



Ministry of
Finance & Economic Affairs

41th CIAT General Assembly

Key Structural Aspects of the Tax Administrations



Bridgetown, Barbados
May 21-24, 2007



**Inter-American Center of Tax Administrations
Ministry of Finance & Economic Affairs**



41ST CIAT GENERAL ASSEMBLY



**KEY STRUCTURAL ASPECTS OF THE
TAX ADMINISTRATIONS**

**Bridgetown, Barbados
May 21-24, 2007**



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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 37 countries: 29 countries from the Americas and 5 European countries as full members, and 3 countries as Associate Members: Czech Republic, Kenya and South Africa. 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

**WELCOME STATEMENT BY THE PERMANENT SECRETARY,
MINISTRY OF FINANCE, BARBADOS
Mr. William Layne**



Mr. William Layne

On behalf of the Government and people of Barbados, it gives me great pleasure indeed to welcome all participants to the 2007 CIAT General Assembly being held here at the Hilton Barbados Hotel, in these salubrious surroundings, from May 21-24, 2007.

CIAT General Assemblies and Technical Conferences are traditionally noted occasions where colleagues meet, discuss and network to develop effective taxation policies. Over the years it has certainly established itself as an opportune forum for exchange of ideas and experiences.

As you are aware, the administration of taxation is quite similar in all countries. Organisational frameworks however may vary as they are influenced by historical, political, cultural and economic factors. History has shown, in fact, that as systems evolve the development of an efficient tax structure becomes paramount.

The main theme of the 2007 General Assembly will be "**Key Structural Aspects of the Tax Administrations**". On this occasion the spotlight will be on three key aspects of tax administration: The Organisational Structure; Models of Relationship of the Central Tax Administrations with other Collection Institutions; and the Structural Change in the Modern Tax Administrations and Human Resources Management.

With the development of e-commerce and universal access to information and communication technology (ICT), the global village has been realized and small countries like Barbados now have new avenues through which they may meaningfully compete in this global arena. As a consequence, the Barbados Government has adopted an integrated approach to our taxation system, by establishment of a "Central Revenue Authority". To this end, and in this endeavour, this conference will be of significant importance and we look forward to the synergies from the constituent members. This will, in no small way, assist us in surmounting the attendant challenges.

So as we embark on the task ahead, let me again welcome you with the wish that this General Assembly is successful and that all participants enjoy their stay here in our beautiful country.

Mr. William Layne
Permanent Secretary, Ministry of Finance, Barbados

STATEMENT BY THE CIAT EXECUTIVE SECRETARY
Dr. Claudino Pita



Dr. Claudino Pita

Mr. Jorge Rachid, CIAT Executive Council President, Mr. William Layne, Permanent Secretary of Finance of Barbados, our kind host, other members of the Council, representatives of the CIAT member countries, delegations of member countries, of international organizations and other tax administrations accompanying us, I wish to thank all of you for attending this 41st CIAT General Assembly and welcome you most cordially.

I also wish to thank the authorities of Barbados and all the officials of its tax administration for holding this Assembly in this splendid setting and for welcoming us with the well-known hospitality and warmth of the people of Barbados.

I would like to highlight the presence of Mrs. Teresa Ter-Minassian, Director of the Fiscal Affairs Department of the International Monetary Fund and thank her for her valuable institutional and personal support to the development of fiscal issues in our countries.

As well, I wish to note the presence and return home of a member of the CIAT family, Mr. William Baker, Tax Commissioner of Canada, who prior to temporarily leaving Revenue Canada, had participated for several years at CIAT as speaker, Representative and Councilor from Canada, always providing a resolute and intelligent support to CIAT's institutional development.

Before referring to the technical program for this Assembly and its scope, I would like to make some brief reflections about current strategies in the management of the tax administrations.

Obviously, the beginning of the XXI century implied the entry into a world of new scenarios and paradigms, which have a strong impact in the activity of the tax administrations. Worth mentioning among the most evident and frequently reiterated elements of change are globalization, the impressive technological leap and the search for a State with greater quality.

To face this context, the predominant strategy adopted by the tax administrations may be summarized in the proposal for "optimizing voluntary compliance".

How can this be achieved? Currently, there is the generalized conviction that a management model balancing service actions with compliance control is required, while recognizing that they neither contradict or exclude each other, but are rather complementary and necessary for an effective management of taxes.

I deem it important to comment on some specific actions within the framework of the aforementioned strategy and management model.

The tax administration should be concerned with leveling the path for compliance, but should also devote efforts to motivating such compliance.

Leveling the path implies, for example, the simplification of rules and procedures, providing assistance and information, minimizing the indirect tax burden or compliance costs, facilitating actions and procedures for filing and paying taxes.

Motivation implies, first of all, that the tax administration commit itself and comply with such values as ethics, integrity, justice and transparency, which will make it deserving of the trust and respect of society.

On the other hand, from the perspective of the effects of individual behavior on compliance, there are essentially two types of actions which should be carried out by the tax administration for motivating such compliance:

- Those whose purpose is to generate the perception that a "**risk**" is **being assumed in case of noncompliance**, that is, the one reiteratively known as "subjective risk".
- Those intended to achieve the perception that a "**benefit**" is **obtained when there is correct compliance**, and allow me to innovate by saying that it would be what we would call "subjective benefit".

As has been stated for a long time, the subjective risk calls for actions by the tax administration that may lead the taxpayer to assume that there are great possibilities for detecting noncompliance, that the omitted obligation may be quickly enforced, and that such enforcement may involve a substantial increase in the amount to be paid and/or criminal processing of the person involved.

On the other hand, the configuration of the "subjective benefit" requires actions by the administration whereby it may be assumed that correct compliance, in addition to the satisfaction for having fulfilled the duty, is a behavior recognized and valued by the administration, which guarantees a comfortable relationship therewith and affords prestige in society. In other words, the intention is to ensure that taxpayers who act correctly will not feel that this is an unimportant act without consequences in their relationships with the administration. And much less, to make them feel that they are among the few "fools" that did not take advantage of an environment of impunity.

Some recent initiatives of the administrations of the member countries and other countries may be related to the promotion of this "subjective benefit". This type of compliance motivating actions deserve increasing attention and it would be important to identify, clearly define and disseminate them.

In sum, for an effective management of our administrations, it is important to align the actions of the tax administration with a strategy based on "optimizing voluntary compliance", which means no more and no less than acting on human behaviors.

The meeting we are beginning today allows us the opportunity to reflect on this type of issues. We will be able to analyze jointly, and exchange ideas and experiences on: **"key structural aspects of the tax administrations."**

Although there are several structural aspects that may be considered key, we will be focusing on three of them:

- the structural organization;
- models of relationship between the central tax administration and other collection institutions; and
- the structural change in the modern tax administrations and human resources management.

The presentations of these three main topics will be complemented with subtopics, describing specific experiences that may constitute examples of good practices.

With respect to the organizational structure, it should be anticipated that a current essential characteristic is that it should be highly flexible, so that the tax administration may timely respond to new requirements within the context of permanent and fast change.

Inaugural Ceremony

As far as the relationships of the tax administration with other national and foreign collection entities are concerned, it should be noted that such relations may generate synergies to favor everyone's efficiency and effectiveness.

In particular, mutual cooperation with foreign tax administrations in the current environment of global economic relations between companies and individuals and the widespread use of international evasion and fraud schemes is the best, if not the only alternative for acting effectively.

Lastly, as regards structural change and human resources management, it must be borne in mind that the ethical, professional and human development of such resources is a fundamental aspect in every organization. The progress that may be achieved, not only in organizational, procedural or technological terms, but also in terms of the effective use and sustainability of such progress depends on the integrity, and technical and personal quality of our staff.

To conclude, we wish to reiterate our gratitude to the authorities of Barbados and to all our member countries for the continuous and valuable support they afford us, which jointly with the professionalism and commitment of our staff members at the headquarters, make of CIAT an **organization which is an example of cooperation for progress**, with a well-deserved international leadership in the field of taxation.

Thank you very much.

Dr. Claudino Pita
CIAT Executive Secretary

INAUGURAL CONFERENCE

Inaugural Conference

**ESTABLISHMENT OF THE CENTRAL REVENUE
AUTHORITY OF BARBADOS**

Ronald Bascombe

Permanent Secretary of Special Projects Unit
Ministry of Finance
(Barbados)

CONTENTS: 1. Introduction.- 2. Major Reasons for Establishing SARA's.- 3. Counter Arguments.- 4. The Approach Adopted by Barbados a Case for Implementation.- 5. Departments Subject to Central Revenue Authority Merger.- 6. Position on National Insurance Scheme.- 7. Implementation Options.- 8. Project Implementation.- 9. Risks and Related Issues of Implementing a Revenue Authority.- 10. Authority of the Central Revenue Authority.

1. INTRODUCTION

This presentation will look at the trend among states to develop semi-autonomous revenue agencies (SARA'S), the rationale for their establishment and the success of those efforts. It will also provide some insights into the approach adopted by Barbados for the establishment of a Central Revenue Authority. It is not in any way meant to be an exhaustive discussion on the subject but will in the allotted time highlight the major theoretical positions along with, the current experiences and will culminate with insights into the case for and Barbados' approach to establishing a central revenue agency. Hopefully it will assist in stimulating the thoughts of conference participants on the subject for it is quite likely that some of your administrations may be considering such a reform project. Alternatively others would have gone this route before and the forum can therefore be initiated for the two groups to engage in dialogue on the subject.

Over the last 20 years, in an effort to improve the efficiency of their tax collection a number of countries have established revenue authorities.

These agencies are found in several Latin American and African countries. In Latin America the notable examples are Argentina, Peru, Colombia, Venezuela, Mexico, Guyana and Jamaica to the north.¹ The African examples among others are Ghana, Uganda, Zambia, Kenya, South Africa and Tanzania. Similar agencies can also be found in Singapore, Malaysia and in Spain which is a noted exception within Europe.² Their structure varies in range from being a department of government to agencies with varying degrees of autonomy.

The current world wide trend towards the establishment of SARA's has in part been bolstered by the observed success of the earlier tax administration reform efforts using this model. Proponents of this approach justify it on the grounds that its pursuit has brought about a significant increase of revenues and improved service delivery in tax administrations. Notwithstanding the view that independent agencies may have yielded valuable results, there is strength to the argument that the implementation of a longer-term effective revenue collection agency can be more productive. AS earlier indicated, more and more countries have been adopting this organisational design and even the international financial institutions have been proposing their establishment on an ad hoc basis even if not as a matter of formal policy.³ This reform trend has also coincided with a period in time when the phenomena of autonomization of executive agencies within the developed countries was gaining in popularity. As for the argument for the granting of autonomy or in some instances greater levels of it to state agencies some case reviews have indicated that it is associated with higher levels of performance in revenue collection, compliance management, taxpayer services, human resource management and a reduction of administrative costs. It is considered as "a response to inadequate central government civil service and public expenditure management systems" as well as "an antidote to the failure of the political system to build in effective accountability mechanisms that channel political influence around and through the public administration in appropriate salutary ways."⁴

¹ IMF Working Paper WP/04/237. Barrand, Ross and Harrison

² Rosario G. Manasan: Tax Administration Reform: (Semi-) Autonomous Revenue Authority Anyone

³ Robert Taleircio. Jr. World Bank Policy Research Paper 3423

⁴ Robert Taleircio. Jr. World Bank Policy Research Paper 3423

2. MAJOR REASONS FOR ESTABLISHING SARA'S

The main reasons for establishing SARA's fall under two broad headings as espoused by Robert Taliercio firstly, the political economy argument and secondly the public management argument. The political economy argument revolves around the perceived need for enabling creditable commitment to better tax administration and the need for a "commitment technology" facilitated through the formation of corporate bodies and the delegation of some tax management functions to third parties. The public management argument takes into consideration the benefits of enclave approach in dysfunctional systems, the perceived limitations of accountability in the Civil Service as well as issues of autonomy and the inability of the Civil Service bureaucracy to be free from political influence.

The major reasons why governments have been implementing revenue agencies are:

- to gain greater control over human resource management;
- to increase accountability and confidence in the system;
- to benefit from cost reduction and improved efficiency and effectiveness; and
- to take advantage of data sharing.

Inadequate funding and related deficiency in human resources represent two major constraints in the effective functioning of tax agencies. Developing states are highly dependant on their tax revenue flows for the funding of their various projects and programmes yet the central government funding system and supporting infrastructure are not always responsive to the revenue agencies needs. Administratively, it is generally accepted that civil service administrations have been unable to attract and retain high caliber professionals in the areas of tax administration and tax law due to their inability or lack of desire to pay salaries that are competitive with those obtained in the private sector.

To compensate for the above situation the argument is advanced that within SARA's there is scope for a percentage based funding mechanism coupled with automatic retention of funds to isolate the revenue agency from the damaging effects of a weak public expenditure management system while providing a strong incentive for increasing collections. Carlos Silvani argues that such a financing mechanism should be countercyclical to protect the tax administration during recession, for example by the hiring of temporary or contract staff to maintain collections. It is doubtful whether such a mechanism would be possible within a central government setting.

3. COUNTER ARGUMENTS

As always within the sphere of human activity there will be some level of scepticism to new approaches to doing business. Firstly, some critics hold the view that SARA's reform is but a variant of the "enclave" approach to reform in the public sector, premised on the view that if we cannot reform the entire public sector perhaps it would be better to allow the status quo to remain in place. My view is that given the large and complex nature of the public service it would be an enormous task to undertake a full scale transformation of the entire organisation within a single initiative. Moreover, tax administration has some unique features about it and given the reliance that developing countries administrations place on the effectiveness of tax policies there is therefore the case for special treatment to be extended to the tax regime in this regard. Secondly, there is a fear that the grant of autonomy to such agencies of government can result in they running amok with reduced accountability while undermining the authority of the parent Ministry of Finance. There has been no known or highlighted case of such an outcome. Some posit that what is needed is more professionalism in the public sector rather than autonomy but I would submit that the two are not necessarily mutually exclusive.

Notwithstanding the arguments for and against SARA's Robert Talierno offers the view that the most likely other option is a gradualist approach involving a series of modest measures carried over the long term. The case reviews even in the face of comprehensive SARA's effectiveness measurement systems indicate that there are some benefits to be gained from their establishment.

Most of the literature reviewed has pointed to the success stories of those administrations implementing a Central Revenue Authority, with attributable revenue increases ranging between 5% and 12%. For example the World Bank in a 2006 country report on Bulgaria stated that "Substantial targets under the project have already taken place. Tax revenue increased by 3.6 percentage points of GDP in 2004 compared to the baseline in 2004. Social contributions increased by close to 1 percentage point. Compliance rates by tax types improved over the same period....." ⁵

It is noteworthy that just about every reviewed submission on the subject represents that one of the greater issues seen here is in the area of human resource management relative to the agencies being able to attract and

⁵ World Bank source, web.worldbank.org The Revenue Administration Reform in Bulgaria

retain quality professional staff. One vexing question is how the new entity treats to the current staff in the pre-existing agencies. There are the options of taking staffing inefficiencies over into the SARA or face the high cost of retrenchment programmes. Several administrations took the option of retrenchment of existing staff, others recognised post facto the ineffectiveness of trying to preserve the status quo, transferring unsuitable and/or unqualified staff to the new entity only to be faced shortly there after with their retirement. Even though the "zero-slack" or "clean state" approach would seem most plausible and desirable in practice the underlying policies and considerations have not always supported it.

There is evidence, though not universal that points to staff reductions in the move to SARA's as well as enhanced remunerations packages in the new arrangements. In short the results in the improvement of human resources management has had mixed and varied success.

In the area of cost of administration the information suggest that recurrent costs have remained comparatively stable while inadequate capital expenditures have lead to operational inefficiencies in several agencies.

SARA's are represented as having facilitated the move away from a procedure-bound and control-driven tax administration mode to a more flexible and decentralised decision making approach.

4. THE APPROACH ADOPTED BY BARBADOS A CASE FOR IMPLEMENTATION

Having articulated the above historical and theoretical perspectives for the establishment of SARA's we now turn to establish the specifics of a justification as to why Barbados now seek to establish a central revenue agency. This is premised on the point of view that such an initiative must go beyond a desire to take a particular course of action but that it is buttressed by sound reasoning and above all some benefits must be realised from the effort.

The Barbados National Strategic Plan 2006 has set the fiscal objective "to develop a transparent and sustainable public management system. Its purpose is to promote efficiency and effectiveness in the current tax collection systems as well as the system of expenditure management. This would enhance financial stability and sustainability, improve compliance, reduce tax leakages and increase the level of tax revenue collection." More specifically, it would give consideration to the

establishment of a Central Revenue Authority (**CRA**) to remove the administrative fragmentation that currently exists in the system. Furthermore, the effort is seen as contributing to national development in a sustainable manner. There is therefore commitment to and support for the initiative at that highest level of policy articulation and development.

In actioning this process the government as a first step engaged the services of a CARTAC sponsored Consultant to advise on the way forward.⁶ The Report emanating from this exercise indicated that there was a strong business case for the creation of such an institution; consolidating the four (4) major revenue collection departments as well as the contributions collections functions of the National Insurance Scheme and the Licensing Authority, Ministry of Public Works and Transport.

The Report posited that there are three major reasons for governments implementing revenue authorities.⁷

Firstly, **increased flexibility, agility and control** over human resource management in terms of organisation design, job classification, staffing, staff discipline and compensation when compared with that obtained in the general public service. The training and development needs of the tax and revenue administrations are constrained by a public service which does not respond in a timely fashion.

Secondly, shared infrastructure costs can lead to a reduction in overall overhead costs thus freeing resources for the acquisition and improvement of infrastructure such as buildings, equipment and information technology.

Thirdly, data sharing across domains will improve compliance profiling leading to improved revenues and a reduction in the cost of administration. Joint audits across tax types and collection activity will result in efficiency gains to the Central Revenue Authority. Additionally, there will be improvement in the quality of service to the tax paying clientele as they will be required to interact less frequently with the tax authorities.

