporary relativism, it is verified that Western society preserves integrity as essence of the noble and elevated individual and social behavior.

Certainly, ethical behavior is an archetype in any sphere of group life, whenever one discusses the rectitude and solidarity of human behavior.

This expectation is also present in the working world. Experts advocate that contemporary organizations are in search of professionals with the knowledge, skills and abilities that afford them a substantial competitive advantage. They expect, above all, that exercise of the individual competency may be sustained by an ethical behavior that will make them respected in the community where they will endeavor to sell their goods or offer their services.

Ethical behavior is the option. In the case of private initiative, to the extent it is linked to its reputation, it has the guarantee of profit and the subsequent survival of the organization in the market.

There is a similar situation in the case of public organizations, even though the latter are not looking for profit but rather to serving society according to the most elevated purposes of the State.

The State has in society the reason for its existence. Society finds in the State the instrument whereby it may obtain the order it needs to preserve the conquest of the fundamental rights of the human being.

In order to act, the State uses a series of bodies that constitute the so-called Public Administration, in whose context one also finds the Tax Administration.

Therefore, any reflection on the Tax Administration must be based on the most legitimate desires of the State and society.

The State is established to promote the general welfare of society which is intermingled with the actual exercise of the fundamental rights of the human individual. To do so, the State needs financial, among other resources. There arises then, the Tax Administration, entity which is charge of the collection of taxes and contributions provided in the law for that service and the examination of compliance with the tax obligations on the part of the taxpayers.

Fortunately, the consolidation of the democratic State, with the increasing participation of society in the management of the state's action, brought about the change of paradigms existing in our organizations.

As a result of the change, there is a broader perception that the State and society currently receive from the Tax Administration more than the mere exercise of examination and collection. There is concern for social exclusion, contrasts of varying levels, inequalities, the more needy strata of the population.

For this reason, the specific aspects of each developing country must be part of the conception of the scenarios, of the models for solutions and the actions to be undertaken by the Tax Administration. In sum, the welfare of society through a redistribution of wealth in favor of greater social justice should be the concern in the minds and hearts of the Treasury officials.

These are indicators which society requires in the scale, in the principle with which efficiency, efficacy and effectiveness of the tax action is being evaluated.

In addition to the results of the action, current society, more than in the past, is concerned with the behavior of the Treasury agents. It may be said that society is pervaded with the imperative of ethics, which implies, first of all, the elimination of every internal, individual or institutional behavior that may constitute an act of corruption and whose purpose is to benefit illegitimate interests, of any nature.

More than that: ethics has to do with justice and equity and is evident, above all, in a series of virtues, among which there is honesty, reliability, loyalty toward the organization and transparency of personal purposes.

The image of the Treasury before society is built on the behavior of its agents. For this reason, the Tax Administration must be identified and recognized through a behavior that may display the most valuable moral and ethical values for the State and for society.

Such values, whenever they are present in the behavior of a functional body become a characteristic perceived and appreciated by society, thus forming the image whereby the organization is recognized.

TOPIC 2.2

Therefore, to respond to the appeals of society, it is necessary to instill the preeminence of ethics in the sphere of the Tax Administration.

It is obvious that this task demands work in relation to the most important factor of the organizations, namely: the human individual whose behavior, if inadequate from the ethical standpoint, renders impossible the success of changes intended to improve the structures, strategic planning and the operational processes of the organizations.

How to do it? As a fundamental principle of an Ethics Project it is essential to sensitize our staff as well as society, in the sense that the purpose of the Tax Administration will only be achieved if the agent executing the tax action builds, through his behavior, the public image of an honest person.

However, since ethical values do not appear spontaneously, they must be developed through teachings and converted into practices, and subsequently incorporated to the organizational culture. It is necessary to create the culture of commitment to the values of the organization.

A strategy that could be effective in the effort for promoting institutional and personal integrity is to develop a permanent educational system aimed at creating awareness, incorporating and showing such values by means of a behavioral pattern.

The educational process will allow for finding answers to the traditional questions as to “what should be done” and “how it should be done” vis-à-vis specific situations of the professional life.

For the success of the system of integrity and ethics, it is essential to count on a code of behavior of the organization that may clearly indicate what is considered to be ethical, as well as the behaviors that are blameworthy, when it deals with exercising the functions of the position. It is indispensable to have laws and regulations intended to prevent, detect and correct the action of departments and the behavior of workers that are not of public interest.

One aspect of that system would be linked to the mechanisms for recruiting and selecting the talents which the organization needs.

It cannot be forgotten that integrity is a personal resource, of a spiritual nature, which individuals develop throughout their lives and bring to the organization, thus enriching the pre-existing culture and sharing those values that should govern everyone's behavior, for the purpose of consolidating the public image of integrity of the functional body.

In the case of the Brazilian Tax Administration, by way of example, the recruitment and selection process takes place through a public contest consisting of two stages: one, elimination and classification tests; the other, a professional training program.

In order to improve the entry requirements, an effort is being made for obtaining the approval of a decree whereby the Secretariat of Federal Revenues may request the candidate, through the public contest, to prove aspects of his past life that will show his moral suitability and the nonexistence of criminal records which may even be certified by the Federal, State and Electoral authorities, as well as by the Brazilian Federal Police.

In addition, in the second stage, during the basic professional training course, time will be allotted for conducting classes, conferences and case studies dealing with this subject.

Such mechanism would seek, on the one hand, to correctly select the talents, by recruiting those with the necessary competencies and whose universe of values is compatible with those developed by the organization. On the other hand, it would seek to instill in the conscience, through reflection and study, that such values must be expressed in the behavior, as the indelible mark of the organization.

The other aspect of this system would be linked to the mechanisms of valuation and functional promotion, which could include ethical training programs, permanent ethics commissions and public ethics auditing.

The training programs would provide specific orientation, facilitating the perception and application to specific cases, of the rules existing in the codes of conduct.

The ethics commissions would be the channel to be used by the workers to ask questions or seek orientation. At the same time, they would ensure compliance with the rules established in the code of conduct, and would be authorized to apply the anticipated sanctions.

TOPIC 2.2

Finally, audits would involve asking questions related to the policies and practices of the organization, in terms of eventual abuses or errors.

The system would allow for evaluating all workers on the basis of well-known criteria. An evaluation would consist of an individual score to be calculated for purposes of functional promotion.

The adoption of such system would allow the institutionalization of the ethical patterns which the tax administrations hope to develop and show as framework of the current situation experienced by them.

It is pressing to do so, since, as Virgil taught in the Aeneid, tempus fugit, and swiftly. The current world shows a scenario of profound and accelerated transformations. Globalization, empowerment and technological development are factors that have overwhelming repercussions on the tax administrations and on our workers, making the present seem unknown and the future uncertain.

In order to adapt ourselves to those changes, it is necessary to overcome old structures and paradigms. One path to achieve such goals is the change of mentality, in the Greek sense of profound renewal of thought. To make it a reality implies having new ideas, other parameters and solutions found to similar problems by different organizations. It involves acquiring, ever more, new competencies, in the sense of a series of knowledge, skills and attitudes expressed in organizational behavior.

The knowledge required will certainly be new. Nevertheless, the presumption of our functional behavior: integrity, ethical behavior, whose practice we must preserve and instill in our Tax Administrations will be old.

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Case study

TOPIC 2.2

**TAKING INTO ACCOUNT AND GUARANTEEING INTEGRITY IN THE
PROCEDURES FOR THE RECRUITMENT, SELECTION AND
INTERNAL PROMOTION OF DGI AGENTS**

Olivier Sivieude

Deputy Director of Human Resources
General Directorate of Taxes
(France)

CONTENTS: Introduction.- 1. Taking into Account Integrity for the Recruitment of Tax Officials.- 1.1. General principles.- 1.2 The specific application of these principles to the General Directorate of Taxes.- 2. Taking Integrity into Account throughout the Course of the Career.- 2.1 Ethical standards to which the DGI officials are subjected.- 2.2 Sanctions applicable in the case of noncompliance with ethical standards.- 2.3 Prevention actions.- 2.4 Taking integrity into account in certain events of administrative life.- 3. Taking Integrity into Account after Ceasing Functions.- Conclusion.

INTRODUCTION

Integrity of the officials is a fundamental element in a democratic society.

Ethical standards are considered an essential counterweight to the Public Service privileges of such officials and constitute an appropriate element for the efficient operation of the State.

France has always been concerned with promoting the ethical values of its Officials.

TOPIC 2.2

The Tax Administration Agent, although not subjected as such to a series of specific obligations must, like any Official, abide by the standards resulting from the application of the General Statute and the Particular Statutes related to the State's Public Function.

Nevertheless, in view of the sensitive nature of the missions the Tax Administration Agent must fulfill, it is essential that he comply with the rules of deontology.

Therefore, the General Directorate of Taxes exercises great care in taking into account integrity in the strictest possible sense, not only when recruiting its Agents, but also throughout the career and even, after ceasing functions.

1. TAKING INTO ACCOUNT INTEGRITY FOR THE RECRUITMENT OF TAX OFFICIALS

The constitutional principle of equal access to public functions, implies that all the citizens may, if they wish so, enter the organization to provide collective service, «without no other distinction than their virtues and talents» (Article 6 of the Declaration of the Rights of Man and the Citizen).

The contest is the mode established for recruiting most of the Agents of the General Directorate of Taxes.

In the recruitment operations, candidates who have not yet been qualified as officials are examined with respect to their intellectual and professional attitudes, on the one hand, and their moral guarantees, on the other.

The members of the jury, who are selected with the greatest care, devote great efforts to the evaluation of the candidates, by taking into account both aspects (especially through oral tests).

On the other hand, the integrity aspect is especially examined by the Administration that organizes the recruitment.

1.1 General Principles

The statutory regulations governing the condition of Officials, especially those of the General Directorate of Taxes, expressly provide that every candidate for public employment must submit guarantees of behavior and the Administration is given the power to investigate them. In fact,

Article 5 of the Law of July 13, 1983, regarding the rights and duties of the Officials, provides that « ...no one can acquire the capacity of official:

2° If he does not enjoy civic rights;

3° or as the case may be, if the statements shown in registry N° 2 of the criminal record are not compatible with compliance with the functions;
..... ».

If the candidate does not fulfill the aptitude (even moral) requirements, by the first day of the tests of the contest, at the latest, he will not be allowed to participate through decision made without specific or contradictory procedure, although under control of the Judge.

.....

↳ Possession of civic rights

Every candidate for a Public Function must be in full possession of his civic rights or, that is, the rights of the citizen, in particular, the right to vote, in order to be eligible. All candidates for a public job must strictly fulfill this objective requisite.

Partial or total deprivation of civic rights, loss of the condition of citizen issued by the Criminal Jurisdiction as a complement to a penalty, results in the prohibition or absolute inability to exercise a public function.

↳ Compatibility of the statements of the criminal record with the exercise of a Public Function

All penalties do not automatically result in the loss of civic rights and, accordingly, do not fully forbid the exercise of a public function. However, the Administration, in keeping with the jurisprudence must ensure that the candidate provide sufficient guarantees and good reputation to service his fellow citizens.

On having access to the criminal records of candidates (registry n°2) which covers all penalties not pardoned, or for which the Judge does not expressly exclude mention within the registry, the Administrative Authority may object the recruitment of a candidate lacking all the guarantees required for holding a public job.

This evaluation is focused on the moral merits and general behavior of the candidate and may even involve private life elements.

TOPIC 2.2

Lastly, it is acknowledged that candidates for functions that are common to the State (“royalty”, which, for example, may have to do with the Magistracy, the Police ... and several missions within the Financial Administrations, being the DGI one of them) must provide **special guarantees of reliability**.

↳ Examination in case there are not statements in the criminal record registry

Nevertheless, a penalty eliminated from the registry or pardoned – which, accordingly, no longer appears in registry N° 2-, or violations that were not the subject of proceedings or penalties, may be an obstacle to recruitment, if they are known to the Institution and evidently show that the candidate lacks the moral guarantees required for exercising the functions.

This specifically deals with events of a **truly serious nature** (acts that are against honor and/or integrity) and which may truly affect the image of the institution.

In this case, the law recognizes the Administration, under control of the Judge, the power “to separate in the interest of the institution, any candidate whose previous behavior may imply that he does not have all the guarantees required for holding the position.”

1.2 The Specific Application of these Principles to the General Directorate of Taxes

The General Directorate of Taxes attributes special importance to the verification of the moral qualities of the candidates.

The nature of the missions of the DGI (especially, the application of tax legislation, examination, funds management,) and the image of strictness and integrity with which the Public identifies it, is an obstacle to the recruitment of individuals whose rectitude and honesty would not be guaranteed or whose honorability could be questioned by the Taxpayers against whom the Tax Officials may use the coercive power.

Therefore, since the statutory rules do not allow the official exclusion of a sanctioned person, there prevails with respect to the issue a pragmatic and concrete approach.

↳ Examination of applications will take place at different stages of the recruitment procedure.

① At the time of filing the application, the candidate must declare under oath, whether he enjoys his civic rights, or if he was sanctioned or is being criminally prosecuted.

He is warned that a false statement could cause the annulment of an eventual success.

An immediate examination is made of the criminal records of candidates that mentioned a previous penalty.

Among them, the candidates that have been deprived of their civic rights are obligatorily eliminated and cannot participate in the contest.

With respect to the others, the institution undertakes an examination to determine whether the statements in the criminal record are compatible with recruitment.

Such control leads, either to the rejection of the application or to its acceptance and, except for incomplete or incorrect data, the decision is of a definitive nature.

② Prior to the publication of the list of entrants, the institution examines the criminal records of admitted candidates.

In fact, the statutory rules allow for carrying out the morality control up to the day of appointment.

If there is a sanction the candidate did not mention, then the interested person, who is the author of a false statement may be eliminated from the list of entrants.

It may be mentioned that, at the end of the probationary term and prior to the definitive appointment, the record may again be consulted by the Administration and, if there are statements entered after designation as practitioner, it may object the recruitment, but only after undergoing a disciplinary procedure.

Accordingly, the Administration is interested in detecting doubtful cases as soon as possible, and in any case, prior to making the appointment as apprentice.

TOPIC 2.2

↳ The General Directorate of Taxes selects compatibility criteria adapted to its own missions

① Because of their nature and except for very special elements, specific circumstances are considered as **incompatible** with recruitment within the Tax Administration:

- ◆ **Acts against the reputation and integrity**, such as tax fraud, but also swindle, theft, misappropriation of funds in a previous job, falsification of deeds, concealment, illegal work ... are **reasons for the absolute rejection of the application**.
- ◆ Violence, rebellion and injuries, especially against persons having public authority also constitute an obstacle to recruitment.
- ◆ Likewise, one cannot admit the application of persons who are second offenders (2 sentences or more, regardless of the reason) or persons sentenced to jail.

② There are other cases related to private life that generally results in rejection of the application:

- ◆ Acts of sexual connotation (aggression, exhibitionism),
- ◆ Acts involving the traffic or sale of drugs ...

③ In the specific case of traffic violations, there is a difference between occasional violations and the more serious ones, associated with other offenses: driving when drunk, driving without a license, running away, which, if events are recent, in general justify the rejection of the application.

Finally, in all cases where doubt may subsist with respect to the acceptance or rejection of the application, the institution takes care in evaluating the good faith of the candidates, the risks of second offense and if necessary, requests the candidate to explain or provide all the useful details with respect to the circumstance of the censured acts.

This provision, which is a mere power, allows for covering the totality of the case and, even, taking into account special circumstances.

The nature of the missions assigned to the Officials of the General Directorate of Taxes, justifies the precautions taken in the recruitment process and renders necessary the selection of candidates.

This methodology and the examination, case by case, as soon as possible, during the recruitment operations and, in every case, prior to the definitive entry into the Public Function, of files noted as conflicting, are equitable and legitimate.

These practices at the same time allow for preserving the opportunities of the candidates involved and the interest of the public entity which is to reject individuals whose moral qualities could be the object of suspicion.

2. TAKING INTEGRITY INTO ACCOUNT THROUGHOUT THE COURSE OF THE CAREER

The Tax Official is subjected to a series of **ethical standards** intended to guarantee his integrity and every noncompliance with these standards causes the application of a disciplinary sanction.

To protect this integrity, the General Directorate of Taxes, takes care in developing very special **preventive actions throughout the Official's career**.

This guarantee of integrity **is especially examined** on the occasion of certain **important events of administrative life**: internal promotion, proposals for honors, application for leave of absence without salary to exercise a private activity, for example.

2.1 Ethical Standards to which the DGI Officials Are Subjected

The Tax Official is subjected, on the one hand, to obligations provided within the General Statute of the Officials and the Special Statutes or derived from Jurisprudence and, on the other hand, to behavior standards as regards compliance with their functions as well as in private life.

2.1.1 The main obligations related to compliance with missions at the service of the State

↳ Obligation to provide the service

This standard is based on 3 aspects:

- **personal** compliance with the function;
- **continuous** compliance with the function: specifically, the Official must give signs of punctuality and regular attendance to work;

TOPIC 2.2

- **exclusive** compliance with the function: specifically, the Official cannot hold a public and a private position; the purpose of the prohibition is to ensure that the service will be fully provided and also to avoid every embarrassing situation.

However, some annulments are allowed, in particular, the production of literary, artistic or scientific works and teaching activities.

↳ Obligation to provide the service with full independence

The Agent is forbidden any personal acquisition of interests, directly or through intermediaries, in businesses that must be examined by the Administration to which he belongs (Example: a Tax Official accepting money in exchange for counseling).

It is provided that violations involving noncompliance with the obligation are sanctioned.

Likewise, the official must show signs of neutrality and impartiality and provide equal treatment to the users of the Public Service and not favor any of them.

That is how one formally proscribes the abuse of functions that involves using the function for one's own benefit or that of a third party or to the detriment of the latter (Example: to proceed to baseless tax exemptions in a lawsuit of a private nature, by making known his capacity of Tax Official).

↳ Obligation of integrity

An Official must refrain from any action contrary to integrity, not only in compliance with the functions, but also outside the job.

This type of noncompliance seriously affects the image of the Administration and justifies the application of strong disciplinary sanctions (For example: misappropriation of public funds, corruption).

These violations are sanctioned.

There is a more general scope to the obligation of integrity: a Tax Official violates the obligation of integrity if he fails to comply with the obligations to declare as well as pay taxes.

Every noncompliance of this nature is obviously more noticeable, given that it is a representative of the Tax Administration.

In fact, because they are at the core of the tax device, Tax Officials must show an exemplary and irreproachable behavior in this area.

↳ Obligation to respect professional secrecy and discretion

The professional secrecy standard forbids that the data compiled by a Tax Official within the framework of his functions be communicated to persons other than the taxpayer himself.

The standard is of a general and absolute nature: it is applied for the transmission of oral data as well as documents (Example: tax notice or bank account numbers to be used for purposes unrelated to the Service).

Of course, the Legislator provided for several annulments to the rule of professional secrecy, mainly with respect to Justice.

The **professional discretion** obligation is of a broader nature than that of professional secrecy.

In fact, it is extensive to the totality of facts, data or documents of which the Official may become aware, as a result of compliance with, or due to his function (Example: dissemination of the orientation of a tax campaign or examination methods).

The purpose is to guarantee the Administration's protection when the dissemination of elements of this nature may affect the efficient operation of the entity or the general interests which it must look after.

2.1.2 The general rules of behavior of the Official at the State's service

↳ The duty of reserve and dignity in public and private life

When rendering service, the Officials must refrain from expressing their political, philosophical or religious opinions.

When not in service, the Officials may express their opinions although with moderation, all the more necessary in keeping with the level of the position within the hierarchy.

Any disproportionate manifestation of opinion may threaten with creating doubt in the mind of the users with respect to the Official's capability for respecting the principle of neutrality.

TOPIC 2.2

The Official should not affect the Administration's image (Example: a sanction for theft or driving drunk affects the reputation of the Administration and entail disciplinary actions).

↳ Independence in public life

The administrative functions are incompatible with the mandates of deputies, senators or representatives before the Assembly of European Communities.

Likewise, at a lower level, the Officials cannot be mayors or alternates in the zone where they carry out their functions.

2.2 Sanctions applicable in the case of noncompliance with ethical standards

The General Statute of Officials (Article 66) provides for the disciplinary sanctions that may be applied to a Tax Official.

There are a total of ten that range from the lowest sanction (warning) up to the strongest (repeal).

Violations to the obligation of rendering service with full independence, neutrality and impartiality are severely punished, and the repeal is systematically issued as of the time the lack of integrity in compliance with the functions is verified. (Example: misappropriation of public funds or corruption).

Noncompliance with the professional secrecy standard is considered very serious and causes, in general, temporary exclusions from the rendering of service with a more or less long duration (up to 2 years).

Likewise, any violation seriously affecting the reputation of the Administration, even if produced within the private sphere, causes the application of disciplinary sanctions (theft, driving drunk).

2.3 Prevention Actions

A **specific structure** that depends on the Resources Department, **the 4D Mission** (Deontology, Discipline, Defense of the Officials and the Administration, Distinctions) is in charge of ensuring the adequate application of the standards of deontology and intensifying prevention.

It must also undertake field investigations in case of serious incidents.

The multiple prevention actions involve new Officials recently recruited or promoted as well as other Officials within the framework of continuous training.

On the other hand, the DGI also implements a policy for risk detection.

2.3.1 Initial training

Deontology is the subject of specific teachings within the framework of initial training of Officials of any category. These teachings are adapted according to the future missions of Officials in the training process.

The lessons transmitted through theoretical classes are extended through practical courses that are alternated with theoretical preparation, but also during the 6 months of practice scheduled for the end of the theoretical training.

Teachings regarding deontology that are given during theoretical training are integrated to the program of oral tests for continuous evaluation of knowledge.

The new Officials in particular are made aware of the importance of deontology during the training actions carried out as a result of their promotion.

2.3.2 Continuous training

Ethical aspects are considered in practically all the short courses.

The short courses or seminars intended for Officials mainly point out the imperative need for the **Heads of Service to carry out an internal examination** in order to detect eventual noncompliance by the subordinates.

Technological evolutions (new computerized tools available to Officials) call for adaptation of the control methods by the heads of the service. To this end, adaptability functions are being considered in each new computerized application.

Said aspect was particularly stressed in the applications that were developed within the framework of the COPERNIC Program.

TOPIC 2.2

2.3.3 The detection of risks

In addition to the 4D Mission, there are bodies of auditors at all levels (Main Directorate Inspection at the local level, Expert Appraisal and Liaison Mission and General Finance Inspection at the national level) that allow in particular for detecting risk situations in the operation of the Services.

2.4 Taking integrity into account in certain events of administrative life

2.4.1 On the occasion of internal promotions or selections

The internal promotion of DGI Agents is undertaken through contests, aptitude lists or promotion lists.

The aptitude list involves promotion from one level to another with change of entity.

The promotion list involves a change of level within the entity to which he belongs and does not imply significant changes in functions.

It essentially expresses the normal acquisition of experience and greater professional technicality.

Regardless of the mode of selection adopted and besides the requisites particularly related to the years of service, the Administration strictly examines the Official's file and the evaluations made by his Heads of Service with respect to his performance.

The integrity of candidates is also taken into account.

Thus, Officials that are within a disciplinary context or are the subject of disciplinary sanctions are not allowed any promotion for more or less a long period of time (3 to 5 years) according to the seriousness of the violation.

Given the extremely strict nature of the selections and the great competitiveness existing in relation to promotions according to the aptitude lists, **an Agent who has been subject to a disciplinary sanction, in fact, is excluded from any type of promotion.**

The concept of integrity is particularly important for promotions to the highest levels within the hierarchy.

2.4.2 On the occasion of specific special events

Honors are awarded (For example: medal of the Legion of Honor or Merit, to mention the most prestigious ones) to certain Officials for their particularly outstanding way of rendering service.

Special examination is made of the integrity of Officials that are the subject of a proposal before the Minister.

2.4.3 In requests for leave of absence without pay to exercise a private activity

Every Official ceasing his functions temporarily (voluntary) cannot carry out any activity in a rival sector that would be incompatible with his former administrative functions.

Before carrying out a private activity, the Official must submit a file for consideration of the Deontology Commission.

The latter examines two compatibility criteria:

- the Official cannot join a company that he would have controlled or examined during the past 5 years prior to leaving;
- the activity considered should not affect the dignity of his former functions, or compromise the normal operation, neutrality or independence of the former institution.

These activities are forbidden to the Agents throughout the period of leave of absence.

Eventual violations will be sanctioned.

3. TAKING INTEGRITY INTO ACCOUNT AFTER CEASING FUNCTIONS

↳ Even after ceasing functions, the Official will be subjected to certain general obligations such as **professional secret or professional discretion**.

↳ On the other hand, **certain activities are prohibited**: former Officials cannot join a company that was under their control or surveillance for five years after leaving the Administration. Like all other Officials with leave of absence without pay, they must submit a file for the consideration of the Deontology Commission.

TOPIC 2.2

↳ Retired Officials may avail themselves of an **honorary position** of the level or job they had on the condition that they have at least 20 years of service.

However, the honorary position may be denied for insufficient services rendered or if the Agent may have been subject to disciplinary sanctions during the course of his career.

In any case no mention may be made of honorary positions for private profit making activities that are not of a cultural scientific or research nature.

↳ Likewise, a very special investigation is undertaken when requesting the exercise of specific functions, even as a volunteer (Example: Neighborhood Judge).

CONCLUSION

The ethical values originate from the Public Service Statute of the General Directorate of Taxes that assigns the Official specific rights and duties. Professional secrecy, loyalty, neutrality and integrity constitute in this field strong values, which the Officials perceive as non-temporary values.

All DGI Agents share these ethical values, including the Staff Representatives, but they are also perceived as a guarantee for the Taxpayers.

Accordingly, obligations related to integrity must be frequently reaffirmed through training, but also through the administrative hierarchy.

This integrity value also constitutes a sound basis for officials to be motivated and assume responsibility vis-à-vis the Users of Public Services.

The French Tax Administration, which has been involved for several years in a process for the reform of the structures, aims to become in 2005 a reference service administration, as regards an organization focused on the users, the promotion of community spirit, the development of new technologies in the relationships with taxpayers and a new service culture.

This objective can only be achieved if the taxpayers have no reason to question the ethical values of the Officials: they must be irreproachable before Society.

At a time when public management is immersed in a reform process, good conduct and ethical behavior by the Official are imperatively imposed.

Mr. Olivier Siviéde
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TOPIC 3

**EFFECTIVENESS OF TAX COLLECTION FOR PROVIDING
GOODS AND SERVICES TO SOCIETY**

Lecture

TOPIC 3

EFFECTIVENESS OF TAX COLLECTION FOR PROVIDING GOODS AND SERVICES TO SOCIETY

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(Mexico)

CONTENTS: 1. How Should the Financial Resources for the Tax Administration Be Allocated?- a) Towards the quality of the services.- b) Towards the integrity of public servants.- c) Towards the perception of the society.- 2.- What Characteristics Must the Organizational Structure of the Tax Administration Observe to Favor its Efficacy?.- Mission.- Vision for 2006.- Values and principles that must guide our actions.- 3. What Elements or Objectives Should Be Considered in the Tax Administration's Strategy to Empower its Efficacy?.- I. Platform Project.- II. Advanced Electronic Signature.- III. Electronic Invoices.-IV. Registry of Legal Representatives.- V. Program to Update the Federal Registry of Taxpayers.- VI. Illegal Fiscal Practices.- Conclusions.

SUMMARY

We may state, almost without discussion, that a tax system must provide a sustainable source of sufficient resources to improve common well-being, it must be proportional, equitable, neutral, competitive and with a higher degree of stability, supported on a sound and efficient administration that promotes a stable framework without unnecessary complications.

Along these lines, and although there still exists the firm awareness that the application and interpretation of the aforementioned principles, and their consequent impacts in our reality, make effective changes very complex and in their case gradual, this paper makes reference to the way and items in which the Mexican Tax Administration System is seeking to assign priority to and aim its resources to achieve an increase in the efficacy of collection that, without overlooking the peculiarities and characteristics of each country, which makes it impossible to establish general formulas or solutions in tax matters, seeks to echo in principles and rules of such a general and universal nature, as the fact itself that people that make up a society have to contribute with the persons in charge of the government of what we now know as the modern State, for their own subsistence and the attainment of common and individual goods.

Likewise, based on Mexico's experience, reference is made to some forms of organizational structuring that are being adopted for the improvement of the functional efficacy of our Tax Administration, mainly in the field of collections.

Lastly, some elements and objectives are mentioned, through which Mexico has sought to improve the strategy of its Tax Administration, to empower its efficacy, basing ourselves in a general and exemplifying manner on the main programs and projects we have adopted, without ceasing to stress that, even though our tax system has taken steps in the right direction, nowadays we have to do more, in an effective and quick manner, in order to meet the expectations of the aforementioned principles.

1. HOW SHOULD THE FINANCIAL RESOURCES FOR THE TAX ADMINISTRATION BE ALLOCATED?

It is considered that, for obtaining greater public resources that allow for the proper operation of State actions, nowadays, one of the items that must be emphasized within the Tax Administration environment, even above perfecting and adjusting the legal provisions in tax and customs matters, is the continuous improvement of the way in which we are operating our taxpayer assistance, recovery and examination mechanisms, as well as the defense of the tax authority's interests.

In this sense, the efforts of a Tax Administration related to the allocation of resources, both financial and human, have to be aimed at empowering and raising the levels of excellence and efficacy in its operation, seeking to achieve in practice, the effective compliance of what is established in the tax rules.

Thus, for example, in Mexico the Tax Administration Service has established as part of its quality policy up to 2006, to aim its resources at replacing the traditional schemes of the Tax Administration, applying the most advanced technological administrative systems, evaluating its management with rigorous performance standards and redesigning its processes and services focusing attention on three priority aspects, which can be applied to any Tax Administration:

- a) The quality of the services.
- b) The integrity of the public servants.
- c) The perception in society with respect to the reliability and efficacy of the area or department in charge of the Tax Administration.

In this manner, in order to have an influence on these three large items and to know where we are going to direct our resources, the Tax Administration Service has implemented a great "Transformation Project" that constitutes a framework process that seeks to add up, articulate and execute projects, bringing about deep changes in the topics listed below that, due to presentation matters, we put in order taking into consideration which of these three topics are mostly affected, without failing to specify that they are not exclusive, because they interrelate in a close manner¹.

a) Towards the Quality of the Services

Quality Model. Having an efficient and effective Tax Administration Service subject to a quality management model (that in our case as part of the Federal Public Administration is called the INTRAGOB model).

¹ Institutional Tax Administration Service Quality Model M-01 July 2003, issued by the Innovation and Quality Council of that Agency.

Processes. Revision, adjustment, automation, integration, simplification and synergy of the institutional processes (linear processes in all areas) versus the vertical or silos scheme.

Infrastructure. Integration of systems and databases that provide reliable, consolidated and timely information for the better knowledge of the taxpayer, the operation of the Tax Administration and optimum decision-making.

Organization. The result oriented Administration with precise objectives and an adequate measuring system, both for performance evaluation and for accountability.

People. Substantial increase of the professional skills, performance and capacity of the members of the institution.

b) Towards the integrity of public servants

Attitude. Continuous improvement of performance, attitude and probity of public servants.

Commitment. Promote a high spirit of commitment, belonging and service to the citizens, a continuous work culture, the adoption of schemes that promote their participation, transparency in the management of resources and decision-making based on facts and data.

c) Towards the perception of the Society

Automation and simplification. Increase service to the taxpayers through better work practices and administrative and IT tools that facilitate and motivate their voluntary and timely compliance.

Assistance and information. Disseminate and guide taxpayers with respect to their rights and obligations in tax matters to know the degree of satisfaction perceived by the taxpayers, clients and citizens for the continuous improvement of the service provided.

Presence. Count with better information systems and ways to operate our functions, to generate a perception of presence by the authorities as well as the risk for non-compliance of tax obligations, which allows to discourage evasion and informality.

2. WHAT CHARACTERISTICS MUST THE ORGANIZATIONAL STRUCTURE OF THE TAX ADMINISTRATION OBSERVE TO FAVOR ITS EFFICACY?

As was already mentioned, in what respects to our experience as Tax Administration Service, we have warned that the most efficient organizational structure for reaching our objectives, is based on work through processes, versus vertical (or functional) organizations that have disarticulation problems and poor interactions between the diverse areas of the institution, because the same act following different and even, in some cases, contradictory goals and objectives, which are not aligned among themselves, having a negative impact on the operation and the service that can be provided to the taxpayers.

Now, if we understand the processes as a set of activities that add value and deliver a product or service, we have to acknowledge the need to modify our organizations to have a greater flexibility when performing these processes (customer focused) instead of maintaining in place structures that are exclusively focused on the chief.²

In this sense, working under processes, has led us to take a new focus, where barriers are being broken and bridges are being built between each functional area of the organization, to share objectives, information, resources and benefits.

To that end, we have defined, in a clear and precise manner, our vision, mission and values as Tax Administration, so that the same will serve as a starting point to become a top level organization, clearly focused on results, because precisely the success of a process based organization really has sense when these are aligned or focused on a same goal (the vision) determined by a single execution (mission) and subject to a same code of conduct (values).