⁶ The Caribbean Regional Technical Assistance Center (CARTAC) inaugurated November 5, 2001 in Bridgetown, Barbados, CARTAC is a joint initiative of the CARICOM, the International Monetary Fund, the United Nations Development Program, and five other governments and agencies; the Caribbean Development Bank, the Inter-American Development Bank, the United Kingdom's Department for International Development, USAID, and the World Bank. CARTAC was established to help countries in the region build capacity to deliver improvements in certain critical areas of economic and financial management, including onshore and offshore financial sector supervision and regulation, tax policy and administration, public expenditure management, and economic and financial statistics.

⁷ Barbados, Revenue Authority Feasibility Report: CARTAC Consulting Report, December 16, 2004.

In addition to the above, benefits will accrue from:

- The ability to tailor solutions to the unique needs of tax or customs administration through control over procurement, facilities management, IT services, management practices, and human resource management regimes.
- Increased coherence in the administration of multiple taxes including the potential to administer taxes across jurisdictions or levels of government resulting in fewer interactions with businesses and citizens.
- Improved ethical standards fostered through effective scrutiny and audit of agency operations and enforcement of the developed code of conduct.
- Operational efficiencies from merging common corporate services such as finance, mail and records management, accommodation, strategic planning, human resource management, information technology, internal audit, communications and public relations, internal affairs, training, and legal services.
- A more "business like" approach to and accountability for HR and business management (modern comptrollership) engendered by a Board of Management similar to the private sector model.

In the Barbados context a CRA would also enable:

- the implementation of a common identification system for all tax paying entities; and
- the implementation of a single period for the filing of tax returns as against the now several varying return periods.

Currently all the major tax agencies have their unique tax payer identifier and this makes it difficult for data query and matching of taxpayer profile and compliance history across the system in a holistic manner. This issue of a common tax payer identification system for use across all the tax agencies has been mooted on several occasions over the years but has never been realised. CRA implementation would provide an ideal platform for the development and launch of such a system.

The above referenced CARTAC Report highlighted several observed weaknesses in the current local tax system and recommended that a possible option for addressing and rectifying them is the establishment of a central revenue agency.

These weaknesses generally apply to all the major tax collection agencies but it is noteworthy that the study considered the Barbados National Insurance Scheme (NIS) to be an exception due in part to it having "greater latitude in its non-human resource management regimes".⁸ Perhaps then, the NIS model which exhibits some measure of autonomy from Central Government control demonstrates that there is a case to be made for granting greater autonomy to the tax collection agencies. Furthermore, there is a school of thought that there is a good and compelling reason at this time for the NIS Department to be granted further autonomy, moving on to the next plain by taking greater control in the management of its human resources. This would enable that institution to realise further efficiency gains in its operations.

The weaknesses of the current system are now enumerated:

Human Resources Management is constrained due to the inadequate response of the Public Service Commission to staffing, staff development and staff discipline in tax and customs needs. Tax departments have little or no authority in decisions relating to levels of remuneration, promotion and performance incentives and are therefore subjected to the same general terms and conditions of service. There is a lack of performance incentives which can motivate persons to strive for excellence. Furthermore, focused tax training is not adequately addressed at the central agency level.

The establishment of a CRA would provide a more flexible environment in which to address the above shortcomings as well as allowing for staff motivation, performance based compensation, training and development funded and tailored to tax administration and enforcement needs.

Internal Audit presence is evident in the current departments but all are in need of strengthening and improvement in this area to enable effective coverage of operations. A CRA would result in a larger and better trained audit staff to be used more strategically by the Board and senior management of the agency.

Internal Investigations is an area where there is now no trained permanent staff for conducting internal investigations. A merging of

⁸ The National Insurance Scheme is established by the National Insurance Act 1966. The fund is administered by a board of directors who are empowered under the Act to oversee its management. However the staff are employees of the Crown and therefore fall under the mandate of the Public Service Commission.

departmental functions would facilitate the strengthening of the merged entity's ability to conduct such investigations and encourage compliance to the Code of Ethics to be established by the CRA. Additionally, the wide spread use of computerised accounting and other management systems in mission critical operations, coupled with the implementation of new facilitating systems in support of trade and businesses have opened new avenues for tax evasion and other fraudulent activities. Internal audit and investigation staff must be equipped with the requisite skills to meet the challenges posed in this new dynamic environment.

Dedicated in-house Legal Services except for the NIS is lacking and this has constrained compliance and enforcement efforts. The creation of an in-house legal unit and elimination of dependence on the Solicitor General's Office should positively affect the compliance and enforcement efforts.

Information Technology Systems should benefit from a merger of the current departments. Within the new environment there is the possibility of merging and enhancing the information technology (IT) infrastructures to provide for compliance and workflow management based on risk profiling. Additionally, a merger would provide the support areas with stronger capacity for systems maintenance and enhancement activities as well as cost reduction in some areas over time.

Currently, the several departments have in place a number of IT systems tailored to meet their individual needs. These systems are constantly undergoing enhancement and modifications which represent substantial investments by the Government. A merger would enable a more symbiotic design and implementation of management information systems geared to support the monitoring and reporting functions of a high performance entity; enabling the organisation to function as an integrated unit despite the autonomy that will, to some extent, exist in the functional units. In addition to its work flow management and processing support, it would also provide the medium for interacting with its external customers via e-filing and reporting as well as information dissemination.

Public Relations, Communications and Education Programmes are not fully developed and none of the existing departments (NIS again excepted) have a team focused on developing and implementing quality taxpayer education, public relations, client service surveys and internal communications programmes. The CRA would ensure that this is a planned and budgeted activity and provide a common and consistent medium (website) in support of the function.

Notwithstanding the consistent allocation of financial resources to the departments they suffer from the inability to:

- (i) shift funds to match priorities (virement);
- (ii) carry forward "lapsed funds" at year end; and
- (iii) manage departmental assets.

Greater autonomy to allocate funding to match current and changing priorities would bring agility to operations while holding officials accountable for the results of their actions. It should also enable the Government to optimally fund a single agency as against under-providing for several separate and competing departments.

Cooperation and coordination between revenue administrators would be substantially improved thereby buttressing coordination of efforts between the agencies in their compliance and enforcement efforts. Currently, taxpayers are forced to interact with multiple tax agencies at varying times for what are essentially the same functions e.g. taxpayer registration. A Central Revenue Authority would provide a single entry/access point for all taxpayer activities thereby enabling a more customer/business friendly interaction between the taxpayers and the agency.

As regards Compliance and Cost of Collection it is generally accepted that in Barbados tax collection cost is reasonably low and the compliance rate relatively high. Improvement in the compliance rate with concomitant cash flow increases will positively impact on the Government's finances.

5. DEPARTMENTS SUBJECT TO CENTRAL REVENUE AUTHORITY MERGER

The Ministry of Finance considers at this time that (1)the Land Tax Department; (2)the Inland Revenue Department, (3)the Value Added Tax and the Excise Tax Divisions of the Customs Department and (4) the Licensing Authority Department of the Ministry of Public Works should be merged to form the new Central Revenue Authority.

6. POSITION ON NATIONAL INSURANCE SCHEME

Some countries in keeping with the idea that unification of the tax system can yield better results have been transferring responsibility for social insurance collection to the tax administration with a view to achieving the best possible revenue collection performance. Benefits to be derived relate to the synergies that exist between the organizations and their core functions as well as the potential for administrative and compliance cost reductions.

The earlier referenced CARTAC sponsored feasibility study had proposed that the Contributions Collections function of the National Insurance Scheme be included in the mandate of the Central Revenue Authority.

We are of the view that at this time it is not necessary given that the National Insurance Scheme already has a high level of autonomy from the central government in the management of its resources. More so the NIS systems, processes and procedures are functioning in an effective manner and it is seen as a model system within and beyond the Caribbean.

7. IMPLEMENTATION OPTIONS

The Ministry of Finance considered two major options in the setting up of the proposed semi-autonomous tax agency. The **first option** is to set up the agency as a department of government. The advantages of this option are:

- ease of transfer of staff to the new entity;
- staff retain their Civil Service status; and
- avoidance of potential industrial relations conflict.

On the other hand the major disadvantages are:

- loss in ability to bring operational agility to the tax collection function;
- inability to cash in on synergistic relations between the operating units; and
- inability to exercise greater control and influence in Human Resource policies and practices.

This would be consistent with the National Insurance Scheme model. Within this model staff would retain their status as employees of the Crown while there would be a board of management to superintend the administration of the tax collection function.

Such an approach could be viewed as a first phase in a continuum of initiatives and opening up the possibility for further deepening of the reform efforts over time.

The second option is to set up a semi-autonomous agency with substantial independence from the Civil Service. This option potentially offers the greatest benefits to be derived from a well planned, implemented and operational CRA. Its major benefits are:

- the ability to quickly make decisions and take action to ensure the timely and efficient collection of the revenues;
- more effective control over human resources;
- better resource allocation for the training and development of staff.

8. PROJECT IMPLEMENTATION

We recognise that good planning is integral to the successful transitioning and merging of hitherto separate departments of government into a semi-autonomous revenue agency. In order to ensure that the process is appropriately managed it is prudent to separate the planning and change efforts from the day to day responsibility for administration of the tax collection function. Accordingly a Special Projects Unit has been established in the Ministry of Finance to oversee the planning and implementation of the proposed CRA.

A Steering Committee comprising of departmental heads and special interest groups representatives has been established to direct, monitor and generally advise on policy matters. This composition ensures participation and ownership at departmental level while allowing for the inputs of specialists in planning for and implementing the project.

The functions of the Steering Committee are to:

- provide strategic directions to and coordination of the project planning and implementation activities;
- ensure that all stakeholders interests are represented and reasonably responded to;

- establish technical working groups in support of the Steering Committee in the discharge of its mandate;
- identify and recommend special skill requirements;
- identify project needs and priorities;
- develop, receive, review, and recommend policies, procedures and guidelines; and
- monitor project progress, ensuring that critical milestones are met.

The Steering Committee will from time to time, as it sees fit, establish Technical Working Groups to consider and analyse in detail various issues.

9. RISKS AND RELATED ISSUES OF IMPLEMENTING A REVENUE AUTHORITY

We recognise that there will be some attendant risks in implementing the proposed agency. These risks are dependent on the option that is ultimately adopted subsequent to the tabling and acceptance of the Parliamentary White Paper. They are as follows:

- industrial relations with unions and current employees having reservations of the move from central government to an autonomous entity. The recent experiences of the QEH and the GAIA are noteworthy;
- a significant portion of the staff being classified as specialist departmental staff, this will adversely affect the capacity of the Civil Service to absorb them into comparable posts;
- the skills and capacity of the existing administrations will be severely tested in the process and workflow re-engineering exercise, IT development, legal and policy changes required to implement the CRA;
- the need for and ability to recruit skilled and knowledgeable staff in the above areas as well as project management, HR and modern tax administration skills and techniques;
- ensuring that the legal and policy frameworks preclude undue interference in the CRA's execution of its mandate;
- disruption in revenue flows pre and post implementation occasioned by industrial unrest; and
- political will and timing of implementation.

Given that the targeted departments account for approximately 86% of total current revenues it is important that any transitioning is so managed as to avoid disruption of revenue flows. How we treat to the resolution of the potential staff issues is therefore of paramount importance.

Public officers enjoy rights enshrined in law, paramount of which is the right of appeal to the Privy Council, which they may be unwilling to trade or conversely leave the acknowledged relative safety of the Public Service. Any unilateral transfer to a semiautonomous CRA, occasioning a change in the employer would be interpreted as a breach of their contractual terms and conditions of service. They would have to be voluntarily seconded or transferred into a CRA, provided they are suitable or absorbed into the wider civil service under no less favourable conditions in any event. But, this also raises questions as to the absorptive capacity of the civil service at this time should a significant number opt not to go over to the new semi-autonomous organisation.

It is imperative that a well designed and implemented communications and public relations strategy which takes into account the various stakeholders and their particular focus is put in place at the earliest possible time. This should be triggered well in advance of the establishment of the new agency.

In particular the workers unions have to be brought on board and into the confidence of the management and project planners at an early date. This approach would ensure that:

- (a) staff are given the opportunity to make inputs into the process;
- (b) staff receive factual first-hand information, thus avoiding misrepresentation of facts;
- (c) mistrust in the process would be eliminated;
- (d) issues are identified and solutions devised earlier in the project planning and implementation process; and
- (e) particular and specific arrangements, counselling etc. can be tailored for given situations/circumstances.

Another consideration is whether there be a phased transitioning versus a one off implementation of the merger process bringing to the fore issues such as:

- timing of the full transfer of staff under a single administrative authority; and
- authority of interim head to direct staff.

The benefits of a phased approach are:

- (i) current staff are given the opportunity to observe the internal working of the CRA before making a choice;

- (ii) staff may be felt rushed by a "one-off approach";
- (iii) revenue flows and collection are less likely to be interrupted; and
- (iv) management is given time to acclimatise in the new environment.

Local experience with the QEH and GAIA Inc. transitioning suggests that a phased approach ought not to be unduly drawn out.

A critical question will always be whether a Central Revenue Authority will ever be granted the fullest level of autonomy from the Central Government and in the particular case of Barbados the extent which the Government will be prepared to consider as acceptable. A final choice is informed by the various considerations and risks detailed above when weighted against the potential benefits to be derived.

We consider that the CRA should be managed by a Board responsible for:

- monitoring the performance of the Authority and its effectiveness in the discharge of its mandate;
- advising the Minister in matters of revenue policies;
- ensuring the prudent use of the resources of the Authority;
- ensuring that collected revenues are paid over to the Consolidated Fund in an efficient and timely manner; and
- ensuring timely and accurate reporting on the operations of the CRA to the Minister and other stakeholders.

It is further proposed that the organization be structured along functional lines.

Structuring the entity along functional lines is advantageous to the extent that it:

- is a logical, simple and time-proven method;
- makes efficient use of specialised skills; and
- establishes clear managerial responsibility for specific tasks/ functions.

10. AUTHORITY OF THE CENTRAL REVENUE AUTHORITY

The CRA would act as the principal agent of the Government in the collection of its revenue under the following legislation:

- The Income Tax Act.
- The Value Added Tax Act.
- The Customs Act.
- Environmental Levy Act.
- The Excise Tax Act.
- The Export Promotion Act.
- The Land Tax Act.
- The Road Traffic Act.
- Any other enactment as directed or authorised by the Minister from time to time.

The CRA would therefore be granted powers to enforce and prosecute the revenue collection functions that now reside in the separate revenue departments.

In conclusion there is no easy road to the implementation of reform initiatives for in addition to those matters highlighted above one is faced with several other hurdles. In practice it is not the easiest of task coordinating the efforts and inputs of multiple agencies and more so when those entities lay within different ministerial portfolios and who may have conflicting priorities. There is a real fear of individuals losing their identity in the merged entity which can result in slow response and low levels of cooperation. You will have to deal with the issue of political will and timing therefore early political buy in is necessary. Above all there is the fear of change and the journey into the unknown that it brings.

TOPIC 1

THE ORGANIZATIONAL STRUCTURE

Lecture

TOPIC 1

THE ORGANIZATIONAL STRUCTURE

Jennie Granger

Second Commissioner of Taxation of the
Australian Tax Office
Australian Taxation Office
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*CONTENTS: Executive Summary.- I. The Australian taxation office today.-
II. How we work.- III. How we deliver.- IV. Conclusion*

EXECUTIVE SUMMARY THE ORGANIZATIONAL STRUCTURE

Today's Australian Taxation Office (Tax Office) has undergone significant change since its inception in 1910 to its role, its structure and how it interacts with clients, as well as its accountability to Government.

Australia's economy has changed over time from rural agrarian-based, driven by a mining and construction boom in the 1960s through to a growth in service industries in the 1990s. The advent of the information technology age, the invention of the personal computer as well as the birth of the internet have all influenced shifts in the strategy and direction of our work as well as defining how we structured ourselves to best meet those new challenges.

Over this time the Tax Office has grown from simply collecting land tax in 1910 to now being Australia's principal revenue collection agency. Our role and function has evolved and will continue to do so. For example, it was not until 1942 that the Federal Taxation Office took over income tax from the states and a uniform income tax was implemented. A profound shift in business strategy to risk management commenced in the 1980's with the introduction of self assessment. In the 1990's the Tax Office evolved from being a decentralised regional based organisation to a national government agency employing over 22,000 staff.

The accountability of the Tax Office to Government and the community has increased, particularly since the 1990s through legislative reform of the Australian Public Service. These led to further change on how we structured ourselves to report to Government as well as beginning to shape a new role and direction for the Commissioner - from an administrator to a Chief Executive Officer.

The environment we operate in continues to change, sometimes daily. We are now faced with risks to the revenue through the trans-national economy we operate in. The rise in global economic activity continues to challenge what we do as well as challenging the core skills our staff need. The expansion of the internet and the depth of technology penetration continue to increase community expectations of what is possible.

To meet these new and emerging risks and challenges, it is critical that our structure remains flexible and responsive. In our latest structural adaptation we are continually refining and reorganising ourselves to respond to deliver business outcomes today whilst our change program is concurrently re-engineering our business to make it sustainable for the mid term. The approach to our business and clients also needs to be flexible to enable us to continue to deliver on our outcomes and commitments reflected in our Compliance Program. It is becoming increasingly important to consult with clients and stakeholders on new systems and, in response to this, our Commissioner has adopted the three Cs - Consultation, Collaboration and Co-design as the cornerstone of our business approach. These three things are crucial in "Listening to the Community" and are helping us shape our change program - another way the Tax Office is adapting, structurally and operationally, to the constantly evolving business environment.

I. THE AUSTRALIAN TAXATION OFFICE TODAY

The Tax Office has come a long way from a team of 12 employees who worked for the Department of Treasury nearly 97 years ago. Their role then was to collect land taxes to fund Commonwealth pensions.