² Autonomous University of Mexico. Continuous Education Division of the SAT "*Module 1, Quality and Continuous Improvement*" Management Administration Degree. Mexico, 2004. Page 20.

Mission

To collect federal contributions and control the entry and exit of goods into and out of the national territory, guaranteeing the correct application of the legislation and promoting timely voluntary compliance.

Vision for 2006

To be a sound and efficient institution, focused on the taxpayer, with integrated processes, composed by an honest, professional and committed team, at the service of Mexicans.

Values and principles that must guide our actions

Honesty.

Transparency.

Legality.

Responsibility.

Humility.

Professionalism.

Respect.

Firm actions against fraudsters and corruption.

Teamwork.

3. WHAT ELEMENTS OR OBJECTIVES SHOULD BE CONSIDERED IN THE TAX ADMINISTRATION'S STRATEGY TO EMPOWER ITS EFFICACY?

Following the above alignment and considering the general objectives foreseen in our quality model, some strategic initiatives are being implemented, which are seeking among other things, to:

- Redesign and automate key processes.
- Simplify taxpayer services supported on electronic means.
- Strengthen the Federal Taxpayers Registry (RFC, acronym in Spanish).

- Improve the effectiveness in the obligations control, examination and recovery activities.
- Proactively act in the juridical framework.
- Transform data into knowledge for decision-making.

Now, according to the above, as an example, we present some of the projects that, in conformity with the aforementioned strategic initiatives, are being applied in Mexico in order to increase our collection levels:

I. Platform Project

Platform constitutes the cornerstone on which the Tax Administration Service transformation process is supported (anchor project) and a fundamental piece to comply with the strategic plan of our institution.

This project arises, derived from the need to review our highest impact processes, so that the same are automated, in view that the Tax Administration Service was not operating through integrated processes that guaranteed the most efficient and simple work flows, reason for which that vertical vision of each one of the areas belonging to this institution, demanded an exercise that involved all of them, around cycle that was conveniently structured on 9 fundamental components that cover from start to finish all the internal and external, adjective and substantive processes and operations of the Tax Administration. This cycle allowed for the articulation of the work and capacities of all of them in an integrated manner, unbound by the narrow functional limitations of each one of them in particular.

Taxpayer Identification	Services Design	Taxpayer Services	Tax Account	Accounting Record	Recovery	Tax Intelligence	Inspections	General Administration and Services
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In this order of ideas, the general objective of said project, is to redesign some of the substantive processes and automate them into an IT system that allows to support the efficient and integrated execution of the same, in order to obtain, on the one hand, a better attention to the taxpayers, a greater control over them and, consequently, a greater collection and lower operation costs.

The Project is executed in 5 phases, namely:

1. Planning,
2. Analysis of the Current Status,
3. Design of the Solution,
4. Construction, and
5. Putting into Operation.

Up to date, we are immersed in the third one of them with a work program that covers the following two years where we aim to integrally include encompass all the components of the Taxation Cycle and set the bases for an efficient administration and a quality service to the taxpayers.

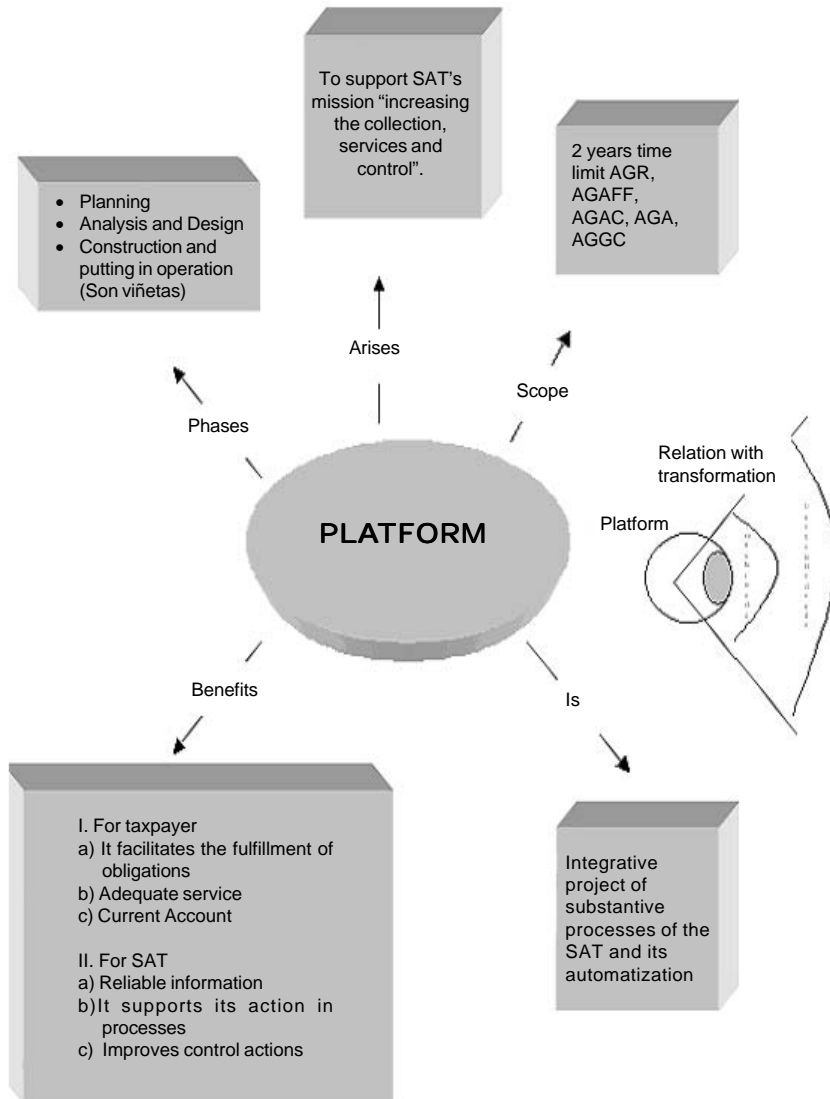
This year we have programmed to put into operation the first 6 components:

1. Taxpayer Identification,
2. Services Design,
3. Taxpayer Services,
4. Tax Account,
5. Accounting Record, and
6. General Administration and Support Services.

During 2006 we will focus on the three remaining ones:

7. Recovery,
8. Tax Intelligence, and
9. Inspections.

PLATFORM PROJECT CONCEPTUAL MAP



a) Tax Account

One of the aspects to be highlighted on this Platform project is the introduction of a **Tax Account**, fundamental for the control effectiveness simplification and improvement process. Through the same, the taxpayer and the authority will be able to monitor in a global, updated and permanent manner, the tax status or history of the former, which will be the axis for diverse control services and activities and, in turn, will generate transparency and legal certainty for the taxpayer.

Thus, for example, if a taxpayer requests the return of a balance in his/her favor, in his/her tax account, we will be able to detect in an automated manner if, in effect, the balance he/she is expressing is the correct one, if the calculation of the same agrees with the information provide by his/her suppliers or, if there is no firm fiscal debt against which an administrative compensation can be processed.

b) Single source of information

Another one of the benefits that will be provided by the Platform project is a **single source of information** for decision-making at the operational and strategic levels, in such a way that, as an example, in our legal contentious area, it will allow us to know and in turn transmit in a statistical manner, the main damages and objection acts filed by the taxpayers in litigations against the tax authority, which allows us to measure the tax impact of cases lost, as well as to bring together all operational areas so that they correct errors, be they formal or substantive, or to restate the way in which cases are being defended.

Likewise, through a greater control of the information provided by the taxpayers, through the management of a single IT system, the cross-information of the private citizens is made more effective, as well as the decision-making at the level of tax intelligence for programming visits and additional to this, in the taxpayer's perception, an image of greater control by the tax authorities is transmitted, which promotes voluntary compliance and discourages tax evasion and fraud.

c) Segmentation

In the same sense, a benefit susceptible of standing out in the Platform project, is the one relating to the automation of new taxpayer **Segmentation** mechanisms, where basically the simplest connotation of the justice concept is acknowledged: to be equal to those that are equal and unequal to those that are unequal.

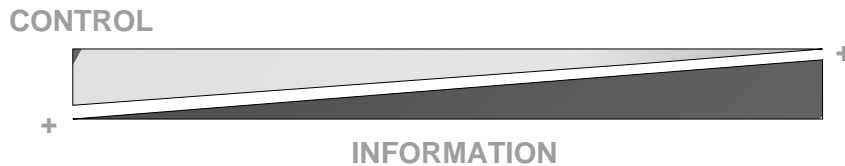
In this manner, we have noticed that within the taxpayers' universe, there are diverse sectors with particular characteristics and requirements, which must be grouped and treated differently, to better guide the specificities of our operation.

For this redefinition of the taxpayer segments, or rather macro-segments (considering the generality of the groups it encompasses) we are mainly taking as a starting point, the interaction taxpayers have with the income tax.

In this manner, five macro-segments are being analyzed where we are locating the taxpayers' universe and based on which we are making greater emphasis depending on the sector at hand, in the increase or decrease of the services that we are providing to them, in the control mechanisms we are imposing on them and even in the information we are requiring from them.

SEGMENTS

Large Businesses	Governments	Medium-size Businesses	Micro – Businesses	Individuals
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SERVICE

An additional characteristic is the type of information that is required in each macro segment. The information that is requested to the individuals seeks to respond to the following basic questions: (Who is? What does?, Where is?). In contrast, the information that is required for the macro segment of large businesses looks for serving to detect and fight more sophisticated frauds and/or aggressive tax plannings. (Segmentation Workshop. December 17, 2004. Tax Administration Service – SAT).

We have to mention that we have considered said segmentation as a priority task, considering that as from this project, we will be able to prevent possible problems and respond to them in an immediate manner, because anticipating taxpayer needs, previously knowing the sector they belong to, is more effective and less costly than operating in a reactive manner once the problem has been presented in a sector; in other words, through segmentation we seek to extend the causes for which, a specific and concrete taxpayers' segment is not complying with their obligations, to develop specific responses that are in accordance with this non-compliance: e.g. increase the programming of examination acts in a certain sector and decrease control in others, implement assistance campaigns exclusively aimed at some segments that so require it, reinforce the exercise of penal and litigious actions in specific activities in some segment, or rather, grant certain facilities or incentives focusing them on specific groups, etc.

d) Tax Intelligence (Risk Management in daily decision-making)

A component closely related to segmentation is the one related to tax intelligence that, even though we have already made progress on risk analysis, will allow us to count with an element to unify the information of the whole Tax Administration, count with better tools for fighting systematic non-compliance in all its modalities.

On this issue, nowadays there exists the firm conviction that non-compliance of tax obligations is the result of historical, economic, educational and situational factors that demand the continuous execution of innovative activities to fight them, that is why, within our effort in Mexico to face this problem, we have established the Integral Program to Fight Evasion (PICE acronym in Spanish) and the Integral Program to Fight Corruption (PICC acronym in Spanish) in order to use, in the best manner possible, the available resources and obtain better results.⁴

Thus, PICE capitalizes on the knowledge of the institution in tax non-compliance matters from all our areas, determining in a uniform context, the factors, behaviors and risk levels of the taxpayer in the different proceedings and services of the Tax Administration, seeking to increase the probability of detecting the taxpayer that disregards his/her tax obligations, quantifying the collection gap by tax, segment, economic

⁴ Office of the Chief of the Tax Administration Service. Annual Report and Strategic Lines 2005. Mexico, 2005, Page. 23.

activity and y region, determining the tax risk profile of the taxpayer in a more complete and timely manner, thus improving the effectiveness of the inspection activities from programming, up to settlement.

In turn, with the PICC, we have sought to integrally promote actions to fight corruption and impunity within our institution, under a strategy aimed at inter-institutional transparency and cooperation, subject to the strict compliance with the legality in the imposition of sanctions and the establishment of responsibility, with which it is foreseen that, in a gradual way, we will arrive at improving national and international perception indices regarding corruption and discourage the carrying out of illegal behaviors.⁵

II. Advanced Electronic Signature - AES

Another one of the large projects we are implementing in Mexico, to make our collection work more efficient, is the one related to the use of **an advanced electronic signature** by the taxpayers, as well as by the tax authorities, said signature has been legally supported through reforms made to our Federation Tax Code (in the 2004 exercise it was regulated as optional and as mandatory for the 2005 exercise in certain proceedings) where the obligation by the taxpayers to file documents by means of digital files was established, documents that have to contain an electronic signature of their author or of their legal representative.

The aforementioned electronic signature has the same legal effects, both in terms of evidence and obligations, of an autographic signature stamped on a printed document would have, with the convenience of managing IT documents or files.

Your Advanced Electronic Signature



⁵ Ibid. Page 24

With Tu Firm@ (Your Signature), as advanced electronic signature has been called in our country, we will, among other things, allow the taxpayer to carry out diverse proceedings with the Tax Administration Service, without having to visit our offices, using any computer with Internet access.

This electronic signature is integrated by a set of coded data, which are incorporated to a digital file or document, which allow us to identify the signing party and to verify the integrity of the original message, because the same will automatically encrypt and encode by means of a scheme of asymmetric keys⁶, the contents of the proceedings carried out by the taxpayers, so that nobody foreign can read them, or alter them, in congruence with the tax secrecy schemes that we keep in most tax administrations (limitations to the disclosure of information provided by the taxpayers).

Now, we are conditioning the use of this electronic signature to the obtainment of a certificate that confirms the link between the signing party and the data for the creation of the electronic signature, issued by the federal tax authority and/or the certifying authorities authorized by our Central Registration Agency (the Bank of Mexico) where, in order to guarantee the security in the handling of said signature, we are carrying out a revision of the identity of the taxpayers, even through the digital collection of their biometric data (fingerprints) as well as, through the exchange of information between our national registries (the Federal Taxpayers Registry and the general population registry).

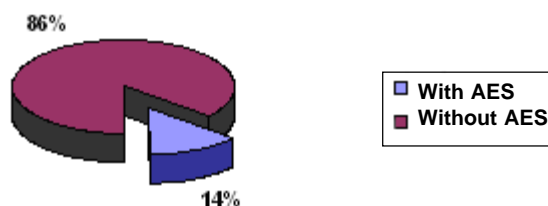
In the aforementioned digital certificates, we find diverse information regarding the signing party, services to which he/she has access to use his/her signature, the expiration date of the certificate, the Certifying Agency that issued the same, among other characteristics.

It must be pointed out that, based on the information provided by the area that operates in the issuing of the aforementioned digital certificates in our country, and even when this was still an optional scheme last year, we may observe that by the first month of 2005, there are figures that reflect the increase in the acceptance by the taxpayers of this new electronic signature system.

⁶ Asymmetric Keys: Tu Firm@ uses a model of asymmetric keys, called Public Key Infrastructure (PKI). This model is based on the use of a key (private) to encode and another (public) to decode the information; the encoded information cannot be read if this or another key or file to decode the information is not available.

Type of Taxpayer	With AES	Without AES
Customs Agents	584	264
Proxies	98	403
Agents	740	805
Self-printers	289	1,093
CPRs	1,910	4,001
Ruled	9,325	72,038
Large Taxpayers	1,954	11,185
Authorized Printers	229	7,089

Advanced Electronic Signature Certificates



In this manner the Tax Administration Service will gradually put in operation the applications that require the use of Tu Firm@, among which the most important applications are the following:

Electronic Invoice (Digital Tax Vouchers): It makes possible the use of an electronic file that will allow performing simultaneous transactions virtually between different companies and the Tax Administration Service, which provides the necessary legal security to perform electronically the operations of the taxpayers and this generates a computerized verification instrument for fiscal control.

Tu Buzón (Your Mailbox) (Taxpayer Message Center): Through the electronic signature there will be access to a Fiscal Electronic Mailbox which guarantees communication between the Tax Administration and the taxpayer to shorten information delivery times from the authorities to the taxpayers (customized issues progress status).

Temporary and annual returns: Taxpayers may file their temporary and annual returns by using Tu Firm@, given its safety; it will allow returns issued by the taxpayer to arrive systematically, safely and without further modifications.

Legal Opinions: Individuals that have received judgment may have greater legal security by sending their legal opinions through Tu firm@, since they may be sure that the receiver is solely the competent authority, while the later may have the certainty that the issuer is effectively the person that has received the judgment, as well as the certified public accountant pronouncing the same.

Electronic Signature from the authorities: Similarly, adaptations are being made for the tax authorities to have Advanced Electronic Signature and may issue printed proceedings, by filing the registry of their Electronic Signature, instead of using in this case the autograph signature, this situation would assist in issuing mass administrative proceedings where currently as a result of their volume printed signatures are used or with a facsimile, which are challenged repeatedly by taxpayers, in the repeal of the administrative remedy or in a mistrial (i.e. imposing fines and requirements).

Based on the above, we can summarize that the Tu Firm@ project will allow launching initiatives with benefits in key areas for the public and private sector, such as: a) support and promotion of services provided by the authorities online; b) processes' optimization; and c) fight fiscal fraud, since juridical certainty and security is being generated in Internet transactions; it achieves the substitution of face-to-face transactions for online contracts taxpayer data.

On the other hand, among the benefits delivered to taxpayers will be the following:

- Annual and temporary tax returns may be filed electronically in a simple and safe manner.
- The use of paper in the public and private sector will decline as well as the costs involved.
- It will serve as a platform for the Electronic Invoice (Digital Tax Vouchers).
- Thanks to its access features, authentication, juridical, and operation guarantees will be given to taxpayers in their transactions.
- It will provide greater security in electronic commerce transactions.

III. Electronic Invoices

Even though brief reference has been made to this project, due its importance and future impact in our control and collection plans, emphasis is made on the use of **electronic invoices**; this issue is closely related to the management of an advance electronic signature and which is currently being implemented in Mexico in our legal provisions since 2004, by recognizing the necessary juridical validity to it to have fiscal effects.

These electronic invoices are the digital representation of a type of fiscal voucher, with a legal recognition, which uses standards defined by the Tax Administration Service through rules of general nature (Annex 20 of the Fiscal Miscellaneous Resolution) regarding its form and content, guarantee integrity, and authenticity so taxpayers will not be able to reject or disavow the same.

In general terms, we are allowing the use of invoices such as this, conditioned to the compliance with the following requirements:

- Have an advanced electronic signature certificate.
- Have a digital seal certificate, which is a file with characteristics similar to that of the Electronic Signature, which purpose is to credit the authenticity of each invoice issued.
- Manage an electronic system, which complies with the technical specifications established by the tax authorities and which has computerized validations that prevent the assignment of duplicate folios or series numbers to a voucher.
- Manage the range of folios assigned by the fiscal authorities, since, as well as with a normal invoice, these digital vouchers have a folio that taxpayers must request through the Fiscal Vouchers Comprehensive System (SICOFI, in Spanish) .
- That when folios are assigned and a series, as the case may be, the electronic system in which the taxpayers manage their accounting records performs simultaneously the accounting registry of the accounts and sub-accounts affected by each operation purpose of invoicing.

- That there is control through the monthly presentation of reports on the invoices used through the computerized system of the authority called SICOFI, supported with the taxpayer's Electronic Signature.

It is important to mention that since any change process requires a transition period, we have established rules of general nature as means to make it easier for taxpayers, who due to the nature of their operations continue to partially and simultaneously use two forms of invoicing, always that in their operations reports they attach vouchers that they issued printed.

In conclusion, this new form of invoicing in addition to representing considerable savings to taxpayers in operational and administrative processes which imply the use and handling of paper invoices, is going to allow us as tax authorities to be able to verify more expediently the authenticity of the vouchers, through the online inquiry of our services, and in the future this will help us perform data cross referencing almost automatically, and better exploit information on customers and suppliers, to verify the origin of deductions or accreditations, or the calculation of balances in favor, susceptible of being refunded or compensating, closing in this manner, a tax evasion circle and even possible fraud cases, which are carried out by handling false or altered invoices or rather issued by allegedly existing or paper companies.

IV. Registry of Legal Representatives

A program that is equally worthwhile of placing emphasis, and which serves as a means to simplify daily operations carried out with taxpayers, is our Registry of Legal Representatives, which existed in the past, but it was exclusively limited to the accreditation of the representation to file administrative remedies in fiscal issues.

This registry arises as a facility, since in terms of the legal framework in force, the manner in which a taxpayer would usually have to credit that a person is acting in his representation, would be by attaching to each proceeding in writing or by digital means, the power of attorney ratified before the tax authorities or granted before any public notary, this legal proceeding is set in a computerized file or printed as the case may be, depending on the nature of the process.

Notwithstanding, as from 2004 the Mexican Federal Fiscal Code stipulates as an option, that taxpayers' attorney may register in a Registry of Legal Representatives, in order to file processes of any nature, meaning that it will no longer be necessary to attach to each proceeding carried out before the tax authority, documents that credit his representation, linking said registry to the attorney's advanced Electronic Signature.

In this regard, in order to obtain the registration in the Registry of Legal Representatives of the tax authorities and the corresponding evidence, taxpayers must file their request before the tax authorities through an official form signed by who grants the power of attorney and the acceptance thereof, and by attaching only once the document that verifies said representation, as well as the identity of both.

Emphasis is made that there are different levels of representation resulting from the registration in the Registry of Legal Representatives to be able to perform transactions before the fiscal authorities, which may be verified in the "list of proceedings of the Registry of Legal Representatives" that appears in the Internet page of the fiscal authorities, and which depends on the type of power of attorney that has been filed to credit the legal representation of the person that is to be registered in the registry, and this is specifically required to evidence the registration issued to the individual.

In this manner, taxpayers may register in the registry their legal representatives that have the advanced Electronic Signature and whom have any of the following powers of attorney:

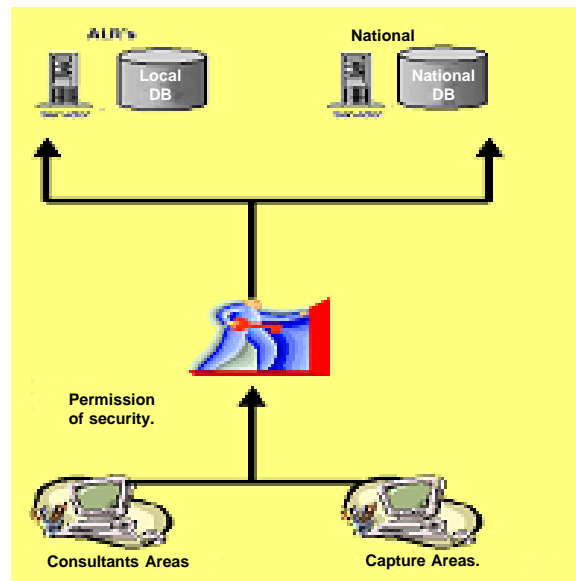
- General Power of Attorney for ownership proceedings.
- General Power of Attorney for administration proceedings.
- General Power of Attorney for lawsuits and recovery.
- Special Power of Attorney to register and/or file notices and/or proceedings of any kind at the RFC.
- Special Power of Attorney to transact refunds and/or compensations of any nature.

It is important to mention that the fact that a power of attorney is not within those authorized to perform the inscription in the registry of legal representatives, does not necessarily imply that said power of attorney is not valid to be attached to perform fiscal proceedings, digitally or in print, always bearing in mind that the registration in discussion is a facility, which cannot limit the representation resulting from the public attestation of our public notaries, or the will of the parties to grant to a person attributes to represent a taxpayer before the authorities, since said restriction may violate the taxpayer's right to a hearing and petition, i.e., specific powers of attorney to perform one proceeding.

On the other hand, the manner in which this registry is updated is a mission that cannot exclusively depend on the authorities, it is stipulated that it is a responsibility of the taxpayer that has granted the representation, to request the modification or the cancellation thereof from the registry, within the 5 business days following the date on which the power of attorney granted to the legal representative registered is revoked or modified, attaching the original or a certified copy of the document where the revocation or modification of the power of attorney is evident, because if this is not done, the proceedings carried out by the legal representative will have full legal effects for the taxpayer, and any untimely presentation will have legal effects upon their presentation.

The operational manner in which this process is visualized internally is that the taxpayer's request is received at our main teller, where it is assigned a folio number, then it is transferred to our juridical area which qualifies the fields of power and who sends it to the Collection area, which based on previous classification performs the movements (high, changes, exit or rejections), and these movements will be updated in a computerized database which may be inquired by all areas.

For their part, the authorities of the Tax Administration Service, which in their daily proceedings require to corroborate the representation that the taxpayers granted to third parties, may access the computerized database of the registry of legal representatives, through the corresponding permits or passwords.



In this order of ideas, we must advise that this program in addition to constituting a simplification and reducing expenses to taxpayers in the presentation of powers of attorney for each process that they perform before the tax authorities, to us as authorities, this generates the certainty that the person that is promoting in the name of another, this connection to the Electronic Signature, reduces document storage and conservation volumes filed by the principal.

V. Program to Update the Federal Registry of Taxpayers

A topic that must be improved to obtain higher collection levels and that is of concern for us in Mexico, is the issue pertaining to the maintenance and update of our taxpayer list in the Taxpayers Federal Registry (RFC) which is necessary to have effective control on taxpayers, which allows us as tax authorities to make decisions and develop with real data, assistance, collection and examination programs.

The above, jointly with the fact that there is a social demand that requires a more fair distribution of the tax burden, attending to the fact that there is a large production sector that is in the informal section and which since it is registered in the RFC, it does not allow the authorities to enforce collection and examination actions.

Concomitantly, even when the registration of the taxpayers has been made at the RFC, we face the problem of maintaining and updating those databases, since coming from taxpayers' self-assessment and self-management processes, often taxpayers, due to a simple omission or, with the intention to evade, do not file notices for changes in the fiscal domicile or for the fiscal situation in general, influencing in this manner the quality of the information that we can manage as authorities.

Under this context and starting from the fact that for modern Tax Administrations it is very important to have sufficient and updated information on taxpayers, since it means the world to them and it is also important to these have efficient mechanisms for their exploitation, in Mexico during the 2005 fiscal year, reforms have been promoted for the Fiscal Code of the Federation and to the Revenue Law of the Federation, so that the Tax Administration Service may commission the Program to Update the RFC (PAR, acronym in Spanish), to search for new alternatives to update and enlarge the taxpayer base, mainly in the small taxpayer sector, which are currently in the information economy.

Therefore, site visits, invitations, information requests, census or any other legitimate measure in the tax provisions to comply with this purpose, by specifying that this information and data request does not constitute the beginning of verification authorities.

It is important to point out, that in attention to the fact that PAR is mostly directed to the small taxpayer sector, this taxpayer group was exempted during the current fiscal period, from the enforcement of fines for being in default with their obligations of formal nature; the purpose of these measures is to encourage voluntary registration.

On these same lines, the Tax Administration Service has been empowered to establish additional facilities to this taxpayer sector, which are also directed towards the correction of their fiscal situation.

It is important to mention, that for the present program to thoroughly comply with the ultimate collection purpose, which is foreseen with its implementation, after this first approach, the performance of

different acts which allow to follow-up and control of the information obtained, such as: the registration in the RFC, proper assistance for voluntary compliance and as the cases may be, eventual requirements of obligations, the exercise of verification powers in the enforced collection of fiscal credits, this is why the obtainment of results has been projected to be progressive.

This is a program that is designed to be used not only by the federal tax authorities, it is being promoted at different levels of the state and municipal government, as well as the other sectors of society (businessmen, chambers, businesses, collegiate groups, formal and informal leaders, civilians) with the purpose that the same be a means to inform on the program to clarify doubts and motivate participation.

VI. Illegal Fiscal Practices

Another mechanism that we have used to reduce evasion behaviors and planning by taxpayers, and in this manner make more efficient our collection levels, is to advertise criterion and reiterated practices, which according to the opinion of our Tax Administration are illegal in nature, since they exceed the limits of the correct legal interpretation or they constitute a crime.

The above, with the purpose of motivating due and correct compliance with fiscal obligations, inviting taxpayers to correct their fiscal situation, based on said criteria have performed and have approached the tax authorities to resolve any doubt pertaining to their individual case.

Consequently in our Website we indicate that the Tax Administration Service, with the purpose of warning taxpayers on illegal practices that have been detected, observed and sanction by its different administrative units, and which in certain cases have generated jurisprudence in favor of the federal tax authority, have decided to know periodically interpretation criteria that are damaging to the interests of the federal tax authority.

In this regard, they are informed that the observance of these criteria will be carefully examined and will give place to contingencies, not only of economic nature, but of penal nature as well, as the case may be.

Currently, 16 criterions are being advertised, the same are divided into the type of tax and topic, mainly related to deduction issues.

Income Tax

Revenue

- Liquidation of corporations. Treatment of intangibles

Deductions

- General
- General partnerships. Salaries and social security.
- Sales of fixed assets.
- Simplified Regime.
- Reserves for pension or retirement funds. Interests resulting from investment or reinvestment in the funds are not deductible.
- On the issue of investments.
 - ✓ Telecommunications industry.
 - ✓ Soft drinks and Beer Industry.
- On the issue of interests.
- In the financial system.
 - ✓ Credit Institutions. Global preventive reserves deduction cap.
 - ✓ Credit Institutions. Deduction of Global preventive reserves and credit portfolio rating.
 - ✓ Credit Institutions. Bad credits.
- Workers' participation in Company Profits.
- Residents living in foreign countries.
- Permanent establishment.
- Legal capacity for fiscal effects. Foreign Corporations.

Value Added Tax

Insurance companies.

Tax on Assets

Tax Assessment in the case of a merger.

CONCLUSIONS

The efficiency in tax collection and the correct provision of goods and services in society is the goal towards which all Tax Administrations must be directed, in this manner, said advance must be supported on the correct and certain distribution of all resources at hand, directed to enhance and raise the levels of excellent and efficacy in its operation, seeking to achieve in practice, the strict and correct compliance with the stipulations of the fiscal standards.

This distribution must be based on a quality model adjusted to international standards and on the best practices in the issues, Retaking the individual and specific needs of each tax administration to adapt said model, by touching upon, at least, the following general line items:

- a) The quality of the services.
- b) The integrity of public employees.
- c) Society's perception of the reliability and efficacy of the area or department in charge of tax administration.

The structuring of organizations in the tax field must be supported on work by processes where all areas have aligned their tasks in the vision, mission and values of the organization and where efforts are directed to common goals and not disarticulate functions among different areas.

Finally, to obtain higher levels of efficiency and efficacy in collection goals, that all tax administration has entrusted, the implementation of programs and projects that are directed to compliance with the following objectives is advisable:

- a) Redesign and automate key processes.
- b) Simplify taxpayer services, supported on electronic media.
- c) Strengthen the Federal Registry of Taxpayers.
- d) Improve the effectiveness of examination, recovery and control activities.
- e) Act proactively in the juridical framework.
- f) Transform data into knowledge for decision-making.

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Case study

TOPIC 3.1

THE DEFINITION OF THE LEGAL POWERS OF THE TAX ADMINISTRATION

Juan Toro
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(Chile)

CONTENTS: I. Introduction.- II. The Risks of Noncompliance and the Powers of the Tax Administration.- II.1. First cause of noncompliance: the taxpayer does not know how to comply and/or makes errors in complying.- II.2. Second cause of noncompliance: reduction of the tax burden to obtain an economic advantage.- II.3. Third cause of noncompliance: intention to defraud the treasury.- Final Reflexion.

I. INTRODUCTION

The legal powers of a tax administration should be closely linked to the type of tax system it must administer. Thus, depending on the principles of design of the tax system, that is, the nature of the taxes to be administered and the mechanisms established to fulfill the tax obligations, the tax administration should count on a series of powers that may render possible compliance with its fundamental mission which is the application of the tax system.¹

¹ Obviously every tax administration has its own specific definition of institutional mission and the reference made here is of a general nature.

There are currently two fundamental principles that govern the tax systems in the world: (1) taxes (taxed events, tax bases, rates, etc.), which are closely linked to the development of economic activities, and (2) the taxpayers who have the primary responsibility (self-responsibility, self-compliance, *self-assessment*) of fulfilling their tax obligations, among them, determining and paying the taxes associated to the development of their economic activities that are subject to the different taxes.

In fact, in tax systems there are taxes where the taxed or generating event is the ownership of certain properties, as is the case of real estate taxes, taxes on the physical net worth of individuals and the taxes that encumber the transmission of estates and donations. Nevertheless, other encumbrances such as direct taxes on income are related to the earnings or income periodically produced by an economic or entrepreneurial activity in such a way that the latter's positive result, in each fiscal period, will affect the amount of tax to be paid to the treasury. Other taxes of an indirect nature are linked to the circulation and consumption of goods and services, as is the case of taxes structured according to the value added (VAT) technique, where every stage of the production, distribution and commercialization of goods and services is taxed.²

In Chile, the self-assessment system has been adopted in the case of taxes that deal with activities that generate earnings or with the circulation and consumption of goods and services. Likewise, efforts are being devoted for establishing this modality for taxes on real estate, net worth, estates and donations.

In the case of self-declaration, the entire process of getting correctly or determining the tax is preceded by a series of operations that must be undertaken by the taxpayer, under his personal responsibility until concluding with the calculation of the tax; although previously establishing the existence of the taxable event, going through its quantitative valuation to transform it into the taxable base after making the additions or deductions allowed by law and applying to that tax base the corresponding tax rate or type.