Today we are Australia's principal revenue collection agency operating as an independent agency within the Treasury portfolio. We are amongst the biggest organisations in the public sector and indeed in Australia. We employ over 22,000 staff in over 60 offices around Australia.

Taxation is the price we, as a community, pay for a civilised society. We believe the Tax Office plays an important role in building a better community and we have committed to government to effectively manage and shape administrative systems that support and fund services for Australians.

While our primary role is revenue collection, we are also a delivery mechanism giving effect to social and economic policy. These days it is not unusual for other Government portfolios to look to the tax system as one of their delivery mechanisms for their policy.

We collect around A\$230 billion which is about 90% of the Australian Government's revenue including some A\$35 billion in good and services tax (GST) that is distributed to Australian state and territory governments. We are also the second largest payer of transfers and payments in the Government - more than A\$7.5 billion each year to the community (such as fuel grants, family assistance payments and retirement savings contributions).

Currently we administer:

- income tax (including pay as you go (PAYG) withholding and instalments, capital gains tax and fringe benefits tax)
- goods and services tax
- excise duty
- fuel grants and benefits schemes
- superannuation (compulsory employee saving for retirement)
- higher education funding (on a joint basis with other agencies)
- the Australian Business Number and Australian Business Register
- the Australian Valuation Office
- Infrastructure Borrowings Tax Offset Scheme.

The Tax Office has a relationship with most people in the Australian community. We have more than 11 million individual taxpayers and 2.5 million businesses, non-profit organisations and government agencies directly affected by taxation. An important feature of our system is the tax professionals who play a major role and are a key relationship representing about 74% of individuals and over 95% of businesses for their income tax affairs.

The community expects us, and we have committed, to administer the tax system fairly. Our approach is to help and support the majority of people who want to do the right thing by making their dealings with us as cheap and easy as possible. For those who do not want to do the right thing, we aim to identify and intervene quickly through differentiating our approach according to their personal circumstances and our ability to influence their behaviour.

To do this, we continually adapt our compliance approaches tailoring them to address priority risks whilst continually investing heavily in innovations to improve our services, products and processes.

We have a strong history of being open and transparent about what we do and how we do it. We believe it is very important to be accountable in this way to sustain the community and Government's confidence in us. It is also important for influencing behaviour to let people know what we are concerned about and what will attract our attention.

How effective is this approach?

Some key results reported in our 2005-06 Annual Report to the Australian Parliament included:

- exceeding revenue forecasts for the fourth consecutive year
- implementing around 100 new policy measures
- reducing collectable debt as a percentage of revenue from 4.47% to 4.40%
- reporting an operating budget variance of 0.3% of final budget (an underspend)
- treating people fairly, reasonably and as individuals were reported as key strengths but we need to improve our written communication as identified by independent research on our Taxpayers' Charter
- 77% of businesses and individuals who deal with us are satisfied with the professionalism of our people, and

- improving levels of tax agents' satisfaction with our services (over 80% believe it is easy to deal with us).

Some of our interactions with the community during that year included:

- taking nearly 11 million telephone calls
- registering 87 million visits to our website
- processing returns for around 11 million individual taxpayers
- 11.6 million log-ins to the tax agent portal, supporting 3 million transactions
- 1.2 million log-ins to the business portal, supporting 400,000 transactions
- processing more than 90% of activity statements lodged online through the portals, with refunds delivered through the banking system overnight
- more than 1.6 million individual taxpayers lodging their tax returns online through our eTax system
- handling more than 490,000 general enquiries through our 21 shop fronts and helping resolve a further 260,000 more complex problems, and
- undertaking over 1.5 million review or examination (audit) activities.

While this presents a positive picture, in our 2005-06 Health of the System Assessment published for that financial year, we nominated three areas that were in need of attention:

- our capabilities, particularly our aging information technology systems and the need for building capacity in the tax profession
- our ability to detect and address risks more quickly, and
- building new levels of sustainability for the future.

The Tax Office journey from 1910 to today

Today's Tax Office has been shaped by the changes in Australia's economy, from rural agrarian based at the turn of last century, to mining and construction during the middle of the century and, in the nineties, a growth in the service industries. It is also the story of transformation from a penal colony to the development of a vibrant multicultural community through planned migration. With 43% of the population born overseas or with at least one parent born overseas, and with some 200 languages between us, we have one of the most cosmopolitan populations in the world. In the knowledge-based economy of this millennium, Australia's multiculturalism is a most valuable resource helping us to forge links with the rest of the world.

Australia has a small population in a vast land. We are the largest island and the smallest continent in the world and virtually everywhere is a long distance to travel. It is not surprising that we have enthusiastically embraced the technology age. It has opened up the country and the world making a new level of engagement possible. It has and continues to change the nature of how we do business as well as with whom we do business. For example, the advent of the internet has seen the emergence of the Home Based Business, and the property boom in the early part of this century created a new class of taxpayer - 'mum and dad investors'.

Political and legislative platforms have also shaped the Tax Office. The most profound of these changes was the introduction of self assessment in the 1980s followed by a major restructure of the revenue base at the turn of the century.

Today's Australian tax system relies on taxpayers self-assessing their tax obligations. The introduction of self assessment required a fundamental shift in our business strategy to one based on risk management. This started a journey from a functionally focussed, regionally managed organisation to a national business focussed on relationship management by knowledge workers underpinned by sophisticated systems.

The challenges and opportunities were enhanced in 2000 when further dramatic tax reform was implemented which led to:

- major restructuring of the community's revenue base through the introduction of the GST combined with reduced income tax rates and increased family benefits (some of which are paid through the tax system)
- significant overhauling of how people pay their taxes through the introduction of the PAYG system for instalments and withholding taxes, and
- introducing the first stage of a system of binding oral advice for individual taxpayers with simple tax affairs and simple enquiries.

These changes brought with them a huge expansion of our business as the new taxes now represent a significant portion of our work and a relationship with a second tier of government (states and territories) through the GST. It also brought with it an urgent requirement to overhaul how we operated to address community and the tax

profession's frustration with the inability of our services and systems to cope with the volumes of new work, or to operate smoothly and in a personalised way.

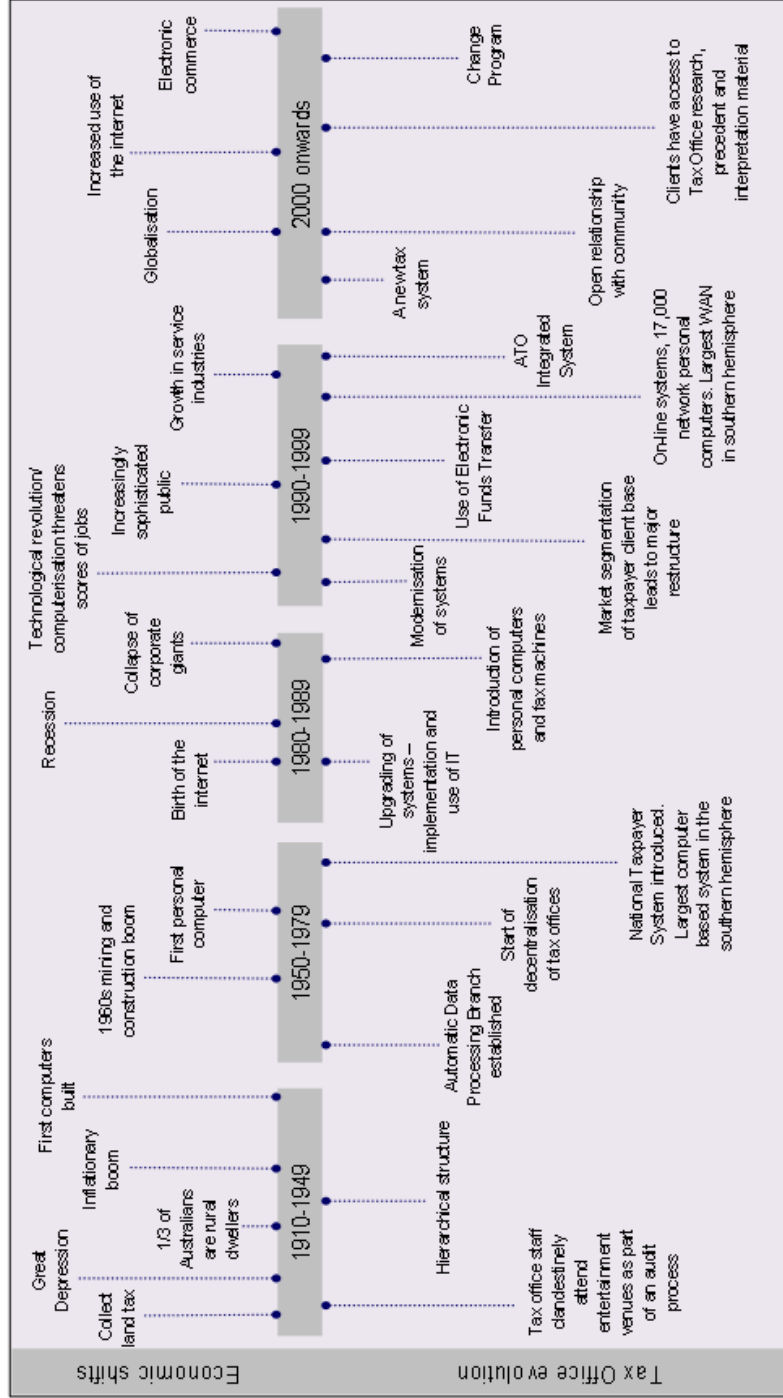
Reforms of the Australian Public Service have also been important in reshaping how we work. The introduction of the Financial Management & Accountability Act in 1997 increased our corporate governance accountability and reporting obligations by placing responsibility on the Chief Executive Officer (our Commissioner) for our 'efficient, effective and ethical spending of public monies'.

This reflected changing government expectations. Now public service organisations are expected to, and are held accountable for, managing their business according to business principles. Our outputs are now priced and we are funded accordingly. We are expected to demonstrate productivity improvements and to be able to measure throughput, quality and cost.

In 1999, the introduction of the Public Service Act vested greater powers in Agency Heads to manage their people as well as the introduction of Agency Agreements - collective bargaining awards for each agency which govern the pay and conditions of their people. Now in the Tax Office, pay rises are linked to productivity improvements and, if achieved, are available to all of our employees.

These changes mean we are accountable for our work and our expenditure, and we commit to delivering outcomes and outputs on all organisational levels. We report significant achievements in our Annual Report to Parliament, which is also publicly available.

Tax Office timeline 1910 to today



II. HOW WE WORK

Our Strategic Statement sets the framework

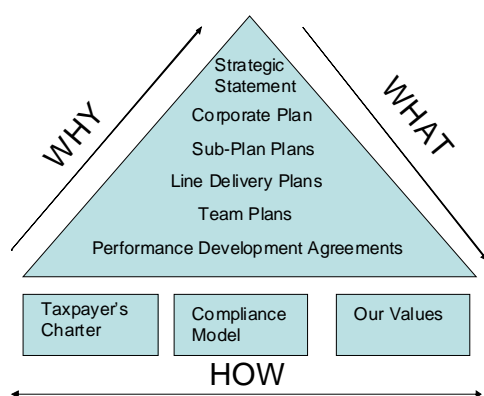
To deliver on our obligations to government and the community, the Tax Office takes a strategic approach to planning. We view 'strategic planning' as producing fundamental decisions and actions that shape and guide the strategic direction of the organisation.

Our Strategic Statement sets the direction and framework for all of our strategies and how we work. It includes a statement of our business intent which puts the outcome we aspire to in a business context. This is:

'To optimise voluntary compliance and make payments under the law in a way that builds community confidence.'

It provides a longer term view that also outlines the challenges we are facing in seeking to achieve our business intent. The Strategic Statement emphasises that the Tax Office is not, and will never be, resourced to chase every last dollar of revenue. We are required to make intelligent choices about what and where to best apply the resources available to us. This philosophy is cascaded down through our corporate planning process and influences the way in which we conduct all our activities in administering both the revenue and non-revenue systems.

The operationally-focussed components of our strategic view include the Business Model, which is guided by the Taxpayers' Charter, the Compliance Model and our values.



III. HOW WE DELIVER

Our business model

Our business model demonstrates in a more operational sense how we deliver our business intent.



The Australian system's reliance on taxpayers self-assessing their tax obligations sets the context for our risk management approach. We believe that effective revenue administration is best achieved:

- supporting people in doing the right thing, and
- concentrating reviews on cases where there is a greater risk of people not doing the right thing, whether intentionally or not.

This reasoning leads to the key components of our approach which is framed around the twin objectives of:

- making it as easy as possible to comply, and
- verifying compliance using a risk management approach.

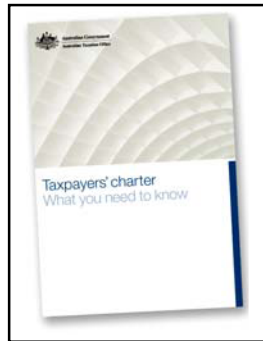
Recognising that there are many different participants in the revenue system and that different taxpayers take different postures in meeting their obligations, these key approaches are overlaid with the need to 'manage relationships and differentiate accordingly'.

The final components of the business model acknowledge that delivery ultimately relies on the capabilities of human beings and that building capability is a key element of effective revenue administration. This is true for our people and it is also true of others who play a significant role in managing our revenue system. Our model recognises that we are part of a community system, and that changes we make can have profound impacts on other participants in that system. Therefore we acknowledge our role in supporting people and businesses who contribute to the effective operation of the revenue system, including tax agents, accountants, advisers and software developers. This extends our service obligations beyond the traditional concept of service to taxpayers (and their representatives).

Supporting the model

The Tax Office has three tools to guide its operation of the business model and deliver against our business intent. These are the Taxpayers' Charter, the Compliance Model and our values.

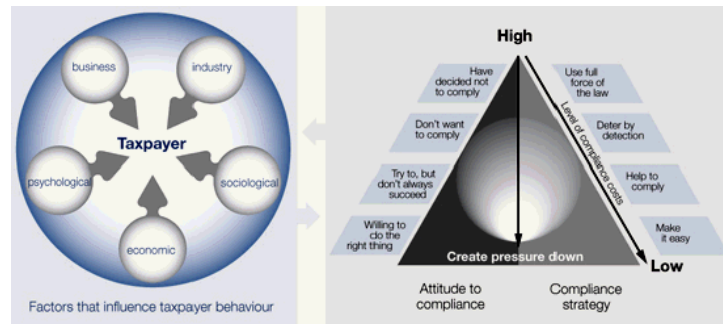
The Taxpayers' Charter



The Taxpayers' Charter outlines taxpayers' rights and obligations under the law, as well as the standards they can expect from us. It's about being fair, open and accountable in our dealings with taxpayers, within the framework set by the law. It directs the way we behave towards the community and what the community can expect from us.

However, there are differences in how the Taxpayers' Charter translates into our actions depending on a taxpayer's behaviour and individual circumstances. This is where the Compliance Model comes in.

The Compliance Model



The Compliance Model gives us a structure for better understanding factors and attitudes which motivate compliance and non-compliance. It's about us recognising that taxpayers are not the same and their circumstances can change. It directs that we better understand why taxpayers are not complying and that we develop appropriate and proportionate responses. Therefore it helps us understand the factors that influence different compliance behavior and to choose the most appropriate intervention for individual circumstances.

Our Values

Our values, based on the Australian Public Service values, reflect our organisational culture. We commit significant resources to ensuring that we are living these values of:

- being fair and professional
- applying the rule of law because it provides security, redress and certainty for taxpayers
- supporting taxpayers who want to do the right things (including being fair but firm with those who don't)
- being consultative, collaborative and willing to co-design
- being open and accountable
- being responsive to challenges and opportunities, and
- co-operating and working with others, including other agencies and tax administrations.

Based on research with the community we have also refined our understanding of how we should differentiate our own behaviour in our communications, products and services to influence the behaviour we want. This research led to the identification and development of four 'personas' in which we operate. They are integrated into our brand management as:

- a trusted authority on the law
- a professional adviser and educator, ensuring people have the information and support they need to meet their obligations under the law
- a firm enforcer of the law, and
- a fair administrator who recognises people's circumstances in meeting their obligations.

Continually adapting our structure to achieve our business strategy

The Tax Office's approach to organisational structure is that it should be continuously adapted, refined or overhauled as necessary to meet the strategic needs of effectively administering the revenue system.

The latest evolution of our structure followed from the reshaping of the revenue base in the year 2000 when we faced some very significant challenges. We needed to develop an integrated approach to running our greatly expanded business and to take advantage of the potential

synergies. At the same time there was an urgent need to address backlogs of processing work and poor service levels from the greatly expanded workloads whilst undertaking a dramatic re-engineering of the business to deliver the full benefits of reform and to equip the Tax Office to meet growing community expectations of more personalised and cheaper interactions.

We had also outgrown our organisational arrangements. The Commissioner needed to be freed up to focus on developing a sustainable future and managing relationships with key stakeholders and the community. It was no longer practical to have Deputy Commissioners reporting directly to the Commissioner. Operationally, the sheer volume of transactions and routine interactions meant call centres, operational processing and debt collection needed to be centrally managed.

At the same time we started to evolve our business model. We commenced to adapt how we managed the organisation to support the emerging model. There were three key elements to our approach:

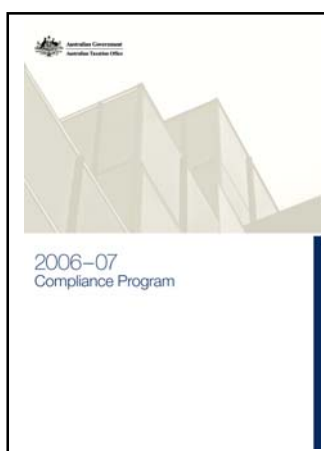
- developing and publishing two key programs
- appointing executive leaders to shape strategy and drive performance for key areas of delivery, and
- revamping our planning, reporting and governance processes.

The framework for our current structure is at Annexure A.