Now then, it is necessary to consider that the self-responsibility system in the determination of taxes, based on the principle of good faith, also involves risks of noncompliance which may originate from several causes, such as ignorance of the rules, errors, or ill intention. Thus, in a self-responsibility system one may find at least three forms of noncompliance:

² Some of these taxes are not considered under the general principle of self-responsibility, at least partially, as is the case of territorial or real estate tax which is a type of tax determined and collected by the administration.

- The taxpayer does not know how to comply and incurs in errors in compliance ((-) and (+)).
- The taxpayer reduces his tax burden to obtain a monetary advantage.
- The taxpayer incurs in a tax offense to commit fraud against the treasury.

In the light of these situations, the tax administration requires specific powers to timely detect the irregularity and, even more so, precisely identify the event that in every case has originated noncompliance, so as to adopt an attitude previously provided in the law, and according to the principle of legality of the taxes. Therefore, in order that the tax administration may apply the tax system defined under the previously indicated principles, it must count on a series of powers that may allow for “extracting” the collection potential implicitly found in the juridical and economic structure.

In order that the tax administration may face these risks of noncompliance, there is the need that it be provided with legal powers or attributions (generically powers) that may allow it to develop strategies and actions for neutralizing these noncompliance risks. Powers in the following spheres:

- To regulate the application of the tax system, especially with respect to the declaration and payment of taxes.
- To educate, assist and provide services to the taxpayer for the correct application of the tax rules.
- To control routine and systematic tax compliance.
- To examine and sanction noncompliance.
- To investigate and curb tax violations.
- To collect net and demandable tax debts.

It is crucial for the tax administration to exercise the foregoing powers without losing sight of the basic principle of the tax system, that is, that taxes “arise” from economic activities where the taxpayer is at the same time, economic agent and citizen. Therefore, the powers should be exercised by trying to interfere to the minimum possible and in the simplest and less burdensome manner with the normal development of the country’s economic activity.

In Chile, we try to implement the tax system by bearing in mind the principles of design and the powers for its application, in keeping with three strategic management bases:

- Facilitate compliance with tax obligations to maximize voluntary compliance.
- Strengthen examination to minimize tax evasion and fraud.
- Contribute to economic development through the application of a tax compliance model firmly based on the *on-line* tax administration modality that may promote the modernization of the State, prioritize simplification and reduction of compliance costs and promote improvements in productivity as a result of compliance schemes that may modernize the development of economic activities.

II. THE RISKS OF NONCOMPLIANCE AND THE POWERS OF THE TAX ADMINISTRATION

As stated in the previous section, inherent in the principles of design of the tax system –wherein the declaration of taxes is an act of the taxpayer’s self-responsibility– there are risks of noncompliance that require that the tax administration be endowed with legal powers vis-à-vis the taxpayers, to correctly apply the tax system, educate taxpayers to comply with their tax obligations, demand compliance with taxes, examine the taxpayers, verify violations of the tax rules, apply sanctions for noncompliance with tax obligations, undertake enforced collection of the tax debt and denounce before provincial courts tax irregularities detected that may constitute tax violations.

The series and extension of the faculties or powers of the tax administrations will also depend, among other factors, on the level of acceptance of the taxes by the taxpayers and the tax discipline prevailing in the country, especially with respect to the use and destination of public resources collected through the tax system. In fact, if the tax system lacks legitimacy, its application may probably be limited by the powers which the tax administration may have or lack.

Below is a description of the use made in Chile of the powers highlighted in the previous chapter, in the light of noncompliance also indicated in said section.

II.1. First Cause of Noncompliance: The Taxpayer Does Not Know How to Comply and/or Makes Errors in Complying.

To prevent noncompliance with the obligation to self-declare as a result of this cause, the administration may undertake preventive taxpayer assistance actions that may warn and instruct about the legal obligation to declare a specific tax and the correct manner for doing so.

Effective actions for these purposes are those directly related to the systematic support given by the tax administration to the taxpayers.

In this respect, the Internal Revenue Service has developed an institutional policy through the implementation of several measures whose purpose is to administer and efficiently satisfy TAXPAYER ASSISTANCE needs, from among which we will highlight the following initiatives:

Taxpayer Assistance Department

The Taxpayer Assistance Department was created at the National Directorate in 2003. Its objectives are to propose policies in relation to taxpayer assistance, strengthening of the quality of service afforded with respect to assistance and education and of the Service's communication strategy. This Unit counts on the Areas of Communication and Public Affairs, Taxpayer Assistance Projects, Technical Assistance in Contents and Editorial Quality of the Web Site and Administration of the Web Site.

Taxpayer Assistance Centers (TACEN)

Along with the foregoing and in order to further strengthen the strategic management basis to facilitate taxpayer compliance, Assistance Centers have been established in several Operational Units. They constitute the first line of taxpayer assistance, where they are provided technological tools and the support of officials to facilitate self-compliance. These Centers are considered as the entry door to tax procedures by means of modules of assistance with specialized staff, in addition to a self-assistance module.

E-Government

Likewise, as a strategic option to facilitate and promote tax compliance, a strong and sustained thrust has been given to e-Government in the Service, for the purpose of making massive use of modern Information Technology –IT- in its relationships with the taxpayers.

Through the intelligent use of IT varied solutions that are in keeping with the institutional mission have been developed in Internet, as main channel of interaction with the taxpayers-citizens-economic agents. This area has been developed under the premise that for the Internal Revenue Service e-Government is not a “fad”, but rather a new paradigm that allows for rethinking and redesigning the form of the tax administration as well as the services it has available for taxpayers to comply with their tax commitments.

We have sought e-Government solutions that are coherent with our mission and aligned with the strategic bases that sustain the Service’s current institutional management, to which we already referred in the introduction to this paper:

- a) Facilitate tax compliance (Maximizing voluntary compliance);
- b) Strengthen examination (Minimizing tax evasion and fraud), and
- c) Contributing to the country’s economic development (promoting increases in productivity, the modernization of the State and the decrease of unfair competition among economic agents).

To strengthen this approach that favors and promotes the use of e-Government solutions by the taxpayers, in January 2003, we undertook an **in-depth** redesign of our Web site, by releasing a new concept “**The SII’s Virtual Office in Internet**”.

Under this new concept we endeavor to move toward a genuinely “on-line” tax administration that may provide services and e-Government solutions of excellence for all stages of the taxpayer’s life cycle: Registration upon initiation of activities and obtaining the Taxpayer Master File (TMF); Declaration of monthly and annual taxes; Payment of monthly and annual taxes; Modification of Returns and Information; Provision of third-party information; Authorization of tax documents; Administrative Inquiries, and conclusion of the business.

Some examples of current Internet services for tax compliance (www.sii.cl) are: Compliance with income tax; Electronic Invoice for taxpayers; Electronic Invoice for public organizations; Electronic Slips of professional fees; Initiation of professional activities, etc.

In sum, our in-depth option of e-Government has led us to leadership positions (in Chile and abroad) in the use of Internet for tax compliance and has helped us to close the digital difference with developed countries.

Education

In this field, we have available for taxpayers several portals in the Web Site such as:

Tax portal for micro, small and medium-sized businesses

The Tax Portal project is a technological facility especially developed to contribute to the country's economic development through Web services for the micro, small and medium-sized enterprises. This project began to be developed and managed in 2004 and its objective is to provide information and facilitate tax compliance.

The Service Director and Deputy Directors of the technological area agreed to divide the project into two stages, one of assistance and the other application. In the first one, the taxpayer is provided the greatest possible amount of information and in the second, he is given assistance to comply in an appropriate and timely manner.

Portal for Foreign Investors

This mini portal for Foreign Investors is aimed at further strengthening the strategy of making of Chile an Investments Platform Country, specialized in attracting global investors, who may coordinate and direct their regional businesses from here. This portal has available bilingual (Spanish-English) telephone assistance at the SII's Internet Assistance Desk. In addition, there are assistance modules especially aimed at the foreign investor at the Taxpayer Assistance Centers of the most important Metropolitan Regional Directorates.

To consolidate this initiative, one of the key issues is to demonstrate to potential investors the transparency and stability of the tax system, since this is a fundamental aspect when it comes to evaluating where to establish a business base or an investment. Thus, by providing the relevant information with respect to the tax model, the evaluation is facilitated and, accordingly, the transparency with which the tax administration operates.

New options or redesign of the SII's Virtual Office in Internet with respect to frequently asked questions and their answers in the Web site

Another of the important elements in facilitating tax compliance and above all, in generating the taxpayer's self-assistance nature has been the significant strengthening in 2004 of the Frequently Asked Questions and their Answers Project. This work is carried out by a group of professionals specialized in taxation and communications, who are dependent on the Taxpayer Assistance Department who, in little over a year of work, have managed 189.518 visits to the Web site of the Internal Revenue Service, from a universe of approximately 2 million taxpayers.

Basic Tax Accounting Dictionary

A Basic Tax Accounting Dictionary has been elaborated and incorporated in the Service's Web site. It includes a selection of frequently used words and their respective definition. The great majority of them are related to tax laws, while others are applicable to areas of law other than taxation, but which likewise contribute to understand the tax regulations and accordingly, to compliance with tax obligations. Undoubtedly, this Basic Tax Dictionary is a useful instrument for linking the taxpayer to the Internal Revenue Service.

The purpose of this dictionary is to provide prompt and expeditious assistance, regardless of the fact that the legal obligations and definitions may be found in the circulars, resolutions, letters and corresponding laws, to which one would have to resort for obtaining a precise description.

Facilities for the use of Internet

A summary is provided of the instruments that have been used within the Service's Communications Plan in the year 2004, and which will be increased in the year 2005 for the purpose of reaching the largest possible number of taxpayers and further strengthening one of the strategic bases of the SII, which is that of facilitating tax compliance by the taxpayers and promoting the use of Internet.

Massive publications

Tax education columns in mass media, at no cost

In 2004, there were free spaces in mass communication media. Up to this date, a column is drafted and published weekly in the Economy section of the newspaper that is distributed free in the subway. Within publications that involve no cost there are also five supplements published by the newspaper with widest national circulation:

- Supplement on Valuation of Heavy Vehicles (250,000 copies of national circulation and 2000 free copies for the SII).
- Supplement on Valuation of Light Vehicles (250,000 copies of national circulation and 2000 free copies for the SII).
- Tax Supplement on Instructions for preparing the Annual Income Tax Return corresponding to the 2004 tax year (185,000 copies of national circulation and 2000 free copies for the SII).
- Supplement on Instructions for filling out the new Monthly Return and Simultaneous Payment of Taxes (135,000 copies of national circulation and 2200 free copies for the SII).
- Supplement on the Issuance of Certificates and Sworn Returns for 2005 (250,000 copies of national circulation and 2000 free copies for the SII).

Internal Revenue Service assistance interviews in mass media at no cost

This instrument was used as support in the educational campaigns when introducing new products or changing the existing ones. Such is the case, for example, of the Electronic Invoice, Form 29, among others. The channels used were written and electronic media, as well as radio and television.

Institutional tax education fascicles

These publications are fully prepared and produced by the SII, deal with specific topics and are distributed in seminars or events to which the Internal Revenue Service is invited. In this respect, documents have been prepared on the tax treatment of Donations for electoral expenses, Electronic Government offers made by the SII and tax treatment of Foreign Investors.

Distribution of Information Diptychs or Primers

Diptychs with graphical and pedagogical explanations are produced internally and distributed free through the Taxpayer Assistance Centers. They cover specific topics such as taxation of real estate, use of password for accessing the SII's Web page, taxation of Small Agricultural Producers, procedure for the Initiation and Termination of Activities, among others. Currently, there are 13 primers or pamphlets that are permanently renewed and updated.

Thematic posters related to specific campaigns

Thematic posters related to specific campaigns are also produced internally. Basically, they are distributed at the institutional level and seek to support new instructions or facilities of access to the Service's products. One may mention, for example, the mini portal for Foreign Investors, the new Monthly Return and Simultaneous Payment Form 29, Slip for Electronic Fees, etc.

Internal Revenue Service mobile assistance stands

In the context of assistance campaigns, several activities have been carried out for providing direct support to the taxpayers outside the Service's offices. These campaigns have been coordinated with the Taxpayer Assistance Department in the Metropolitan Region and the respective Regional Directorates in each region.

Coordination with Trade Associations

As a way of approaching taxpayer segments having a more direct interaction with the Service, various contacts have been made for undertaking mutual cooperation activities. Worth mentioning are the relationships with professional associations, businessmen, producers, exporters, farmers and miners trade associations, etc.

CONCLUSION

These measures and policies aimed at facilitating taxpayer compliance which is considered a strategic base of the Internal Revenue Service, has allowed that 83% of Income Returns in 2004, for example, have been prepared by the taxpayers, based on the proposal prepared and delivered to them through the SII's Virtual Office. The foregoing is a significant achievement, since the figure of 1,663,720 Income Tax returns implies an increase of 260,527 tax returns filed through Internet with respect to 2003, when 1,403,193 tax returns were received through the SII's Web site. That is, an increase of 18.6% in returns filed via Internet. This implies that not only did taxpayers who had benefited from this electronic procedure maintained the electronic option, but also that a very significant additional number completed this procedure via Internet and also became aware of the SII's Virtual Office and the many solutions of Electronic Government available for facilitating tax compliance.

NEW OPTIONS IN 2005**Taxpayer's Tax Primer**

The Taxpayer's Tax Primer is an innovative self-assistance service conceived by the SII on the basis of its Virtual Office via Internet to provide, on-line and in the easiest and simplest manner the information it has on each taxpayer (Initiation of Activities, authorized tax documents and their corresponding numbering, tax observations, real estate in his name, Returns field with respect to Income, Monthly Taxes, Provisional Payments, pending situations, among others). According to this new option, the taxpayer wishing to find out about his tax situation in a synthesized, understandable and simple manner must not navigate through each of the menus currently existing in the SII's Web site, but rather must only follow the steps listed below:

1. Enter the Tax Situation section of the SII's Virtual Office in Internet.
2. Choose the Taxpayer Tax Primer option.
3. Identify himself with his TMF number and Password. It is essential to count on a Password to access this option, since the information provided is private for each taxpayer.
4. On displaying the page, one may visualize the taxpayer's personal information, which includes the economic activity code, domicile and office of the SII for undertaking personal procedures. Subsequently, there is a list of the number of tax documents authorized by the SII, the real estate existing under the taxpayer's name, tax observations and tax returns, among others.

Another innovative aspect is that the Taxpayer Tax Primer has two options that allow it to be used as certificate. The first corresponds to the existence of a button to print the Primer in PDF format, which indicates the date and time of printing. This printed copy may be used by the taxpayer for procedures he may deem convenient and the information shown in the Primer is valid for the date and time when it was printed. The second button allows for sending the Primer by electronic mail to the address the taxpayer wishes. In this way, the same application allows that the file in PDF format be attached to the electronic mail so that the receiver may print it and it even includes a consultation code so that the receiver may review by Internet the veracity of its contents. This code has a 60-day duration and is valid for making only one consultation and then expires.

Give your opinion about the SII's quality option

Give your opinion about the Service's Quality via Internet, is the channel via the SII's Web page through which taxpayers may transmit their problems, suggestions and congratulations. In situations where a taxpayer expresses a problem, one proceeds to analyze the background information provided and a response is given in keeping with the policies established for the optimum operation of this channel.

Objective

- Facilitate tax compliance, giving response to the concerns of taxpayers.
- Provide feedback to the internal areas of the Service in order to make improvements of the same type (the systems and procedures currently used).
- Along with answering the taxpayer, another of the functions of the channel is to inform the business areas and the Regional Directorates about the existing problems. To this end, the situation is reported in order to carry out the corresponding improvements.

II.2. Second Cause of Noncompliance: Reduction of the Tax Burden to Obtain an Economic Advantage.

To detect this type of noncompliance, the tax administration must resort to examination actions as such, whose legal powers are provided in the Organic Law of the Service, the Tax Code and specific laws, among which we will mention the following:

Information from third parties and computerized crosschecks

In order to examine compliance with taxes, the Internal Revenue Service has the power granted by law to request sworn written returns from third parties, in relation to events, data or background information of any nature and in relation to other taxpayers. In the case of the review of annual income returns, this external information refers specifically to revenues, earnings or economic benefits that may have been obtained by the filer in the respective period and which must be taken into account for determining the tax base of the tax in question.

This information originating from third parties is compared with the background information which the taxpayer provides in his income tax self-return, by means of computerized crosschecks. Given the large volume of information handled, this task is more feasible, easy and accurate through the use of e-Government. In the "2004 Income Operation", for example, all the returns filed were subjected to over one hundred crosschecks or computerized verifications.

This procedure for controlling computerized crosschecks allows for determining if the tax calculation is correct or if there are deficiencies or omissions originating from, for example not comparing in the return, revenues that constitute taxable income. If this occurs, the self-return will be objected by the Service and sent to the examination area for in-depth verification.

Examination presence

Corresponds to examination carried out through inspection tasks previously planned and undertaken in the field, to specific taxpayers or sectors thereof. This allows the Tax Administration to have a systematic control of the formal aspects of taxpayer compliance.

Auditing

Involves exhaustive review of records, books and other taxpayer accounting and tax documents to determine whether the tax returns are complete and correct or whether the tax refunds or exemptions requested by the taxpayers are appropriate. It is the most complete of examinations made to taxpayers and the most important ones or those contributing more to the Treasury are more frequently selected.

Other examination powers of the Service

- Regulate the obligation to file sworn returns with simultaneous payment of annual (Income) and monthly (VAT) taxes and the obligation to make monthly provisional Income Tax payments on account of the definitive annual tax.
- Examine and review the returns filed by the taxpayers within the statutes of limitations. The regular statute of limitations for these purposes is three years as of the expiration of the legal term in which payment of the respective tax should have been made. This term is increased to six years in the case of taxes subject to return, when the latter would not have been filed or the one filed were maliciously false.
- Make use of all legal means for verifying the accuracy of the returns and for obtaining background information on the taxes declared.

- Summon the taxpayer to file a new return rectifying the previous one or to clarify, expand or confirm the one presented.
- Assess or remit, as appropriate, the taxes omitted in the return.
- Provide for the total or partial change of the VAT taxpayer, in the case of taxpayers that are difficult to examine.

Regulatory powers of the Service Director

The Service Director has the power to “set rules, give instructions and issue orders for the application and examination of taxes”. This is relevant inasmuch as it allows for understanding the tax regulation which because of its nature is very arid and difficult to understand by taxpayers who lack the counseling of attorneys and accountants.

Request for personal court order

During the administrative investigation of tax violations, when the person requested fails to attend, without justified cause, after the second summons, it is appropriate to request a suit for collection, which consists of the arrest of the infringer for up to fifteen days, in order to achieve compliance with the obligation to provide information. This measure is decreed by provincial courts at the request of the administration and always providing that the reluctant person may have been expressly summoned to comply within reasonable term.

Administrative Sanctions and Condonations for Tax Violations

According to the Tax Code, taxpayers who self-denounce the violations incurred or being denounced by Service officials, confess and accept to pay the fine, will be subject to the sanctions provided by law, being able to obtain condonations, provided that specific requirements are fulfilled, such as: that these are administrative violations provided in the Tax Code; that is, omissions, extemporaneous returns, erroneous returns, etc.; that the infringer denounces himself or being denounced by the Service officials, he will not deny the event denounced; that he will not have offended the official making the denunciation by word or deed; that he would not have been denounced, accused or condemned for a tax violation; that he will go the corresponding Service Unit on the day indicated by the denouncing official; that he will have no irregularities in his tax compliance or does not correct them within the term allowed for

such purpose, and that he is not delinquent in the filing and/or payment of the taxes examined by the Service or in the payment of fines which the latter may have applied to him.

It is necessary to point out that taxpayers who are delinquent in the filing or payment of taxes or fines, or having some irregularity in compliance with the tax law, in order to benefit from the condonation must previously solve such problems, for which he will be allowed a term of 10 working and unpostponable days, as of the day of appearance. Once the problem or delinquency has been solved within said term, he may opt for the benefits of the condonation.

Collection of the tax debt

Finally, the tax system, should count on a procedure for collecting the tax debt.

In the Chilean Tax Administration, administrative and judicial collection of taxes is the responsibility of the Treasury Service.

The collection system is structured in three stages, the first is known as administrative or prejudicial collection and it includes a term for voluntary payment which begins on the day following the expiration of the term for solving the debt and is extended for 60 days, during which period certified letters are sent to the taxpayer informing him about the existence of a delinquent debt. In this way, the portfolio of delinquent debtors is cleared, recovery expenses are reduced and a significant percentage of tax debts promptly enter the treasury.

The second stage is judicial, before an Administrative Judge which the law calls "Substantiating Judge". The latter works within the Tax Administration and has special powers to obtain the payment of delinquent taxes, such as access to tax returns and other background information that may be found in other services, in order to obtain information on property that may facilitate the collection of the delinquent taxes, decree the seizure of the properties, remunerations and order the search for properties to render effective the tax debt.

The third stage of recovery takes place before a Judge of first instance of a Civil Court and that is the judicial recovery as such, since the "competent Judge who is a member of the bar", as defined by law, belongs to the Chilean Judicial Power. One resorts to this jurisdiction

only after exhausting the previous stage or in the case of attachment of real estate belonging to the delinquent debtor. The powers of the Judge who is a member of the Judicial Power, in the last stage of collection are those that are common to any process of attachment of a citizen's properties that will conclude with an auction sale.

Lastly, with respect to the collection of taxes, a special comment should be made of the power of the Treasury Service to request the suit for collection from a taxpayer, when he has failed to pay taxes subject to withholding or surcharge, to which he is legally obliged. In this case the Judicial Power may order the arrest for up to fifteen days of a taxpayer who has been repeatedly requested to pay taxes subject to withholding or surcharge and has failed to do so. Under the allegation of eventual imprisonment for debt — sanction that has been eliminated from our penal legislation — taxpayer representatives have brought this allegation before the court and the Supreme Court of Chile has repeatedly resolved that the suit for collection as posed, is in keeping with the law, since it involves an undue appropriation of tax resources and is applied by the regular courts following reiterated summons of the infringer. It should be mentioned that an adequate administration of this power may optimize the collection of such taxes as VAT or payroll tax.

II.3. Third Cause of Noncompliance: Intention to Defraud the Treasury.

In these cases, there is fraudulent behavior of the taxpayer which is materialized through the filing of self-declaration of taxes that are maliciously incomplete or false, with the specific intention to defraud the Treasury.

Powers to administratively investigate tax penal violations

In these situations of tax violations with a fraudulent intention, the administration should have legislative powers to administratively investigate the tax violation and to solve before the courts the corresponding actions for the application of criminal sanctions, regardless of the civil collection of taxes evaded or defrauded.

In fact, in the administrative stage the Service is empowered to compile the information that will serve as basis for the Director's decision to file a denunciation or complaint or exclusively undertake the application of

a monetary sanction or fine, for which the authority will count on the Expert Report of the Department of Investigation of Tax Violations and the Legal Report of the Judicial Defense Department.

In this way, when exercising its examination powers the Service detects events that could be an indication of a tax violation, it will begin a process for the compilation of background information in order that the Director may count on the necessary elements of judgment to decide the application of sanctions for the tax violation.

To decide whether or not events have the necessary merit to bring the taxpayer before the courts for a tax violation, a series of indicators are considered, such as: amount of the tax loss involved, repetition of the tax violation, existence of evidence pointing to the conviction of a malicious action, exemplifying or pedagogical effect of the penal action according to the regional reality and or business or activity of the infringing taxpayer

Exercise of the penal action

After completing all pertinent procedures and considering it appropriate to undertake penal action against the taxpayer, the Director makes the decision and if he decides to file suit, it is done so by means of attorneys of the Internal Revenue Service before the Criminal Court that corresponds to the taxpayer's domicile and such judicial jurisdiction will continue the criminal process until its completion.

It may also happen that events may only deserve the application of monetary sanctions or fines, in which case the pertinent Regional Directorate will follow the corresponding procedure.

Regardless of the investigative functions of these tax violations, that correspond to the Department of Investigation of Tax Violations, at the level of the Juridical Deputy Directorate, two special government attorneys' offices were established for criminally prosecuting, following decision by the Director, certain specific tax violations.

One is the Government Attorney's Office against False Invoices, whose mission is to promptly undertake before the courts, criminal actions originating from the use of falsified invoices or for their malicious use, since these illegal behaviors cause or allow Value Added Tax (VAT) fraud.

The other is the Government Attorney's Office against Underground Trade which is in charge of filing criminal actions in cases involving the trade with goods that have not fulfilled the legal requirements of the filing and payment of taxes encumbering their production or trade, or whose commercialization or manufacturing is done underground.

On the other hand, the Office for the Prevention of Tax Fraud was established at the Deputy Directorate of Examination. Its function is to analyze, schedule and carry out tasks for detecting taxpayers involved in tax violations, undertake studies of the various economic activities and elaborate programs aimed at detecting tax fraud.

FINAL REFLECTION

When we think about the "powers" of the Tax Administration we invariably look toward the legal system in force in our countries and conclude that we have no other powers except for those provided by the law and likewise, if we require other "powers" we must resort to legal modifications, which is not easy. Then, we – Tax Administrators - remain motionless, trapped in the intricacies of the laws.

However, this dilemma is not so much so. Those of us who are heading a modern Tax Administration have the duty of looking beyond the juridical framework, aware that currently we have available other elements and systems that to a certain extent, are also powers and allow us to better manage our tax offices by means of the massive and intelligent use of e-Government solutions.

In this paper we have presented the "legal powers" of the Chilean Tax Administration, but have likewise especially referred to other possibilities afforded to us by modern technology, for improving and modernizing management and delivering to our customers – the Taxpayers and the Treasury - services of excellence.

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Case study

TOPIC 3.1

THE DEFINITION OF THE LEGAL POWERS OF THE TAX ADMINISTRATION

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CONTENTS: Introduction.- 1. Italian Revenue Agency.- 1.1. Mission and targets.- 1.2. Nation-wide organisation.- 2. The Powers of Access to Information and Information Technology.- 2.1. So.Ge.I.- 2.2. Development of information system.- 2.3. Information and tax assessment.- 2.4. Internet and tax compliance. Conclusions.

INTRODUCTION

The legal power of Italian tax administration is defined by the laws of the Parliament on proposal of the Government and in conformity of the European directive.

In addition to the definition of tax system, the Italian tax normative establishes and limits the power of the Italian Revenue Agency for acquiring and managing the information.

Often the Revenue Agency itself proposes the change or the introduction of new laws useful to improve the efficacy and the efficiency of its own administrative action.

The Italian Revenue Agency has the legal power to acquire information on population and business companies not only through the tax returns but also through other public administrations and external sources, like banks, chamber of commerce, public utility companies (i.e. Telecom).

This power allows the Revenue Agency to plan and realize its control activity, achieving at the same time two goals:

- ~ the strong reduction, in comparison with the past, of the mistakes towards the taxpayers and the subsequent improvement of the relationship with them;
- ~ the prevention of tax evasion phenomena.

1. ITALIAN REVENUE AGENCY

Constituted in 1999 by Legislative Decree n. 300, Italian Revenue Agency has been operating since 1 January 2001. As of 2005 it is therefore in its fifth year.

Italian Revenue Agency carries out all functions regarding the administration, assessment and collection of taxes.

It is a non profit public body acting under the supervision of the Minister of Economy and Finance who maintains control over policy orientation. As such, Italian Revenue Agency takes full managerial and operational charge of its affairs and is autonomous as regards regulations, administration, assets, organisation, accounting and finance.

However, its internal general directives must be submitted to the Minister for approval.

The Minister of Economy and Finance and the Italian Revenue Agency set out services to be provided, targets to be reached and the assignment of related financial resources in a yearly protocol. Italian Revenue Agency can however raise further revenues for the provision of services to public and private companies and organisations.

It draws up its financial statement in compliance with the civil code.

Italian Revenue Agency has a Steering Committee, in office for 5 years, which deliberates on:

- ~ The Statute.
- ~ Accounting rules.
- ~ Administrative rules (relating to the organisation and running of the Italian Revenue Agency, employing personnel, staff levels and access to managerial positions, the set-up of offices at central and peripheral level, etc.).

1.1 Mission and Targets

The creation of the Revenue Agency has been the starting point of a changing and transformation process of the Italian tax administration, inspired by transparency and simplification principles.

The institutional mission of the Revenue Agency is to guarantee a top level tax compliance.

In the performance of its institutional functions, Italian Revenue Agency aims at:

- ~ simplifying relations with the taxpayer;
- ~ improving support and information services;
- ~ implementing stronger measures against tax evasion;
- ~ attaining optimal efficiency involving innovatory organisation and planning models.

It is easy argue that at the centre of its action, there is for the Revenue Agency the taxpayer, who represents its major customer.

The principal activities of the Revenue Agency to achieve its goals coincide with the internal structures in which the Agency is organized at central level:

<i>External relations</i> -	Liases with the press deals with the publication of material for taxpayers and information on Italian Revenue Agency's programmes and activities. Publishes the online magazine <i>fiscooggi.it</i> , manages
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Italian Revenue Agency website (www.agenziaentrate.it) and organises events throughout the state to provide the taxpayers with information on the tax system.

Information Technology - In charge of strategic planning on information and management systems, automation of procedures, IT and remote technology contract administration.

Economic research - Conducts economic and tax research including comparative studies with foreign tax administration systems aimed at gathering information that can be used by Italian Revenue Agency to define programmes and corrective measures.

Tax assessment - Plans, directs and co-ordinates assessment control, analyses forms of tax evasion, gathers and processes information that can be used to evaluate the need for investigations, for which it defines strategies and methods. It also takes an active part in major tax investigation operations.

Internal audit - Verifies that administration and accounting processes are carried out correctly, conducts investigations into the proper application of rules by offices, co-ordinates Italian Revenue Agency security activities in external relations, ensures risk prevention and manages security.

Tax system management - Designs tax forms, controls the acquisition and processing of tax returns and documents, manages online help, processing and payment services, defines tax refund procedures.

Tax regulations and litigations - Interprets and assesses correct application of rules, answers major appeals, provides indications for handling tax litigation.

In particular, since the two major objectives of the Agency are assistance and control, the *Tax system management* and the *Tax assessment* are the operational heart of the organization.

Both actions, whose legal power is limited by the tax normative and regulated by the *Tax Regulations and Litigations Department* and by the *Internal Audit Department*, in the last five years have achieved highest quality level thanks to the acquisition of information and their rapid and organic management, through the automation of the work's processes and the Information Technology.

1.2 Nation-wide Organisation

At regional level the Revenue Agency is organized in the following structures:

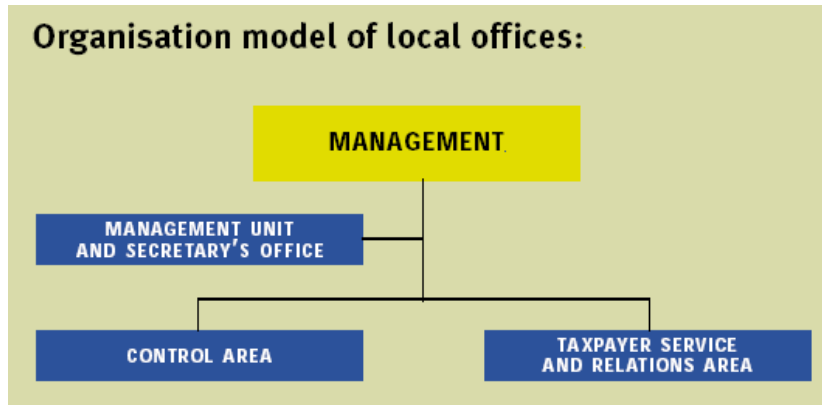
- ~ 19 Regional Management Departments (one per region).
- ~ 2 Provincial Management Departments (Trento and Bolzano).

The Regional and Provincial Management Departments plan, direct, co-ordinate and control the functions of the peripheral offices, and are internally organised into sections and offices, which vary according to the administrative requirements of the region.

At local level, Revenue Agency has some 400 local offices throughout the country. These offices, which are fundamental to the activities of the Agency, provide information and assistance to taxpayers, administer taxes, assessments, tax collection and deal with disputes.

In the major metropolitan areas, various district offices have been set up to assure even coverage of the area (8 in Rome, 6 in Milan, 4 in Turin, etc.). To assure that financial administration is capillary, many local offices have decentralised branches which provide taxpayers with the information and assistance they require.

Taxpayers can easily locate their local office using the search function at www.agenziaentrate.it.



Local offices now incorporate the functions previously carried out by four separate offices (Direct Tax Office, VAT Office, Registration Office and Local Tax Police). This gradual changeover, which began in 1997, was completed at the beginning of 2003. This was a major reorganisation which did not involve simply incorporating facilities under one roof, but marked the introduction of an entirely new structural model on a per-function rather than per-sector basis. Plans are underway to set up new taxpayer assistance and information areas within local offices in the knowledge that improving standards of service plays a key role in achieving tax compliance.

The organisation model places emphasis on aspects such as the multi-role capability of staff and team work, which not only improve quality standards but act as strong incentives to career advancement.

Local office activities should not be viewed and run as simple “administrative business” but rather as processes which meet the service requirements of the general public, the targets of the administration and the legitimate expectations of the taxpayer.

In keeping with these goals, and in order to further improve relations between taxpayer and Revenue Agency, a service is now available in more than 50 offices, as indicated at www.agenziaentrate.it, which enables the public to book an appointment with a member of staff and avoid time-wasting queues. This service will be extended to all Italian Revenue Agency’s offices by the end of 2003. Bookings can be made by calling CUP or by instructions on Revenue Agency website and consulting an agenda that displays a list of offices and available dates and times.

2. THE POWERS OF ACCESS TO INFORMATION AND INFORMATION TECHNOLOGY

In a national scenario that favours a move towards introducing a federal tax system, Italian Revenue Agency will provide a wider range of services both to regions and local bodies in order to rationalise tax system management procedures, optimise channels of information and tax collection, and improve the quality and efficiency of the services it provides to citizens using all appropriate technological means.

The reorganisation of public administrations into all-in-one service providers will act as an incentive to the Agency to set up integrated gateways which grant segments of users access to information and services in collaboration with other public administrations and in particular with local bodies.

In accordance with the strategic guidelines laid down by AIPA (Authority for IT in the Public Administration), Revenue Agency will develop an integrated tax administration information system, which networks with central and local public administrations. The aim is to phase out administrative paperwork and improve data handling efficiency while assuring security and privacy.

2.1 So.Ge.I.

In order to allow local offices to realize their action of assistance and control for the taxpayers, the process of acquiring tax information and other kind of information has been almost completely automatized and centralized through the technical support of an IT partner: So.Ge.I. (Società Generale d'Informatica S.p.A.).

So.Ge.I. is a share company and since 2002 the 100% of its share capital was acquainted by the Italian Ministry of Economy and Finance. Since 1976, So.Ge.I. implements technological solutions and platforms which underpin the delivery of quality services which enable taxpayers to carry out their tax obligations in an efficient, transparent and fair environment. The Revenue Agency's Online Services implemented by So.Ge.I., enable end users (140,000 users by Extranet and 500,000 by Internet) to carry out 45 million transactions relating to tax returns and other tax documents.

Through So.Ge.I. the Revenue Agency acquires on-line and manages with specific software information of data bases of other public administrations and many companies that supply public utility services.

2.2 Development of Information System

In a bid to make the tax system increasingly competitive, efficient and effective, and to simplify relations with the taxpayer, Italian Revenue Agency is committed to adopting clearer, more efficient forms of communication involving information campaigns, publications and remote access projects. The Revenue Agency aims specifically at an online or web model of administration which will facilitate, hence improve, relations with the public.

For these reasons the Agency invested many financial and human resources to:

- ~ upgrade and rationalisation of central and peripheral information systems in order to provide offices with technologically advanced infrastructures and assure high level protection against hacking as well as security of personal data updating databases;
- ~ upgrade assessment systems and procedures introducing more stringent tax evasion countermeasures through *sector studies*, which improve inspection targeting criteria and heighten administrative transparency to the taxpayer;
- ~ update the information system and improving the procedures for taking spoken statements during the verification process, and databank integration;
- ~ upgrade the existing communication systems and the development of new assistance and information tools for staff and the public, such as remote access, intranet and Internet facilities;
- ~ provide the public, even at school level, with more information in order to instill a widespread tax culture and reduce involuntary evasion.

2.3 Information and Tax Assessment

The legal power to acquire and manage million of tax and economic information would be useless if the Revenue Agency would not be able to acquire and put quickly at disposal this information to its operative structures.

Consequently, the Agency recently invested many resources for development of:

- ~ informatics procedures that allow today the “on-line” and “just in time” acquisition of all tax returns and tax payment models, through its web site www.agenziaentrate.it;
- ~ software for control activity that allows consulting and matching information for the selection of risks subjects with a high grade of precision.

But the informatics development interested in the main time also the internal work’s process of the Agency’s structures. In fact, it has been created a workflow management system that begins with the selection of risk subjects and arrives to the collection of the bad debt, through the transmission of a single and complete assessment act that incorporate the principal kind of tax (direct and indirect tax).

This informatics development involves important improvement of work’s capability of the human resources of the Revenue Agency.

2.4 Internet and Tax Compliance

Internet is a powerful resource that administrations can use to enter into closer contact with the taxpayers and Italian Revenue Agency has made a firm commitment to developing on-line services.

In addition to obtaining information, the web makes it possible for taxpayers, safely and from their own homes, to carry out operations such as submitting tax returns forms, paying taxes and registering rent contracts - all at the press of a button.

A particularly innovatory on-line service is the “tax mail box”. This allows taxpayers to check information on their own tax position (e.g. tax returns submitted, payments made, personal assets etc.).

Taxpayers can now also request information using Revenue Agency’s web mail service. The Contact Center automatically acknowledges receipt of all e-mails sent and provides instructions if delivery fails, and provides taxpayers with the relating answers.

In addition to finding a range of specific services, visitors to www.agenziaentrate.it can also:

TOPIC 3.1

- ~ access all tax information simply (particular care has been taken to make the site easily accessible to the disabled);
- ~ interact with Contact Center operators (web mail is already active but typical advanced web communications such as chat, co-browsing, page-pushing and data-sharing will soon be available);
- ~ consult the “Tax Documentation” on-line databank containing all tax regulations as well as circulars and decisions issued by Italian Revenue Agency;
- ~ calculate road tax;
- ~ find out tax deadlines;
- ~ book an appointment at one of Revenue Agency’s local offices.

CONCLUSIONS

High levels of evasion and wrong relationships between taxpayers and tax administration induced, at the end of nineties, the Italian Ministry of Economy and Finance to the creation of the Revenue Agency, a non profit public body acting autonomous as regards regulations, administration, assets, organisation, accounting and finance.

The two major objectives of the Agency are assistance and control of the taxpayers.

For realising with efficiency and efficacy its action, the Government gave to the Agency extensive legal power, maintaining high level of safeguard of the people.

One of the most important legal powers is that of acquiring and managing tax information, but also of databases of other public administrations and of many companies, that supply public utility services.

This legal power would be useless if the Revenue Agency would not be able to acquire and put quickly at disposal this information to its operative structures.

Consequently, the Agency recently invested many resources for development of Information Technology.

In particular, through its informatics partner, the Italian Revenue Agency created:

- ~ Informatics procedures that allow today the “on-line” and “just in time” acquisition of all tax returns and tax payment models, through its web site www.agenziaentrate.it;
- ~ Software for control activity that allows consulting and matching information for the selection of risks subjects with a high grade of precision.

The results of this process of the last 10 years allowed an important grow of tax compliance, with the consequence that the Revenue Agency is today considered one of the most efficiency public administrations of the country.

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Case study

TOPIC 3.2

**RULES AND MECHANISMS TO FIGHT TAX EVASION:
PLAN ZERO EVASION**

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CONTENTS: Presentation.- I. Plan Zero Evasion.- A. Concept of the plan.- B. Components of the Plan Zero Evasion.- 1. The struggle against tax evasion and fiscal fraud.- 2. Automation and modernization of services in customs offices.- 3. Improvement of collection services.- 4. Taxpayer assistance, tax culture and institutional image.- 5. Administration of the tax incentive policy.- 6. Double taxation agreements and the international presence of SENIAT.- 7. Adaptation of the physical infrastructure.- 8. Investment in information technology and telecommunications.- II. The Effects of the Plan Zero Evasion on Collection.- III. Application of the Plan Zero Evasion in the 2005 Fiscal Year.

PRESENTATION

During this 39th Assembly General of CIAT, which central topic is the “Role of the Tax Administration in Society”; we will present the topic pertaining to the “Roles and Mechanisms to fight tax evasion.”

In the introduction to the topic that we will present, which is contained in the program to this General Assembly, it is expressed that the objective of the improvement and the maintenance of the adequate levels of the tax obligations requires the convergence of two necessary conditions. These conditions are the attitude of observance by taxpayers and the integrity of the officials of the administration. This introduction also mentions the need of the tax administrations of implementing standards and mechanisms to fight evasion directed to sectors that are very inclined to not comply or when facing unfavorable opportunities, associate with control problems.

The topic herein will be developed along these lines. In Venezuela, at the National Integrated Service of Customs and Tax Administration, SENIAT, as from around mid-2003 established the central guidelines for the management of tax and customs, through the definition and incremental construction of the Zero Evasion Plan.

In this document, we present a vision of the group of the main components of the Plan and the actions applied within the strategy adopted, in function of reducing evasion and improving voluntary compliance.

* * *

I. PLAN ZERO EVASION

A. Concept of the Plan

The action of SENIAT is developed within the framework of the Plan Zero Evasion, conceived as an integral vision of management and as central strategic guidelines of the tax and customs administration, which explicitly defines the quantification of the objective that it pursues: Evasion must be zero. In the practice this plan has allowed to reduce tax evasion, increase collection and lead to the progressive improvement of taxpayer voluntary compliance in the payment of taxes, as well as reducing contraband, illegal customs actions and other acts of corruption.

The Plan Zero Evasion constitutes a strategy leading to increase and reinforce fiscal control on the economic sectors with high levels of evasion. In its examination component, the Plan is accomplished through the systematic application of conclusive actions in different regions of the country. These are actions that are pursuant to the Organic Tax Code and Venezuela's tax and customs laws, which have proven their efficacy through positive results on tax collection of non-petroleum origin and on the behavior of the taxpayers.

The beginning of the conditions that supported the important disposition of the National Executive of reducing the VAT tax rate from 16% to 15% and consequent partial reform of the Value Added Tax Law as from September 1st, 2004 as well as the elimination of the Tax on Business Assets are among the results of the application of the Plan Zero Evasion. Both measures simplify the tax system and constitute a stimulus to the productive sector.

The results of SENIAT's management of the 2004 fiscal year, its favorable impact on the tax income of non-petroleum origin and voluntary compliance with the tax obligations of the taxpayers, are product of the group of actions that constitute the components of the Plan Zero Evasion. The following are among the actions fulfilled:

B. Components of the Plan Zero Evasion

1. The struggle against tax evasion and fiscal fraud

- During the year 2004 the tax administration visited 23,026 taxpayers during fiscal and tax control operations, nationally and regionally. At these actions tax offenses as a result of being in default with formal duties pertaining to the non or untimely filing of tax returns, issuing invoices that are not pursuant to the legal provisions, faults related to keeping the special books as provided for by the law, as well as not displaying in visible places the Fiscal Information Registry (RIF, in Spanish) and the Income Tax Return were detected.

The number of taxpayers visited and fined, as a result of the operations carried out, is set forth in detail hereinafter:

Plan Zero Evasion: Fiscal Year 2004
Taxpayers Visited and Fined
Distribution by Region

Region	Taxpayers			Number of Auditors in Action	% of Closings
	Visited	Closed	Monetary Fine		
Capital	2,689	2,025	2,063	203	75.31
Special	202	134	165	158	66.34
Taxpayers					
Central	2,169	992	1,019	124	45.74
Western	1,318	406	665	79	30.80
Center					
Los Andes	3,362	337	2,112	81	10.02
Los Llanos	2,874	333	1,080	33	11.59
Insular	576	248	423	33	43.06
Guyana	3,972	1,088	1,995	69	27.39
Northeastern	3,285	665	1,672	116	20.24
Zulia	2,579	504	1,640	116	19.54
Total	23,026	6,732	12,834	1,012	29.24

Source: SENIAT, Examination Management

The temporary closing of businesses that are in non-compliance with the customs and tax standards in force, specially on issues pertaining to the Value Added Tax (VAT), included establishments that are fashion shops, bingos, casinos and gaming rooms, parking lots, jewelry, liquor, restaurants, disc and groceries stores, among others.

- Seizure of fiscal machines, cash registers, computer systems, at commercial establishments detected red-handed in violating the tax law.
- Determination of tax objections for omission and difference in the return and payment of the Income Tax, VAT, stamp taxes, liquors and inheritance, in addition to fines for being default with formal duties, through examination actions nationally.
- Execution of preventive embargoes to taxpayers with outstanding debts with the National Treasury in the different productive sectors.
- Support proceedings for the installation of Superior Tax Courts in the main cities of the country, which were previously located in Caracas, to facilitate the administration of justice and exercise the right of the interests of the tax administration and the taxpayers.

- Activation of the Sub-Commission for the Struggle against Piracy, a dependency of the Presidential Commission for the Struggle Against Customs Fraud, with the purpose of fighting these practices. Piracy has a negatively bearing on formal employment and constitutes a scourge to the production of intellectual authors, manufacturing and the Tax Administration, through the plagiarism of computer programs, compact discs, books, videos, textiles, spare parts and devices, among others. Strategies were designed as well as plans to face the contraband and piracy that affects the growth of legally established industries and businesses were applied.

2. Automation and modernization of services in customs offices

- The Complementary Agreement to the Economic and Technical Cooperation Agreement came into force between the governments of the Bolivarian Republic of Venezuela and the People's Republic of China for the acquisition of the Non-Intrusive Container Inspection System.
- In the struggle against contraband and customs offenses the Non-Intrusive X-Ray Inspection circuits were inaugurated at the Maritime Customs of La Guaira and Puerto Cabello, with technology from the People's Republic of China. The purpose of this process is to on the one hand facilitate foreign trade and on the other decisively fight contraband and other fiscal offenses at customs offices.
- Implementation at the most important customs offices of the country of the Automated Customs System (SIDUNEA, in Spanish), jointly with improvements to the physical infrastructure of customs offices, to facilitate foreign trade and improve Administration controls. Automation processes were fulfilled at the following customs offices: City Guyana, Maiquetía Airport, Las Piedras-Paraguaná, Guanta-Puerto La Cruz, Puerto Sucre, Maturín Airport, Central-Western and Santa Elena de Uairén.
- Customs operations and regimes were coded to be incorporated into the Automated Customs System (SIDUNEA) and the Partial Regulation of the Customs Organic Law regarding to SIDUNEA came to force.

- Execution of further customs control in the territories of the Customs of La Guaira, Maiquetía, Puerto Cabello, Valencia, Maracaibo, San Antonio del Táchira and Guanta-Puerto La Cruz. These actions were directed towards verification and examination of auxiliary agents of foreign trade, such as importers. Cargo control actions were performed on the main highways of the country and at imported goods border stations.

3. Improvement of collection services

- As a measure which purpose is to improve control on the assessment, filing and tax payment process of individuals with income over 15,000 tax units, these taxpayers were classified as Special Taxpayers. This measure allowed the improvement of controls on tax collection coming from the group of taxpayers, it favorably influenced the 2004 fiscal year collection and undoubtedly will impact the collection of subsequent fiscal years.
- Incorporation of the Central Bank of Venezuela as a bank that collects national funds. The process for receiving funds is accelerated with this measure, and funds will be received at the offices of the Central Bank in Caracas and Maracaibo. Listing received are electronically transferred to SENIAT.

4. Taxpayer assistance, tax culture and institutional image

- Activation of the new complaint automated system, as an instrument to fight evasion. The system is at the disposition of taxpayers and the public through the telephone line 0-8000 SENIAT or 0-8000-736428.
- Improvement of the image of SENIAT before the community at large by holding forums, workshops, donations and other events, achieving to establish institutional communication channels with public and private interests.
- Execution of institutional campaigns in the printed media, radio, television and film theaters, as well as the carry out lectures and conferences, placement of billboards and the active presence of SENIAT officials to inform taxpayers, consumers and the public on their tax rights and obligations.

- Incorporation of other State agencies into the actions of the Plan Zero Evasion, such as the Office of the Attorney General of the Republic, the National Tax Guard, Contentious Tax Judges, penal judges and the Institute for Consumer Defense and Protection.

5. Administration of the tax incentive policy

- With the purpose of social, economic and regional development, the National Executive granted the exemption to the payment of Income Tax and VAT through Decree 3.027 of July 27, 2004, to imports, sales and the rendering of services in the municipalities of Bolivar, Garcia de Hevia and Pedro Maria Ureña of the State of Táchira. The measure, administered by SENIAT, seeks to promote the growth of the industrial, services and tourism activities, as well as the generation of productive employment, through private national and international investment in the border region.
- The measure for the exemption of the Value Added Tax to operations for the acquisition of machinery and equipment directed to the plastics industry was applied.
- Within the framework of the policy directed to improve productivity and the results of the management of the depressed economic sectors, measures were applied to create favorable conditions to its incorporation, in the mid-term, as Income Tax and VAT taxpayers.

The exemption from the payment of Income Tax, through Decree 838, to primary agriculture activities, forestry, cattle farming, poultry-breeding, fishing activities, aquiculture and fish-breeding activities was applied. The purpose is to improve the result of the management of the producers dedicated to these activities and the generation of financial resources, which will allow them to modernize and increase their productivity.

- Within the framework of the policy stimulate exports and the generation of employment in the non-traditional export sector, SENIAT continued the import tax refund through the draw-back mechanism. Companies that were benefited with this policy belong to the food, iron and steel, metal mechanics, automotive, chemistry, glass, textile, pharmaceutical and paper industries.

- Other exemption tax policies pertaining to the following components were also applied: 1.- Public Transportation of People Program. 2.- Operations for the import of capital goods performed by organizations of the Decentralized Public Administration, in projects directed to the provision of drinking water and environmental cleaning. 3.- Exemption from the Alcohol and Alcoholic Type Beverages Tax at the Free Zone of the Peninsula of Paraguaná, in the western region of Venezuela, to promote investment in tourism. 4.- Exemption from the payment of the VAT to imports and services in projects within the framework of the technical and non-reimbursable financial cooperation agreements and conventions, and 5.- Exceptional Economic and Social Development Plan.

6. Double taxation agreements and the international presence of SENIAT

- In 2004, Agreements to Avoid Double Taxation in Income Tax were signed with Kuwait and Curacao; furthermore, negotiation rounds began with Brazil, Malaysia, and Morocco. The country has in force agreements to Avoid Double Taxation in Income Tax with: Barbados, Belgium, Czech Republic, Denmark, France, Germany, Indonesia, Italy, The Netherlands, Norway, Portugal, United Kingdom, Sweden, Switzerland, Trinidad & Tobago and United States.
- The experience and the results on the tax and customs administration of SENIAT were disclosed internationally, through the institutional exchange of information and its active presence at events, business rounds, bi-national meetings with representatives from bordering countries and visits from delegations from other nations were received.

7. Adaptation of the physical infrastructure

- To adapt offices and installations to change in processes, new information technologies adopted by SENIAT and service improvements, intense construction and remodeling actions of the physical infrastructure were undertaken. In 2004, new installations were inaugurated at the following customs offices: Customs Dependency of Ureña, Customs Dependency of Paraguachón, Customs Dependency of Santa Elena de Uairen, Main Customs

Offices of the City Guyana and Main Maritime Customs Office of Puerto Sucre.

- The construction of the new headquarters of the Main Customs Office of the Maiquetía Airport with a total area of 23,500 m² must be highlighted. As well as inter-institutional project of the Regional Customs Complex for the Americas in La Guaira, headquarters of the National Customs Superintendent, of the Main Customs Office of La Guaira, of Station N° 58 of the National Police, of the National School of Guards, of the Regional Center for the Americas of SIDUNEA and the Harbor Master's Office, among other Public dependencies. Regarding the regional internal revenue administrations they will also take care of and headquarters in the Sectors of Coro, Chivacoa and Puerto Ordaz were inaugurated.

8. Investment in Information Technology and telecommunications

- Considerable investments were made in modernizing the technological platform and substituting obsolete equipment. Eighteen servers were bought as well as Disc Library with the respective supporting robotics, power surge switches, Firewall systems and new software licenses. Two power surge switches were installed and they operate model ISO/OSI from level 2 to 7, offering complete control and IP traffic management. In the technological platform security aspect, eight security zones were designed, for which the Firewalls acquired were configured in high availability and with capacity to detect up to 31 types of attacks.
- The implementation of the Automated Customs System (SIDUNEA) was concluded with the support of the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Program for Development (UNDP).
- A new on-line application in the Tax Administration portal was added, the same consists of a system that receives and processes inspection reports sent by container verification companies at the customs offices. New applications were performed for SENIAT's portal, among them the Declaration of VAT Withholdings and the VAT Withholding Payment Differential List. A Banking Switch application was completely installed, this application allows converting tax payments into an electronic banking process.

- 42 Intel Servers were acquired for the national distribution of electronic mail services, DNS and Active Directory. New product licenses for Oracle databases were contracted and a new system to control Internet contents was acquired as well as a new link with this same network. The module of notices for non-complying ordinary taxpayers was developed.
- 2800 personal computers were purchased, installed and distributed as well as 1,000 laptops to support examination plans, 40 projectors (Video Beams), 400 UPS to protect personal computers installed at customs offices against power surges. 20 telephone exchanges, 111 Switches and 37 Routers were purchased and installed, the latter provide voice and data services nation wide.

II. THE EFFECTS OF THE PLAN ZERO EVASION ON COLLECTION

The ordinary gross collection of SENIAT during 2004, amounted to Bs. 22.7 billion, this amount represents a nominal increase of Bs. 10.8 billion when compared to 2003, that is, a 90.1% increase. This collection is equal to 11.5% of the total Gross Domestic Product (GDP) generated during the fiscal year and, it further represents compliance with 141.4% of the target set to the National Budget Service.

From the total collection, Internal Revenue reached Bs. 16.4 billion, equal to 72% of the collection, while Customs Revenues represented the remaining 38%, which means Bs. 6.3 billion.

The Value Added Tax (VAT) contributed 58.8% of total collection, followed by Non-Petroleum Income Tax, which reached 25.8%. Import Taxes and Customs Rates contributed 10.5%, and other internal revenue, which encumbers production, distribution and consumption of Liquor, Cigarettes and Matches, as well as Taxes on Inheritance and Donations, Games in Bingos and Casinos and Stamp Taxes, reached the equivalent of 4.8% of the collection.

After the initial adjustments generated by the implementation of the managed control of foreign currency for 2003, the flow of imports has become normal during 2004. This circumstance is positively reflected in the collection of customs' taxes, which increased in 136% when compared to 2003, far exceeding the expectations of the fiscal budget for 2004, which provided for an increase close to 60%.

Finally, it must be stressed that in addition to the income mentioned, the National Assembly decided that during the first quarter of 2004 it would extend for the rest of the period the enforcement of the Tax to Banking Debit (IDB, in Spanish), which allowed to further increase the contribution of the economic sectors to the National Treasury. In this manner, Extraordinary Income contributed by IDB reached the amount of Bs. 1.9 billion Bolivares during 2004. The enforcement of this tax has been extended once again to the fiscal period 2005.

Taking into consideration the incorporation of the Tax to the Banking Debit as an ordinary income, non-petroleum tax collection under SENIAT's administration is expected to reach during 2005 the amount of Bs. 27.06 billion Bolivares. This amount is equal to an approximate 20% increase when compared to the collections for 2004, in a scenario with greater price stability and balanced economic growth.

III. APPLICATION OF THE PLAN ZERO EVASION IN THE 2005 FISCAL YEAR

For the 2005 fiscal year, the abovementioned tax collection target of non-petroleum origin has been established, under the jurisdiction of SENIAT, of 27 billion Bolivares. Similar to the results obtained in 2004 this target will be fully exceeded, through tax and customs administration directed by the guidelines of the Plan Zero Evasion.

In the context of the Plan different strategic initiatives have been defined with the purpose of promoting voluntary compliance among taxpayers in the payment of their tax obligations, reduce evasion margins and increase tax collection. The following are among these initiatives:

- SENIAT will maintain on the streets, nationally, in its fiscal presence operations, tax dissemination, verification of compliance with formal obligations by taxpayers and applying examination programs in different areas of the economic activity, especially in those economic sectors that have proven high inclination to tax evasion.
- Actions that increase the subjective risk of evaders will be implemented; fiscal control activities will increase, as well as examinations, verification and assessment of tax obligation and the control of auxiliary operators of the customs service.

TOPIC 3.2

- The process of articulating and harmonizing the reform of the Venezuelan tax system will continue with the promotion of new laws submitted to the consideration of the legislative power, such as the Law on Electronic Commerce, the Law on the Legitimization of Public Acts and the Law of the Tax on Gaming.
- The electronic tax return and payment system will be established and disseminated, with the purpose of making the collection system more effective; collection proceedings will be strengthened through the articulation of the management control system with the collection, examination and administrative summary proceedings processes.
- International examination and verification activities will be carried out in transfer pricing and the negotiations of the agreements to Prevent Double Taxation in Income Tax issues will continue.
- Further control will increase at customs offices and the installation of non-intrusive inspection equipment will continue; follow-up, control and evaluation of banking processes agreements will be strengthened. Standards and procedures manuals will be implemented and administrative proceedings will continue to be simplified.
- Special attention will be placed on the education of human resources through training, instruction and continuous personnel evaluation, to have officials and high level auditors, who are honest and capable of forming specialized and efficient work groups.

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Case study

TOPIC 3.2

RULES AND MECHANISMS FOR COMBATING TAX EVASION

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CONTENTS: I.- Introduction.- II. Measures of a General Nature.- III. Structural Measures.- IV. Mechanisms Against Evasion.- V. Conclusions.- Annex: Some evasion control mechanisms proposed by AFIP.- 1) Risk Profile System (SIPER, acronym in Spanish).- 2) “Mis Aportes” (“My Contributions) Program.- 3) Cargo Monitoring through Electronic Security Devices.

I. INTRODUCTION

Even though the topic we are referring to in this paper is focused on the “Rules and Mechanisms for Combating Tax Evasion” we must not disregard the central issue chosen for discussion in this Assembly, namely what is the “Role of Tax Administration in Society”.

As is mentioned in the description of the technical program at hand, the modern vision of tax administrations does not end with the exercise of the collection or the examination function, because nowadays both pillars of the organization must devote their efforts to the strengthening of the tax authorities-taxpayer relations, through the improvement of the

services provided to the same, the dissemination of the control actions for detected non-compliances and, from the examination point of view, the carrying out of all the control actions that make a better conception by the taxpayer of the equity concept possible, all of which must result in a better level of voluntary compliance.

All of this has led us to overlook, within the framework of this paper, the consideration of the aspects frequently considered in the description of the traditional role of examination or control within the same, that is to say the diverse fiscal audit modalities to be applied, according to the characteristics of the taxpayers selected for inspection, or the different types and procedures of accounting or tax audit to be used in each case, or the measurement of control actions made effective in a specific time period and the possible improvement the same were able to reflect on collections in that same period.

Along this line of thought, the point of view we attempt to develop is related to the different tools a Tax Administration with the characteristics of "Single Agency", such as the one of the Republic of Argentina, counts with, which includes among its functions the administration of taxation, customs and social security resources.

These "tools", from a vision that is absolutely generic and that encompasses the diverse legal, regulatory, procedural, IT and operational mechanisms, must include voluntary compliance by taxpayers, for which the search of at least three very concrete objectives must be strived for as a necessary condition:

- Raise the mid-level of compliance.
- Maximize the level of compliance.
- Creation of tax awareness.

To achieve these objectives, is necessary to convince the taxpayers that their contributions constitute a valuable participation in the maintenance of public assets and services, in the strengthening of institutions and that there exists transparency and equity in the system.

As it may be seen, the first objective can be considered as a short-term one and it seeks to shorten, year after year, the general non-compliance gap, consolidating in turn each improvement as a new minimum point of expectation of voluntary compliance for the following year.

In the case of the second objective, the same is oriented to the medium-term through the different control activities exercised on a daily basis by the Tax Administration, which include full compliance of tax rules by the taxpayers.

Although at this point it may be assumed that the objective recently outlined meets the expectations of the collection agencies, this is not the case, but rather it is a means that allows to progressively funnel the “custom” of voluntarily complying with the respective tax obligations but, to definitively consolidate the “correct tax compliance”, we need to reach the third objective related to creating tax awareness.

This is a long-term goal that must be worked on in parallel with the two stages described above, through stable, long-winded policies agreed upon with other public and private bodies.

Obviously, for a Tax Administration to reach the three objectives described, it must necessarily be able to have:

- Means to induce compliance and prevent non-compliance.
- Capacity to detect non-compliance.
- Capacity to force to comply.
- Power so as to ensure that compulsory compliance becomes more onerous than if it had been done in a voluntary and timely manner.
- Capacity and powers to act quickly and effectively.

As it may be inferred, some of the conditions mentioned above depend on factors that are foreign to the Tax Administration and are mainly referred to rules with the rank of law, but others are related to own regulatory powers or, furthermore, which exclusively depend of the operational management pertaining to the collection and examination functions.

Finally, we must conclude that all Tax Administrations have powers and the capacity to establish “measures of a structural nature” that aim to maximize tax compliance beyond the traditional examination function, which must be exercised by exception and with the objective of having a high impact in terms of risk to the taxpayers.

II. MEASURES OF A GENERAL NATURE – PROPOSED LEGAL OR REGULATORY MODIFICATIONS

AFIP, through the National Executive Branch has promoted, through the Anti-Evasion I and II plans, a series of measures aiming at reducing evasion and contraband and, in this manner, improve general compliance, in such a way so as to provide greater transparency, equity and neutrality to the tax system.

Several of them have already been put into force through different standards instruments, of which we can mention the following:

- Implementation of new requirements for those newly registered in the VAT and creation of new billing modalities for the same.
- Establishment of a specific standard to avoid the tax effect of under-billing between related companies.
- Delegation in the AFIP to establish mutual information and cooperation procedures with foreign tax administrations.
- Mandatory consultation of the AFIP databases by suppliers with respect to their customers with relation to the tax status of the latter.
- Incorporation of assumptions for specific omissions of taxable basis.
- Modification of the Single-Tax regime.

Others are in the processes of implementation in the AFIP or under consideration in the legislative chambers as, for example;

- Establishment of price ranges in the Maria IT System.
- Satellite tracking of transits.
- Stamping with bar codes.
- Creation of electronic billing with tax validity.
- Commissioning of the single registry of companies at the national level.
- Powers to seize and confiscate merchandise when the supporting documentation covering their transfer is absent.
- Creation of the electronic tax address.

III. STRUCTURAL MEASURES

The measures are generically referred to at the AFIP as those rules, procedures, systems, mechanisms and tools, aiming at lowering the non-compliance without the need to apply operational resources in a direct manner.

In this sense, certain criteria are used on which the measures implemented in each case are supported, some of them widely applied to the taxpayers at large and others that affect a more limited segment, according to the characteristics of the same.

The criteria on which the structural measures applied by the AFIP are based are, among others, the following:

- Identification of taxpayers: an indispensable aspect to gain improvements in tax compliance control processes is to be able to adequately know and identify the taxpayers. In this sense, imposing greater requirements – for obtaining specific tax benefits, and for legitimising the generation of tax credits in the VAT or for the calculation of expenses in Income Taxes – is considered highly positive given that it lessens the possibility of creating false taxpayers or “ghost” companies.
- Differentiation of taxpayers: the aforementioned identification of taxpayers allows the Tax Administration to count with sufficient elements for judgment to apply strategies on the basis of aspects related to the concepts of reliability and tax risk. The first one is used to grant a different treatment from the tax standpoint to those taxpayers that have an adequate compliance of their tax obligations with respect to others that do not. For the latter case, AFIP establishes more rigorous conditions in different control procedures linked to certain benefit proceedings or request originated by the taxpayers or provides for the application of higher withholding or collection percentages. A point worthwhile highlighting is that AFIP considers as a “reliable taxpayer” whoever possesses a good tax behaviour and this is supported on:

- the compliance in time and manner of formal aspects (timely filing of sworn Value Added Tax, Income Tax, Net Worth Tax returns and of obligations related to Social Security).
- the verification of a series of technical indicators, which must be found within the mean of the sector it belongs to (tax debit/tax credit ratio; gross revenue/sales ratio; net revenue /sales ratio, etc.).
- the correct stated tax domicile: this requirement, more than just a mere formality, facilitates early detection of companies that apparently are legitimate but really are “ghosts”.
- results of audits performed and of penal claims filed.

With respect to the “tax risk” concept, although the same will be discussed extensively later on, it basically allows AFIP to identify homogenous taxpayer universes whose tax behaviour distances itself from the rule of the same and manage the respective control actions with the highest priority.

- Segmentation of the taxpayers: This criterion is usually used in order to stratify taxpayers based on some specific characteristics such as economic activity, amount of revenues, taxes under which they are registered, withholding agent status, etc., which allows to establish equitable and specific rule treatments.
- Use of Internet and other technologies: technological advances made in the past years and, in particular, those related to “web” technology, have generated new modalities in the tax authority/taxpayer relation. From the control point of view, this modality has allowed for the instrumentation of massive consultation mechanisms that are mandatory for certain groups of taxpayers who, on the basis of the responses obtained “online” from the AFIP server, show consulting parties the alternative to

follow according to the commercial operation with their customer or supplier. Thus, in the assumption that when a withholding agent is inquiring about a supplier it receives the reply from the tax agency that the latter is “unreliable”, it will have to apply a withholding tax rate greater than if the reply had been the opposite. In other cases, the negative response impedes the buyer from calculating the VAT included in the operation as tax credit, not allowing, likewise, its deduction as an expense in the Income Tax. This type of consultations, which can be carried out massively with respect to the whole customer and/or supplier portfolio, also provide a service to the consulting parties, because it allows them to automatically update said lists, knowing the tax status of each one of them according to the records existing at AFIP. Likewise, specific “online” information regimes can be implemented through these means”, allowing the Administration to obtain data and carry out cross-referencing at the same time the operation is being carried out, which facilitates early detection of inconsistent cases for their latter examination.