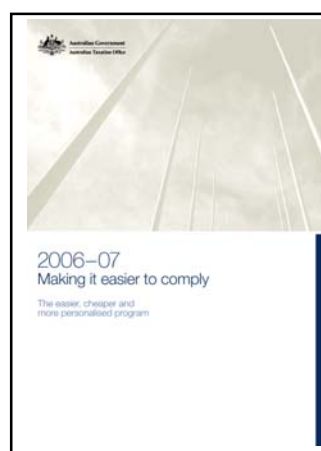
Publishing our commitment to performance

Announcing publicly what you intend to deliver is an excellent way to focus our organisation. So early in our latest evolution we developed and published two complementary programs outlining for the community and stakeholders what we are doing to deliver on key aspects of our business model.

Encouraging Voluntary Compliance



Building a Sustainable Future



The Compliance Program focuses on improving voluntary compliance. It outlines, by each community segment, the top priority risks, what will attract our attention and the blend of help and scrutiny activities we will undertake to address them. More detailed supporting publications such as our booklets for large business and on tax havens provide even more guidance including questions that taxpayers should ask their tax advisers in assessing their level of risk exposure. Those booklets are increasingly developed in consultation with tax professionals and stakeholders. It has led to us redesigning processes and products. For example we have redesigned key interactions with Large Business introducing fast track advice processes for Corporate Boards and our first Forward Compliance Agreements for corporates who want to have greater certainty.

The Easier Cheaper More Personalised Program outlines our commitment to improving the client experience through our investment in technology and business reengineering. It outlines for each year of the program the improved service experiences that will be delivered to

each segment of the community and the improvements in our processes. These experiences were defined in collaboration with members of the community. Success is being measured not in terms of system implementation but in whether the improved experiences are being achieved. We are funding the program from our existing budgets and have quarantined the funds to ensure the right balance between the 'must deliver here and now' with investing in sustainability for the long term.

These two initiatives came about through working closely with clients and being prepared to be open, transparent and responsive to their changing needs. They reflect our commitment to change to position the organisation to meet key and changing needs of delivery. Importantly they also set context and focus for our people, and drive integration and coherence in our activities.

Driving of the strategic focus by our Executive leaders

The top level leadership of the ATO is the Commissioner supported by three Second Commissioners. They are all seven year statutory appointments made by the Australian Governor-General. This is very different from the typical appointment processes for Australian public service agency leaders. The authority for the existence of the Tax Office, its structure, its employees and its functions is derived from the powers vested in the Commissioner. This brings with it inherent leadership and managerial roles and responsibilities.

Prior to our latest changes all operational divisions were led by Deputy Commissioners who reported directly to the Commissioner. This group had expanded to over 30 Deputy Commissioners and left the Commissioner little time to focus on strategy and relationships. The Second Commissioners had portfolio roles.

Under our current framework all members of the Executive are key leaders and influencers in the organisation and take active roles in the daily business operations and decisions. Our Executive team has been expanded from four to six. It includes the Commissioner, the three Second Commissioners and two new positions of Chief Operating Officer and First Assistant Commissioner People and Place.

In implementing this latest evolution rather than abolish existing divisions in the organisation, we chose to group divisions into key areas of focus and 'adapt as we learn'. The groupings called 'sub-plans'

have been reshaped and functions rationalised or reconfigured over time as necessary.

The six sub plans are:

- **Compliance** led by Second Commissioner Compliance. It is responsible for developing the Compliance Program and delivers many of its activities (eg. marketing, education, risk assessment, examination and investigation). Within the sub-plan it is organised around a combination of revenue products (for example, goods and services tax, excise), markets (for example, large businesses, small and medium enterprises, micro enterprises, individuals).
- **Easier, cheaper and more personalised** led by Second Commissioner ECMP. This is responsible for development and delivery of the Easier Cheaper More Personalised program. It is responsible for leading the work we do to re-engineer and transform our systems and business processes to make the revenue experience easier, cheaper and more personalised for taxpayers.
- **Operations** led by the Chief Operating Officer represents the high volume processing activities such as taxpayer registrations, accounting, debt collection and client contact.
- **Law** led by Second Commissioner Law ensures we have a professional approach to implementation and application of the law, to determine our position on technical issues, to input into law design and new tax legislation, and to manage relationships with the Government and with external scrutineers.
- **People and Place** led by First Assistant Commissioner People and Place. It provides workforce management and skilling, accommodation and other support services for today and the future.
- **Information Technology** led by Second Commissioner Change represents the other internally focussed support provided to other sub-plans for information technology design and implementation.

Each Sub-plan Executive has a focus on common goals and risks that has often resulted in cross division strategies to reduce duplication. The planning and budgeting process is designed so that issues of strategic significance are escalated to the ATO Executive. Changes throughout the year that affect sub-plan intended outcomes or

deliverables, or have cross sub-plan impact, require ATO Executive sign-off, with sub-plans empowered to approve less significant variations.

Revamped planning, reporting and assurance processes

To drive overall achievement of our business model our planning, reporting and governance processes have been reshaped. Our intention was to drive new levels of rigour in managing our organisation and to ensure we make sense of our risks, strategies and performance from different perspectives. This includes strong executive leadership and close integration of our activities.

The ATO Executive

Executive leadership is provided by ATO Executive. Its role is to

- set strategic direction,
- position the tax office to meet rising community expectations and improve efficiency and sustainability of operations,
- determine resourcing to deliver directions and plan,
- scrutinise delivery and initiates corrective action,
- ensure compliance with legal and ethical frameworks, and
- act as the Change Program Steering Committee.

Primary Governance and Co-ordination

To help us to take a more holistic view of the revenue system we have developed a number of 'lenses' for risk assessment, planning and reporting. Currently, we view our business through at least three 'lenses':

- the market segment (large business, small and medium enterprises, micro businesses, individuals, non profit, government)
- our revenue products (income tax, GST, excise and superannuation), and
- our capability to do the work (for example, provision of advice, client contact and active compliance).

A market segment view helps us take a community perspective and acknowledging that different groups require different responses from us ("why we do what we do in a particular way"). This is where we look at our activities from the community's point of view.

A revenue product view is helps us make sure the various parts of the tax system's legislative framework are working effectively. The Tax Office is accountable to Government for administering certain revenue products and Government expects that we will be able to advise them as to how well these products are performing. How we design and administer these systems for the client and how well they operate in practice is the view we are taking when we take a 'revenue product' view.

A capability view helps us evaluate if we have the right processes and the right skills ("how well we do what we do"). Our structure, people and processes support this approach.

Underpinning this, we have a measurement framework that has quantity and quality measures for outputs that are mapped to outcomes. The work performed for each sub-plan is mapped back to the measurement framework to demonstrate how well we have delivered on our commitments to the community and government.

A number of committees have ATO-wide roles in our Governance and Co-ordination. They include the future-focussed Corporate Design Forum and a quarterly Plenary Governance Forum that reviews performance.

Our audit committee plays an assurance role overseeing our activities to ensure we have good controls in place. Equally vital is our Integrity Advisory Committee that provides advice on promoting and sustaining an ethically based culture.

CONCLUSION

As certain as death and taxes is that the context in which we operate will continue to change and we will need to continue to evolve.

Right now we know that expectations are changing as:

- the use of personal computers brings knowledge and information to each person, whilst the internet makes another country or piece of information 'a click away'
- the global economy affects what happens in Australian supermarkets and fields
- education levels are rising and so are population levels, and
- an ageing population creates different demands on social services and society than does a young population.

Capability, structure, values, integrity, governance, sustainability, management and expectations are only words unless they are actually understood, believed and implemented. However we believe that we can only achieve our aspiration and meet our commitments if, as an organisation, we understand all these concepts (and many more) - and how they fit together.

In recognising this, we are still changing and evolving to suit our context, and we know that we cannot stand still while the world continues to change. But our core values will not change. We do believe we are on the right track if by aiming to

'become less visible to those who comply, but highly visible to those who don't.'

Our experience has taught us that this is a journey of learning and development, and not a destination.

We are still on the journey.

THE ATO'S ORGANISATIONAL FRAMEWORK

<p>THE EXECUTIVE</p> <ul style="list-style-type: none"> • Set strategic direction • Position the tax office to meet rising community expectations and improve efficiency and sustainability of operations • Determine resourcing to deliver directions and plan • Scrutinise delivery and initiate corrective action • Ensure compliance with legal and ethical frameworks • Act as the Change Program Steering Committee 	<table border="1"> <thead> <tr> <th data-bbox="670 1417 803 1768"> Change Program Executive Easier, cheaper and more personalised sub-plan </th> <th data-bbox="670 1054 803 1417"> Compliance Executive Compliance sub-plan </th> <th data-bbox="670 682 803 1054"> Information Technology Executive Information technology sub-plan </th> <th data-bbox="670 336 803 682"> PRIMARY GOVERNANCE AND COORDINATION </th> </tr> </thead> <tbody> <tr> <td data-bbox="803 1417 1234 1768"> <p>Under the direction of the Change Program Steering Committee, develop and implement a program of initiatives to make the revenue experience easier, cheaper and more personalised, including the replacement and integration of our core systems</p> <p>Work with the community and other sub-plan executives to engage in co-design and implementation</p> </td> <td data-bbox="803 1054 1234 1417"> <p>Undertake the range of compliance activities from provision of advice and information to active compliance enforcement work</p> <p>Manage implementation of the compliance sub-plan to address risks and the effectiveness and efficiency of strategies</p> <p>Continue to develop the sub-plan with emphasis on giving effect to the compliance model and taxpayers' charter across compliance activities, leveraging across business and service lines</p> </td> <td data-bbox="803 682 1234 1054"> <p>Manage implementation of the information technology sub-plan</p> <p>Continue to develop the sub-plan to support improvement initiatives and generated by other executives and to provide a design platform that effectively supports tax administration</p> </td> <td data-bbox="803 336 1234 682"> <p>Audit Committee</p> <p>Oversee Internal Audit activities, internal controls for risk management and financial reporting, implementation of Australian National Audit Office and Internal Audit recommendations</p> <p>Plenary Governance Forum</p> <p>Quarterly meeting of executives to review progress against direction and plan</p> <p>Integrity Advisory Committee</p> <p>Provide advice on the way in which we promote and support an ethically based culture, fulfilling the principles of the Australian Public Service code of conduct and taxpayers' charter</p> </td> </tr> </tbody> </table>	Change Program Executive Easier, cheaper and more personalised sub-plan	Compliance Executive Compliance sub-plan	Information Technology Executive Information technology sub-plan	PRIMARY GOVERNANCE AND COORDINATION	<p>Under the direction of the Change Program Steering Committee, develop and implement a program of initiatives to make the revenue experience easier, cheaper and more personalised, including the replacement and integration of our core systems</p> <p>Work with the community and other sub-plan executives to engage in co-design and implementation</p>	<p>Undertake the range of compliance activities from provision of advice and information to active compliance enforcement work</p> <p>Manage implementation of the compliance sub-plan to address risks and the effectiveness and efficiency of strategies</p> <p>Continue to develop the sub-plan with emphasis on giving effect to the compliance model and taxpayers' charter across compliance activities, leveraging across business and service lines</p>	<p>Manage implementation of the information technology sub-plan</p> <p>Continue to develop the sub-plan to support improvement initiatives and generated by other executives and to provide a design platform that effectively supports tax administration</p>	<p>Audit Committee</p> <p>Oversee Internal Audit activities, internal controls for risk management and financial reporting, implementation of Australian National Audit Office and Internal Audit recommendations</p> <p>Plenary Governance Forum</p> <p>Quarterly meeting of executives to review progress against direction and plan</p> <p>Integrity Advisory Committee</p> <p>Provide advice on the way in which we promote and support an ethically based culture, fulfilling the principles of the Australian Public Service code of conduct and taxpayers' charter</p>
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Law Executive	Operations Executive	People and Place Executive	Tax Policy Coordination
Law sub-plan	Operations sub-plan	People and place sub-plan	Committee
<p>Ensure the Tax Office has a highly professional approach to implementation and application of the law</p> <p>Collaboratively determine our position on precedential and complex technical issues</p> <p>Coordinate input into law design and the implementation of new tax legislation</p> <p>Manage relationships with Ministers and external scrutineers</p> <p>Develop programs, processes and procedures including skilling strategies, to promote excellence in technical decision making</p>	<p>Manage processing activities such as registration, forms and payment transactions and account maintenance, debt collection and lodgement program</p> <p>Manage implementation of the operations sub-plan</p> <p>Continue to develop the sub-plan with emphasis on improving efficiency and ease of operation for taxpayers and their representatives</p>	<p>Manage implementation of the people and place sub-plan</p> <p>Continue to develop the sub-plan to support delivery of compliance, operations, law, change program and information technology sub-plans</p> <p>Emphasis on planning for workforce required to deliver today and for the future</p> <p>Develop corporate skilling strategies including professional streams skills development</p>	<p>Joint Treasury/Tax office forum to manage tax policy agenda</p> <p>Community consultation and engagement</p> <p>Through consultative committees, research, technical panels and co-design approaches</p> <p>Corporate Design Forum</p> <p>Review and contribute to the development of our strategic directions and corresponding capabilities</p> <p>Corporate steering committees/forums</p> <p>Review and drive particular corporate initiatives and capabilities (for example Policy Implementation Forum and Priority Technical Issues Committee)</p>

Case study

Topic 1.1

LEVELS OF FINANCIAL AND BUDGETARY AUTONOMY

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Superintendent the Tax Administration
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(Guatemala)

CONTENTS: 1. The Importance of Autonomy. - II. Conceptual Framework. - 2.1 Centralization. - 2.2 Decentralization.- 2.3 Autonomy.- 2.3.1 Degrees of Autonomy. - 2.3.2 Types of Autonomy.- 2.3.2.1 Financial Autonomy.- 2.3.2.2 Administrative Autonomy. - 2.3.2.3. Technical Autonomy.- 2.3.2.4. Legal Autonomy.- 2.3.2.5 Political Autonomy.- III. The Case of Guatemala.- 3.1 Constitutional Aspects.- 3.2 Qualities of Administrative Autonomy.- 3.3 Budgetary Autonomy.- IV Autonomy of The Tax Administration Superintendency.- 4.1 Administrative Autonomy.- 4.1.2 Appointing Officials. - 4.1.3 Human Resource Management.- 4.1.4 Defining the Organizational Structure.- 4.2 Financial Autonomy.- V. Risks and Advantages of Autonomy.- VI. Final Comments.- VII. Bibliography

I. THE IMPORTANCE OF AUTONOMY

Autonomy is the power of an institution or an agency to establish and follow its own rules for operation, appoint its authorities and officials and govern itself within the framework of its regulations and jurisdiction. The term is inevitably associated to public sector organizations, and it is therefore said that an autonomous entity is one which, regardless of the level of government in which it operates, can govern itself and issue its own rules.

From the territorial perspective, autonomy is of special importance in municipal governments, since it makes it possible to bring decision making and execution closer to the people living in the relevant regions. When authority and resources are devolved simultaneously, the institution or agency is under the obligation to assume responsibilities and make decisions to effectively obtain resources and manage them efficiently. In the case of municipalities, such situation ensures that local governments, as established under the Constitution, may implement the measures necessary to ensure the effective availability of resources to fund the projects planned.

In those countries where government decision making is highly influenced by political interests, and where commitments undertaken are not always honored, which leads to a low level of credibility, creating agencies independent from political influence can have positive effects.

A typical example of the above is the independence of the Central Bank, which emerged as a response to the concern that for electoral reasons or because of financial weaknesses, the government might manipulate the issuance of money and hinder the attainment of monetary policy goals.

Autonomy becomes especially relevant in highly-specialized government agencies like the central bank, bank supervision, higher education, social security, public utility regulatory commissions, government control, electoral bodies and the tax administration.

In the examples above, the autonomy of institutions has been established in order to insulate them from political pressure and interest groups, thus avoiding distortions in decision making and implementation of policies.

In the particular case of the Tax Administration, the purpose of autonomy is to prevent its actions from having a political or partisan bias, since its responsibility is to enforce tax -and in some cases, customs- rules, which should be completely independent from any interest other than those of the State. In addition, tax administrations may be used as fiscal terrorism weapons against political opponents, the independent press or critics of the incumbent, which should be avoided by all possible means.

A non-autonomous tax administration will be seriously dysfunctional and the consequences of such situation may affect the entire country. Thus, the autonomy of tax administrations has become a useful tool to ensure that resources are obtained for the funding of government structures.

II. CONCEPTUAL FRAMEWORK

Depending on the type of institution, there are different degrees of operational, financial and budgetary freedom for the development of activities.

2.1. CENTRALIZATION

Under an administrative centralization regime, agencies are grouped in a hierarchical structure of dependencies, starting with the agency that is highest in the hierarchy down to the lowermost.

The main characteristic of the centralized regime is that the central government keeps the real control of the competence and budget of the institutions, both of which depend on the Executive's approval. As regards approval of the budget, the main problems result from insufficient appropriation of funds, which has a direct influence on the quantity and quality of the services rendered by government agencies.

2.2. DECENTRALIZATION

Decentralization is the process whereby decision-making power, responsibility, functions and resources to fund the implementation of national public policies are devolved from the Executive to municipalities and other government agencies. National public policies are thus implemented through municipal and local policies which allows for greater citizen involvement.

In the case of Guatemala, the laws that provide the framework for the decentralization process are: General Decentralization Law and implementation rules -Acuerdo Gubernativo 312-2002-; Law of Development Councils and implementation rules - Acuerdo Gubernativo 461-2002- and the Municipal Code (Congress Decree 12-2002).

2.3. AUTONOMY

The word "autonomy" derives from the Greek "auto", meaning "self", and "nomos", meaning "law"; that is, to govern oneself through one's own law. The dictionary of the Spanish Royal Academy defines "autonomy" as "the power that many municipalities, provinces, regions and other entities in a State have to govern themselves through their own rules and governance bodies". It provides a second definition that says: "The ability to be, for certain things, entirely independent".

For the purposes of this analysis, autonomy may be defined as the capacity of governments, institutions and other agencies to make their own decisions based on their own interests, in accordance with their rules and powers, free of any dependence or subordination.