- Another example of the use of Internet to facilitate the tax authority-taxpayer relation is the program called “Mis Aportes” (“My Contributions”), which will be developed later on, which allows contributors to the social security system to consult, through these means, on the contributions and taxes made to the regime and inform AFIP, when it may correspond, on the inconsistencies detected.
- On the other hand, the tool supported in the technology applied by AFIP is the satellite cargo control that allows tracking through the use of Electronic Security Devices (DES, acronym in Spanish) on the transports and their cargo from their entry into the territory and up to their destination, on which a more extensive analysis will also be made in the final part of this paper.

The need to use diverse criteria within the so-called structural measures, is based on the important amount of taxpayers that must be controlled by any Tax Administration – who must comply with a series of tax

obligations and have different levels of compliance with respect to the same – with the limited amount of material, technological and human resources tax agencies have to exercise the set of control activities they are in charge of.

IV. MECHANISMS AGAINST EVASION

Thus far, we have conceptually developed and generically described a series of measures and criteria that establish a strategy that, in terms of the fight against tax non-compliance, is applied by the Argentine Tax Administration. In this same sense, a set of mechanisms based on the aforementioned mechanisms will be detailed below, which are currently used by AFIP for different taxpayer universes taking into account the distinctive characteristics of these with respect to the rest of the same:

4.1. Sector Studies by Economic Activity

Ever since 8 years ago there exists, in the Argentine Tax Administration, a structure area whose primary function is to carry out studies and investigations at the sector level, with the purpose of equipping the rest of the inspection areas with tools of concrete practical usefulness to be used in the course of tax audits and to transfer this knowledge to the rest of the organization by means of novel technical focuses.

This training tool foresees the dissemination, through internal use publications, of macro and microeconomic aspects of the activities studied, description of the productive processes, tax and social security obligations, evasion assumptions and examination strategies in accordance with the same, also counting with an annex composed of the main legal rules in force, jurisprudence and sentences related to the sector.

Thus, the purpose is that the examination agents have a degree of specialization that allows them to carry out effective interventions, for which they are equipped with the knowledge and a previous and complete training on the activities of the taxpayers they are verifying, in their economic, legal, productive, commercialisation and, specifically, tax aspects.

In this manner, those performing a tax audit to a company in a specific sector, will not start the same in a mechanical manner, requesting general data and information, but they should rather

plan beforehand each case using as a guidance the investigation on the key inputs for the productive process, to the evaluation of the energy consumption, knowledge of the existing machinery park, the analysis of their specific cost structure, as well as of the levels and characteristics of the expenses, return indices, etc.

The final intention of this change is that inspectors become experts, not only in accounting-taxation techniques, but that they also know perfectly what are the main evasion assumptions for each activity or type of taxpayer and, likewise, what are the specific examination strategies for correctly attacking the aforementioned evasive hypotheses.

It is important that we highlight that part of the success of this new way to work lies on the correct selection of the sectors to be investigated. To that end, different factors are taken into account, such as, for example, the economic relevance of the same within the economy in general or their regional importance.

Another indispensable factor to obtain positive results is the carrying out of “pilot” inspections to several companies in the field, in the heart of the strategy formulation area itself, thus allowing not only to experiment “in situ” the detected evasion hypotheses, but also to guarantee that the same are useful and feasible to be applied in a practical and efficient manner for the purposes of a quick and precise determination of the amounts evaded.

Also, and as a logical consequence of the diverse evasion “modus operandi” detected in each economic activity studied, different types of measures are promoted in order to provide a structural solution to the evasion gaps identified for the sector, such as reduction of tax rates, specific withholding or collection regimes, sector tax records and specific information regimes, some of which will be detailed in the following paragraphs.

4.2. Reduction of VAT Rates

This legal order mechanism has been applied to sectors of the economy with high tax evasion and with respect to goods whose destination is fundamentally for export, both raw materials and finished goods.

In these cases, AFIP has proposed to the Legislative Branch the reduction of the tax rate of the Value Added Tax to 50% of the general tax rate in order to lower the risk of returning to the exporter a VAT for an amount higher than the one collected in previous stages and where traditional examination has scarce coverage, considering the large amount and dispersion of the subjects involved.

This alternative has been mainly applied to products related to the agricultural activity such as, for example, the sale import of live animals and bovine meats; fruits, vegetables; bee honey and services linked to obtaining the aforementioned goods (cultural works - preparation, breaking up etc., of the ground), sowing and/or planting, application of agrochemical products and/or fertilizers and harvest.

4.3. Withholding, Collection and Payment to the Account Regimes

The Argentine Tax Administration has a long and varied history related to the imposition of these types of rules that originally had as their main goal, to advance the collection of taxes and ensure a good part of the State's "cash" in periods of inflation, and that is why they were implemented with a general nature throughout the economy. Currently, this reason has lost part of the original relative weight and is fundamentally used as an instrument that seeks to provide greater equity and transparency among the operators of a specific economic sector, providing likewise useful information for the purposes of determining the true contribution capacity of the economic agents involved in the regime, both for the withholding and/or collections agent and for the subject influenced by the same. On the other hand, the withholding, collection or advance payment percentage established by the Administration taking into account the characteristics of the sector or universe involved (e.g. in the VAT considering the value added for in each stage), has as additional objective, apart from those pointed out, to establish a minimum taxation level that induces the responsible party to file revenues that at least justify the level of withholdings and/or collections suffered.

The main regimes of a general nature are:

- In the VAT: the withholding regime applied by the 2000 main taxpayers to the payments corresponding to the purchase of goods and services, equivalent to a percentage that varies between 50% and 75% of the tax corresponding to each operation; the collection regime applied by these same taxpayers with respect to sales made is equivalent to 3% of the amount of the same..
- In the Income Tax: a withholding percentage, according to a progressive scale that is applied on the amount of purchase and a determinate withholding percentage, which employers apply to their employees in an economic dependence relation when paying their take-home-pay.
- In Social Security Resources: a withholding applied by the same group of 2000 taxpayers mentioned in the previous paragraphs, equal to 2% of the amount to pay to their suppliers.

Those regimes of specific nature, only citing the most important ones in function of the amount of operations transacted or by the evasion gap that they attempt to cover:

- In the VAT: withholding and refund regime to primary grain producers, which foresee that that buyer thereof, withholds 80% of the VAT and then a series of computerized controls (the existence of the subject in a determinate fiscal registry, report of the operation by the withholding agent and the withheld subject, and that the operation is duly registered in the respective Grains Exchange) AFIP carries out systematically the refund of the tax, by deposit in a fiscal bank account reported by the taxpayer. Similarly, there are also other withholding, collection and payments to account regimes applied by the suppliers of certain products or specific services (utilities providers - gas, electricity, telecommunications, etc. -; banking institutions, credit card and/or purchase managers; liquid gas suppliers; etc.).

- In the Income Tax: withholding regime on the sale of goods and the provision of services, on professional fees by paying agents; on the rental of real estate and chattels; etc.
- In Social Security Resources: specific withholding has been imposed for certain services rendering, such as janitorial and security services, where labour is the main price component of the service rendered, which justifies the application of the withholding mentioned.

4.4. Sector Fiscal Registries

AFIP is empowered to create “Fiscal Registries” by the decree of general resolutions, obliging determinate taxpayers with homogeneous characteristics to be registered in the same. In practice, these types of instruments are used for groups of taxpayers belonging to high evasion activities or segments, or with determinate tax benefits, or subject to determinate conditions imposed by the same law that bestows the mentioned benefit.

Generally, the sectors under study are formed by a very significant number of taxpayers and in some cases they also have an important geographic distribution. The mentioned atomisation makes its control difficult through traditional examination instruments. Therefore, the establishment of strict conditions to request the recording of Fiscal Registries and the realization of computerized systemic control routines, permit to verify that the conditions that enable those registered to remain in the same continue, or determine their withdraw.

These “registries” are important complements of the withholding and/or collection regimes, since those taxpayers that are not included in the same experience withholding and/or collection percentages greater than those that are registered. In some cases the tax to withhold is 100% of the tax rate thereof, in this manner the total of the potential tax that taxpayers should self-declare is guaranteed for the treasury.

In other cases, fiscal registries are used to grant exemption or their tax benefits.

The following are examples of these registries in the Argentinean Tax Administration: grain operators; liquid fuel exempted by geographic or industrial destination, from exempted entities and printing shops authorized to print vouchers for sales operations.

4.5. Sector Information Regimes

In some activities where there is a commercial or industrial chain, any link registering a concentration of the activity in a small number of participants, it is possible to impose systematic information regimes on determinate operations, which will later enable the fiscal control agency perform data cross referencing which will then lead to the identification of suppliers and/or customers of the reporting agents, with inconsistencies in their fiscal obligations, for which they are responsible.

In order to have the abovementioned data in a timely manner, it is advisable to provide for the obligation of filing the same through Internet to the Administration, this makes compliance by the reporting agent easier and saves costs.

Reporting regimes such as exempted fuel sales, printing shops as well as representatives of foreign individuals, relevant consumptions, from the financial system, etc. may be mentioned as examples.

IV. CONCLUSIONS

The intention of this work is to give the topic of the fight against tax evasion a different focus and point of view, since it is often related to activities performed by the operational areas responsible of performing traditional examinations (tax audits).

The problem of tax non-compliance control was directed towards the stipulations of the legal and regulatory standards and the creation of different mass reach procedures, mechanisms to cause the improvement of voluntary compliance by taxpayers motivated in the perception of risk as a consequence of the measures implemented by the Tax Authorities.

In this context, the different tools currently used by the Federal Administration of Public Revenues have been succinctly described, first conceptually and then specifically, and some examples have been given.

Three evasion control mechanisms stipulated by the AFIP are described hereinafter: The Risk Profile System (SIPER), the “Mis Aportes” Program and the Cargo Monitoring through Electronic Security Devices (DES, in Spanish), all of them are practical examples of the application of concepts expressed in this paper.

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Annex

Some Evasion Control Mechanisms Proposed by AFIP

1. RISK PROFILE SYSTEM SGO (SIPER, in Spanish)

1.1. Concept

The Risk Profile System (SIPER, in Spanish) is conceptually associated with several experiences implemented in the different Tax Administrations during the past decades – the most notorious case, is possibly, the discriminating function of the IRS – which purpose is to objectively identify cases that have the greatest potential for success in examinations as from the systemic and statistical analysis of the information available.

To identify potential cases, relatively homogenous universes of taxpayers are generated, and, from the statistical analysis of their distribution tiers or segments where atypical behaviours or values, which break away from mean or mode observable behaviours may be identified.

This identification process of parameters and acceptance ranges is a direct consequence of the information contributed by the subjects participating in the same, this provides objectiveness and transparency to the entire method.

At the same time, this is obviously beneficial from the point of view of the application of the human resources and materials affected, taking into consideration the massiveness of the universes in question.

In this regard, to be able to identify a subgroup whose behaviour is sensibly separated in regards to the standard values, allows providing more attention to the subjects affected and applying more control activities on the same.

This integration or inclusion into the different tiers may be explained through a value that is known by the taxpayer.

To make taxpayers know that the probability of being examined or controlled increases when the taxpayer belongs to the tiers of greatest fiscal risk should induce a “run” towards more “normal” tiers. In this

manner the taxpayers' self-interest in reducing the possibility of being audited generates the systematic improvement of the mean fiscal behaviour of that population.

In order for the methodology to be more effective, the greatest possible dissemination must be given so that not only those that have been examined as a consequence of its application be knowledgeable of the use of this tool by the Tax Authority, but also that all taxpayers perceive the risk implied in being far removed from normal values.

1.2. Objective

- To set up taxpayer classification (taxpayers and foreign trade operators) through the comprehensive analysis of its tax behaviour (tax, collection and customs). "Risk Profile" categories currently in force are: A, B, C, D and E.
- To use classifications assigned by "SIPER" as a new indication in addition to those currently in place in the pre-selection of cases to examine. To date, all AFIP's case investigation and selection areas have access to the system.
- To implement confidential Internet query, so that every taxpayer knows the risk profile that AFIP has assigned to it, concerning its fiscal behaviour, and in this manner infer the possibility of being examined for that reason.

1.3. Characteristics

- In the first version taxpayers registered in the VAT – approximately 800,000 – have been considered.
- The taxpayer universe is classified in three groups – large, medium and small -, through a rank matrix which considers the following parameters: amount of personnel in a dependency relation, amount of income as declared in the VAT, tax assessed in the Income Tax and amount of annual banking accreditation.

- “Large” enterprises are companies with specific fiscal benefits (industrial and/or agriculture promotion regimes).
- A weighing matrix that considers 4 types of deviations is used for classification:
 - a) Taxation and collection formal deviations.
 - b) Taxation and collection substantial deviations.
 - c) Deviations for customs sanctions.
 - d) Deviations for behaviour information coming from the financial system.

Pursuant to the deviations detected, a partial score is obtained for each type of deviation, depending on the classification of the taxpayer in large, medium or small, which sum allows the determination of the final score and in function of that objective value the respective categories are established: A, B, C, D or E.

The main formal taxation and collection deviations considered are:

- Non-compliance in filing VAT returns, Profit Tax returns and Social Security Resources.
- Amount of changes in the registered domicile in a determinate period of time.
- Failure to locate the taxpayer at the domicile registered in due time at the AFIP.
- Amount of closing that it sustained in a determinate period.
- Rejections concerning the printing application to document sales operations.

Main deviations of substantial taxation and collection nature that arise from:

- Credit / debit details of the economic activity.
- Results of the examinations performed during the last three years.
- Condition in existing fiscal registries.
- Finished penal causes or in proceedings.
- Universal and contentious judgments.

Regarding deviations for customs sanctions the most important are:

- Concluded and ongoing summary procedures.
- Suspension or elimination of the importer and exporter registry.
- Repeated poor behaviour.
- Failures in paying export duties.
- Non attendance to summons.

The classification of the financial system is one of the last deviations and is related to the event when the debtor system is in arrears in payment, and this information is furnish by the Central Bank of the Republic of Argentina.

In addition to the punctual inquiry for each individual case, a new feature, which allows making massive inquiries by taxpayer category and by the economic activity thereof, was included.

Currently, SIPER is operational in all decentralized areas of the country, without detriment of being able to be exploited through centralized inquiries, concerning all taxpayers or different universes from any site in the country.

Similarly, since the system designed allows its continuous improvement regarding each new version, new indicators are incorporated into the fiscal behaviour and are adapted to previously established weights as a consequence of the suggestions received from the systems user area.

Finally, it is important to mention that the classification determined by SIPER for each taxpayer is incorporated as additional data into the entire mass inquiry system included in the taxpayer master file.

2. “Mis Aportes (“My Contributions”) Program”

2.1. Background

Mis Aportes System is of an official nature and has been established by the Federal Administration of Public Revenues so that works with a dependency relation have real time access to information regarding their personal situation on social security resources.

This has been possible, because:

- The AFIP is in charge of collecting and auditing social security resources (pensions or retirement plan, health or work risk insurance), receiving over 500,000 returns monthly which contain the list over 5 million workers.
- It distributes daily the amounts collected from the different social security providers.

2.2. Objective

Provide a database to be accessed by all workers or insured, hereinafter called "users", based on information technologies through a web page, to the effect of performing inquiries on if their contributions or payments are registered or declared, in addition to other relevant data.

In this regard, the additional benefit entailed by its creation is to allow a control by opposing interests, because when a user detects inconsistencies in the amounts recorded in the system (declared by the company where he works) and the real amounts may be electronically reported to the AFIP.

2.3. Characteristics

In order to comply with the objectives described, the tool must allow users mass and generalized access therefore; it has been designed bearing in mind the following premises:

- Trouble-free access by users.
- Easily understood by users.
- Contributes to administration transparency through access to information.
- Guarantees personal data confidentiality.
- Creates controls by opposition.

2.4. General Aspects

Query screens have been designed to present data in a manner that is most similar to the salary statement given to workers in a dependency relation (users), therefore, facilitating the verification of the information by these.

The system has an option called “observations box”, which allows to quickly making a claim, and with absolute reserve regarding the identity, in the event that a user detects an inconsistency between what has been declared by the employer and the reality of his work contract.

In this manner, the AFIP provides a service to the user, and at the same time collects information to increase efficiency in controlling social security evasion.

2.5. Features

Mis Aportes system is available at AFIP's web page, which may be accessed from any personal computer connected to the Internet, through a password provided by the Agency or through the home banking system, which is a service provided by the Argentinean banking system, which allows among other options, entry into AFIP's web page. In this manner access is given to largest number of users possible, allowing the performance of the following inquiries:

- If the worker was included by his employer in monthly returns.
- If the gross salary declared by the employer coincides with the salary in fact perceived.
- If the amounts discounted for retirement and social works, were correctly declared and deposited.
- To what healthcare provider (social work) were the contributions for that amount transferred?
- If discounts directed to retirement benefits were directed to the capitalization system or to the pay as you go system, as it may pertain.
- If the employer deposited the employer's contributions under his responsibility.
- Which is the labour risk manager responsible of verifying labour safety and of verifying that the employer has made the payments for these obligations?

The database contacted where the mass inquires are made by users, and which contains this information, has over 5 billion registries and said inquiries enter at the same time in which the distribution of the funds to social security providers is made.

The amount of accesses to “*Mis Aportes*” made since its implementation (October 2004) until February 2005 has been approximately 500,000. Regarding this last data, it is important to mention that access is voluntary by users or workers and not mandatory.

3. Cargo Monitoring Through Electronic Security Devices (DES, in Spanish)

3.1. Background

As a result of the different practices that began to be observed on the possibility of the theft of goods or the change in the destination thereof in transit operations or road transportation, the need to solve this problem was sought, since the alternatives used (customs enclosures, customs custody, etc.), were insufficient and ineffective when facing the type of crimes perpetrated.

3.2. Objective

Tracking through the use of an Electronic Security Device (DES, in Spanish), in carriers and their cargo through mobile satellite technology (GPS), as from their entry into the national territory until their final destination, whether it is their departure abroad (direct transit), or to the temporary import warehousing (inland or transfer transit).

3.3. Description of the System

To develop the system, the technical characteristics that the devices required had to be considered, and to these, issues inherent to their logistics, periodical homologation, maintenance, audit and connection with the Maria Computer Information System (S.I.M., in Spanish) were added.

The use of DES is mandatory, and during the first stage, its application was applied to the movement of containers from the Primary Arrival Zone up to the bonded warehouse where the goods would be stored, until one of the authorized customs destinations was granted or until it was authorized to move between the qualified bonded warehouses.

The procedure is based on the interaction of software from the Maria Computer Information System (S.I.M., in Spanish), with those of the system associated to the Electronic Security Device (DES, in Spanish), providing as a whole a series of features with which the intended objective is covered. For example, the Provider's system has geo-references pertaining to the delimitations of the Primary Zone of each warehouse and to coded itineraries, previously established and authorized by the DGA, between bonded warehouses.

Deviations to these itineraries and/or unauthorized movements from these geo-referenced zones, in the departure as well as the arrival, will register events in the provider's system, which must be monitored by the users, the Provider and the DGA, and shall cause the enforcement of the relevant measures.

3.4. Operational Characteristics

When the customs official registers the operation in SIM, whoever is indicated as the receiver of the cargo must indicate its agreement with the operation by registering it in the system, this condition is unavoidable in order for the Customs Service of the issuing warehouse to authorize its departure.

Prior to the departure, the Customs Service places the DES, and as from that moment the device is activated at the Integrated Control Centre, which is composed of D.G.A. personnel and personnel from the service Provider.

To allow the departure, the SIM and the tracking system, previously verify that the DES used (identified through a code) is at the Departing Warehouse and the route to be followed by the carrier has been qualified.

With these verifications the Customs Service allows the entrance of the goods through a transaction in the SIM. If any inconsistencies are detected, the system will block the same.

This information travels to the Receiving Warehouse, which, when the goods arrive, it must input the same through the SIM and shall proceed to withdraw the DES, this situation may only be done when it is verified that the Device is in the Geo-reference Zone indicted in the Arrival Warehouse.

The Integrated Control Centre shall receives alerts linked to any detour in the route, extended detention, violation attempt or an attempt to open the device outside the place foreseen, and this allows the control authority to take the measures that it deems relevant.

Case study

TOPIC 3.3

INFORMATION SYSTEMS AS THE AXIS OF CENTRAL TAX ADMINISTRATION PROCESSES

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CONTENTS: 1. Statement.- 2. Identification.- 3. Structure of the Information System.- 4. Data: Information in a Structured Format.- 4.1. New tax management procedure.- 4.2. Management of third party information.- 4.3. New technologies to capture information.- 5. Electronic Documents: Information in Non-Structured Format.- 6. Fraud Detection. Knowledge Management.

1. STATEMENT

Tax Administrations carry out a very intense information activity. Information is massively treated by means of Information and Communications Technology (ICT), namely by capturing, storing, transforming and consulting it. Every task executed by the Administration, whether a legal or a physical act, requires a certain amount of information. Tax management is by nature greatly demanding informationwise and there should be no difference between available and necessary information. The fact that the information necessary is not available has an impact on the efficacy and efficiency of tax administration.

TOPIC 3.3

Right from the beginning, the information system in Spanish Tax Administration (AEAT, acronym in Spanish) was conceived to provide a comprehensive view of a taxpayer. The database structure was furthered, avoiding information segmentation on the basis of content or function. The system currently contains more than 3 billion entries. On one hand, information is provided by the taxpayers themselves, who are under the obligation of filing returns and reporting on third party services mainly by means of informative returns.

The informative returns filed by a taxpayer contain information of the taxpayer's economic relations with third parties. They account for 370 million yearly entries in over 5 million returns and contain information inputs for third parties. In average, 20% of the data contained in the information system corresponds to taxpayer returns and 80% to information inputs. The information concerning a Taxpayer also reflects any administrative actions brought against such Taxpayer as well as the image of the documents in which such action materialized.

There are three layers in the design of the AEAT information system:

- The first one refers to the management of the data which are necessary for the applications. Where are the data and their respective database located? The AEAT criterion is that in an organization such as a tax administration the information elements must be corporate. Any authorized user must be able to access them. Pursuant to the option chosen by the AEAT, the information elements reside in a sole processor which serves as a data server. The other alternative consists in distributing data among several data servers. This was discarded, however, because data management becomes more complex and demands a special software called distributed database management system.
- The second layer supports the transformation of the information elements. It is the heaviest part of an IT project. A specific processor may be assigned, thus acting as an application server. Physical location of this layer depends on the number of times in which the database is accessed by the applications.

If the number is high the best option is centralization, though this does not mean that the data and the application servers are located in the same machine. In the AEAT case, the option chosen was to centralize the application server as well.

- The third layer corresponds to the filing of the information elements. The AEAT has clearly furthered web technology which makes available for the user, through the organization's intranet, a graphic interface and certain office automation facilities which will allow the final processing of the information elements, such as in text composition or in the inclusion of information elements in spread sheets. Web pages are generated in the web page server residing in the central server, but their representation takes place in the user's personal computer by means of a navigator. Central servers are thus released from this job.

Based on a consolidated information system which was the result of over 20 years of work, all the necessary channels have been incorporated for the system to be accessed through the Internet. On account of safety, it was decided that corporate information would not reside in the same computer servicing the Web server. Both computers communicate in real time by means of a platform developed by IT technicians from the Tax Information Department. Most of the communications between the Taxpayer and the AEAT are Web technology based. It is, thus, a question of communication between a navigator and a web page server. The architecture was designed to support work load peaks. Actually, the machine servicing the Internet has 24 Web servers installed in it which may be balanced to render service most efficiently. They are also strong. Failure in one of the servers does not imply that the Internet service is lost. The remaining servers will automatically undertake the respective workload.

2. IDENTIFICATION

The information contained in the Information System is mainly taxpayer oriented.

Taxpayer identification is the basic pillar in information management because if it is incorrect it causes the following inconveniences, among others:

- impossibility of inputting information regarding Taxpayer;
- uncertainty when following up on the performance of tax liabilities;
- impossibility of knowing what information is available regarding certain Taxpayer;
- difficulty in serving notice of administrative actions.

TOPIC 3.3

When it comes to identification, however, the following distinction should be made: personal identification; tax identification and IT identification.

Personal identification, in the AEAT case, comprises the following:

- Tax identification number.
- Name and surname / Corporate name.
- Tax domicile.
- Business domicile.
- Spouse.
- Data of legal representative.
- Type of economic activity pursued.
- Co-official language in which to communicate with the Administration.
- Data of a general type.

The identification of the taxpayers in respect of whom information is processed is key. In the Spanish case there is only one identification for all taxes. In the case of individuals, we chose to use the ID number stated in the national ID document, which has a control character at the end and is issued by the Ministry of the Interior. From the beginning of the 90s the Ministry has had a centralized database ensuring that there are no duplicities. There are, however, duplicities when the numbers were assigned before. This is why the Tax Administration needs to identify the data of individuals by using, additionally, the first three letters of the individual's first last name. Therefore, in the case of individuals the tax identification number and the national ID number coincide.

In the case of foreigners residing in Spain, the Ministry of the Interior also provides the ID number for foreigners (NIE in Spanish), which also serves as their tax identification. This number has a control character in the last position.

In the case of legal persons, the Finance Ministry supplies an identification code with which they register in the Trade Register, whereupon they are deemed to have legal existence. In this case there are no duplicities. The last position is a control character. This code is called tax identification code but actually has a broader scope since it affects any trade transactions carried out by organizations.

The purpose of the NIF is to ensure that whoever conveys relevant tax data to the Tax Administration derived from his/her professional and economic relations with other persons states the latter's identification correctly. As it is, on one hand it is mandatory to state the NIF and, on the other hand, by introducing a control character we make sure that there are no entry errors when the information is conveyed by electronic means.

Taxpayer identification comprises information about the following:

- Which returns shall be mandatorily filed by Taxpayer.
- Filing schedule.
- Benchmark level: expected income level.
- Performance indicator.

It is part of the so called tax vector of taxpayers. Not all taxpayers have a tax vector. Taxpayers have a tax vector when they are engaged in professional, business and farming activities and thus are forced to withhold at source upon making payments in respect of earned income, capital income, income due to professional activities or rental payments for business premises. They also have to make quarterly prepayments on account of their annual returns and, in general, have to file monthly or quarterly VAT returns.

Every Taxpayer is important to the Tax Administration but Taxpayers with a tax vector are undoubtedly more important.

They are very important collectionwise and as information providers because they manage and pay their own taxes as well as a big part of other Taxpayers' taxes who obtain a tax credit they can use upon filing their returns.

Regulations provide for such taxpayers to communicate their tax liabilities to the Tax Administration prior to starting their economic activities.

The liabilities of these Taxpayers involve:

- Income due to Personal Earned Income Withholdings.
- Income due to Capital Income Withholdings.
- Income due to withholdings on rental payments on business premises.
- Income due to Prepayments of Direct Taxes.
- Quarterly or monthly VAT returns.

TOPIC 3.3

Identification for IT purposes means the necessary data to check on or input certain information of a certain Taxpayer.

As has been said, there currently are different taxpayers who have the same NIF.

In these cases the NIF is not enough as an identification number for IT purposes though, as we shall see later on, it helps.

This is not so in the case of legal persons since the NIF (CI) is granted by the Information System of the AEAT, thus avoiding duplicities.

Technically, the solution adopted when a Taxpayer is entered in a database is to assign that Taxpayer an exclusive internal number which links all the information corresponding to that Taxpayer, regardless of the Database in which the Taxpayer has been entered.

The internal number is generated on the basis of the NIF and of the first three letters of the last name.

This internal number never varies. This IT solution allows guaranteeing that no information about any Taxpayer will be entered in a database if it does not exist in the personal identification individual master file which allows converting the taxpayer's NIF and the three letters of his/her first last name into the internal number.

In consequence, to input data to a certain individual it is necessary to verify that in the Database there is not more than one Taxpayer with the same NIF. If there is, then the IT process will check on whether the first three letters of the first last name coincide.

If this were not so, whether because there is no Taxpayer in the Information System with that same NIF or, if there is, the first three letters of his/her last name do not coincide, such data shall be parked.

The correct identification of the individual who the data corresponds to thus constitutes a basic assumption for the correct input of such data to a Taxpayer in the Database.

In interactive consultation processes, Taxpayer identifying data shall almost always be necessary to access Taxpayer information.

Access methods can be classified as:

- Access by means of Taxpayer's identifying data.
- Access through spouse.
- Access by NIF resemblance (all taxpayers with similar NIFs are viewed).

Should more than one information holder meet the selection requirements stated, a relation of candidates shall be viewed to complete such selection.

3. STRUCTURE OF THE INFORMATION SYSTEM

The data corresponding to a given Taxpayer are filed in a relational database. A relational data base consists in a set of tables which in their turn are broken down into rows. Each of these rows represents an entry and the columns represent attributes. Any given attribute may exist in different tables. Each table is a relation of entries, thus, a relational database may be considered a set of tables. Relations are represented by common attribute values in different tables.

The returns of a given tax for a given tax period are a table and each return is a row in such table. Each item in the returns is a column. Settlements carried out by the Administration are stored in a table. One of their attributes is the settlement number. This attribute may exist in other tables such as the table containing the defenses filed by taxpayers who were subject to an assessment, the table containing income, the table containing deferral requests... The rows in these tables are related in a relational database if they have a common attribute: the settlement number.

The database containing taxpayer data has certain special characteristics:

- There is a table containing identifying data for all the Taxpayers.
- The Taxpayer's ID shall figure in all the rows. This allows relating all the information related to the taxpayer. To improve the system's performance and to avoid having to modify the rows containing information on that Taxpayer if there is any change in the Taxpayer's identification, the system assigns

an internal number when the taxpayer is entered which shall be the means to access all taxpayer's data. This internal number also exists in the identifying table.

4. DATA: INFORMATION IN A STRUCTURED FORMAT

Three types of information can be distinguished. The first one corresponds to data. This is information in a structured format. Data are stored as entries in IT individual master files. Each data type in each entry occupies given positions. The basis is a pre-established structure. This enables the information management programs to locate any information they may need.

But where does the information system get the data from? The data are information elements which stem from documents, conversations, proceedings... When the information is processed, the data are extracted from a given context and made available to the users for the production of new information. The information containing the data to be incorporated in the system is called original information. The information produced on the basis of such data is called derived information.

In Spain, the Tax Administration made a big automation effort in the 80s. A powerful structured information system is available containing:

- Data taken from requests and communications filed by Taxpayers.
- Track or physical record of the decisions adopted by administrative bodies.

All administrative proceedings have been computerized, not just because they are thus speedier but also because the decisions adopted may be tracked down and the auditing criteria may be stringently and objectively enforced, thus obtaining activity and management indicators (indicators of the level of objective performance, indicators of service quality, indicators of points of risk).

In the Spanish case we decided for a sole information system for every tax, for every proceeding and for every administrative unit. Thus, the information system contains the information necessary to manage all excise taxes, to manage foreign trade, the information concerning assistance functions, to select taxpayers to be audited, to support tax audits, manage settlements and collection efforts.

The information consists mainly in data of Taxpayer returns which are broken down into information about self-assessment payments made by Taxpayers, which come from financial institutions (40 million yearly entries), and into data contained in the returns and into data supplied by the parties involved in economically relevant transactions (370 million yearly entries).

Most of the information is received on electronic means or by telematic means. In all cases entries include the taxpayers' identification number.

The results yielded by the information processed will depend not only on quantity but also on quality.

Among the attributes used to measure the quality of the information are the following: reliability, promptness, due filing and availability.

Availability: the data needed must exist and be easy to access. It measures the extent to which users can access data when they need them.

Updatedness: the system shall gather updated data. Outdated data may have lost a big part of their value and may even give rise to wrong conclusions or decisions.

Reliability: traditionally defined as the probability of error-free data.

User-friendliness: data shall be user friendly.

It is therefore necessary to share the user's point of view.

Therefore, the person responsible for the information system must be familiar with the user's point of view, with his/her perception. To this effect, the AEAT has recently chosen to make suggestion boxes available to users so that they can make any comment they may deem timely.

4.1 New Tax Management Procedure

The tax reform which took place in Spain in the 80s brought on great changes in tax management. The main effects undoubtedly were the spread of self-assessment procedures and the increase in the number of Taxpayers and tax returns.

TOPIC 3.3

The New Tax Management Procedure (NPGT in Spanish) was launched to cope with these changes. The latter facilitates, on one hand, performance of tax liabilities by taxpayers and, on the other hand, massive control of income and refunds.

Some of the NPGT features which are still current twenty years later are:

1. Provide management capacity in respect of a great many self-assessments (over 40 million yearly).
2. Make the most of IT means to manage and control performance of tax liabilities.
3. Simplify administrative proceedings.
4. Standardize management by reducing procedures, as far as possible, to a basic unitary process.
5. Facilitate performance of liabilities guaranteeing confidentiality of taxpayers' returns.