In Guatemala, there are several autonomous organizations, among them, Municipalities, the University of San Carlos de Guatemala, the Guatemalan Olympic Committee, the Constitutional Court, the National School of Agriculture, the Bank of Guatemala and the Tax Administration Superintendency.

2.3.1 DEGREES OF AUTONOMY

Autonomy may occur at different degrees depending on the degree of financial and political independence. Thus, autonomy may be absolute or relative.

Autonomy is absolute when the institution has its own basic law (organic law), its own governance and organization and when it is financially and politically independent.

Agencies with relative autonomy differ from the above in that some do not have the power to give themselves their own law, as is the case of Municipalities in many countries. In this latter case, municipalities have political autonomy (the possibility to give themselves their own organization and governance) and administrative autonomy (provision of public services and other administrative acts), but they are not financially autonomous (freedom to create, raise and invest revenues in the form of municipal fees and taxes).

Another type of relative autonomy is found in those institutions which, even if they have their own organic law, organization and governance, they are not financially independent.

In Guatemala, there are several institutions that have relative autonomy, that is, they have their own organic laws, organization and governance structure, but they are financially dependent on the central government. Thus, as mandated in the Constitution, the national budget includes appropriations for the University of San Carlos and the Autonomous Sports Confederation of Guatemala (5% and 3% of ordinary revenue, respectively).

2.3.2 TYPES OF AUTONOMY

2.3.2.1. FINANCIAL AUTONOMY

It refers to an agency's capacity to have resources of its own needed to perform its functions as established by law. Even if there are different types of autonomy, financial autonomy is fundamental, since an institution cannot be considered truly autonomous unless it is financially independent.

Financial autonomy is present in the entities that have the freedom to manage their own economic resources, in accordance with the law, without the need for other government institutions to be involved. Such financial autonomy includes the capacity to approve and change the budget, to issue annual rules for execution, in addition to the obligation to have a specific Accountability program.

In this regard, it is worth mentioning that there is financial control by the State, which -just like in the administrative arena- should be minimal and performed ex post.

It is important to note that in practice, financial autonomy is necessarily accompanied by legal and technical autonomy. Although the concept of autonomy cannot be split, it has been divided in this paper into thematic sections.

2.3.2.2 ADMINISTRATIVE AUTONOMY

Administrative autonomy means, by nature and intention, that agencies act in pursuit of the solution of their own issues through a responsible performance of public tasks in their sphere of competence. With administrative autonomy, entities assume responsibility for their own destiny and define their actions, instead of such actions being defined by the higher government authorities. Administrative autonomy is the opposite of centralized administration of the State.

Administrative autonomy is an essential element in the decentralization of the Executive. Such decentralization serves the purpose of achieving an adequate decision about administrative actions, which is based on the agency's power to establish the way tasks will be conducted, the capacity to issue its own rules and procedures, which is precisely what distinguishes it from the central administration in the broadest sense.

This is achieved by the joint action of directors and senior elected officials, as well as professionals and technicians specialized in different branches of the public administration, who offer their professionalism, experience and best efforts for the performance of the functions assigned.

A key characteristic of administrative autonomy is the agency's power to create its own rules, regulations and procedures, which is enshrined in the statute whereby the agency was created.

Even if administrative autonomy is of utmost importance, for it to be materialized, there needs to be adequate funding, which indicates that in order to enjoy administrative autonomy, an agency must have economic and financial autonomy as well.

A fundamental condition for administrative autonomy to be materialized is the election and continuity of the agency's senior authorities, since they are the ones that are empowered to issue internal regulations. If the agency's authorities change frequently, it is difficult to consolidate institutionality, due to the lack of continuity of plans, regulations and officials.

The organic law of many decentralized agencies of the State establishes continuance of upper management positions, precise causes for removal and the obligation to develop an administrative career in the relevant agency. The purpose of this is to ensure professionalism and labor stability for officials and staff.

The concept of functional autonomy is linked to that of administrative autonomy, since it is present in agencies that, although part of the State, enjoy high levels of independence in the exercise of their functions. They have no dependence, hierarchical or otherwise, on other public sector bodies or institutions; they are subject only to the control of the Political Constitution of the Republic, the statutes whereby they were created, and oversight by the relevant specialized State entity.

Administrative autonomy makes an agency independent in the performance of its functions vis à vis other institutions of the public sector, even when they are part of the same national public administration, since they do not have any hierarchical dependence on any branch of power. This contributes to the depoliticization of the agency's processes, which gradually become entirely technical.

Of course, to reach such extremes, it is essential for the agency to have a strategic program to execute its long-term vision and to define strategies and policies for transparency in all the arrangements in which it participates.

In addition, a requirement for an agency to enjoy administrative autonomy is to have broad personnel management powers, including rules of procedure for personnel management, its own salary structure, compensation systems, full power to appoint and remove staff and to adopt personnel policies aimed at achieving optimal performance.

2.3.2.3. TECHNICAL AUTONOMY

An agency has technical autonomy when it has the power to authorize coordination, follow-up, supervision and program assessment policies; to define guidelines and strategies for its operation; to analyze progress and performance reports; to evaluate results; to issue recommendations for better operation; and to review and change decisions made by its technical committee.

With technical autonomy, entities are not subject to the administrative, financial and functional management rules applicable to central government agencies. Organic autonomy ensures true administrative decentralization.

Technical control by the State may override the benefits of a good legal, administrative or financial decentralization.

2.3.2.4. LEGAL AUTONOMY

Through their highest administrative authority, institutions have the power to issue rules, instructions, policies or any other provision of a general or a particular nature that is necessary for the performance of their functions and the exercise of the relevant rights.

An entity is considered to have full legal autonomy when it issues its own rules and has the power to propose initiatives for laws within its sphere of competence. Legal autonomy is partial when the agency's decisions are submitted for review by another branch of power and regulation possibilities are limited, and it is null when some other power imposes its rules on the agency.

In addition, legal autonomy means that the agency will obtain a legal status which will allow it to act in issues relative to its operation under no other institution's tutelage. It will also be able to own property, engage in contracts, undertake obligations and exercise rights. It is a precondition for all forms of autonomy.

2.3.2.5. POLITICAL AUTONOMY

The term refers to the capacity that any government agency has to define its own authorities and make decisions within the framework of the law, without interference from other institutions or other States.

It refers to an agency's capacity to perform its function in an independent manner, without subordination to any other agency. The laws governing its existence recognize the agency as the highest authority in its sphere of competence. Full political autonomy occurs when the agency is not subordinated to any power and it is therefore the highest authority of one branch of the public administration. Political autonomy is partial when another institution may intervene in the development of the function assigned, and null when the agency is subordinated to another power.

III. THE CASE OF GUATEMALA

3.1 CONSTITUTIONAL ASPECTS

As regards the economic and social regime, the Political Constitution of the Republic of Guatemala, in its Article 134 "Decentralization and autonomy", establishes that municipalities and autonomous and decentralized agencies act by devolution from the State. It also stipulates that autonomy, beyond the special cases provided for under the Constitution, will be granted only when deemed essential to increase the agency's efficiency and to contribute to the accomplishment of its purpose. The creation of decentralized and autonomous agencies requires two thirds of the votes in Congress.

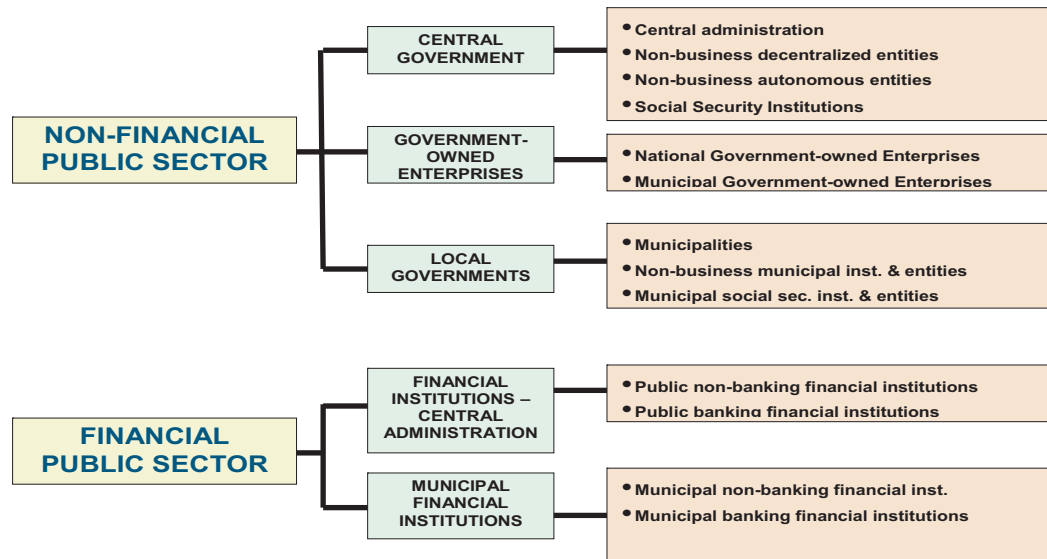
As to the financial regime, the Political Constitution of the Republic of Guatemala, in its Article 237, establishes that budget unity is mandatory and that all revenues of the State make up an indivisible mutual fund exclusively aimed at covering expenses.

However, that same article stipulates that decentralized and autonomous agencies and entities may have their own budgets and funds, when so established by law. Their budgets shall be sent every year to the Executive and Congress for information purposes and for incorporation into the general budget. Budgets shall be subject to control and oversight by the relevant agencies of the State.

The political and administrative organization of the public sector of Guatemala allows for the existence of several institutions or public entities with a certain degree of interdependence but with precise functions assigned by the Constitution and other laws.

Chart 1

FUNCTIONAL STRUCTURE OF THE PUBLIC SECTOR IN GUATEMALA



Source: Ministry of Public Finance, -SIAF/SAG-

3.2 QUALITIES OF ADMINISTRATIVE AUTONOMY

Administrative autonomy is materialized in entities that are independent from any other government agency and have the following freedoms:

1. Governance.
2. Structural and organizational regulation.
3. Technical management.
4. Economic and financial freedom.
5. Personnel recruitment, selection, hiring, appointment and dismissal.

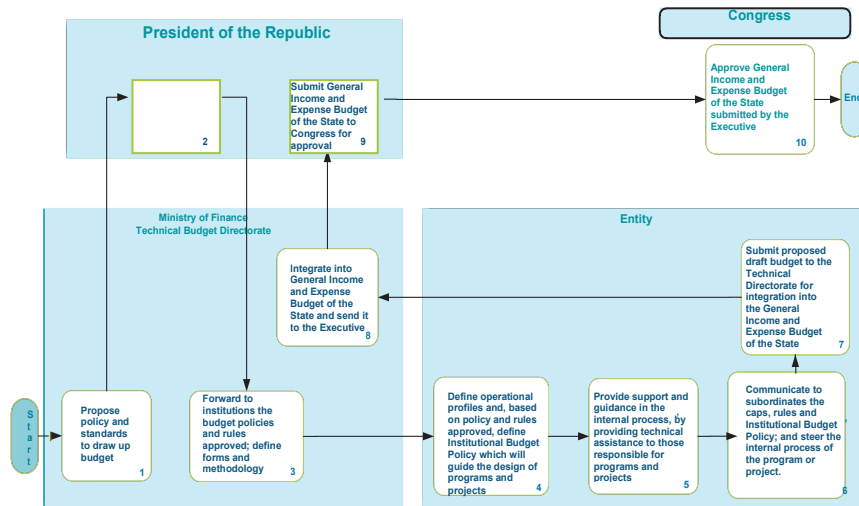
3.3 BUDGETARY AUTONOMY

In Guatemala, the State's financial regime is governed by Article 237 of the Constitution, which stipulates that "the General Income and Expense Budget of the State, approved for each fiscal year, in accordance with the Constitution, shall include an estimate of all the revenues to be obtained and expenses to be incurred".

The process starts with the proposed draft institutional budget, which is then reviewed and approved by the Technical Budget Directorate of the Ministry of Public Finance. Once developed, the General Income and Expense Budget of the State is submitted to Congress for analysis, discussion and approval. After approval, the budget may be subject to changes. Should the budget not be approved within the term required by law, the budget of the previous year shall apply, which may be modified or adjusted by Congress.

Chart 2

PROCEDURE FOR ADOPTION OF THE GENERAL INCOME AND EXPENSE BUDGET OF THE STATE



Source: Flow chart drawn based on information from the Technical Budget Directorate, Ministry of Public Finance

IV. AUTONOMY OF THE TAX ADMINISTRATION SUPERINTENDENCY

In the mid 1990's, Guatemala had two institutions that reported to the Ministry of Public Finance for the performance of tax administration functions -the Internal Revenue Directorate General (DGRI) and the Customs Directorate General (DGA).

The former was responsible for managing domestic taxes and had a tax-based functional structure, that is, an Income Tax Department, a Value-Added Tax Department, etc., which did not make it possible to achieve economies associated with specialized functions. In addition,

the appointment of officials depended to a large extent on decisions made by ministerial authorities. Officials were, in turn, responsible for designing the auditing process, which, on many occasions, was said to be a weapon to exercise fiscal terrorism.

Centralization of decisions was even greater in the case of appeals, where the final decision whether to uphold or dismiss an appeal filed by a taxpayer depended exclusively on the Ministry of Public Finance, which acted based on instructions from the President.

In addition, most DGRI officials were not highly qualified (around 2% of the workers had University degrees) and training was delivered based on individual preferences. The DGRI and DGA staff was subject to the Civil Service Law, and appropriations for both entities came from the budget of the Ministry of Public Finance, which made it difficult to recruit from the market highly qualified human resources.

In turn, the Customs Directorate General, which was responsible for the management of taxes on foreign trade, was controlled at many points in time by officials with little expertise in customs, which made customs become corrupt and subject to political struggles.

With this scenario, in the 1990's, the national government decided to create an autonomous agency responsible for managing tax revenues in general, which would try to stamp out many of the vices found in the past.

The Tax Administration Superintendency (SAT) was created under Congressional Decree 1-98, published in the Official Gazette on February 11, 1998. The SAT is a decentralized government agency with jurisdiction over the entire country and with functional, economic, financial, technical and administrative autonomy, with a legal status, property and resources of its own.

The SAT defines its own annual working plan and the budget needed to implement it. It may also establish its own working rules and design the most appropriate organization for the performance of its functions.

Considering the elements set forth in the Law, the SAT has practically full legal autonomy, even if such autonomy is partially limited as regards the possibility to submit bills relative to tax and customs matters, since the applicable legislation requires that such procedure be conducted through the President via the Ministry of Public Finance.

In addition, the SAT has partial political autonomy as a result of the fact that although the agency is the highest authority in tax administration, the fact that the Ministry of Public Finance is the ex officio chair of the agency's board of directors may be considered as some form of influence on the part of the government.

We shall now evaluate some aspects of the current legislation, so that we may estimate the degree of autonomy formally granted to the Tax Administration Superintendency.

4.1. ADMINISTRATIVE AUTONOMY

The first expression of the SAT's administrative autonomy is the concrete possibility to define Strategic and Operational Plans without the involvement of any other agency and considering the institution's goals exclusively. To date, the Strategic Plan 2004-2007 is effective, and the one corresponding to 2008-2011 is expected to be designed so that there is a sequence to the policies established by the institution.

Additionally, the SAT has administrative autonomy to perform the following tasks -appoint officials; select and hire human resources; and choose the right organizational structure to better meet its purposes.

4.1.1 APPOINTING OFFICIALS

Unlike many tax administrations in the world, the SAT has a Board of Directors, which is the highest governing body of the agency, whose major role is to steer the Tax Administration's policies and to see to the good operation and institutional management of the SAT.

The Board is made up of six directors:

- a) The Minister of Public Finance, who is the ex officio chair. His alternate is the Vice Minister of Finance appointed by him.
- b) The Tax Administration Superintendent, who is a non-voting member acting as the Board Secretary. His alternate is the Intendent that he appoints.
- c) Four regular members and their alternates, appointed by the President of the Republic out of a list of twelve people proposed by the Nominations Committee established under the SAT's organic law.

The President of the Republic appoints four regular members and four alternates from among the twelve candidates proposed by the Nominations Committee. Directors hold their positions for an indefinite period of time and they may be removed for cause.

Board members, except for the Superintendent and his alternate, may not hold any other position in the SAT.

In turn, the highest administrative authority and the top executive official of the SAT is the Superintendent, who is responsible for the SAT's administration and general management, notwithstanding the functions and powers of the Board. In accordance with the law, the Superintendent shall perform its duties in an entirely independent manner and under his own responsibility.

The Superintendent is appointed by the President of the Republic out of a short list of three candidates proposed by the Board. He is appointed for an indefinite period of time and may be removed for causes listed in the SAT Law.

In addition, upon inauguration, a new President may appoint a new Superintendent, selecting him from the short list of three candidates. This element may be considered to be the main element of political interference since the execution of long-term plans may be disrupted when a new administration takes office. In its almost nine years of existence, the SAT has had six Superintendents, which has caused great difficulties in the establishment of long-term strategic guidelines.

4.1.2 HUMAN RESOURCE MANAGEMENT

The SAT staff is subject to the labor and compensation regime established by the SAT's specific Labor Rules approved by the Board, which are in line with the relevant standards contained in the Constitution and in International Labor Agreements signed and ratified by Guatemala. Alternatively, the Labor Code may apply.

The SAT staff is not subject to the Government Civil Service Law; therefore, the agency may define its own salary structure, performance-based incentive systems, the system for leaves and holidays, and any other provision relative to human resource management. The SAT is currently comparing its salaries against those in the labor market in order to assess the competitiveness of its compensations and thus ensure labor stability.

In addition, the number of employees of the agency is defined based on the needs and availability of the programs and projects designed. Proof of that is the addition of 517 workers reported in the last year, who were assigned mainly to tasks relative to the strengthening of the customs system. The SAT currently has 3,194 employees, of which 34.4% are professionals with a University degree, while 42.0% are currently completing their higher education.

The SAT personnel may be engaged under contracts with an indefinite term and contracts for the rendering of technical and professional services. Permanent employees are hired for an indefinite period of time.

The SAT has a personnel evaluation system, which is tied to a bonus based on the achievement of revenue goals, management goals and completion of projects identified during the year. Employees' conduct relative to the agency's values is also evaluated.

The SAT's recruitment is performed by the Human Resource Department with the support of specialized private companies and it includes -in addition to an evaluation of knowledge, skills and abilities- a social, economic and reliability evaluation to ensure the suitability of the personnel available.

The SAT has an Internal Work Code whereby employees who commit offenses or violate rules or prohibitions set forth in the organic law and internal rules are duly sanctioned.

In addition to complying with the Law of Probity and Responsibility of Public Officials and Employees, before taking office and on an annual basis, all the SAT's personnel must submit a comparative affidavit declaring their property, indicating the reasons for the changes in their assets.

The SAT has a procedure to check the truthfulness of that information and has the obligation to check all the affidavits submitted by its officials and, on a selective basis, those of the rest of the staff. It is mandatory for the SAT to check changes in its officials' and employees' assets when reports are filed or when illegal enrichment and other related crimes are suspected.

Finally, in addition to technical skills, integrity and probity of SAT employees are considered, for which the agency has a Code of Ethics that regulates the conduct of officials and employees in the performance of their professional duties.

4.1.3 DEFINING THE ORGANIZATIONAL STRUCTURE

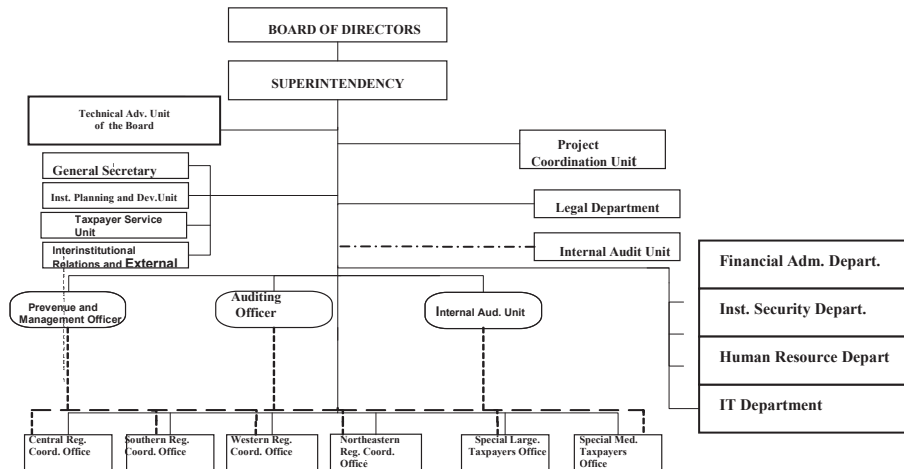
Under Rule 2-98 of the SAT's Internal Rules, the Board established the internal structure and organization of the agency, indicating the units responsible for applying the procedures established in the Tax Code.

Thus, the Rules establish the administrative units that are responsible for the performance of the agency's functions and stipulate the primary roles of each one of them and the main hierarchical levels.

Finally, the Rules set forth the necessary procedures for the creation of departments and administrative units according to the SAT's needs. Currently, the SAT is conducting an evaluation of its organic structure, which may give rise to the creation or merger of administrative units with a view to optimizing the agency's functions.

Chart 3

SAT's ORGANIZATIONAL STRUCTURE



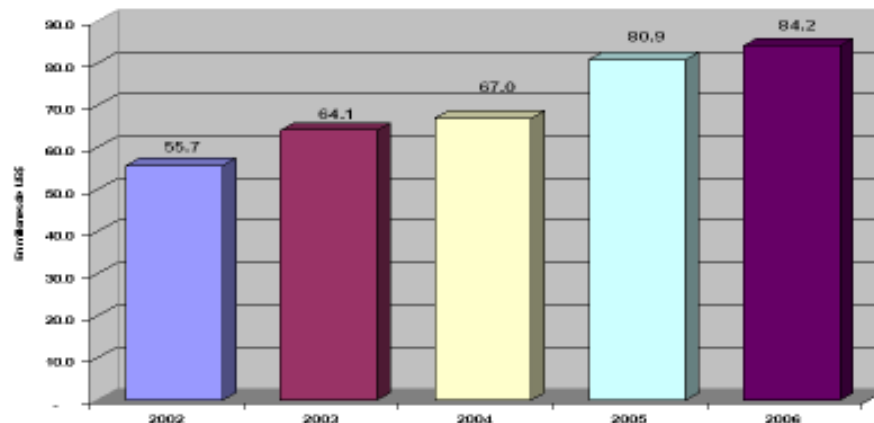
SOURCE: SAT's Internal Rules

4.2 FINANCIAL AUTONOMY

As established under its organic law, the SAT income amounts to 2% of tax revenues and other non-tax receipts. That 2% of revenues is delivered weekly by the Ministry of Public Finance. This availability of funds of its own has allowed the SAT to acquire the necessary capacities to meet its objectives and ensure the agency's independence from the political power.

Chart 3

TOTAL SAT INCOME, 2002-2006



Source: Administrative Financial Department, SAT.

It is important to stress that the SAT's income has shown an upward trend as a result of the enhanced capabilities of the tax administration. This income has allowed the SAT to make investments in infrastructure and equipment and to further train its employees, which makes it possible to improve the performance of the various departments.

As regards expenditure, the SAT is free to define the programs and projects to which it will allocate its resources; however, to make accountability uniform throughout the entire public sector, bidding processes must be conducted in accordance with the Public Procurement Law. Notwithstanding the above, the SAT's organic law stipulates that procurement of services and devolution of functions may be done in accordance with the provisions of a Rule that the SAT has for this specific purpose.

Such flexibility has allowed the SAT to act in an expeditious manner in the procurement of some services which have made it possible to execute some important projects, like the Permanent Tax Culture Program, the Ex Post Customs Verification Service, the provision of a medical insurance for its employees and the printing of forms for the payment of the tax on the movement of vehicles.

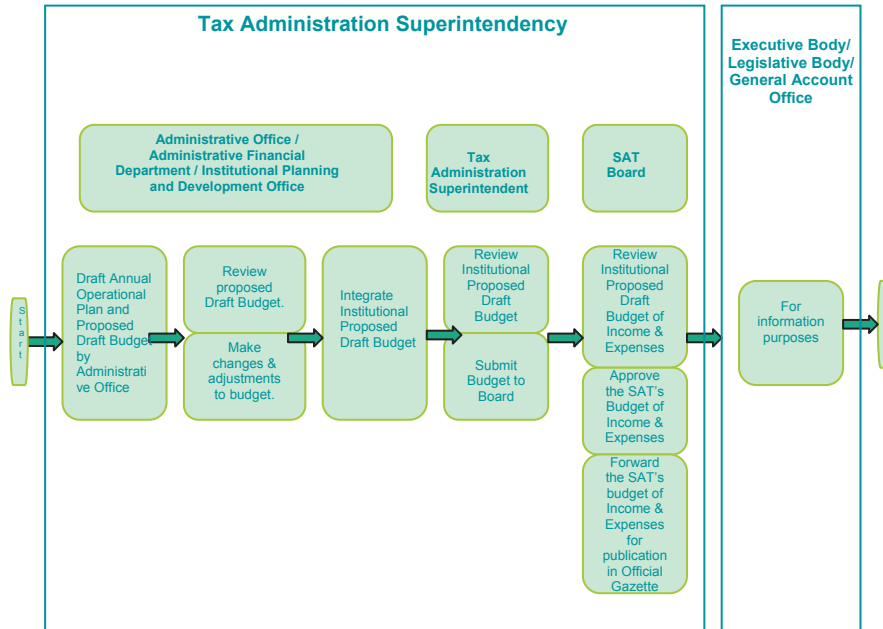
To date, the SAT's budget execution is at around 80% and remaining resources are being redirected for the construction of a modern office building, for projects aimed at improving taxpayer service, and for infrastructure of customs and tax administration offices throughout the country.

In addition, the Income and Expense Budget for each fiscal year and its amendments are formally approved by the agency's Board of Directors and published in the Official Gazette, even though they are presented to the Executive and Congress for information and inclusion into the General Budget.

The SAT's budgetary autonomy is characterized by the fact that the Budget starts from the Annual Operational Plan prepared by each one of the agency's departments based on their needs and the programs and projects planned for the fiscal year. After that, the agency's Administrative Financial Department consolidates the information in the Proposed Draft Budget which is presented to the Superintendent for validation and subsequent submission to the Board for approval.

Chart 4

DEVELOPMENT AND APPROVAL OF THE SAT INCOME AND EXPENSE BUDGET



Source: Administrative Financial Department, SAT

As shown in the chart above, the SAT's budget is completely autonomous, since it is prepared and reviewed by its own administrative units, and approved by the Board without the intervention of any other agency. This ensures that the budget responds to the planning criteria that best fit the Tax Administration's plans and projects, which makes spending more efficient since it is geared towards those plans and projects that bring greater benefits in terms of revenue levels, helping the SAT achieve its goals.

The Superintendency is subject to oversight by the General Accounting Office and it must issue an Annual Report which includes an Accounts chapter. There are no other additional formal accountability mechanisms.

The Board may instruct the Tax Administration to engage External Auditors who would report directly to the Board.

TECHNICAL AUTONOMY

The tax legislation is to be interpreted exclusively by the Tax Administration and judges hearing tax matters. The SAT, without the participation of any other agency or institution, issues a series of technical institutional criteria for the interpretation of aspects which may not be sufficiently clear in the legislation, which may be of use in the performance of control functions and serve as case law to guide the behavior of taxpayers.

The Board of Directors plays a key role regarding the agency's technical autonomy. It is responsible for hearing and deciding on appeals filed by taxpayers in connection with SAT's auditing actions. The Board decides in a collegial manner without the intervention of any other entity and thus avoids the making of unilateral decisions about cases that may involve substantial tax revenues as is done by the Ministries of Finance in the cases of centralized tax administrations. To fulfill these functions more adequately, the Board has a Specialized Advisory Unit.

V. RISKS AND ADVANTAGES OF AUTONOMY

As seen so far, having a higher degree of financial and budgetary autonomy has a positive impact on the efficiency and effectiveness of the tax administration's performance; however, there is the risk of complete autonomy becoming "perverse", which is usually the result of deficiencies in public intervention.

Therefore, it is key for the institutional arrangement to provide for effective monitoring and supervisory mechanisms.

Granting autonomy to a technically weak agency may be problematic and risky, since the institution may be easily captured by interest groups.

It is thus important to focus on institutional strengthening, which may be done by highly qualified teams of professionals with a vision and clear objectives.

As regards budgetary and financial autonomy, it is important for the institution to avoid making the wrong use of its power or using the authority devolved for its own benefit, which would adversely affect the principles of legality and justice that should prevail in the development of different administrative acts and would undermine credibility and much of the effort made.

The SAT experienced a situation like the one described above in 2003, when the then Superintendent made undue use of the agency's resources for his own benefit and was accused of using auditing procedures as a weapon for "fiscal terrorism". This former official is currently being tried by the courts of Guatemala and is under preventive arrest.

VI. FINAL COMMENTS

Autonomy allows an agency to have a higher degree of flexibility in connection with the technical demands in its sphere of competence, so that its organizational structure, its strategy, and roles and functions are defined based on long-term institutional strategic objectives.

Administrative autonomy, when accompanied by the right level of financial resources allowing the agency to act freely, has a positive impact on the management of human resources, facilitating the selection and hiring of qualified people, the setting of competitive wage levels, as well as the development of career training projects to retain the human capital. It also allows for the acquisition of infrastructure, furniture, equipment and IT systems with state-of-the-art technology to strengthen the institution and contribute to the achievement of its objectives.

The advantages of autonomy lie mainly in the agency's possibility to perform the technical function for which it was created, free of political influences which may have a negative impact on decision making.

All these advantages appear to be confirmed by the current operation of the Tax Administration Superintendency, which, after a period in which autonomy was inappropriately used, has now strengthened itself and has made positive progress based on a high degree of administrative, economic, financial and budgetary independence. In fact, many local and international experts consider it to be the public agency of Guatemala that has experienced the greatest development, comparable to many successful private companies and industries in the domestic market.

We may conclude that the SAT case reinforces the hypothesis that tax administrations may operate better when based on an autonomous model rather than a centralized one.

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Case study

Topic 1.1

LEVELS OF FINANCIAL AND BUDGETARY AUTONOMY

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CONTENTS: Introduction.- 1. History of the Tax Administration in Mexico.- 1.1. The Tax Administration before the SAT.- 1.2. Creation of the Tax Administration Service.- 1.3. 2003-2007 SAT evolution.- 1.4. Transformation aspects.- 1.5. Projects and programs underlying the SAT transformation process.- 2. Tax Administration Service autonomy.- 2.1. Decentralized bodies in Mexico.- 2.2. Scope of the technical and budgetary autonomy.- 2.3. Revenue source.- 2.4. Budgetary and financial operation.- 2.5. Integral autonomy initiative.- 3. Conclusions

INTRODUCTION

During this Assembly, we shall approach the key aspects of the Tax Administrations in the context of the organizational structure; relationship models of the Central Tax Administration with other collection organizations and the structural change in the modern tax administrations and human resources management.

Specifically, an adequate organizational structure for a tax administration is tied to well-defined strategies, operating with resources allocated for such purpose, in a regulatory framework that shall govern the tax system according to the nature and conditions of the respective country. The tax administrations require an organizational structure in line with the strategies adopted that guarantees the fulfillment of their mission and objectives. As regards the autonomy of the tax administrations, it

shall be considered a key element for the attainment of their objectives and the effectiveness and efficiency in their actions, relying for such purposes on an administration free from situational pressures and policies.

Also, autonomy entails achieving flexibility in the use of resources, expediting the acquisition of the goods and services required to improve the development of collection activities, as well as the possibility of employing the resources obtained through the performance of their duty on investments and operating expenses. Therefore, we shall present the experience of the Tax Administration Service in Mexico, its current situation and the expectations into the future.

1. HISTORY OF THE TAX ADMINISTRATION IN MEXICO

In this sub-section we shall address the transformation of the tax administration in our country, from an activity centralized in the Secretariat of Finance and Public Credit (SHCP, as per the Spanish acronym), to the current status in which the federal tax responsibility is undertaken by a decentralized body that acts with technical, administrative and budgetary autonomy with the purpose of attaining integral autonomy.

The transformations referred to are tied to the objectives of the organization and related areas, planning, project assessment and strategies applied in the legal framework in place.

1.1 The Tax Administration before the SAT

The assessment and collection of federal taxes is a responsibility of the Secretariat of Finance and Public Credit, an agency that has been undertaking such activities since January 31st, 1959 through the Revenue Undersecretariat.

In December, 1976, with the change of the government administration, the Federal Public Administration Act was passed, which sets forth in Article 31 that the Secretariat of Finance and Public Credit shall be responsible for, inter alia:

- Defining and calculating federal revenues based on government expenditure needs.

-
- Making reasonable use of public credit and financial mending of the Federal Public Administration.
 - Collecting taxes, improvements' contributions, duties, products and federal services' tax, as well as overseeing and enforcing tax and customs' provisions.

This office has been changing its organizational and functional structure to adapt it to the full development of its powers. The most relevant changes are mentioned hereunder:

In 1977 the Revenue Undersecretariat (SSI, as per the Spanish acronym) was integrated by the General Directorates of Revenue Policy, Coordination, Resources and Tax Studies and Tax Dissemination. The areas involved in the enforcement of the tax policy, that is to say, tax collection and oversight of taxpayers' compliance, were the Central Tax Administration, the Regional Tax Administration, Revenue IT and Tax Audit, in addition to the regional tax administrations in different cities in the country and federal finance offices in charge of collecting contributions.

In December 1979, given the amendment of the Value Added Tax, tax coordination, customs' assessment of goods for import and the federal vehicle registry laws, the names of certain administrative offices of the foregoing Undersecretariat were changed; this situation continued as a consequence of changes in tax and customs' legislation or by the adoption of measures aimed at rationalizing government expenditure, among others.

In February, 1992, an executive order determined the merger of the Secretariat of Planning and Budget and the Secretariat of Finance and Public Credit. Based on this measure, in addition to the powers vis-à-vis tax enforcement, financial and credit matters, the SHCP was vested with powers for government expenditure programming, planning and information, statistics and geography.

In January 1993 and with the purpose of promoting a more efficient tax administration that would strengthen tax collection, foster oversight, enhance tax presence, diversify controls and expand the sources of information, the Internal Rules of the Secretariat of Finance and Public Credit were modified by an Executive Order, a set of guidelines that describe the powers, entitlements and structure of this body.

In the budgetary sphere, the Undersecretariat of Expenditures was created, in charge of issuing the guidelines of the budgetary policy, regulations and administrative development, government accounting, planning and government expenditure budget, among others.

Under the Revenue Undersecretariat, the General Directorate of Intervention and the General Directorate of International Tax Policy were created and the names were changed for some of the General Directorates from Federal Tax Collection, Oversight and Enforcement of Tax and Customs' Obligations to General Administrations of:

- Collection,
- Federal Tax Audit,
- Legal Revenue, and
- Customs.

Regional administrations were also created, which in turn grouped 45 local administrations to undertake the foregoing functions in specific geographic jurisdictions countrywide to bring the tax authority closer to the taxpayer.

In spite of the changes and adjustments in the organizational and functional structure of the Revenue Undersecretariat, the desired efficiency was not achieved partly due to the concentration of multiple functions, in addition to the complexity of collection activities. The working programs were geared at the functions of each general administration, with local objectives and priorities, without any interrelation and the budgetary management being separate in each unit that made up said Revenue Undersecretariat.