The procedure relies on more than 300 financial institutions which are engaged in the following activities:

1. They carry out collection efforts and pay refunds by means of 22,000 branches and of telematic banking. To that effect, the disbursement amount is deposited in a restricted-use account opened in the name of the Public Treasury (not in the AEAT's name).
2. Seven data are recorded per entry, regardless of the tax concept. Such data are: first, tax ID number and three letters of the first last name in the case of natural persons; second, fiscal year and period; third, tax concept identified with a number code with three positions set forth in the entry document; fourth, voucher number, i.e. the pre-printed number which identifies the entry document, whether on paper or by electronic means; fifth, amount paid; sixth, date of entry, and seventh, place of entry (bank branch or telematic banking).
3. The balance of the restricted use accounts is transferred to the "Banco de España" (Bank of Spain) every fifteen days. The AEAT never handles money. It only manages information. The Banco de España thus telenotifies the information of transfers received.

4. By means of a teleprocess they supply, every fifteen days, a master file with the seven data recorded per entry.

The financial institutions do not manage any tax information originated in self-assessments. They merely process the seven data mentioned, which do not demand any tax competence from bank employees and which do not suffer the consequences of continuous standard changes.

By processing such information the following basic information is made available:

1. Who enters (the data)?
2. How much is entered?
3. Under which concept is the amount entered?
4. When is it entered?
5. Where is it entered?
6. With what document is it entered? (Whether in a hard copy or on electronic means).

There are, therefore, two information flows. One of them includes the seven accounting data and the other one refers to tax information. The advantages of such separation are the following:

1. The processing of accounting information is not affected by standard changes. The IT applications of the financial institutions remain stable.
2. Accounting information is anticipated. It is not necessary to wait until the items in the different tax returns are entered.
3. Financial institutions may capture the seven data when serving a customer at the counter. The programs used by the institutions validate the seven data by verifying the control digits included in the NIF and the number of the voucher.

The individual master file received by the AEAT from each financial institution undergoes an IT process which comprises four phases:

1. Reconciliation of the total amount and the information supplied by the Banco de España about the transfer made by the institution.

TOPIC 3.3

2. Validation of the seven data included per each entry.
3. Budget allocation, which allows obtaining accounting statements.
4. Incorporation of the seven data in Taxpayer's account, which Taxpayer may access through the Internet provided he/she has his/her electronic identification certificate.

The tax information is processed by the AEAT directly. The items in the annual self-assessments are incorporated in the Information System (Individual Income Tax, Corporate Tax) as well as the quarterly self-assessment items filed telematically (2,000,000 in 2004) and the monthly self-assessments filed by large companies (a large company is an organization which invoices over 6 million euros a year and which has to file returns telematically).

The IT process of the tax returns, whether annual or monthly, consists in entering or receiving the telematic filing, checking on the entry, IT verification of the self-assessment, application of filters on the information entered and IT management of incidences, as applicable.

Though there is only one application to manage accounting information, to manage tax information there is an application per each tax concept given that different data need to be processed.

The system to capture tax information manually from the returns consists in double digitization in the event of any arithmetical mismatches in the amounts captured. Mismatched items need to be typed again. If the amounts typed the second and the first time coincide, the mismatch is deemed to be the taxpayer's mistake and the entry is considered valid.

4.2 Management of Third Party Information

The Tax Administration may demand any type of information relevant taxwise given that it is provided by law that any individual or corporate person, public or private, shall mandatorily furnish any and all class of tax relevant data, reports or background information originated in his/her economic, professional or financial relations with other persons, shall take note of such returns and make them available to the Tax Administration, and shall comply with any requirements made by the Administration. These obligations shall be complied with whether in a general way, by means of informative returns provided for in the regulations, or upon special request by the competent Tax Administration bodies.

Processing informative returns consists in the following phases:

1. Identification of the person filing the return.
2. Recording the cover page of the return which shall sum up entries and amounts set forth in the return.
3. Capture entries in detail.
4. Reconciliation of the data summed up in the cover page.
5. Validation of detailed entries.
6. Input identification.
7. Taxpayer is requested to supply supporting documents for unidentified inputs.

Informative returns contain information on Taxpayer's economic relations with third parties. They represent an annual 370 million entries contained in over 5 million returns. Said returns provide information in connection with work, professional activities, farming activities, return on capital paid to individuals, of rental payments on business premises paid by legal or individuals engaged in business or professional activities.

Other reporting obligations affect notaries who are under the obligation to report transactions certified by them.

Taxpayers engaged in business or professional activities shall also list in an annual declaration on transactions all the persons or organizations, regardless of their nature or character, with which they have carried out transactions which have collectively exceeded, per person or organization, the amount of 3,000 Euros during the relevant calendar year, thus separately computing, to that effect, goods and services delivered and acquired. The information stated by a businessman as acquisitions from a given vendor should be stated by the latter as deliveries or services rendered.

As regards Intra-Community deliveries in the European Union, businesspersons operating in Spain are under the obligation to report quarterly their relations with operators established in other States to whom or from whom they have made Intra-Community deliveries or acquisitions.

Each Member State shall communicate by telematic means its relations with established operators who have made Intra-Community deliveries to a given operator established in the State requesting information. Thus, the AEAT obtains information from the returns filed in other member States.

TOPIC 3.3

This exchange takes place on the basis of the information collected in each Member State under a common format. A quarterly consolidated return (Form 349) for operations corresponding to Intra-Community deliveries of goods by a Taxpayer during a certain period are filed with the National Administrations, identifying the recipient of the goods with his/her NIVA and the total amount in the local currency. Certain operators who do not exceed a certain threshold are under an annual reporting obligation.

Returns are manually or automatically managed and processed in each State; besides being used for domestic reasons, they enable other States of the Union to obtain different levels of information. In Spain the input volume amounts to several tenths of thousands quarterly returns and several hundreds of thousands Intra-Community transactions during the same quarterly period.

Informative returns contain, thus, third party information known as inputs. They contain the Taxpayer's tax ID and the description of the data by means of the corresponding operation or return code and the transaction amount. They are mandatorily filed in IT support or through the Internet when the number of entries exceeds 25; in some cases telematic filing is mandatory.

Since the Customs Administration is part of the A.E.A.T., the latter can avail itself of information from export and import clearance declarations. Most of the information is stated by the Customs agents by telematic means. Consignees report about goods to port and airport authorities by means of a teleprocess and the authorities may thus get the necessary stowage and storing means ready. The authorities in their turn forward an extract of such information to the Tax Administration and compare it with import or export declarations filed by the importer, the exporter or the Customs agent.

The fact that there are no restrictions and capitals flow freely has allowed for capital transfers to other States. Return on such capitals should be taxed in the State where the beneficiary has his/her domicile for tax matters. The Spanish legislation provides for mechanisms to avoid international double taxation.

In Spain the financial institution which is transferring funds abroad is under the obligation to communicate the transaction data to the Tax Administration. Though this statement constitutes no necessary condition to transfer capitals abroad, such communication is mandatory.

Thus, anybody residing in Spain who expects to make collections, payments or transfers abroad in excess of 3,000 Euros through a bank or savings institution must declare any and all regulatory data such as, among others, the company's name, domicile and NIF. This obligation extends not just to transfers to or from abroad but also covers transfers originated or intended for an account opened at a Spanish credit institution under a non-resident's name.

The Information System is completed with the information originated in the Rural and Urban Registers.

The capture of singular information has also been provided for. Data are correctly incorporated through an IT support when the source of information is in a position to supply it or directly from a hard copy containing it; in this case prior codification is necessary, notwithstanding the fact that the image of the document may be scanned.

All this constitutes original information. All the A.E.A.T., management procedures have been automated, including those corresponding to executive collection. This type of information is called derivative information. By way of example, audits, penalties imposed on infringements, notices served in respect of a certain return which was not filed or of documentation which must be furnished, "on seizure phase" settlements. This type of information must also be taken into account upon assessing a taxpayer's profile.

4.3 New Technologies to Capture Information

The A.E.A.T. has been able to improve the quality of data by taking advantage of technological progress. The following are some examples:

Broadcasting A.E.A.T. assistance programs. Almost every return form has a help code linked to it which not only walks the Taxpayer through the return and makes the necessary calculations in the case of a self-assessment, but also allows printing the official form and its content. The data set intended to be captured can also be printed in PDF format (dot code) in order to record the data through optical character recognition (OCR).

TOPIC 3.3

So that tax advisors need not acquire return preprints, they are authorized to print the returns (Form and data) on blank paper, provided they follow the A.E.A.T. printing guidelines to that effect, i.e. the same guidelines used in the A.E.A.T. official assistance program. This is why the main vendors of software for individuals request the guidelines from the A.E.A.T. and incorporate them in their programs. Over 85% of the returns filed, whether self-assessments or informative returns, include a PDF code. The AEAT captures data from these returns also by means of the dot code.

These programs also allow for telematic filing, as follows.

Progress has been made and returns for certain taxes can be now filed by telematic means. Our first experience was in the case of foreign trade declarations. Over 95% of them are filed by these means.

As regards excise taxes, there are 25,000 big companies which are mandatorily expected to file their monthly returns through the Internet, the rest of the companies and individuals are authorized to file their returns through the Web and, thus, to use an electronic signature system. Over 25 million returns were filed like this for the 2004 fiscal year.

Taking advantage of technological progress has enabled information to be obtained earlier and without mistakes because in the case of the PDF module the very A.E.A.T. guidelines do the validation and, in the event of filings by telematic means, the very A.E.A.T. server validates upon filing.

Also in the event of electronic support, companies are given more time to file their return if they prove that they have validated their filing with a prevalidation program developed by the A.E.A.T. If validation is positive, the program shall print an electronic stamp which accounts for successful completion of the validation process.

The Spanish Tax Administration has thoroughly furthered electronic signatures. Electronically signed transactions work as follows: when the Taxpayer forwards an electronically signed return three information blocks are conveyed. The first one corresponds to the return. The second one is the electronic signature which results from applying an algorithm to the data in the return, signed by introducing in the algorithm the Taxpayer's private key which is, therefore, personal and confidential. Upon signing, a subjective link

is established with signatory and an objective link with the return. A given electronic signature shall only be created for this signatory and this return.

The third information block conveyed is signatory's ID certificate. The certificate contains signatory's personal identification, his/her public key and the electronic signature of the certification authority issuing the certificate. Such public key is linked to the private key used by signatory so that it may be used for signature verification but cannot be used to generate the signature. If the verification algorithm verifies that the signature on the return and the public key are consistent, the subjective and objective connections are established. Thus, authentication and integrity problems have been solved. With the signature on the certificate the recipient of the transaction can confirm that the certificate was issued by a renowned Provider of Electronic Certification Services whose public key needs to have been installed to this effect. The A.E.A.T. has currently acknowledged fourteen certification authorities.

The verification process for a return filed at the A.E.A.T. through the Internet begins by checking on the electronic signature on the certificate received, it then goes on to provide access to the list of cancellations by the certification authorities. The electronic signature on the return is then confirmed and, finally, the content of the return is analyzed.

5. ELECTRONIC DOCUMENTS: INFORMATION IN NON-STRUCTURED FORMAT

The second type of information corresponds to the documents received or issued, regardless of their support, which contain data stored in a non-structured format. The symbolic representation of the contacts maintained with individuals is thus made electronically available. It may be the case of requests or communications received or effected by telematic means (electronic documents in text format), images of hard documents received or issued (electronic documents in image format) and even individual master files in audio format in the case of telephone conversations whose recording was authorized, thus allowing taxpayers to process formalities over the phone. These conversations are stored in binary format in an IT file. This IT stored file is also an electronic document.

TOPIC 3.3

Spanish legislation has been adapted to embody the rule of functional equivalence for electronic documents.

Something which will prove of great relevance for the Administration is being clearly considered: electronic imaging of documents originally in hard copies, stored separately from the files. The proceedings and the officials use only these images and the images, or a hard copy of them, are sent to review bodies and incorporated in the corresponding files. In these cases what gets electronically stored is not the "original " document but an image of it. This is the case of certain documents such as acknowledgment of receipts whose image is captured and preserved. Same thing with the documents issued by the A.E.A.T. through its Printing Center.

Documents received or issued by the A.E.A.T. are put on electronic means to:

- ensure that the image of such documents may be accessed even though the document may be elsewhere and thus is not physically available;
- know who accesses the information contained in the documents;
- allow more than one person to consult;
- ensure preservation and integrity.

The Spanish Tax Administration makes all communication channels available to the Taxpayer for the Taxpayer to get in touch. The telephone channel may be used to process certain formalities, such as to change the domicile established for tax purposes. Advantages are pretty obvious:

1. Every Taxpayer can use it.
2. It's not necessary to move around.

As has already been pointed out, telephone conversations are put on electronic means and IT stored. Spoken words are broken down into phonemes which have a univocal bit configuration assigned to them. These files contain digital sounds susceptible of sound reproduction. Encoding processes are used, such as MP3, which compress the size of a sound file into a 10 factor without degrading the quality of the sound.

Contrary to other files which can be signed prior to their telematic transmission, telephone conversations cannot be signed electronically. Taxpayer identification is done indirectly and demands the provision of certain information which is kept confidential between the Taxpayer and the Administration (data from a tax return filed before then...).

Electronic documents can be filed in a specific database or in the general database containing the rest of the Taxpayer's information. In the case of the A.E.A.T. these documents are also stored in the corporate database. Each type of document is saved in a different table. Each electronic document is a row in this table. It contains five information attributes or fields. Taxpayer's identification or his/her internal number, the type of document, filing date, binary values representing the document and an electronic signature generated by the AEAT key.

The AEAT also produces documents whose support was originally electronic in its Web page server. The solution offered for third party verification of a document or electronic message issued by the Administration is to incorporate an alphanumeric verification code which will allow its comparison with the original IT document through the Internet.

Every document or message generated by the AEAT Web server has a verification code, even upon registering a request filed, a written presentation and a communication.

The server thus generates an acknowledgement of receipt with the corresponding electronic acceptance stamp per each electronic transaction received. This electronic stamp is called electronic acceptance code and is represented, as said earlier, with alphanumeric characters.

This code is an electronic signature produced by means of the key of the Administration's server which is applied on the day and at the time of reception to all the data contained in the return or the request received

To verify this code it would be necessary to have the generation key which only the Tax Administration knows; the only way of verification, thus, would be to compare it with the AEAT server.

TOPIC 3.3

As stated earlier, electronic documents are elements with non-structured information. The possibilities offered by the IT system are thus limited to recording, consultation and printing.

XML technology allows converting electronic documents into elements with structured information which can be understood by a computer program and are thus susceptible of being developed by computer. To this effect, each one of its parts has a label stating its content and meaning. The AEAT has begun to use this technology to exchange documents with other Administrations.

6. FRAUD DETECTION. KNOWLEDGE MANAGEMENT

One of the functions assigned to the tax Administration is the detection of local fraud. The exercise of this function demands information. The control function demands contrasting data from different information sources. Crossing information consists in contrasting and comparing what the taxpayers state with what others have said about them.

The number of data to consider is high. The only way to pursue such crossings is through ICT. But these technologies are not enough. As has been said earlier, other decisions need to be adopted, such as the establishment of a mechanism to identify the owner of the information, thus connecting all the data of a given taxpayer. This identification mechanism is attained by means of the tax ID number whose basic characteristics in the Spanish case are:

- unique for all tax concepts;
- coincides with the ID number demanded for other objectives: national identity number, trade identification;
- incorporates a control digit to detect performance or recording errors.

The AEAT computer system allows selecting taxpayers who must be audited. Since the AEAT has limited human resources, selection must meet two conditions:

- Selection of non-defaulting taxpayers should not be proposed.
- Selection of the highest fraud levels should be proposed.

Different tools are used to detect alleged fraud assumptions:

The first one consists in crossing information.

Provided the Tax ID Number and the data relations have been implanted, crossings are very simple and quick. In short, operations are as follows:

- setting the criterion;
- contrasting tables;
- organizing results.

It is possible to cross revenue data as well as operative data and equity information. Since the data are organized in concept tables, crossing consists, to put it simply, in comparing the row which sets forth specific data of a taxpayer with the corresponding row in another table. Results are on line, grouped into decision boxes which allow selecting a subset of taxpayers within the overall group.

End user operations are very simple, the desired crossing and the geographic and time environments are chosen on line. Once this has been completed, the screen shows the results grouped by segments in a double entry statistic table. This table is the decision matrix where relations may be established in connection with a group of taxpayers. This is done merely by placing the cursor on the respective segment.

Another option consists in incorporating tables in the relational database, thus allowing the selection of taxpayers. The Class system developed by the Spanish Tax Administration illustrates this option.

The CLASS system, classification and follow up on information in the taxpayer database, is, in principle, a self-assessing means whose first objective is to investigate whether the Information System is consistent with its objectives, such as the detection of alleged fraud, among others.

The CLASS system has been the first computer base allowing to make the most of the Spanish Tax Administration's experience to fight tax fraud.

The basic software developed allows to qualify the elements in a database, to form classes with them and to combine one another.

TOPIC 3.3

Elements are qualified based on their characteristics; in the case of taxpayers on the basis of both qualitative and quantitative information available for them.

The idea is to establish taxpayer types pursuant to the information available for them. Class combinations consist in joining and cross cutting classes, thus allowing the formation of taxpayer subsets based on the characteristics of the information available for them.

Each Class may have up to 256 attributes/concepts.

The expert who has made the selection in each class has to specify first the information attributes which will be used. In the second place a batch process is run, thus creating a new table in the database which reflects, for each taxpayer existing in the database, a row formed by 256 attributes with a 0 to 1 value. The value is 0 when taxpayer does not meet a certain attribute (have a certain return in the system, show returns higher than a certain amount, engage in certain commercial activity...). On the contrary, it is 1 when this condition is met. It is internally necessary to run a previous process to collect the information which will be reviewed. To this effect, in the first place an attribute vector is assigned to each taxpayer stating whether such attribute exists or not.

End user operations to select taxpayers are very simple. From any point in the data net and from any terminal, provided the user has been authorized by the Class system, after the geographic and time environments have been chosen, the screen shows a box from which the user may "talk" to the system interactively until the desired taxpayer subset is determined. To this effect, this type of questions may be made:

- With a Y to ask about taxpayers with a given attribute, regardless of whether they have others or not.
- With an O to ask about taxpayers who have certain attributes that others have, regardless of whether they have or they do not have the rest of them.
- With an N to ask about taxpayers who do not have a given attribute, regardless of whether they have or they do not have the rest of them.

- And with a Y, O and N question combinations are possible. Thus, if we want to ask about taxpayers who are individuals and own any moorings or luxury vessel and who have also acquired a vehicle valued at 1 to 5 million euros, who, besides, are not board members of any company, the system will respond immediately merely by striking the enter key.

Once the system has provided results, it is possible to keep on asking questions, including new conditions or suppressing or modifying others. The taxpayer relation which forms part of the group which was drawn up can be found out merely by pressing the corresponding key: the screen will promptly show the corresponding taxpayer relation.

The Class application also forms an integral part of the rest of the system; the taxpayer relation allows to access the information of a specific taxpayer and to register the decision which was taken of including or not including the taxpayer in the audit plans.

The potential of this on line taxpayer selection system is shown by the fact that, in practice, the number of groups which may be formed is unlimited.

By means of the corresponding option keys, the system allows to keep the relation of taxpayers collectively for another type of analysis, or to keep the selected close characteristics, to be subsequently used by that same user or by others.

In this option the computer system allows the expert who made the selection to use all his/her competence.

In order to cope with greater analysis needs, the AEAT has developed a multidimensional analysis tool which allows using any information element stored in the database. This tool is called Zujar. Contrary to CLASS, this informational system is not found in the relational taxpayer database. The information is downloaded from the taxpayer database and is organized in a special way to cope with any access demanded. Any field may be used as a search argument. Expert users may analyze the information freely. This allows spotting out tax behavior patterns.

TOPIC 3.3

Other advantages this tool offers compared to CLASS are:

The Class only manages binary variables (yes or no) while Zujar allows managing categorical (with two or more values) or numeric variables. Since only binary variables are managed, in order to manage amount segments Class need to use one variable per each possible segment, which is predefined and cannot be modified by the user. By using Zujar, with numeric variables, the users can interactively define the amount segments they wish to select.

The number of Class managed variables is limited. Not so in Zujar.

The Class only provides information on the number of taxpayers who meet certain conditions. The Zujar for taxpayers, besides, provides data such as total or mean amounts.

Zujar allows to breakdown or group according to the values of any variable, something which the Class do not offer.

Each Class is a selection mechanism previously defined and independent which will not take new variables and will not combine variables with other Classes. The Zujar for taxpayers acts as a general repository and variables can be combined with one another.

A Class modification (adding new variables, criteria to define population) or merely updating it for a new fiscal year requires program maintenance, this is why they are expensive. Updating and extending Zujar data is done systematically.

With these tools the information system may contribute knowledge implicitly contained in it. This is the third type of information available. Data mining technologies such as neuronal networks allow squeezing the system, thus obtaining from it the taxpayer selection to be audited.

Knowledge is the capacity to select in each situation the best possible option.

Knowledge is originated and applied in the minds of persons. It is acquired by training or by experience.

Knowledge is an intangible asset in organizations. It is with knowledge that the information available for each situation is transformed into action.

Information and Communication Technologies offer means to extract, produce, transmit and apply knowledge in any organization by using the information system.

The AEAT considers that managing knowledge in Public Administration provides the following advantages:

- It serves to unify action criteria.
- It allows to analyze the results obtained from previous actions and to find action criteria based on efficacy and efficiency principles.
- It allows using explicit knowledge as a motivation element in certain discretionary actions.
- It speeds up administrative processing by using corporate references.

To the extent administrative actions taken by the AEAT are fully automated, the Administration's information systems contain the register of the actions taken, all of them are the result of applying the knowledge of the officials to each case in particular. This knowledge is implicitly reflected in the information system.

Besides, the outcome of these actions is also known: whether the resolutions adopted were challenged, whether the challenges were dismissed or not, processing time, whether administrative settlements were or were not paid...

Thousands of cases in respect of which the information system thus knows:

- information of each case: data, documents... which constitute the background data which ground the decision taken;
- the decision adopted;
- the results achieved.

With the tools known, such as data mining, knowledge may be implicitly extracted from the system. Knowledge can thus be exteriorized. These tools operate on information systems such as Zujar.

TOPIC 3.3

One of these tools, which the AEAT is using, is the artificial neuronal networks. They allow to infer a function which establishes a relation between a given output and the input information available (the background), provided that there are enough cases available. Just as with biological neuronal networks, knowledge is acquired by experience. An artificial neuronal network is programmed to be trained and to obtain the output requested vis-à-vis input data. It learns from the different input and output data which are stored in the system. Once the network has been trained it may be used as a production system. If cases are supplied to it and the correct response is unknown, the artificial neuronal network shall remember all the cases learnt and shall accordingly offer an output based on the latter.

The AEAT has used this technology to select taxpayers with a high fraud pattern by taking advantage of the information obtained from the tenths of thousands audits carried out each year. The results obtained clearly show that the fraud discovered is greater than what was obtained with other selection processes.

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Case study

TOPIC 3.3

INFORMATION SYSTEMS AS THE BASIS OF TAX ADMINISTRATION'S CORE PROCESSES

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*CONTENTS: Introduction.- 1. Architecture.- 2. System Components.-
2.1. Basic Components.- 2.2. Control Components.- 2.3. Strategic
Components.- 3. Conclusions.*

INTRODUCTION

In order to fulfill their mission, Tax Administrations must deal with increasing volumes of taxpayer information. Each taxpayer is subject to different taxes and tax systems, filing tax returns and making payments pursuant to different deadlines, carrying forward tax credits from one year to the other, making advance payments, charging the payment for a certain tax to a different one, requesting rebates, allowances and drawbacks, or payment facilities.

The magnitude of the information processed by Tax Administrations has forced them to create and implement administrative information systems and procedures that make it possible to learn how resources are employed individually with great accuracy and timeliness, how each operation is being performed, which is the performance of each official, what is the evolution of each case under study, and additionally, to set forth the levels of performance of the working groups, units, administrations, regional administrations, the offices at the central level and the agency overall.

CIAT considers that the implementation of information systems' models that are structured as a part of comprehensive management models, guarantees the adequate performance of Tax Administrations, since process integration, which translate into control and service actions for taxpayers, enables the supply of workflows on a permanent basis and provide feedback to the same processes to make the necessary adjustments as well as the objectives and action plans set forth, which generate the subsequent adjustments to the processes when corrections are made.

It is for this reason that CIAT has made a significant effort to develop a Tax Management System (TMS-TA) for the administrations of the member countries. Said system is a set of technology tools integrated through the different components described hereunder.

The CIAT Tax Management System (TMS-TA) gathers the organization's broad international experience and best practices in Tax Administration from the member countries. Its design fits the concept of the Integral Management Model for Tax Administrations (MIG-TA) and the Information Systems Model (MSI-TA) set forth by CIAT. Thus, each component is guaranteed to be consistent with the practical needs of Tax Administrations.

The Tax Management System (TMS-TA) has been developed to meet the following purposes:

- Facilitate tax electronic transactions; reception of tax returns; payment control and reception; control of revenue collection agencies; taxpayer registry; maintenance of taxpayers' tax current account; recording and processing waivers and incentives; processing installment plans; recording and processing drawbacks and tax setoffs.

- Assist the organization overall regarding: the administration and operation of institutional databases; keeping parametrizable information; processing and querying management information; and establishing transaction process networks.
- Contribute in the creation and maintenance of an external information database to record transactions among taxpayers; the automated selection of taxpayers to be audited; controls for oversight management and tax audits.
- Collections, including the selection of delinquent taxpayers, administrative collection procedures or collection as a result of a delinquency notice and coercive collection procedures.
- Supporting the institution's legal claims management, for government as well as court proceedings.
- Starting up information technology components that enable the Tax Administration to create horizontal workflows and information through the different key areas in the organization, involving all operating tasks as part of the process flow.
- Enabling management to gain an increasingly structured view of more aggregate management and controls, with more timely, reliable and accurate information.
- Fostering ongoing change and adjustment of processes by means of fast changes in workflows and information, which are incorporated dynamically and enable automated tracking.

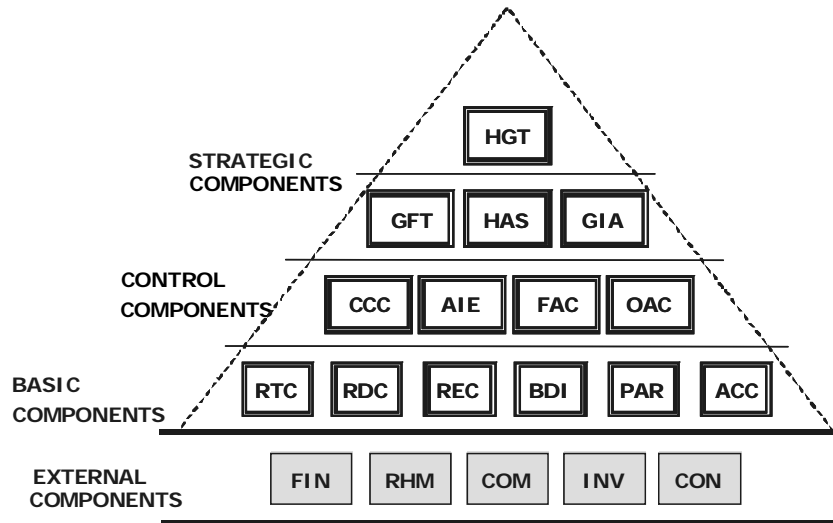
1. ARCHITECTURE

The Tax Management System for Tax Administrations (TMS-TA) is made up by basic components, control components and strategic components.

- Basic components are geared at serving the primary needs in any Tax Administration and developing the Taxpayer Registry (RTC), the Taxpayers' Tax Returns Acknowledgement (RDC) and Tax Collection (REC). They

also include Institutional Database management and operation (BDI), management and maintenance of Parametric information (PAR) and the module on Users' Administration and Access Control (ACC), which are used by all the components.

- Control components include functionalities to improve the Administration's performance and are in charge of keeping Taxpayers' Current Accounts (CCC), External Information Management (AIE), Taxpayers' Invoicing Control (FAC) and provide Other Supplementary Applications (OAC) used for processing installment plans, issuance and control of tax compliance certificates, recording and processing tax credits from waivers and incentives, recording instruments attributed to tax payments, among others.
- Strategic components include more sophisticated tools for process automation, case selection, information management and querying among different agency systems plus management support, among which we may highlight the Workflow Manager (GFT) that enables the automation of all the processes required by the Administration, with special focus on oversight and audit, drawbacks, collection, infringement control and tax legal proceedings; additionally, they also provide the Case Analysis and Selection Tool (HAS) and the Applications' Information Manager (GIA), which operates internally among applications (with dynamic processes or traditional interfaces), at the internal user level via the Intranet and at the external user level via the Internet. At this level we may also mention the Tax Management Tool (HGT), which provides aggregate information in different layers of the organization for transaction tracking and control.
- All the components may be integrated into the External Components, which are all the systems available in a Tax Administration that are not part of the TMS, but may interact with it, whether management, financial or human resources systems. The concept also includes other systems that serve tax functions and may integrate into the TMS via the Applications' Information Manager.

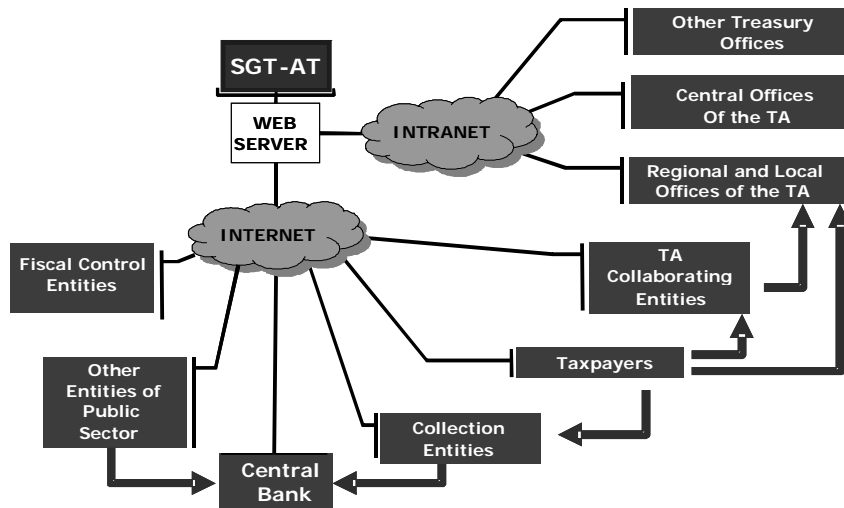


The components are geared at internal transaction control and supporting the oversight and management processes. Each module from each component generates internal information to track and control every transaction performed as well as its own statistical information. The tax management component is a powerful querying tool for standard statistical information and any information recorded in the database, which enables immediate and real time availability of information for the institution's Officials and Managers while facilitating tax intelligence work to a significant extent.

The information technology strategy aims at Web-based concepts and technology, which provide significant advantages, among which we may underscore: (a) a significant reduction in decentralized environment development and implementation efforts; (b) easier system maintenance; (c) increased coverage of services to extend them as required by the TA; and (d) greater interconnection and interaction with other government and private institutions.

Each service in the system may operate via the Intranet at the headquarters or at the regional branches. System options may be enabled according to the transaction processes applicable to each organizational level.

Access is enabled via the Internet, by taxpayers, tax collection agencies, government agencies that collect current revenue, as well as other oversight and control institutions and, overall, agencies interested in revenue information. When required for their transaction volumes, a direct Intranet connection is provided, such as the case of regional branches.



The Web structure is based on strict physical and logical security mechanisms to prevent external attacks and avoid unauthorized access to information and the different system components.

Likewise, the Web structure flexibility and potential are made extensive through the different organizational levels and transaction processes, even the specific operational tasks performed by officials individually, via the Workflow Manager (case management).

This is a powerful tool to model and define process networks, which automate and standardize the internal work of the agencies, facilitating transaction tracking and control. Thus, the Tax Administration makes the most of the advantages that this leading edge technology provides.

2. SYSTEM COMPONENTS

The components that make up the integral information systems model for Tax Administrations are:

2.1. Basic Components

2.1.1. Taxpayer Registry (RTC)

This component is in charge of managing the identification, location and classification information for each and every taxpayer in the Tax Administration. It incorporates all the relevant information on each one of the taxpayers, whether corporations, individuals, sole-owner corporation, real estate, vehicles or other type of taxpayer. It includes the taxpayer ID information, such as the Federal ID Number, tax number (RTN, RUC, NIT, IE), name, birth date or incorporation date, the location with the principal address and alternative addresses, department, municipality, neighborhood or district, telephone numbers and the tax category, as well as business activity, type of taxpayer and type of corporation; additionally, it enables the creation of records for taxpayer obligations, special periods, their businesses, professional relations, legal counsels and certified public accountants as well as taxpayers' tax exemptions.