Under this framework of reference and based on the strategy set forth in the 1995-2000 National Development Plan that set forth as part of the Public Federal Administration the achievement of an accessible, efficient, service-oriented administration which is close to citizens' needs and interests, and flexible and timely in its reaction to the country's structural changes. In 1995 a proposal was made for the creation of an entity with distinct oversight and taxation responsibilities.

Thus, on December 15th, 1995, the Tax Administration Service Act was passed. This Act created a new body which was independent from the Secretariat of Finance and Public Credit and was vested with the collection, oversight and customs' operation powers that used to be the responsibility of the Revenue Undersecretariat.

Consequently, in March 1996, the Revenue Undersecretariat was created. It was made up by the General Administration of Information, Development and Assessment, the General Directorate of Revenue Policy. The General Directorates of Audits and International Tax Matters' were created, with responsibilities exclusively involving the design of the revenue policy.

1.2 Creation of the Tax Administration Service

Based on the law that created it, on July 1st, 1997, the Internal Rules of the Tax Administration Service were published, which were the basis for this new Decentralized Body.

The SAT was created as a tax authority, responsible for enforcing tax and customs' legislation, with administration and budgetary autonomy to attain its purpose and the technical autonomy to issue resolutions.

According to the internal rules of 1997, the new decentralized body was made up by:

- The Presidency of the decentralized body itself,
- The Social Communication Unit,
- The Technical Secretariat of the Professional Tax Service Committee,
- General Directorate of Audits,
- General Directorate of Tax Planning,
- General Directorate of International Tax Affairs,
- General Directorate of Coordination with Federal Entities,
- General Directorate of Information Technology,
- General Collection Administration,
- General Federal Tax Audit Administration,
- General Legal Revenue Administration,
- General Customs' Administration,
- General Resources Coordination Office, as well as
- The regional and local collection administrations, the federal tax audit administrations, the legal revenue and customs' administrations and the Regional and Local Resources' Coordination Offices.
- The National Institute for Tax Education was also included in this body.

The Tax Administration Service's operating and functional dynamics, the amendment of tax, customs and foreign trade legislation, the need to promote the efficiency of the tax administration and taxpayers' voluntary compliance, have given rise to subsequent changes to the internal rules of this decentralized body, which are reflected in their organizational structure, from which we may highlight:

The creation of the General Administration for Large Taxpayers in 1999 and the Creation of the General Administration for Taxpayer Assistance in 2001, with the purpose of meeting the growing taxpayers' demand for better and more efficient services.

Special reference shall be made to the measures implemented by the SAT as from 2003 to strengthen and consolidate a modern, more efficient tax administration with greater transparency in the collection and oversight processes. These measures arise from the amendments in June that year of the law that created it and constitute a watershed in the tax administration of our country. The most relevant changes were:

1. The obligation to set forth programs and projects geared at reducing the revenue collection cost.
2. In the framework of the modernization process, to review the strategic plan and subsequently draft a short-term action plan, operating programs for each administrative unit and a performance assessment system.
3. To develop the Annual Continuous Improvement Plan that shall include performance indicators to measure, among others: increased revenue collection based on improvements regarding the tax administration, the taxpayers' base and the combat against tax evasion. The reduction in the operating costs per every Peso of revenue and in taxpayers' tax compliance cost.

Thus, a transformation period began, highly marked by its taxpayer focus, the establishment of programs and projects to modernize, simplify and improve the efficiency of services and by the measurement of results that spans all the SAT areas of competency.

One of the most relevant commitments, given the responsibility and elements involved, is the reduction in the cost of revenue collection along with the country's financial, economic and social policy and its relation with the government resources employed.

It is not only a matter of enhancing efficiency and efficacy, but also the resources allocated to the decentralized body.

1.3. 2003-2007 SAT Evolution

Once the Strategic Plan of the Tax Administration Service was revised, and the mission and vision defined, the actions were geared at meeting the following strategic objectives:

- Facilitating and motivating voluntary compliance.
- Combating tax evasion, contraband and informality.
- Enhancing the tax administration's efficiency.
- Relying on an integral organization, acknowledged for its capacity, ethics and commitment.

In order to achieve these four objectives and fulfill its mission, the current basic structure is geared at the specialization by functions according to the tax cycle and is integrated by nine general administrations:

- Revenue Collection, Federal Tax Audit, Legal and Taxpayer Assistance, with functions and responsibilities in the tax cycle.
- Large Taxpayers and Customs to serve specific taxpayer groups.
- Communication and Information Technologies, Assessment and Innovation and Quality, as supporting units for the decentralized body.
- Strategic Planning and Continuous Improvement Unit, responsible for planning and measuring SAT results.

The Tax Administration Service is currently undergoing a transformation process, which arises from the opportunities detected upon reviewing the strategic plan, just as pointed out in the law of this decentralized body passed in 2003; it seeks to strengthen its technical autonomy to attain its objectives and achieve further efficiency in the collection, oversight and taxpayer assistance functions, within a framework of modernization and technological advancement, focused on taxpayer service and a more comprehensive oversight effort.

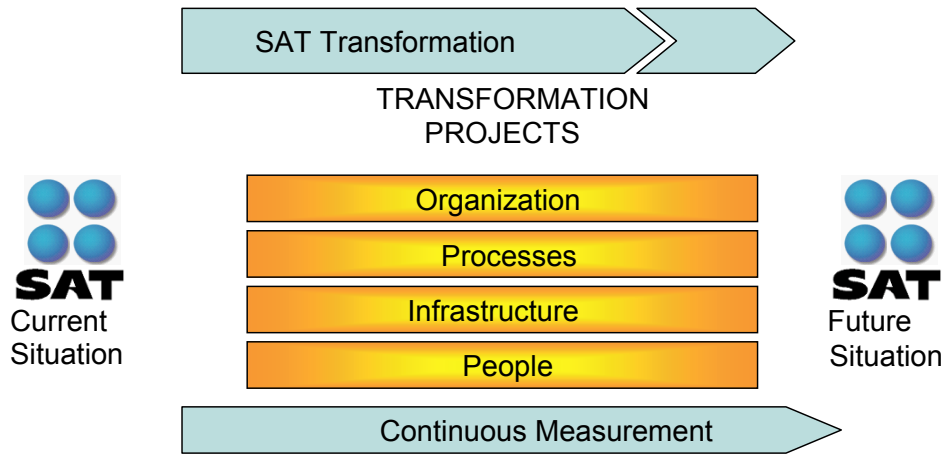
Finally, on May 12th, 2006 the Internal Rules of the Tax Administration Service were amended to support the new structure of the administrative support services arising from the implementation of the General Administration and Services' Component, a technological tool that is part of the Integral Solution.

1.4. Transformation Aspects

Within the transformation process, the budgets and their allocation are key elements, since government resources must be used with optimal social profitability criteria and focus on the necessary changes to render better services at lower costs, which meet the demands of society as to their claims for better administrative efficiency, simplification of compliance requirements and equality before the law.

Likewise, a review of institutional structures is required on a permanent basis in order for them to meet such demands, which entails a range of reviews, from the available instruments to achieve their core purpose, up to the agreements to address the day-to-day issues as regards operation, communication and coordination among areas.

Within this context, the ongoing Tax Administration Service transformation is not only marked by the amendments to the law and the internal rules in place, but also relies on the attainment of its operating efficiency and the improvement of the services it renders. Therefore, the transformation process is based on four interrelated pillars: The organization, processes, infrastructure and people.



1.5. Projects and Programs that underlie the SAT Transformation Process

The fundamental SAT projects are geared at correcting, supplementing, transforming or incorporating new processes. The important aspect is the link among them in order to achieve the inherent objectives at the organization. By late 2006, there were four transformation projects, six strategic projects and thirty-two improvement projects underway:

Transformation projects:

- Model Customs' Service
- Tax Responsibility Initiative
- Integral Solution
- Federal Taxpayers' Registry Update Program.

Strategic Projects:

- SAT Human Capital
- Technological Administration Center (CAT, as per the Spanish acronym)
- Managed Communications Multi-services (MAC, as per the Spanish acronym)
- Taxpayers' Information Repository
- Applications' Operating Support Service (SSO, as per the Spanish acronym)
- Managed Security Service (SAS, as per the Spanish acronym)

Currently, the most relevant projects underway are:

The Model Customs' Service, which was materialized in four main cities in the country, two border customs' offices in the North and two maritime customs' offices, one in the Gulf of Mexico and the other in the Pacific Coast.

The project includes the modernization of customs' offices with changes and improvements in infrastructure, equipment, processes and interaction with the environment, supplemented with a new personnel structure hired under strict conditions and duly trained to provide user services with enhanced quality and transparency standards.

Tax Responsibility Initiative, designed to strengthen the voluntary tax compliance culture, seeks to create citizen awareness as to the relevance of paying taxes. We have succeeded in signing agreements with different educational institutions from elementary to university level.

Federal Taxpayers' Registry Update Program, based on administrative cooperation agreements with the States, it enables to undertake operations to screen and update taxpayer data of already registered taxpayers and incorporate those who have not registered still.

SAT Human Capital, recognized as the most valuable element in the organization, considers a redefinition of human resources administration processes, from recruitment to the exit of officials. Likewise, it provides for government officials' training programs for the development and attainment of professional skills. Progress has been made as to the implementation of the Performance Assessment System on an individual basis, to identify management objectives and goals, in agreement with their senior managers and applying standardization criteria to account for differences in the workload and responsibilities.

The Technological Administration Center (CAT, as per the Spanish acronym) meets the SAT cooperative working needs with a view to harmonizing the computer platform by hiring third-party services that shall offer service stations locally (desktop computers and laptops, including enabling components like a local communication network, ancillary infrastructure, printing, digitization, photocopying). It shall centrally provide directory services as well as e-mail, help desk and applications and assets' administration.

Multiple Managed Communications Services (MAC, as per the Spanish acronym), it outsources the administration and operation of different mobile and fixed communication services based on service locations ruled by set operational levels.

Applications' Operating Support Service (SSO, as per the Spanish acronym), technical support and applications' maintenance service, software, processing and storage infrastructure.

Integral Solution is the most ambitious project of the decentralized body since it constitutes an institutional change that affects the

organization overall. The start-up of this project entails that taxpayer services, oversight and federal revenue collection shall be undertaken with enhanced efficiency and efficacy.

The Integral Solution calls for redefining processes, organization, people, information models and the use of available technologies, from an institutional architecture principle that seeks to grant consistency and harmony as an interdependent whole.

It also entails a modernization, a substantial transformation in the institution's proceedings, which emerge from reviewing the current proceedings with the purpose of redefining them according to world-class practices and subsequently embracing the continuous improvement vision.

To date, four services have been released:

Accounting Records is a SAT internal service that records the accounting transactions for the federal revenue collection to analyze and consolidate the information that makes up the Federal Treasury Account.

Taxpayer Identification is a tool enabling taxpayers to register with the Federal Taxpayers' Registry via the Internet and update their tax status or determine their tax obligations at any time.

Taxpayer Services are a virtual contact activity with the taxpayer to foster a tax compliance culture. The supply of new customized services includes tax guidance, clarifications, grievances and frequently asked questions.

General Administration and Services Component (AGS, as per the Spanish acronym), it was implemented as part of this Integral Solution with the incorporation of best practices in SAT human, material and financial resources' management. With the implementation of the component, we have enhanced transparency in the support processes, facilitated supervision and evaluation of numerous activities and improved efficiency in the organization by enabling the allocation of resources to the more relevant areas.

The component enabled the centralization of human resources, budget and treasury management, which translates into tighter control of resources and transparency in the vendor payment process. The system

incorporates validations that ensure regulatory compliance and resource availability, guarantees continuous and agile flows while preventing reworks.

The IT tool deployed helped reduce the workload, which led to an assessment followed by staff reallocation to significant areas, especially taxpayer assistance. This measure enabled cost savings in administrative support activities. For example, until 2005, there were 106 administrative support areas that were replaced in 2006 with 30 administrative assistance centers.

On the other hand, in order to sustain ongoing communication with taxpayers, we have started projects undertaken in a virtual framework, such as the Virtual Taxpayer Office, included in the SAT portal; it offers 26 services, DeclaraNOT, a software for public notaries to report on real estate property sale and purchase, the Integral Taxpayer Record, a tool that enables queries on taxpayers' tax status at any time, among others.

2. TAX ADMINISTRATION SERVICE AUTONOMY

2.1 Decentralized Bodies in Mexico

In the 70's, the population growth rate and the need to offer citizens more expeditious public services forced the government administration to pursue new forms of organization that would enable a more efficient decision-making process.

Thus, we started to promote the creation of a simplified administrative system in Mexico that would entail the streamlining of administrative formalities, limiting the number of requirements for their completion, and in the organizational aspect, it entailed the adoption of the decentralized administrative model.

Decentralization arises as a means to render the activity of certain administration bodies more dynamic. Decentralization is a legal-administrative act by which certain powers are transferred from a central body to the entities that make up its own structure with the purpose of rendering the activity more efficient in terms of responsiveness and lower costs.

In Mexico, Article 17 of the Federal Public Administration Statute sets forth that the Secretaries of State may create decentralized administrative bodies for the better processing of the matters under their responsibility. Such entities are hierarchically subordinated to them and enjoy specific powers to decide on the matter and within the territorial jurisdiction determined for each individual case, pursuant to the regulations in force.

2.2. Scope of the Technical and Budgetary Autonomy

In this context, in 1995 the Federal Executive Branch of Mexico submitted a proposal to the Legislative Branch on the creation of a Decentralized Body in the capacity of tax authority called the Tax Administration Service.

This new decentralized body would be vested with technical, management and budgetary autonomy. It would enjoy all the functions inherent to tax and customs' administration, which until that time were the responsibility of the Revenue Undersecretariat of the Secretary of Finance and Public Credit, which would retain the fundamental powers to determine the economic policy and the development of the federal administration tax policy.

According to the definition by legal scholar Manuel Espinoza Barragán:

The decentralized body enjoys certain autonomy, which is called technical autonomy, which means the granting of limited decision-making powers and certain financial budgetary autonomy.¹

In effect, Mexican legislation, and budgetary legislation in particular, set forth that the autonomy vested by the Constitution or specific law on the budget implementation authorities, encompasses:

- a. **Autonomous entities.** They draft and approve their preliminary budgets according to the general economic policy criteria. The allocation of resources, changes, adjustments and payments are carried out according to efficiency, efficacy and transparency criteria, not bound by the provisions of the Secretary of Finance and Public Credit.

¹ Manuel Espinoza Barragán, *Lineamientos de Derecho Público Mexicano*, Cárdenas, Publisher and Distributor, Tijuana, Baja California, 1st. Edition, 1986, p.-141

- b. **Entities.** They draft and approve their preliminary budgets according to the overall expenditure caps determined by the Secretary of Finance and Public Credit. The allocation of resources, changes, adjustments and the payments are carried out according to efficiency, efficacy and transparency criteria, without the participation of the Secretary of Finance and Public Credit.
- c. **Decentralized Administrative Bodies.** They draft and approve preliminary budgets according to the cap determined by the Secretary of Finance and Public Credit. The allocation of their resources is subject to approval by the Legislative Branch and the provisions of the Secretary of Finance and Public Credit.

Thus, as an independent body from the Secretary of Finance and Public Credit, the budgetary autonomy granted to the SAT by law is limited by the applicable regulations that govern the federal government agencies.

Consequently, this decentralized body lacks legal entity and its own financial resources, by which the drafting and content of its budget depends on the caps determined by the Secretary of Finance and Public Credit himself, in his capacity as authority on government expenditure planning of the Federal Public Administration.

Therefore, the historically allocated budget has not enabled the simultaneous and timely execution of the set of projects or programs designed to increase efficiency in furtherance of SAT objectives, limiting in practice the budgetary autonomy that this decentralized body enjoys.

As regards technical and managerial autonomy, SAT exercises its powers with absolute independence to determine and collect federal contributions, enhance collection processes, improve taxpayer service and assistance, enforce tax regulations, as well as those that govern the circulation of goods in the national territory. Nevertheless, availability of resources is a restricting factor in the scope of the plans, for the execution thereof.

2.3 Revenue Source

Article 5 of the SAT Act, sets forth that:

In furtherance of its purpose, SAT shall rely on the following resources:

- I. Movable and immovable property, material and financial resources as allocated;
- II. Funds or trusts set up or in which it may participate in the name of the Secretary of Finance and Public Credit for such ends;
- III. Revenue from services rendered and operating expenses, and;
- IV. Allocations determined in the budget for Federal expenditures.

2.4 Budgetary and Financial Operation

Tax Revenue

The main source of funding for the SAT current expenditure is the tax revenue allocated in the federal expenditure budget. On an annual basis, pursuant to the budgetary provisions in place, the SAT drafts a budget bill based on the resources' amount determined and allocated by the Secretary of Finance and Public Credit. This bill is part of the preliminary Federal Expenditure Budget that said office annually submits for the approval of Congress. Once approved, SAT is informed of the final authorized budget for the fiscal year.

Thereafter, SAT is required to meet other requirements prior to the allocation of resources, such as the monthly distribution of the approved budget, request for resource allocation according to the distribution made, among others. This distribution is undertaken based on expenditure items (Personnel, Operations and Investment Expenditures) and any change is subject to the regulations issued by the Secretary of Finance and Public Credit for such purpose.

Once the above-mentioned requirements have been met, the allocation of resources is made according to the approved plan and SAT enjoys the flexibility to make balancing transactions, provided the items involve operating expenses, requiring the authorization of the Secretary of Finance and Public Credit to change investment or personal services' expenditures.

For the payment of personnel expenses, as well as the purchase of goods and services, SAT relies on a fund that allows it to meet its financial obligations directly and control its budgetary operations.

Additionally, there are transactions to increase or reduce the originally approved budget, upon consideration and authorization by the Secretary of Finance and Public Credit, the additional resources being subject to Federal Treasury availability.