This component enables the user to register or modify data by means of print forms at the TA offices or through the Internet and interacts with the Users' Administration and Access Control (ACC) component in order to assign taxpayers' electronic identification passwords, which in turn may be employed as digital signatures.

The component has been designed to incorporate taxpayer special characteristics or attributes, to contribute to the subsequent automation of control processes, stemming from the information that the taxpayer must provide to the administration, of a general nature or referred to specific obligations or taxes.

The following may be registered in the Taxpayer Registry: individuals, corporations, undivided inheritance, community property, organizations, institutions or any partnership, domestic or foreign, domiciled in the country, even when they have not been recognized as legal entities.

For example, the Registration process includes the following steps:

Acknowledgement of the General Taxpayer Data, the Tax Domicile, Telephone and Fax Number and E-mail Address, Legal Representative Information and Special Legal Residence:

Submission of Alternative Addresses: Certain taxpayers in addition to their registered office and the domicile of their businesses or branches may be reached at other addresses. It is for this reason that a utility called Alternative Addresses is available. This utility may be used by any system user, with the purpose of adding information to facilitate relations between the Federal Revenue Administration and taxpayers.

Registering Taxpayer's Obligations: Taxpayers, given their business activity, may be liable for certain Tax Obligations they must pay, which defines their Fiscal Vector, upon registering for certain obligations or taxes, this fiscal vector may be used in some of the main transaction software, such as: delinquency and infringement control.

Professional Relations: Depending on the tax category and legal entity of taxpayers, they may be related to third parties by professional or representation relations. Said relations may be defined as: Agents, Associates, Legal Representative and Accountant; these relations may be modified in time. One of the features defined regarding professional relations is the exclusive nature thereof in the case of the legal representative and accountant.

Registration of businesses: The system keeps records of taxpayers who, given their business activity, own more than one business.

Upon completion of the registration process, the system issues the taxpayer's registration certificate and card.

The system also enables the taxpayer to register via the Internet by using a form, which upon completion, is reviewed and approved by an official who enables the taxpayer's tax ID number (NIT) that allows taxpayers to use Web services.

2.1.2. Taxpayers' Tax Returns Acknowledgement (RDC)

It enables to capture and receive the different types of tax returns from taxpayers, such as the Income Tax, VAT, Sales Tax, Excise Taxes, and all the other tax statements employed by Tax Administrations, to assist taxpayers in the payment of their tax obligations and enable Tax Administrations to rely on timely and accurate taxpayer information.

Among the possibilities available to complete, file and validate tax returns, we may mention the following: providing taxpayers with software to complete the tax returns form on his personal computer, printing the tax returns form or saving it on a magnetic disk to submit it with the Tax Administration subsequently, and completing and submitting the tax returns form on the Tax Administration's Web page.

This system also enables submission of tax returns filed by taxpayers in hard copy, after the online review and validation of the information.

The component for the submission of tax returns guarantees that the tax returns filed by taxpayers are received in a timely fashion by any office or branch of the Tax Administration based on uniform and reliable procedures; that the contents therein are accurately digitized, consistent and top-quality; that the mistakes made by taxpayers are spotted and corrected as soon as possible; that the immediate effects are generated on the control systems, whether current account, oversight or collection systems.

In general terms, tax payments are attached to specific forms. In certain cases a form may include one or more taxes.

There are certain other taxes that are not attached to a specific form. Those are paid directly.

The RDC system provides for one or more versions per form. Each version has different features that make it unique as to other versions of the same form, mainly owing to their content. The management of versions is of utmost relevance, since it enables the Administration to make changes in the content of their forms, as legal changes occur or as control requirements increase.

Each version of a form is given a validity, which indicates the date from which the form is effective and the date as of which it expires. This validity matches the fiscal years during which the form may be used. Almost all forms will be likely to have more than one version.

The version for each form may be broken down into sections, fields, type of data, required fields, field labels, formulae for field validation, which may include variables such as fields on the same form or fields from other forms or external fields like current account balances.

The system offers the user and taxpayers the following services:

- Online submission of print tax returns;
- Submission of tax returns filed individually via the Internet;
- Submission of tax returns filed with the Administration's authorized agencies (the agencies that assist the administration in receiving and sending batches to the Tax Administration), which includes Internet reception, reception of print documents and magnetic disks;
- Online magnetic disk reception;
- The closing of daily operations including: closings of authorized agencies from tax returns filed via the Internet, closing by officials of tax returns filed on magnetic disks or in print, and closing of incomplete returns;
- Reopening of Cash Registers.

2.1.3. Tax Collection (REC)

This system enables the submission and validation of payments made by taxpayers via the Internet or through the banking network, which detailed information is referred by banks either on magnetic disks or via the Internet. These payments are recorded in the institutional database and are automatically included in the taxpayer's current account.

The system enables transaction tracking and Bank statement controls, it identifies the amount collected against the amount deposited in the treasury accounts, which allows identifying differences and delays in deposits.

It also provides for another set of services geared at receiving payments through the cash registers placed inside Tax Administrations that collect tax payments and other items. This service includes a cash register management module, cash register opening and reconciliation, generation of a daily income report, by cash register, by tax and type of account in which the payment must be deposited (municipal, national or by institution) and the generation and printing of payment slips.

2.1.4. Institutional Database (BDI)

This component is in charge of managing, in a single repository, all the documents or forms generated by taxpayers or internally at the TA that affect taxpayer tax status such as tax returns, payment slips and official documents. Its main purpose is to guarantee that taxpayers' print documents match the digital documents stored in the Database and serve as input information for all the other applications that make up the system. The Institutional Database enables to maintain document data atomicity in order to avoid data replication and redundancy in the different system components.

The functionality of applications in an information system relies first and foremost on the information that makes up the Database, the Institutional Database component provides the user with a series of queries that are linked to all the taxpayer's documentation, such as documents filed by the taxpayer (Tax Returns, Requests and Payments), as well as the administrative procedures launched by the Tax Administration's officials.

The relevance of this tool is that in addition to performing the normal queries to the forms that were previously filed by taxpayers, it produces different kinds of statistics.

Likewise, this system stores all the information on the taxpayer's documents in a single data repository and offers this information to the other components of the Tax Management System to process these documents and generate their own data structures.

The system enables the deployment of the complete list of documents from a taxpayer, by entering the taxpayer's RUC (Unique Taxpayer Registry) number, or the ID number or the ID type.

2.1.5. *Parameter Management (PAR)*

Management of ordinary and parametric information that serves as input for all the components that make up the Tax Management System, such as terms, interest rates, departments, municipalities, business activities, type of taxes, forms, banks and others.

This information makes it possible to adjust the systems' behavior, by streamlining the implementation of statutory changes in the system upon entering new parameters with minimum software modifications, such as the inclusion of a new tax returns form in the system or creation of a new current account.

The Parameter Setting module overall provides authorized users with a useful tool for the efficient performance of the Tax Administration's typical tasks. Among its fundamental features we may highlight the streamlining of changes that may be required at a given time owing to specific changes in procedures of an administrative and legal nature.

The main parameters that make up the variables defining each one of the remaining components in the application are:

Parameter	Related Parameters	Main Uses
Forms	<ul style="list-style-type: none"> ▪ Versions ▪ Forms Frequency ▪ Headings Boxes ▪ Edit .html ▪ Form 	<ul style="list-style-type: none"> ▪ RTC: tax obligations registry. ▪ Delinquency: generation of compliance programs and messages. ▪ CCC: standardization of statements, payments and documents.
Taxes	<ul style="list-style-type: none"> ▪ Taxes - Forms ▪ Terms ▪ Attribution Order 	<ul style="list-style-type: none"> ▪ RTC: tax obligations registry. ▪ Delinquency: generation of compliance programs and messages. ▪ CCC: standardization of statements, payments and documents; and current account calculation.
Tax Rates		<ul style="list-style-type: none"> ▪ CCC: standardization of statements, payments and documents; and current account calculation.
Tax Sub-items		<ul style="list-style-type: none"> ▪ CCC: standardization of statements, payments and documents; and current account calculation.
Frequencies		<ul style="list-style-type: none"> ▪ RTC: tax obligations registry. ▪ Delinquency: generation of compliance programs and messages. ▪ CCC: standardization of statements, payments and documents; and current account calculation.

Interest Rates	<ul style="list-style-type: none"> ▪ CCC: standardization of statements, payments and documents; and current account calculation.
Update Factors	<ul style="list-style-type: none"> ▪ CCC: standardization of statements, payments and documents; and current account calculation.
Fines and Surcharges	<ul style="list-style-type: none"> ▪ CCC: standardization of statements, payments and documents; and current account calculation.
Document Status	<ul style="list-style-type: none"> ▪ BDI: enables setting a category for statements, payments and documents according to the standardization process outcomes. Additionally, it is used as criterion for queries on statements, payments and documents. ▪ CCC: standardization of statements, payments and documents; and current account calculation.
Types of Forms	<ul style="list-style-type: none"> ▪ BDI: Used to identify the type of closing to be attached to a document or statement.
Geographic Location	<ul style="list-style-type: none"> ▪ Department ▪ Cities ▪ RTC: assign the applicable administration. ▪ Delinquency: selection criteria. ▪ Collections: selection criteria. ▪ Security: assign users according to their work scope.
Management	<ul style="list-style-type: none"> ▪ RTC: assign the applicable administration. ▪ Security: assign users according to their work scope.
Administrations	<ul style="list-style-type: none"> ▪ RTC: assign the applicable administration. ▪ Delinquency: selection criteria. ▪ Collections: selection criteria. ▪ Security: assign users according to their work scope.
Business Activities	<ul style="list-style-type: none"> ▪ RTC: enables to relate taxpayers with the business events that generate tax revenue.
Occupations	<ul style="list-style-type: none"> ▪ RTC: enables to relate taxpayers with the business events that generate tax revenue.
Banks	<ul style="list-style-type: none"> ▪ BDI: search criterion for statements, payments and documents pursuant to the standardization process outcomes. ▪ REC: Tax Collection
National Holidays	<ul style="list-style-type: none"> ▪ PAR: enables correct definition and recording of due dates ▪ CCC: calculation of accessories.

2.1.6. *Users' Administration and Access Control (ACC):*

Enables to define the system functionalities, in the face of the different roles or workstations that use different systems. Likewise, it records data on officials or users to be assigned to the roles for system operation and control.

Additionally, it includes the system security module. Said module allows users to record audit traces, such as identifying the users that modified the information, the queries made by users to the information with the corresponding date, hour and computer, to pursue further controls on system operations and security.

The Tax Management System includes an administrative Access Control tool for all the components therein, which guarantees absolute system security vis-à-vis reliability and maintenance of the data recorded as well as the system's table and parameter maintenance operation by expert users, and applications' access, use and queries by end users.

Additionally, the Access Control tool includes a feature that enables the organization and allocation of access levels for applications' development, keeping control over authorized users in compliance with the security routes defined according to the management, technical or administrative profile of each official.

The system employs the following concepts:

- **Modules:** Modules are defined as each one of the basic components in the Tax Management System, such as: Taxpayer Registry (RTC), Taxpayers' Tax Returns Acknowledgement (RDC), Tax Collection (REC), etc.
- **Menus:** The set of applications available to an official in order to meet the tasks assigned to him.
- **Applications' Menus:** A tool that will provide officials the necessary instruments to perform their duty in the Tax Administration.
- **Roles:** Linking applications that may be used by officials to fulfill their duty.

- **Users:** Officials that will interact with the system.
- **Applications' Profiles:** An application that will enable to identify the users or officials who access it according to application menus and the roles by which they were granted access.
- **Roles' Profiles:** A tool that enables to identify, based on profiles according to the roles set forth, which are the related applications' menus.
- **Users' Profiles:** A functionality that enables to identify the applications and roles assigned to every user, by user linked to the system, as well as general user data.

2.2. Control Components

2.2.1. Taxpayers' Current Account (CCC)

Taxpayers' Current Account performs accurate controls and records the transactions made by taxpayers and the Administration, and is in charge of defining balances and producing account statements for all taxes such as: Taxable Gain, Sales Tax, Income Tax, Excise Taxes, Special Taxes, Withholdings, Real Estate Taxes, Installment Plans, Future Tax Credits, Unappropriated Payments and Fines.

Based on the different documents that hold tax transactions, it charges the Tax Returns Account Statement, Payment Slips, Installment Plans, Drawbacks and Tax Setoff Order, Tax Aggregations' Settlements and Fine Application Order. It also enables recording and applying information corrections to the statements and payments.

Making corrections to the information generates modifications on the Tax Returns data and payment slips; other debits and credits are included and deleted. For internal control purposes, the system requires a correction request to be recorded and a daily closing of operations performed by each official. It carries a record of all the changes made as well as the individual responsible for each change.

Likewise, it captures requests for Tax Drawbacks requests, records Tax Drawbacks, Waivers and Setoffs, identifies Current Account credit balances, whether owing to excess payments or future drawback credits and identifies outstanding balances for tax setoffs.

The Current Account module is the basic control tool for tax obligations. This module receives information from the Institutional Database (Statements, Payments and Administrative Events), the Taxpayer Registry and uses certain application standards (parameters) to process it. This information is the management basis for many other systems in the Tax Administration.

The Tax Management System includes a query service to access Current Account information. It enables to learn the taxpayer's status expeditiously by showing the user the delinquency details and account statement. Likewise, it offers a tool to calculate interest, surcharges, fines and sanctions for any tax and deadline.

The main parameters managed by the current account module are the following:

Parameter	Description
Taxes	This option is used to create and maintain Taxes to be managed in the system, and the link between their Deadlines and Attribution Order.
Forms	Creates the forms included in the system such as Statements, Payments and Administrative Events.
Type of Account	Records the types of current accounts into which a taxpayer's balances will be broken down according to each type of tax. The type of account is the basic record of a taxpayer's balance, which serves as the basis for classifying taxpayer information in this parameter.
CCC Transactions	Creates a breakdown of the transaction that will affect a taxpayer's current account so as to easily identify the transactions rendered on the taxpayer's account statement. Transactions or operations are the records that affect the current account and represent a credit or charge in the account pursuant to its nature. These records shall be of the credit or debit type.

Boxes with Formulae	This option records every box that makes up a form. Its main characteristics are defined as follows: size, type, description and the value or formula attached to it. The formula is fundamental to determine the standardized values on statements. (Correct values upon applying arithmetical formulae).
CCC Settlement	Records the parametric information of the form and boxes for each tax, which shall generate transactions, debits and credits and the number of installments, the type of account to which they shall be charged and the transaction code that shall identify them, this functionality is the core to generate taxpayer balances.
Deadlines	Records deadlines for each tax. These deadlines refer to the terms for submission of statements, payments and extension of deadlines.
Tax Rates	Records and updates the applicable rates for tax settlements; parallel or standardized statements are determined according to the reconciliation based on these parameters.
Frequencies	Records and updates the different frequencies by which taxpayers must meet the obligations of filing statements and effectively paying.
Interest Rates	Records and updates late interest rates applicable to obligations.
Adjustment Factors	Records and updates adjustment factors, rates applicable for fines and other items.
Fine Settlement	Records and updates amounts for fines applicable according to the defined calculation criteria.
National Holidays	In order for the system to carry the tax payment schedule accurately it must consider national and municipal holidays. This table will record the dates considered disabled for being holidays.
Payment Items	Records the items to which taxpayers may charge payments.
Items, Drawbacks and Setoffs	This table records the different items that acknowledge credit balances.

Drawback, Setoff and Waiver Sources	Records the different taxes and type of accounts that serve as sources for a credit balance order in the case of tax setoffs, waivers or drawbacks.
Attribution Order	Records the tax payment attribution order for each tax and each item such as debit amount, fine amount, interest amount and adjustment amount.

2.2.2. *External Information Management (AIE)*

This component enables the taxpayer or external agencies to draft and deliver tax information to the Tax Administration.

This external information shall be used later to cross information and select taxpayers as candidates for oversight and audit programs.

Owing to the importance of quality in this information, the component allows the user to deliver software to third parties (refer to Applications Information Manager) so that they may draft and validate information prior to submitting it, whether on a magnetic disk or via the Internet.

The section of the component that is delivered to third parties enables the user to record sources of information, beneficiaries or recipients, and the transaction details (payments, withholdings, acquisitions, assets' ownership) performed by the sources of information with the recipients; it also validates information consistency and generates magnetic disks that shall be submitted to Tax Administrations.

Likewise, it provides for a sub-component at the Tax Administration level, which receives and validates external information against the transactions performed by taxpayers in addition to receiving the files that amend or correct information, and generates the report to be submitted. The sub-component also validates information, records Fines for Late Filing, identifies Delinquent Taxpayers who must file their statements and lastly, it queries invalidated sources, validation errors, amendments, fines, taxpayers, beneficiaries and transactions reported.

The component also organizes information according to their tax purpose, by beneficiary or source of information, item or reported transactions, generating accrued data by fiscal term that are used for massive data crossings and detecting delinquency or infringements in tax obligations.

2.2.3. *Taxpayers' Invoicing Control (FAC)*

This component is the Authorization, tracking and control mechanism for Invoices or other type of Delivery Notes and is linked to the printing houses legally authorized to print this kind of documents. It handles invoice distribution processes, print house registry, returned or void invoices, registration or deletion of cash registers and/or computers and the reports on the printing work performed.

It carries a taxpayer's registry catalogue, with the invoice number range requested and employed, as well as information on the authorized printing house and date ranges for the invoices to be used.

2.2.4. *Other Supplementary Applications (OAC)*

Among the supplementary applications we may mention: (1) Recording and generating installment plans or payment agreements. This enables the user to identify current account debts, to file for an installment plan, record guarantees, determine the initial installment amount and the amount for monthly fixed installments by identifying the debit and interest amount; it determines the due dates for each monthly installment. Additionally, it informs the user regarding installment plans that have not been honored after two or more unpaid installments, and upon request of the user, the system deletes agreements that were not met and reprocesses current accounts, by reassigning the payments made from the agreement's amounts to the original debt claim; (2) Issuance and control of tax compliance certificates or tax clearance certificates; (3) Recording and processing tax credits for waivers and incentives; and (4) Recording instruments attributed to tax payments.

All of these sub-components automatically affect the taxpayer's account statement, generating debit and credit transactions in the Payment Agreements or Installment Plans and Tax Credits accounts.

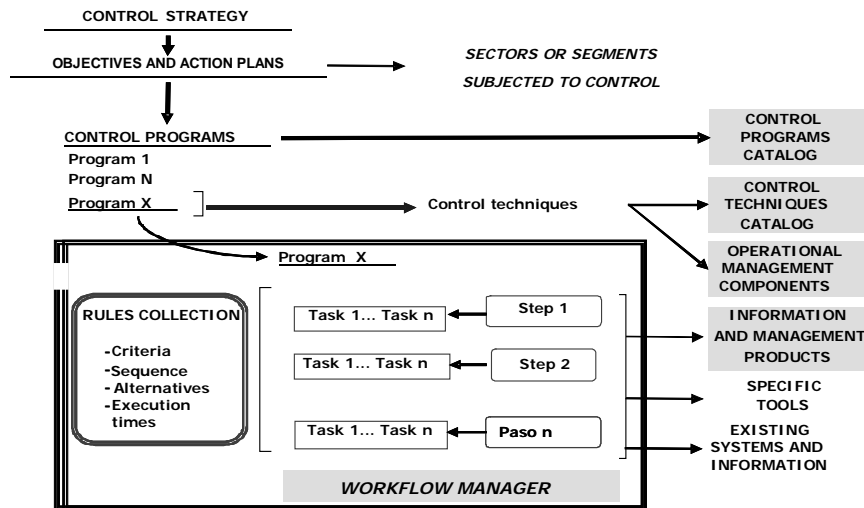
It also includes other sub-components: (5) certification of resident data in the Tax Administration databases; (6) corrections in the documents' information, owing to transcription errors or incorrect use of data in the current account system.

2.3. Strategic Components

2.3.1. Workflow Manager (GFT)

The GFT-TA is the technology-based alternative for the partial or complete automation of tax processes and renders solutions for specific actions to counter evasion. This automation enables the user to transfer documents, information or tasks from one actor to the other so as to perform activities or tasks according to a set of predefined rules. Its special feature is the easy integration into other information systems, whether a specific application, e-mail, document managers or any other information system. Its purpose is to perform each task through a process network, to fully use the information available in the organization's information systems in its operation and that the outcomes update the systems directly.

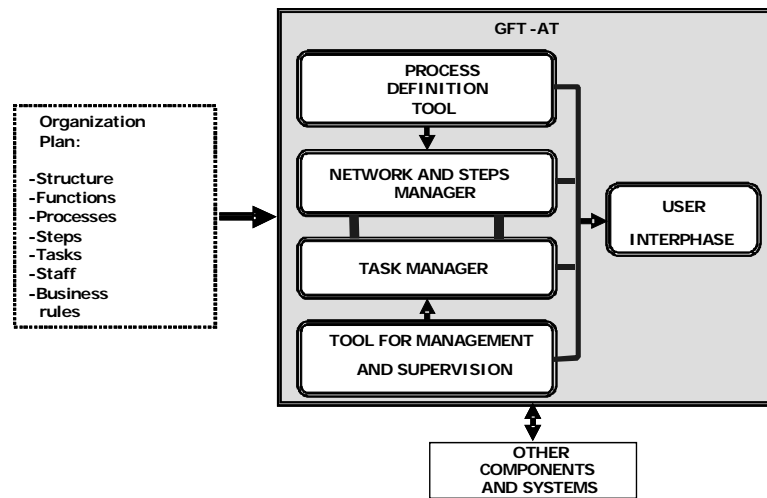
This component enables to model the processes in the organization, by means of a workflow, recording the organization offices, the officials, their roles, processes, procedures and transaction networks. These processes within the organization may be: oversight programs, administrative collections, coercive collections, audits, drawbacks, infringement control, control of inaccuracies, legal tax proceedings and administrative contentious tax matters.



Additionally, for every step or activity in the transaction network, it is possible to define utilities to streamline the performance of the tax official's work to complete one step and move on to the next one.

Likewise, in each step the official may record observations, properties and generate reports, notices and official events to subsequently notify taxpayers.

The system enables the control of the time required for each step and keeps track of the transaction by official and by area, reallocates Files, Queries Files and Generates transaction reports.



The main services that this component provides are:

Modeling of Transaction Networks. The structure given to the networks may be defined by recording processes, steps and areas in the Organization by employing sets of parameters as described hereunder.

Parameter	Description
Name	Identifies the process to be performed through the Workflow Manager module, such as: Infringement Control, Delinquency Control, Specific Audits.
Description	Enables to introduce a brief description of the process utility.
Average Time	Average number of days necessary to complete a process.
Tolerance	Indicates the acceptable number of days by which a process may be delayed or advanced, according to the average time.
Status	Indicates whether a process is current, since some may become obsolete, owing to changes in tax regulations or the administrative procedures in place.
Priority	Identifies the relevance of the process within the Organization's responsibilities.
Initial Step	Indicates the activity by which a process is initiated.
Final Step	Indicates the activity by which a process is finished.
Step Sequences	Indicates the logical sequence according to which activities linked to a process and operator must be performed, as well as the average execution time and tolerance applicable to this step for the process being edited and data to be used in calculating the delay of the records as well as officials.

The parameters and attributes that may be recorded vis-à-vis the steps are the following:

Parameter	Description
Name	Identifies the step to be performed to complete the process.
Description	Enables to introduce a brief description of the step's utility.
Average Time	Average number of days needed to complete a step, which shall apply for the activity overall.
Tolerance	Indicates the acceptable number of days by which a process may be delayed or advanced, according to the average time.
Status	Indicates whether a process is current, since some may become obsolete.

Utilities	Applications defined according to the applicable rules in the module; they are developed by the Information Technology area and shall be available for a specific step.
Properties	Data or attributes that are necessary to record in a specific step or activity, it indicates whether the data are required in order to move ahead in the network, the implicit or suggested value, as well as a function that may enable the user to automatically introduce a piece of data from the network, such as, the pre-printed number of a payment slip or compliance validation for to all the obligations that originated the record.
Levels	It links the levels or functional roles that shall execute the activity or step.

The following are the parameters and attributes that may be recorded with regards to the organization:

Parameter	Description
Levels	Functional roles linked to every step or process.
Groups	Records functional groups that shall take part in the process and their members.
Users	It enables to record officials that shall access the Transaction Network and are in charge of recording the outcomes and performing all the steps in the transaction network, a user participating in one or a number of groups and with a hierarchy or role in each group.

- Case selection. The cases that enter the transaction process may be selected according to two methods: massive selection from a universe of taxpayers, such as defaulting taxpayers, delinquent taxpayers, or the entry of a specific case, by capturing the case. Upon entering the Transaction Network, each of these cases generates a file or process, which is assigned to a first step in the network and an official or group of officials according to the network parameters.

- Transaction Record. Once the case is assigned to an official, he may query the list of cases he is in charge of and may initiate a transaction, recording the information on properties and observations, and using the utilities available in each step of the network. The utilities available to the official enable him to: query the additional case information such as current account balances, taxpayer registry information, alternative taxpayer's address, generating notifications letters, generating documents, attaching electronic files or images in the file or sending an e-mail message to the parties involved. The system enables the official to query all the documents involved in the process, all the observations recorded by other officials who accessed the case in other steps and move from one step to a following step or return the step to reassign it to another official.
- Transaction Report Queries. The Workflow Manager component enables the user to query the process status, the step it belongs to, the number of days it has been delayed and the official in charge of the case. It also enables to generate statistical queries regarding the number of cases by transaction network, official or group. It has been built to generate reports that shall be available for the Organization's executive level. All these reports are aimed at measuring the process management outcome and perform the applicable adjustments in the Organization's plans.

2.3.2. *Case Analysis and Selection Tool (HAS)*

This component is a powerful tool to detect cases of infringement of tax obligations, from the analysis of the resident information in the TA databases, by employing the variables included in tax statements, information statements, detailed third party information, reference analysis, etc.

It also includes processes to perform case analyses and automated case selection for collections, infringement control or oversight.

In the case of collections, it identifies outstanding current account balances to select the taxpayers that shall be assigned to an administrative collection process, according to different criteria, such as tax, debt amount, period, tax regional office or municipality.

In the case of infringement control, it searches statements and payments, as well as exemption and waiver records, and the fiscal vector to select omitted taxpayers by criteria like tax, period and type of taxpayer.

Based on external sources generated by the External Administration Component (AIE), the system identifies taxpayers who made transactions, own assets, earned income or hold bank accounts or certain property and have not paid their tax obligations or have paid them partially or inaccurately.

2.3.3. Applications' Information Manager (GIA)

This component performs the exchange of information among the TMS-TA components and the external components or among these and the users. For that purpose it uses applications that dynamically interact with the external components or information exchange interfaces.

It is also in charge of applications to supply services via the Intranet for internal TA users and supplying Internet services for taxpayers and external users (online Tax Administration).

Likewise, it offers software products to taxpayers or sources of information, like the Taxpayer's Module for Interactive Forms and the Taxpayer's Module for External Information.

2.3.4. Tax Management Tool (HGT)

It renders aggregate statistical information at different levels in the organization for transaction tracking and control.

Information is presented to the user according to different levels of aggregation and by different search criteria, such as taxpayers and their behavior in the manner in which they file statements and make payments, by business activity, by municipality, by type of corporate or individual taxpayer, by tax, by fiscal year, etc.

It also offers Workflow Management statistics, for example, the number of open cases, the number of closed cases, by official or by area, the number of cases that produced revenue or payment of obligations, in order to assess the effectiveness of the oversight and collections programs.

To facilitate decision-making for middle and senior managers in the agency, the system gathers Management statistics. The outcomes of these queries may be viewed on a screen, printed or exported to a spreadsheet.

3. CONCLUSIONS

The implementation of powerful modern information systems enables Tax Administrations to better serve their purpose, by the early detection and planning for infringements, and facilitates more streamlined and dynamic services to enable voluntary compliance and discourage evasion and fraud attempts.

The use of information systems provides for the incorporation of systematic, massive and permanent processes to cross information gathered from third parties, which along with the adequate risk management, becomes an effective control tool.

Administrations require a middle and long term management strategy, which guides and facilitates the incorporation of technology, building and implementing information systems in line with that strategy and the adjustment of the administrative processes and procedures, including education and training. This strategy must be disseminated and known by the different stakeholders.

No Tax Administration is identical to another and although tax procedures are conceptually similar, operations are frequently substantially different among the different Administrations. It is for this reason that it becomes necessary to define in detail and design a specific solution for every tax environment.

The background developed by different countries, the definition of best practices, the use of standards in the development of systems, and the know-how from agencies such as CIAT and others, make it possible for Administrations with lesser information technology development to skip stages in the implementation of Information Technology within their organizations.

The technical assistance provided by the CIAT regarding tax information technology aims at assisting Tax Administrations in the implementation of their Information Systems Model.

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CLOSING SESSION

GENERAL REPORT
Mr. Fernando Díaz Yubero
Director General
Department of Organizational Planning
and Institutional Relations
State Agency of Tax Administration
(Spain)

INTRODUCTION



Mr. Fernando Díaz Yubero

1) I wish to thank the Argentine Tax Administration (AFIP, as per the Spanish acronym) authorities and the CIAT Executive Secretary for requesting me to draft the General Report of this General Assembly.

2) I congratulate the organization of the Assembly for its work.

3) I want to commend the excellent level of the Assembly. The speakers, commentators and the interventions from the participants have spurred very interesting discussions and hopefully, I shall gather their suggestions in my summary.

In any case, I apologize for not citing all the participants and all the interesting ideas that have been set forth, solely due to time constraints.

4) The Rapporteur's advantage: The Rapporteur may openly copy and this is what I intend to do. Although, if you allow me, I shall make some suggestions and give my personal views on certain topics.

GENERAL REPORT

I shall now formally begin by citing the remarks of the second speaker in the inaugural ceremony, CIAT President Mrs. Deborah Nolan. Mrs. Nolan mentioned the need for all member countries to share solutions and learn from each other.

For such purpose, nothing better than a CIAT General Assembly, which is above all a forum for reflection and open discussion in which countries share their best practices to achieve progress together.

I wish to refer to an idea mentioned by Dr. Abad: Let us strengthen the role of the CIAT. Undoubtedly, it is an instrument that may prove to be very effective and calls for our commitment beyond words. We sometimes fail to acknowledge its value and profit from it.

In the analysis of the core theme of this Assembly “The Role of the Tax Administration in Society”, presentations have been grouped into three broad thematic areas:

- 1) The purpose of taxation and its dissemination in society, which analyses the aspects relative to communication, tax education and transparency.
- 2) Integrity and promotion of ethics.
- 3) Revenue collection efficacy in order to supply goods and services to society, analyzing critical issues such as the efforts to counter evasion or the implementation of new technologies in support of management activities.

Firstly, we were enlightened by Dr. Alberto Abad’s magnificent inaugural conference, in which he set forth a modern viewpoint regarding the role of the Tax Administration in society that served as the framework for all the broad topics to be addressed in further detail in the course of the Assembly.

At the beginning of the 21st century, tax administrations are faced with new challenges. Globalization and the advancement of new technologies are changing the relations among States, their administrations, markets and citizens and challenging the governments’ administration capacity.

Presently, society is undergoing permanent changes (what Professor Zygmunt Bauman calls “the age of liquid modernity”), marked by new, ever-evolving forms and the transformation of traditional paradigms. Classic markets have made way for complex networks of suppliers and consumers in a world where virtuality and information technology prevail.

One of the fundamental ideas stated in the course of the Assembly is: We must overcome the mistake of trying to envision the future as a linear projection of the past.

In such a situation it is essential to strategically rebuild the State to guarantee political order and the rule of law, vital for coexistence. Such coexistence shall always consider, especially in Latin America, the impact of poverty and social exclusion.

Therefore, fiscal policy becomes a vital instrument of public policy. It was referred to as the sap of the State, as the main, albeit not the only, source of financing.

Consequently, Tax Administrations play a key role in the adequate performance of the State.

The acceptance of the “social covenant” between the State and society that entails the enforcement of a tax system may only be sustained on the respect and understanding of the State’s legitimate power to collect resources from the private sector to the benefit of the common good. Citizens shall perceive the Tax Administration as the nexus between revenue collection and the contribution to the common good in order to enable a paradoxical event: the social acceptance of a coercive entity like taxation.

Andréa Lemgruber, in a brilliant presentation, analyzed the different purposes of taxation from several perspectives and pointed out the narrow relation between taxation and morality. In reference to other presentations, she stated that a democratic system and taxes enforced by Law do not suffice to make taxation legitimate and socially accepted. Taxation must go hand in hand with the socially accepted values.

One of the key factors in the success of a Tax Administration’s mission is the degree of **tax awareness** in society, to the extent it shall directly impact on citizens’ willingness towards voluntary compliance and desipal of tax fraud.

The **image** that the Government Administration in general and the Tax Administration in particular project onto society influences citizens' tax awareness and therefore, conditions the success of their mission.

Nevertheless, there are other factors which the Tax Administration may influence to a lesser degree, such as citizens' perception of the **fairness of the tax system and their extent of acceptance** of the public goods and services financed with tax revenues. Such factors, in spite of not being directly tied to the Tax Administration's performance, shall be considered in its communication strategy. A discussion was held on whether it was appropriate for the Tax Administration to explain the allocation of government revenues or whether a different government agency should assume such responsibility. There was no consensus on the issue.

The Brazilian and Bolivian speakers asserted that the Tax Administration shall assume a proactive role to favor social acceptance of taxation and for such purpose, the Tax Administration must be perceived as an exemplary institution, trusted by society.

How is this attainable?

- ✓ By performing pursuant to the principle of legality and treating taxpayers fairly.
- ✓ By acting on the basis of clear, objective and transparent criteria.
- ✓ By ensuring the appropriate behavior of the members of its organization.
- ✓ By controlling and punishing tax evaders.
- ✓ By acting with efficiency, timeliness and transparency.
- ✓ By fostering and supporting tax education programs, for Society to become aware of the relevance of their contribution in furtherance of the common good.

The Bolivian speaker (Fernando Peña) analyzed the fundamental elements of the communications policy from the theoretical standpoint and its practical application by the Internal Revenue Service (SIN, as per the Spanish acronym) in Bolivia.

South Africa offered a very interesting overview of the country's economic and social reality and underscored the communication policy organized according to the types of taxpayers, which conveys a positive message: Society and the Tax Administration move forward together.

I must refer to the comments by Claudino Pita and the Swedish representative.

Two notions must be highlighted:

- 1^o) The political background of the tax policy. The tax policy is pure policy; policy is the substance, tax is merely an adjective.
- 2^o) The tax burden in Sweden is 50% and voluntary compliance prevails.

Let us reflect upon the reasons underlying the strong rejection of the tax policy in some of our countries, which feature much lower tax burdens. I propose we consider whether it is true that tax increases necessarily imply the impoverishment of countries. We must bear in mind that the mean tax burden in Latin America is under 17%.

Tax education, a topic that is closely tied to social communication, was discussed on the first day of the Assembly as well as the need to prepare the younger generations to become active, critical and responsible citizens. Therefore, civic and tax education shall enable to:

- ✓ Identify the different public goods and services, know their economic value and acknowledge the diverse sources of financing.
- ✓ Internalize respect for what is public and therefore, financed with everybody's effort and used for the common welfare.
- ✓ Assimilate fiscal responsibility as one of the values on which social coexistence is organized in a democratic culture, identifying tax obligations' compliance with a civic duty.

Overall, to convey the words of Wendell Holmes that constitute the IRS motto "Taxes are what we pay for civilized society."

I believe that another idea of utmost relevance is: Nothing comes for free; public goods and services may be financed from different sources, but ultimately, all things entail a price. The fact is that the method selected for financing is not neutral and may benefit certain social groups or others. Can anyone understand the neutral or casual nature of the decision to offer free University education while high school education is not?

Many CIAT member countries have created civic and tax education programs (Argentina, Bolivia, Brazil, Canada, Chile, Spain, Costa Rica, Colombia, The Dominican Republic, Peru, etc.).

The presentations by the representatives from Colombia (Mario Aranguren) and Argentina (Beatriz Fontau) offered two interesting experiences in this area: The Tax Education Program created by the AFIP in 1998 to achieve a new “tax culture”, in which the AFIP worked jointly with schools and teachers in coordination with provincial administrations to educate children between 9 and 17 years old, in an attempt to expressly vindicate public spaces.

The experience of the Colombian Internal Revenue Service, (DIAN, as per the Spanish acronym), which spans tax culture and education is different. In addition to its implementation in schools, it is geared at a broad range of beneficiaries: taxpayers, members of the Legislative branch (an interesting experience), tax advisors, Tax Administration staff, etc... The aim is to involve them in the achievement of a common goal such as the appropriate enforcement of the tax system, which is obviously not an exclusive responsibility of the Tax Administration. Additionally, in the case of Colombia, the project is aligned with a deep transformation process of the DIAN.

As to transparency in the performance of the Tax Administration, two interesting presentations were made by Portugal and the United States.

What is transparency? Transparency entails making available to all citizens the reliable, applicable and timely information on the activities of the government administration, without the citizen having to express a need or reason to obtain such information, as Deborah Nolan highlighted.

In the view of the Portuguese speaker, Dr. Macedo, transparency enables the citizen to control the performance of the Tax Administration and contributes to a greater social acceptance of the tax policy. He

analyzed the multiple measures adopted by the Internal Revenue Service (DGCI, as per the Portuguese acronym) of Portugal to improve transparency; we shall highlight, undoubtedly, the good results achieved via the use of the Internet. Both speakers described their respective experiences and how the Tax Administration has implemented different measures to ensure such transparency; some are shared with the rest of the Government Administration and others have been specifically applied to tax matters.

The United States Tax Administration relies on a number of institutions and regulations to secure a high level of transparency. Some interesting examples of the latter in the USA are the Code of Conduct, the regulations to foster the appropriate performance of audits, the principles for Accountants and Tax Advisors, and the role of the Taxpayer Advocate, who addresses tax matters that may not be resolved by other channels and who, above all, makes proposals to change regulations or procedures with undesirable effects. Such an institution exists in some of the other CIAT member countries such as, for example, Spain and Peru, although with a different organizational structure. This topic was discussed at length but no final consensus was reached as to the adequacy of creating an institution of this nature.

Deborah Nolan also pointed out the role of the IRS Oversight Board, made up by public and private sector stakeholders with a majority (6 out of 9 members) of professionals outside the scope of the Government Administration. Said entity largely influences the adoption of relevant decisions by the USA Tax Administration. Additionally, while we may highlight the IRS transparency policy that ensures that the Tax Administration is aware of citizens' needs and avoids the appropriation of public assets by government officials, I wish to underscore the risk that such a novel measure poses, in my view, in countries not as democratically consolidated as the United States and in organizations that are not as mature as the IRS. I believe it is a very ambitious measure that may be phased in other countries.

In any case, Carolina Roca, from Guatemala, explained how the Board in the Internal Revenue Service, (SAT, as per the Spanish acronym) has enabled them to face and decide on a serious case of corruption. I believe we must thank Carolina Roca for her sincerity in the light of the despicable and painful events endured by the SAT of Guatemala.

Tuesday's sessions focused on the analysis of integrity and promotion of ethics as fundamental values of the Tax Administrations.

Stephen Rigby, from Canada, made the introductory presentation. This country has been the head of an interesting Working Group to further the CIAT Model Code of Conduct. The approval thereof asserts the efficacy of the CIAT as an international organization and the interest of member countries in the improvement of ethics in our organizations.

The presentation's conclusion is clear: if a Tax Administration fails to express integrity in all its policies and practices, taxpayers shall not trust it. Trust is a vital asset for Tax Administrations (financial markets: a certain sum of money and a great degree of trust). The social covenant is based on trust.

Consequently, the promotion of ethics shall be essential for all Tax Administrations. Although certain Administrators may sometimes deem such a concept to be very blurry, since there are certainly no absolute truths and it calls for actions based on multiple approaches. The Canadian presentation also underscores a fact: There are no simple solutions to win citizens' trust in the Tax Administration, but should that trust be lost, great efforts are required to regain it.

Which are the foundations for a culture of integrity and ethical values? The speaker, commentators and participants had an interesting discussion, with the active involvement of Raquel Ayala, Matthijs Alink, Stephen Rigby and, of course, some of the delegates. The most relevant conclusions drawn are listed hereunder:

- ✓ Firstly, Raquel reminded us that it is difficult to accurately define what is considered to be ethical and therefore, in the Working Group there was a greater consensus on the use of the terms integrity and transparency.
- ✓ The relevance of effective leadership in the different levels of the organization and political commitment to make integrity a fundamental value for the Tax Administration.
- ✓ It is necessary to develop the culture of ethics at work and simplify operating procedures.
- ✓ The importance of the adequate selection of staff and reasonable remuneration.

- ✓ Strong accountability, responsibility and control systems should be in place.

At this point, the speaker highlights the need for streamlined solutions to control access to our most sensitive asset: information. But he warns against the implementation of excessive controls.

- ✓ An adequate communication and training strategy.

In any case, as Mr. Rigby set forth, an organization's framework of values and ethics is a long journey and not a destination. It calls for a long-term vision of the goal and a roadmap to achieve it. Marcio Verdi added that clearly defined objectives are not enough; we must be capable of enduring the journey.

Notwithstanding, these are not good times for ethics. Transparency International's Corruption Perception Index 2004 is striking. It states that 106 out of 146 countries scored under 5 points over a total of 10.

Next, Spain and Peru described the mechanisms in place to disseminate taxpayers' rights and guarantees and see to their claims. In both cases there is consensus on the fact that they are two basic pillars for a modern Tax Administration that effectively serves the interests of taxpayers and is in line with the observation that taxpayers must be well informed as to the Administration's enforcement of each procedure. This becomes especially relevant when we enforce increasingly complex tax systems that affect millions of taxpayers and transfer a great burden of obligations onto them (self-assessments, withholdings, reporting requirements, etc.).

The Spanish General Tax Law as well as the Tax Law of Peru, as amended, systematically provide for taxpayers' rights and obligations. The Peruvian Tax Administration (SUNAT, as per the Spanish acronym), has created the Taxpayer Advocate Service to ensure the adequate management of taxpayers' claims and suggestions. It is worth highlighting that communication actions are based on the country's different geographic areas, the language and characteristics of the taxpayers.

In the case of the Spanish Agency, Luis Pedroche, Director General, mentioned the large amount of information made available via the Internet, among other channels, with a base of queries with over 15,000

answers on the interpretation of tax regulations and the fact that the Tax Administration forwards information to 8,000,000 taxpayers annually, from the large volume of taxpayers' data.

Finally, Spain commended the social collaboration and transparency experience stemming from the creation of the Fraud Prevention Plan that has received over 500 suggestions from citizens and a number of public and private organizations.

To end Tuesday's sessions, the representatives from Brazil and France (Olivier Sivieude) addressed the impact of staff selection and promotion mechanisms on the integrity of organizations.

Moacir das Dores, from Brazil, makes two fundamental proposals: developing a permanent education system to ensure that ethics prevails in the Tax Administration not only in theory, but in practice (he cited Cicero when he pointed out that words move people, examples compel them) and the introduction of codes of conduct in our organizations.

France as well as Brazil is undertaking efforts to secure the integrity of their staff not only at the time of recruitment but throughout their careers.

The Tax Administration's sensitive task calls for high ethical standards. The Internal Revenue Service, (DGI, as per the French acronym) takes into account the moral values of candidates. In their view, it is an honor to serve the State and therefore, there is zero tolerance for cases of misconduct in office. Once again, France reminded us that integrity is a long-distance race that must not take us by surprise.

Today, **Thursday**, we have addressed the legal powers that shall assist the Tax Administration to fulfill its inherent mission. Presentations have focused on two aspects: the powers required to counter tax evasion and the information systems as the core of the Tax Administration's key processes.

The presentation by Dr. Gutiérrez, the representative of the Mexican Tax Administration (SAT, as per the Spanish acronym), described the reforms adopted to improve the Tax Administration's performance, chiefly in the revenue collection sphere. The "**Transformation Project**", undertaken as part of its quality policy as of 2006, employs its resources to replace the traditional Tax Administration's structures, by implementing the most advanced administrative and technological systems.

Among the basic instruments that underlie the SAT transformation process, he pointed out:

- ✓ **The Platform Project**, which integrates the tax cycle overall.
- ✓ **The advanced digital signature**, which enables the taxpayer to carry out different web-based formalities with the SAT.
- ✓ **Digital invoices**.

The comments by Matthijs and Juan Toro sparked a lively discussion on how to measure the Tax Administration's efficacy, the need for the CIAT to develop more benchmarking studies, the allocation of resources to the Tax Administration and its relation with the political power.

The presentation made by Juan Toro, from Chile, summarized the legal powers of the Tax Administration and described the possibilities of influencing social development. He also highlighted that the Tax Administration shall exercise its powers without losing sight of the underlying principle of a tax system, that is to say, that taxes "arise" from the development of economic activities. Therefore, the basic administration pillars in Chile may be summarized as follows:

- ✓ Facilitate compliance with tax obligations to maximize voluntary compliance; the Internet is a strategic channel for the Internal Revenue Service, (S.I.I., as per the Spanish acronym). The motto is SII on line.
- ✓ Strengthen oversight capabilities to minimize evasion and tax fraud.
- ✓ Contribute to economic development by applying a model based on the Online Tax Administration that simplifies and reduces compliance costs.

The self-assessment system is based on the principle of the taxpayer's good faith and entails a number of noncompliance risks that may be summarized in three notions:

- ✓ Taxpayers who ignore how to meet their obligations.
- ✓ Taxpayers who reduce their tax burden to benefit from a monetary advantage.

- ✓ Taxpayers who perpetrate tax crimes by intentionally filing false or incomplete statements.

The reaction shall vary according to each specific case, but the Tax Administration must enjoy sufficient powers to detect potential irregularities and react promptly. In the case of Chile, such powers are broad and range from the power to request tax statements on events involving third party taxpayers up to imprisonment of the offender who fails to answer the administrative summons in the investigation process. Recent and very famous S.I.I. procedures assert its great capacity. Thank you for the example.

On the other hand, the Italian presentation by Mario Piancaldini described the organizational model and the general strategy of the Revenue Service, focused on the taxpayers actual activity.

For said purpose, they enjoy access to relevant tax information. Since 2002 they have relied on a business that is 100% owned by the Ministry of Economy, which guarantees good Information Technology services.

Commentator Jesús Ruiz-Huerta suggested analyzing the impact of political decentralization on the central Tax Administration and the limits to taxpayers' information supply given the risk of hindering the self-assessment system.

This morning, the representative from Argentina, Marcelo Costa and the Superintendent of the Venezuelan Tax Authority (SENIAT, as per the Spanish acronym) José Gregorio Vielma have presented their experiences to counter evasion based on the approval of comprehensive programs to combat tax fraud. In this sense we must highlight that Chile approved a similar measure a few years ago, whose enforceability stemmed from a law. Only two months ago, Spain approved a Tax Fraud Prevention and Correction Plan.

The Tax Administration (AFIP, as per the Spanish acronym) wishes to increase the level of compliance and create tax awareness by the implementation of anti-evasion plans. Such plans have been materialized by regulatory measures as well as structural ones, supported by the use of new technologies and risk analysis techniques. In summary, a long-term vision is set forth, beyond the urgent revenue collection matters.

It is worth highlighting that the appropriate enforcement of the Plan has enabled to reduce VAT rates in sectors with high tax evasion rates. Likewise, the Zero Evasion Plan in Venezuela had a positive impact as regards service as well as control. This has translated into a very significant

revenue collection increase and in order to balance the struggle against tax fraud versus the effort to render a service, it created the Taxpayer Advocate Service.

The Commentator for the session was Jeffrey Owens from the OECD. He made a novel proposition with concrete suggestions and highlighted the increasing OECD/CIAT cooperation efforts, especially vis-à-vis information exchange as the main tool for international cooperation.

I shall now briefly refer to the afternoon presentations:

In all modesty, Spain features a magnificent IT and information management and interpretation system. But this is not an overnight achievement; it has been the outcome of a strategy that was initiated 20 years ago, stemming from a very strong foundation (abundant and reviewed quality information) that evolves into very sophisticated solutions that enable to render quality services to citizens and rigorously control obligations.

But none of those achievements are miracles. They entail hard and relentless effort, investment, political stability and support. Additionally, the information systems' management strategy must be contingent upon the general Tax Administration strategy and not conversely.

Regarding the presentation by Nelson Gutiérrez, I must solely point out that the system he has proposed seems to be very strong and consistent, and above all, it has proven effective.

I urge countries to learn about it and implement it.

CONCLUSIONS

As a final summary, I would like to highlight the following:

- a) Tax Administrations play a vital role and are strategic organizations for the consolidation and good performance of the State.

An IDB report in the year 2000 may be worth remembering. It stated that more than half of the difference in the per capita income between wealthy countries and Latin American countries is due to the poor performance of government institutions. Undoubtedly, Tax Administrations may play a fundamental role to change such a reality.

- b) Which is the role of the Tax Administrations in society?

I believe that the answer is obvious: To ensure the effective enforcement of tax laws in the terms approved by Parliaments, avoiding the shifting of the tax burden among the different social groups. In other words, to avoid that the taxes that are not paid by those who are mandated to do so be paid by others with a greater civic spirit or with less possibilities of committing fraud.

This is and has always been a complex and conflictive activity. Paying taxes has never been a source of joy and during these sessions we have recalled numerous revolts and revolutions over tax matters.

- c) Notwithstanding, we must be optimistic: it is possible to achieve that Tax Administrations duly perform their function. Undoubtedly, difficulties and certain hurdles appear, but many of our organizations have become very strong already.

I believe that in the last great crises endured by several Latin American countries, their Tax Administrations have been a fundamental source of support to avoid a complete collapse. Organizations like the AFIP or the SIN from Bolivia have played a key role to overcome political crises, as Dr. Alberto Fernández, the Chief Cabinet Minister of Argentina reminded us.

- d) What do Tax Administrations require to achieve such maturity? Working on a day-to-day basis, professionally, with transparency and a long-term vision. I believe that the draft Mission statement suggested by Claudino Pita renders an accurate definition as to how Tax Administrations must work: "To effectively promote voluntary compliance with tax obligations, with fairness and efficacy to contribute to the general welfare of society."
- e) Undoubtedly, we are faced with a great responsibility towards society to ensure its adequate and balanced operation. As Andrea Lemgruber stated as she cited Schumpeter, "the spirit of a people, their cultural standards, social structure and the most remarkable political events are clearly written in their tax history." Let us contribute to make the history of our countries increasingly fairer and our societies more just.

FINAL REMARK

The last point: The most important one.

Those who have attentively followed the extensive, and hopefully not very boring General Report, surely remember that I began by citing the second presentation in the inaugural ceremony.

Prior to that, Jorge Cosulich briefly summarized the CIAT activities during the last fiscal year, and moreover, reminded us that he is leaving his present position.

Jorge, I shall only say: Thank you very much for your work, your devotion, your generosity, your infinite patience with all countries and your leadership.

Now, others shall continue your work. Let us wish them success, but it will be difficult to achieve your standards.

On Tuesday someone said that we would miss you. I am sure that will not be the case since, surely, you will continue to support us in the ongoing CIAT consolidation process.

Jorge, once again, thank you very much.

**DECLARATION OF THE 39TH CIAT GENERAL ASSEMBLY
“THE ROLE OF THE TAX ADMINISTRATION IN SOCIETY”**



DECLARATION OF THE 39TH CIAT GENERAL ASSEMBLY “THE ROLE OF THE TAX ADMINISTRATION IN SOCIETY”

The tax administrations of the CIAT member countries present at the 39th CIAT General Assembly in Buenos Aires, Argentina,

WHEREAS:

The mission of the tax administration, in keeping with a modern conception of this institution, implies a commitment to society that goes beyond the mere exercise of the collection function.

Within the framework of a democratic State that should be oriented toward promoting the general welfare, in addition to complying with its obligation of effectively enforcing tax legislation, the tax administration should be concerned with performing in an ethical, equitable and efficient manner.

Within such performance, Ethics implies the elimination of every internal, individual or institutional behavior that may involve acts of corruption of any kind and whose purpose may be to benefit illegitimate political, economic or interests.

Equitable performance should involve fair and impartial treatment, that will not give way to arbitrary acts in the use of the powers granted by law and that may likewise abide by the rights and guarantees which the latter affords the taxpayers.

The tax administration's performance must be reflected in an efficient management of the taxes, as regards the reasonable amount of resources used for carrying out its functions, as well as the burden imposed on the taxpayers through the procedures required for complying with their tax obligations.

There should be awareness of the fact that an essential objective of the tax administration is to contribute to the country's economic development.

On the other hand, the efficient administration of the tax system will ensure the correct collection of taxes and, accordingly, the general welfare of society.

The General Assembly,

RESOLVES:

To recommend the tax administrations of its member countries:

FIRST: The development of strategies and mechanisms for an efficient management of the tax system, in order to obtain financial resources that may contribute to promote the country's economic development and the general welfare of society.

1. By adopting policies and carrying out a substantial social dissemination and communication activity that may allow a fluid dialogue with the rest of society to know what it thinks and expects from them, while at the same time, reporting on their management activities and projects.
2. Promoting tax education programs which in addition to facilitating understanding of the role of taxes and the tax administration, may increase the taxpayers' awareness of their rights and duties, as a means of preserving a balance in the treasury-taxpayer relationships and facilitating compliance.
3. Intensive use of technology, especially Internet, for the purpose of facilitating communications and transactions and disseminating to all of society, the course, situation and results of management of the tax administration.

SECOND: The establishment of ethics as a fundamental value in the organizational culture and ensuring its strict observance, through effective mechanisms for controlling their officials and the adoption of a series of rules of conduct gathered in a code of ethics.

1. By establishing adequate entities and procedures in order that the taxpayers, aware of and in keeping with their real duties and rights may be able to file claims vis-à-vis arbitrary actions or undue requirements from the officials.

2. Promoting and preserving the integrity of the officials through the application of appropriate and strict requisites and evaluations in recruitment and selection, preferably by means of public contests.

THIRD: To pursue the effective management of the tax system as a permanent goal, and thus contribute to obtain sufficient tax revenues for financing the goods and services provided to society.

1. By promoting constant adaptation of the normative framework that governs the tax administration's action, in order to count on the necessary legal powers for fulfilling its obligation.
2. Permanently responding to the need for adaptation to the environment, in order to face certain circumstances that may require the implementation of specific rules and mechanisms for combating evasion, aimed at particular activity sectors or at an unfavorable situation.
3. Developing and implementing integral information systems that may constitute the basis of all the central processes and allow for internal interaction among all the areas.

**DECLARATION ON THE PROMOTION OF ETHICS
IN TAX ADMINISTRATION**



DECLARATION ON THE PROMOTION OF ETHICS IN TAX ADMINISTRATION

PREAMBLE

CIAT member countries, assembled in Buenos Aires, Argentina, on the occasion of the 39th CIAT General Assembly.

CONSIDERING

the endorsement by CIAT members, at the 30th CIAT General Assembly held in Santo Domingo, Dominican Republic, in 1996 of the Charter-document "Minimum Necessary Attributes for a Sound and Effective Tax Administration";

- the decision taken at the 37th CIAT General Assembly held in Cancun, Mexico, in March 2003, to assist member countries to strengthen their integrity programs;
- the commitment made at the 38th CIAT General Assembly, held in Cochabamba, Bolivia, in March 2004, to support the mandate given to the CIAT Steering Committee on Ethics, charged with the development of a model Code of Conduct, and to consider other mechanisms to promote ethics in the tax administration;

RECOGNISING

- the impact and cost of corruption on national economies, which can weaken the prestige and credibility of the government;
- that tax administrations play a fundamental role in the ability of a government to meet its social and economic goals;
- that integrity is a fundamental value for all nations, and that the presence of corruption is a critical issue that can severely limit the tax administration's ability to accomplish its mission;
- that the promotion of ethics must be at the heart of all policies of the tax administration;
- that low standards of integrity in the tax administration undermines the taxpayers' trust and respect of the tax administration and adversely affects the fundamental premise behind the voluntary compliance and self-assessment systems;
- that expected standards of behaviour should be communicated to the tax officials;
- that, as a result of their positions, tax officials face situations of special vulnerability and ethical risk.

AFFIRMING

- that political will and a commitment to fight corruption should be a priority for all Governments;
- that the promotion of integrity in the tax administration is a proactive, ongoing, and preventive process that requires long-term and comprehensive responses and strategies;
- the importance that CIAT provide support to member countries in the promotion and maintenance of integrity in the tax administration;

DECLARE that a tax administration must have an integrity program that addresses the following key elements:

1. Leadership and Commitment

The prime responsibility for the safeguarding and promoting integrity in the tax administration rests with the head of the tax administration and the executive management cadre. They must adopt a strong leadership role and demonstrate a clear and unequivocal focus on integrity. They must recognize that their commitment to the fight against corruption must be maintained over time.

2. Legal Framework

Tax legislation, regulations, procedures and administrative guidelines should be clear, precise, public, and easily accessible.

3. Fairness

There needs to be a regime of tax law that is fair and equitable. Laws, regulations and policies should be administered in a transparent way.

Taxpayers are entitled to a high degree of certainty and predictability in their dealings with the tax administration. They have the right to be presumed honest; the right to impartial application of the law; the right to appeal and redress, and the right to privacy and confidentiality.

Information provided to taxpayers should be clear, accurate and easily accessible.

4. Automation

Computerization of tax functions contributes to improved efficiency and effectiveness of the tax administration, and increases the ability to identify inappropriate access or use of tax information.

Information systems must include strict security rules to avoid unauthorized manipulation of the information.

5. Management Autonomy

Guarantee of the integrity and impartiality of the tax administration requires independence for determining its policies and strategies for controlling compliance with tax obligations, through strict application of the law, without concessions of favours or interference of senior level authorities or other members of the political power.

6. Efficient Accountability Mechanisms

Strong accountability mechanisms, such as offices of internal and external control, are key elements for good governance that contribute to safeguard the integrity of tax administrations.

7. Codes of Conduct

A key element of any effective integrity program is the development, publication and acceptance of a comprehensive Code of Conduct setting out in very practical and unambiguous terms the behaviour expected of all tax officials. The Code of Conduct can be an excellent tool to promote and safeguard integrity in the tax administration.

8. Human Resource Management Practices

The application of sound human resource management policies and procedures plays a major role in the promotion of ethics in the tax administration. Human resource management practices, which have proved successful, include among others:

- Fair, equitable and transparent personnel selection and promotion processes;
- Competitive remuneration package;
- Implementation of the career concept;
- Rules that guarantee tax officials may exercise their rights;
- Timely corrective mechanisms for irregular or inadequate behaviours;
- Deployment, rotation and relocation of tax officials when appropriate;
- Solid training and professional development programs;
- Performance appraisal procedures; and
- Work environment free of discrimination and harassment.

Declaration on the Promotion of Ethics in Tax Administration

Given the importance of promoting ethics in tax administrations, CIAT representatives assembled at the 39th CIAT General Assembly in Buenos Aires, Argentina, agree to actively pursue the development and implementation of comprehensive and sustainable integrity programs.

Endorsed in Buenos Aires, Argentina, on the 19th April 2005
(39th CIAT General Assembly).

TECHNICAL PROGRAM

**39th CIAT GENERAL ASSEMBLY
BUENOS AIRES, ARGENTINA
April 18-21, 2005**

DAILY SCHEDULE OF ACTIVITIES

Monday, April 18

**Main theme: “THE ROLE OF THE TAX ADMINISTRATION
IN SOCIETY”**

Morning

09:00-09:30 Inaugural ceremony.

10:00-10:30 **“THE ROLE OF THE TAX ADMINISTRATION
IN SOCIETY”**
Inaugural Lecture by Alberto Abad, Federal Administrator
of the Federal Administration of Public Revenues of
Argentina

10:30-11:00 **Topic 1. The purpose of taxation and its
dissemination in society**

Moderator: Deborah Nolan, CIAT Executive
Council President a.i.

Speaker: Andréa Lemgruber, General
Coordinator of Tax Policy, Secretariat
of Federal Revenue, Brazil.

11:00-11:20 **Commentators:** Claudino Pita, Director of Research
and International Cooperation, Federal
Administration of Public Revenues,
Argentina.
Mats Sjöstrand, Director General,
National Tax Board, Sweden.

11:20-11:50 Open discussion

TECHNICAL PROGRAM

11:50-12:30	Topic 1.1.	Social communication policies and mechanisms at the service of the objectives of the Tax Administration
	Moderator	Róger Arteaga, Director General, General Directorate of Revenues, Nicaragua.
	Speakers:	Fernando Peña Ávila, National Manager Taxpayer Service, National Tax Service of Bolivia. Edward Kieswetter, Manager, South African Revenue Service.
12:30-12:40	Commentator:	Márcio Verdi, Director of Strategic Planning and Studies, CIAT.
12:40-13:10	Open discussion	
Afternoon		
14:30-15:10	Topic 1.2.	Tax education
	Moderator	José M. Vayas Cañadas, National Director of Tax Management, Internal Revenue Service of Ecuador.
	Speakers:	Beatriz Fontau, Deputy General Director of Human Resources, Federal Administration of Public Revenues, Argentina. Mario Aranguren, General Director of the National Tax and Customs Directorate, Colombia.
15:10-15:20	Commentator	Etanislao González, Director of the Planning Office of the National Integrated Service of Customs and Tax Administration of the Bolivarian Republic of Venezuela.
15:20-15:50	Open discussion	
15:50-16:10	Recess	

TECHNICAL PROGRAM

16:10-16:50	Topic 1.3.	Management transparency of the tax administration
	Moderator:	Florencia Ríos, General Director of the General Directorate of Revenues, Panama.
	Speakers:	Paulo de Moita Macedo, Director General of the General Directorate of Taxes, Portugal. Deborah Nolan, Commissioner of the Large and Mid-size Business Division of the Internal Revenue Service of the United States.
16:50-17:00	Commentator:	Carolina Roca, Superintendent of the Tax Administration Service of Guatemala.
17:00-17:30		Open discussion

Tuesday, April 19

Morning

09:00-09:30	Topic 2.	Integrity as fundamental value in the tax administration and the promotion of ethics
	Moderator:	Jorge Rachid, Secretary of the Secretariat of Federal Revenue of Brazil.
	Speaker:	Stephen Rigby, Assistant Commissioner of Policy and Planning Branch, Canada Revenue Agency.
09:30-09:50	Commentators	María Raquel Ayala, Research and Training Manager, CIAT. Matthijs Alink, Deputy Director of International Affairs, General Directorate of the Tax and Customs Administration, The Netherlands.

TECHNICAL PROGRAM

09:50-10:20	Open discussion	
10:20-10:40	Recess	
10:40-11:20	Topic 2.1.	The dissemination of duties and rights of the taxpayers and the entities and procedures for handling their claims
	Moderator:	Frank Daly, Chairman, Ireland Revenue.
	Speakers:	Luis Pedroche y Rojo, General Director, State Agency of Tax Administration, Spain. Nahil Hirsh, Superintendent of the National Superintendency of Tax Administration, Peru.
11:20-11:30	Commentator:	Elvin Hedgpeth, Deputy Director of International Programs of the Internal Revenue Service of the United States.
11:30-12:00	Open discussion	
12:00-12:40	Topic 2.2.	The induction and preservation of integrity through staff recruitment, selection and promotion
	Moderator:	Eduardo Zaidensztat, General Director of the General Directorate of Taxation of Uruguay
	Speakers:	Moacir das Dores, General Coordinator of Staff Management of the Secretariat of Federal Revenues, Brazil. Olivier Sivieude, Deputy Director of Human Resources of the Tax General Directorate of France.
12:40-12:50	Commentator:	Nicholas Clive, General Director of the Tax Administration of the Ministry of Finance and Planning of Jamaica.
12:50-13:20	Open discussion.	

TECHNICAL PROGRAM

- Speakers:** Juan Toro Rivera, General Director of the Internal Revenue Service of Chile.
Mario Carmelo Piancaldini, Officer of Central Assessment Department of the Revenue Agency of Italy.
- 11:20-11:30 **Commentator:** Jesús Ruiz-Huerta Carbonell, Director of the Institute for Fiscal Studies of Spain.
- 11:30-12:00 Open discussion
- 12:00-12:40 **Topic 3.2. Rules and mechanisms for combating tax evasion**
- Moderator:** Robert Szurman, General Director of Central Financial and Tax Directorate, Czech Republic.
- Speakers:** Marcelo Pablo Costa, Deputy General Director of Examination, Federal Administration of Public Revenues, Argentina.
Noel González, National Intendent of Internal Taxes of the Integrated National Service of Customs and Taxes, Bolivarian Republic of Venezuela.
- 12:40-12:50 **Commentator:** Jeffrey Owens, Head, Center for Tax Policy and Administration, Division of Fiscal Affairs, OECD
- 12:50-13:20 Open discussion.
- Afternoon:**
- 14:30-15:10 **Topic 3.3. Information systems as basis of the tax administration's central processes.**
- Moderator:** William Layne, Permanent Secretary of Finance, Ministry of Finance and Economic Affairs of Barbados.

TECHNICAL PROGRAM

	Speakers:	Carlos Herrera Álvarez, Responsible for the Unit of International Relations, State Agency of Tax Administration of Spain. Nelson Gutiérrez, Director of Operations, CIAT.
15:10-15:20	Commentator:	Germania Montás, Deputy General Director of the Internal Taxes General Directorate of the Dominican Republic.
15:20-15:50		Open discussion
15:50-16:20	General Report	Fernando Díaz Yubero, General Director of the Organizational Planning and Institutional Relations Department, State Agency of Tax Administration, Spain.
16:20-17:10		Closing

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39th CIAT General Assembly

Main Theme: "The Role of the Tax Administration in Society"

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Buenos Aires, Argentina

April 18 – 21, 2005

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All the material contained in this publication was prepared, set up and printed at the Publications Center of the CIAT Executive Secretariat, P.O. Box 0834 - 02129, Panama, Republic of Panama. 100 copies were printed