Non-budgetary Resources

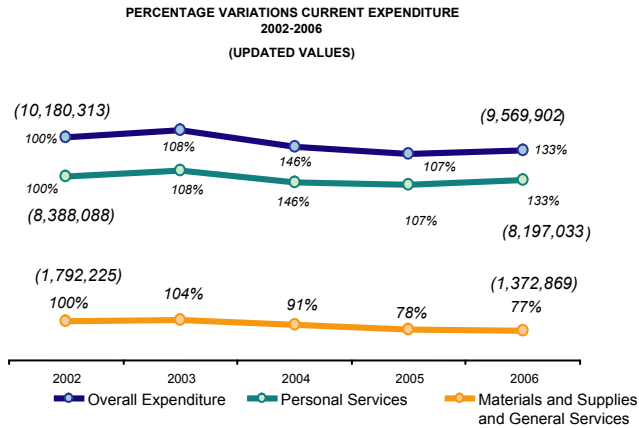
As a source for such increases, we consider the recovery of the expenditures and customs' duties paid by taxpayers according to the provisions in Article 150 of the Federal Tax Code and Article 49 of the Federal Rights Act, which are specifically allocated to the Tax Administration Service.

Notwithstanding, such resources may only be allocated for notification and collection expenses, as well as training and promotion of voluntary compliance, with a minimum impact on special programs.

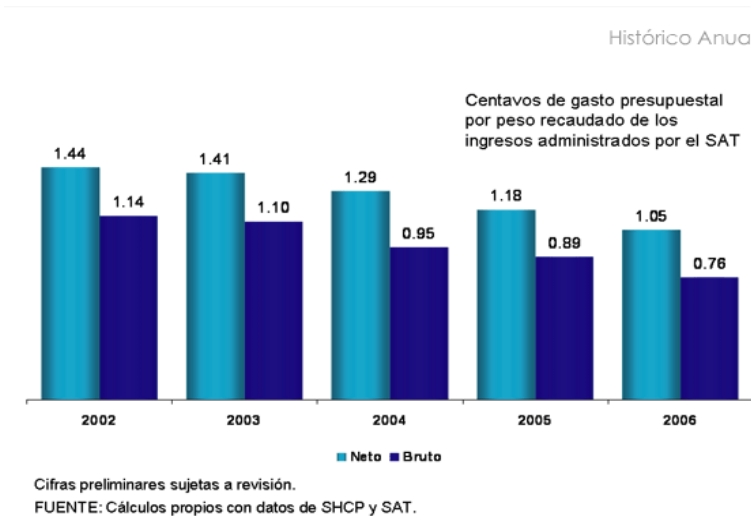
The budgetary operation under this structure of specific regulations and guidelines, which are also subject to annual changes, together with an insufficient budget from the time of approval by the Legislative Branch that is subject to austerity measures, limit or prevent the timely availability of resources to meet the operating expenses and impact the development of new projects and programs designed to improve the operation and provide more services for taxpayers, since they are implemented with delays or must be postponed until the subsequent year.

As we can infer from the following chart, in actual terms, the SAT budget has continued without relevant changes in the 2002-2006 period, despite the reductions in operating expenses arising from the equity increase in the trusts managed by SAT and the loan extended by the World Bank to partially finance the Transformation Project undertaken by this Decentralized Body.

**PERCENTAGE VARIATIONS CURRENT EXPENDITURE
2002-2006
(UPDATED VALUES)**



From the foregoing, we may infer that without relying on larger budgetary resources, in the 2002-2006 period, the cost of revenue collection dropped from 1.44 to 1.06 cents per peso collected as stated in the following chart.



Notwithstanding, more investment resources are required to meet the highest international standards where, on average, the cost of revenue collection accounts for 1.0% of the amount represented by contributions.

Resources from Trusts

In the nineties, Mexico signed the North American Free Trade Agreement, aimed at avoiding double taxation. This treaty evidences the deficiencies or insufficiencies in the customs' procedures in place, such as: Manual customs and collection processes, screening of 100% of goods, lack of IT infrastructure, slow acquisition process and limited budget to modernize customs' facilities.

In the face of the urgent need to modernize customs, facilitate the circulation of goods, transportation and people, we resorted to the entity of trusts, as provided for in Article 5, sub-section II of the applicable law, aimed at funding the investment required to modernize the collection and customs' processes, among which we may mention the strategic plan projects, as mentioned above.

In the allocation of the resources from trusts aimed at investment in ITC and equipment, one of the strategic actions undertaken was to outsource such services to private companies with three fundamental purposes in mind:

- To improve the annual availability of resources by deferring investment expenditures in service agreements for a 3 to 4 year term.
- Mitigate the technological obsolescence risk and receive integral services of the highest quality.
- Avoid labor liabilities detached from the tax collection activity.

Currently, SAT manages two public trusts:

Trust for the Program to Improve IT Tools and Control of Customs' Authority (FIDEMICA, as per the Spanish acronym).

It is geared at the management of funds to improve technological and physical infrastructure of the country's customs, contribute to facilitate customs' operations and support customs' proceedings to verify and oversee compliance with tax obligations and crime prevention.

Sources of funds: The payments for the customs' permit pre-validation services, foreseen in Articles 16-A and 16-B of the Customs Act in force.

Trust for the Administration of Payments foreseen in Article 16 of the Customs' Act (FACLA, as per the Spanish acronym).

It was created to receive, invest and manage the amounts charged for the services set forth in Article 16 of the Customs' Act, required to operate the customs' office, as well as modernize and transform the SAT, vis-à-vis information and telecommunications technology as well as the infrastructure in SAT and customs' facilities.

Source of funds: The payments for the customs' permits validation services, foreseen in Article 16 of the Customs' Act in force.

Operation

Every trust is governed by a Technical Committee made up by senior officers and headed by the Head of the Tax Administration Service, with powers to approve the annual trust program, among others.

The allocation of resources that have been paid into the trust is performed by approval of the Technical Committee and according to current legislation for the acquisition of goods and services and public works.

Achievements**Trust for the Program to Improve IT Tools and Control of Customs' Authority (FIDEMICA, as per the Spanish acronym).**

- Better equipment for the customs' offices to enhance efficiency in customs' control and dispatch.
- Purchase of X-Ray and Gamma Ray devices to facilitate screening of the inbound and outbound goods in the country.
- Maintenance services for the existing equipment to guarantee its good operation.
- Purchase of vehicles for oversight and contraband prevention activities.
- Improvement of the equipment employed for tariff classification by the analysis of samples from foreign trade goods.
- Procurement of modern and secure telecommunications equipment.
- Procurement of furniture for the customs' offices.
- Hiring services to operate technological and radio communications' equipment and control room boards, among others (Valunet Plan).

- External services' support for the customs' review and control processes in all the customs' offices of the country.

In order to improve the customs' infrastructure and facilities, we implemented the Program to Strengthen, Recover and Improve Facilities, whose most relevant work was:

- Construction of special lanes in the customs' facilities to expedite the flow of vehicles, especially the ones that carry perishables.
- Renewal of customs and customs' booths.
- Expansion of border crossings.
- Model Customs' Project.
- Construction of accommodations for the staff in charge of tax and customs' inspections.

Trust for the Administration of the Payments foreseen in Article 16 of the Customs' Act (FACLA, as per the Spanish acronym).

The resources have been mostly allocated to strengthen the SAT technological and communications' infrastructure, as well as for the development of human capital and improvement of the institutional image.

- SAT's information operation was strengthened by the implementation of the Technological Administration Center (CAT, as per the Spanish acronym), which covers technical support, printing, digitization, photocopying and computer infrastructure services.
- Likewise, services were hired to access new products' releases, updates, corrections, possibility to migrate to other equipment with the latest operating system releases, telephone and Internet technical support.
- Corrective maintenance services in the case of errors or failures in Software performance (programs).
- Completion of the Virtual Private Network (VPN) implementation, which shall render voice, data and video services.
- We initiated the implementation of the software factory and operating support projects, to manage and align the quality of products and processes of software solutions according to industry standards and best practices, as well as for the technical support and applications' maintenance service, software, processing and storage infrastructure, among others.

- The Multiple Service Contact Center was implemented to operate telephony, e-mail, and chat services, among others. This center administrates and controls the entry and exit of each service and generates automated reports, which shall support the assessment of the quality of the services rendered to taxpayers.
- In order to improve SAT's image and facilities, in the Our Space Project we completed the renewal of the offices in Guadalajara, Jalisco and the works continue for the training facilities in Zapopan, Jalisco, taxpayer service modules in Chetumal, Quintana Roo and Mazatlán, Sinaloa, revamping of the Local Legal Office in Uruapan, Michoacán, and the warehouse in Chichimequillas, Querétaro.

Expenditures

In the 2003-2006 period, the trust investment expenditure amounted to 5,220,000 million Pesos, an amount that represents 3.2 times the average value of the SAT fixed assets for that period, and 89% of the operating expenditure made with budgetary resources in that term.

Benefits

- Availability of trust resources enable a more efficient expenditure planning and the implementation of strategic and transformation projects.
- Resources can be funneled according to the priority of requisitions.
- The SAT transformation process was strengthened with resources from the trusts.
- Customs' modernization.
- Support for processes and collection activities.
- Support for the professional training of public officials.
- Enhancement of SAT and customs' facilities.
- Procurement of state-of-the-art technology to support taxpayer services.

Autonomy is fully exercised, as it may be inferred in terms of investment, which has enabled relevant advances in the transformation of the Mexican Tax Administration.

2.5 Integral autonomy initiative

We must reflect upon the experiences of countries like the US, Great Britain, The Netherlands and others, which have promoted their Tax Administrations' autonomy and achieved significant advances and efficiencies in the performance thereof, in addition to protecting oversight and collection from any political situational interest and thus pursuing independence for the corresponding technical body.

Therefore, in the case of Mexico, we must strengthen technical autonomy not only for the achievement of operational efficiency, but also to make its administration independent, which also requires absolute budgetary and financial autonomy. According to this premise, on November 10th, 2005 an initiative was presented to amend articles 25 and 31 of the Political Constitution of the United States of Mexico with the aim of endowing the Tax Administration Service with full autonomy.

The legal nature of such changes entailed the following items:

- That it would become a constitutionally autonomous Body in the exercise of its functions and administration.
- That it would enjoy legal status and its own funds.
- SAT purposes and functions:
 - o To assume, on behalf of the federation, collection and customs' affairs.
 - o In the capacity as administrative authority, to enforce federal tax and customs' laws, for which purpose:
 - It shall issue provisions of a general nature;
 - It shall take actions for the appropriate compliance thereof;
 - It shall enjoy inspection, coercive and punitive powers, and
 - It shall access information, books, papers and documentation from taxpayers and third-parties.
- SAT Assistance:
 - o The federal, state and municipal authorities shall render the assistance required by the Tax Administration Service in meeting its functions

-
- Government Bodies:
 - The SAT administration shall be the responsibility of a Governing Board integrated by:
 - The SAT Chairman, who shall in turn preside over it;
 - Four members to be proposed by the President of the Republic, and approved by the Senate or the Standing Committee, and
 - Two representatives from the Secretariat of Finance and Public Credit.
 - The SAT Chairman as well as the four members set forth by the Head of the Federal Executive Branch for the Governing Board, shall exercise their mandate for six-year terms.
 - They shall be removed only on grounds of a serious offense, by impeachment pursuant to Article 110 of the Constitution, and in order to bring criminal actions against them, the procedure in Article 111 therein shall be exhausted first.
 - Labor relations, budgetary autonomy and intervention in constitutional disputes.
 - Labor relations between SAT and its employees shall be governed by the provisions in Sub-section B, Article 123 of the Constitution and a responsibility regime shall be set forth for such workers.
 - The SAT shall enjoy budgetary autonomy and rely on the necessary resources to guarantee the coverage of its operating expenditure on a yearly basis and according to its investment requirements.
 - The SAT shall be legitimated to intervene in the constitutional disputes referred to in Article 105, sub-section I of the Constitution.
 - Tax Coordination
 - As regards tax coordination, the adjustments required shall be agreed upon jointly with the Secretariat of Finance and Public Credit and the federal entities themselves.
 - The SAT, by constituting a fully autonomous entity, with its own legal status, shall be enabled to generate the necessary agreements with both government levels. By virtue of this, it is not deemed necessary to foresee such power constitutionally, although the necessary rules should be introduced in the law.

- o As a consequence of SAT's autonomy, the tax coordinator system would not be directly affected as to the contributions collected by the federal entities. In this area, the Secretariat of Finance and Public Credit would reserve the power to design and present the system.

Overall, the consolidation of the technical competency and the neutrality required by society from the Mexican Tax Administration can only be materialized upon granting it budgetary and financial independence. Thus, it is possible to ensure that the resources flow on a timely and sufficient basis to the projects or programs that strengthen collection, in addition to relying on the necessary flexibility to change their scope or adapt the initiatives to the technological environment or the evolution of the sector's best practices, enabling to commit the best cost-benefit of the processes designed to operate the tax cycle.

As examples of the transformation, neutrality and efficiency of the autonomous bodies in our country, we may mention, the Federal Elections' Institute, the National Human Rights Committee and in brief, the National Institute of Statistics, Geography and Information Technology (INEGI, as per the Spanish acronym).

Currently, and by virtue of the recent changes in the legislative and executive branch in Mexico (September and December 2006), the discussion of this initiative has not been undertaken again. Notwithstanding, we expect the issue to be resumed in the middle term within the framework of the financial and tax reforms on the legislative agenda.

3. CONCLUSIONS

- The Mexican Tax Administration has made great progress, from the concentration of these functions in the Secretariat of Finance and Public Credit, when this institution, upon assuming multiple functions and units and without specific planning as to the tax collection and tax activities, was unable to secure the Tax Administration efficiency and optimization. Therefore, the need arises to make up a decentralized entity with a clearly defined possibility as to oversight and taxation.
- Decentralization is the legal means of the regulatory system in Mexico that facilitates the dynamism of the activity of certain administration bodies. Decentralization is the act by which

certain powers are transferred from a central body to the agencies that make up its own structure with the purpose of enhancing the efficiency of their activities.

- The Mexican Tax Administration Service has succeeded in implementing relevant transformation projects, owing to the allocation of alternative sources of funding provided for in the legal framework for budgetary administration.
- SAT is an entity under ongoing transformation, whose needs of reaching greater efficiency in the collection, oversight and taxpayer assistance functions have fostered the initiatives to attain full autonomy.
- The transformation of the Tax Administration Service is marked not only by the changes in its own regulatory system, but also by the achievement of its operating and budgetary efficiency, which make up the basis for its technical and managerial autonomy.
- As regards autonomy:
 - o Autonomy in budgetary and financial terms entails, on the one hand, the power and independence to obtain the resources derived from the administration itself and the use thereof, in order to face operating expenditures and the investments required.
 - o Autonomy in technical and management terms means the independence of undertaking specific functions in order to achieve specific objectives and goals, under a vision of operating efficiency and enhancement.
- The Tax Administration Service shall enjoy management and budgetary autonomy for the achievement of its purpose and technical autonomy to issue resolutions (SAT Act, Article 3).
 - o Notwithstanding, this decentralized body lacks legal status and its own funds. Thus, it does not draft its budget, which is allocated to it by the central unit to which it reports (Secretariat of Finance and Public Credit). Therefore, the SAT does not enjoy full budgetary autonomy.
 - o SAT, in order to determine and collect federal contributions, enhance collection processes, improve taxpayers' service and assistance, enforce federal regulations, as well as those that govern the circulation of goods and services in the national territory, exercises its powers with full technical and managerial autonomy.
- As regards integral autonomy, it is worth taking into consideration the experiences from other countries that have promoted the autonomy of their tax administrations, achieving

efficiency in their performance, in addition to protecting their substantial activities, oversight and collection from any situational political interest and thus grant independence to the corresponding technical body.

- Finally, we expect that the initiatives to grant full autonomy to SAT shall be resumed in the middle term on the legislative agenda, so that it evolves into a specialized and modern body for tax collection as well as customs' control; that it becomes an impartial and efficient entity in its performance and independent in the administration of its resources and the sole responsible entity for its performance.

Case study

Topic 1.2

CRITERIA FOR DEPARTMENTALIZATION

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Regulatory Affairs Branch of Canada
(Canada)

CONTENTS: I.- The Canadian Context.- a) Legislative authorities.- b) Agency governance model.- c) One national revenue agency - five regions - five regions.- II. CRA's Organization Structure. - a) Functional model overview.- b) Why is this model appropriate for the CRA?- c) Key models components.- d) Integrative mechanisms.- III. Managing Under Our Structure.- a) Benefits and challenges.- b) Key considerations in applying this structure

I. THE CANADIAN CONTEXT

As context for the discussion on departmentalization, an overview is presented below on the legislative authorities, governance model and distributed operations of the Canada Revenue Agency.

a) Legislative authorities

The Canada Revenue Agency (CRA) is the principal revenue collector and tax authority in the country and is also responsible for distributing benefit payments to millions of Canadians each year. More precisely, the CRA collects:

- All federal income taxes;
- Personal income taxes for all provinces except one (there are ten provinces and three territories that make up the Canadian federation);

- Corporate income taxes for seven of the ten provinces (becoming eight provinces in 2008); goods and services tax (GST) in all provinces except one; and
- Harmonized sales tax (HST) in the three provinces where there provincial sales tax has been harmonized with the federal GST.

The Volume of Our Transactions, 2005-2006

- More than 24 million individual and trust tax returns processed
- More than 1.8 million corporate tax returns processed
- Around 6.8 million GST/HST returns processed
- Over 2.5 million GST/HST registrants
- Approximately 25 million public inquiries answered
- Approximately 30 million tax-related hits on the CRA's web site

It also collects commodity taxes; excise duties for certain provinces; employee and employer contributions under the Canada Pension Plan; and employee and employer premiums for Employment Insurance. In addition, the CRA delivers a number of income-based benefits, tax credits, and other services that contribute directly to the economic and social well being of Canadians.

The CRA also administers international tax agreements signed with a large number of countries aimed at promoting the exchange of information between treaty partners and the avoidance of double taxation of foreign-earned income of their respective citizens.

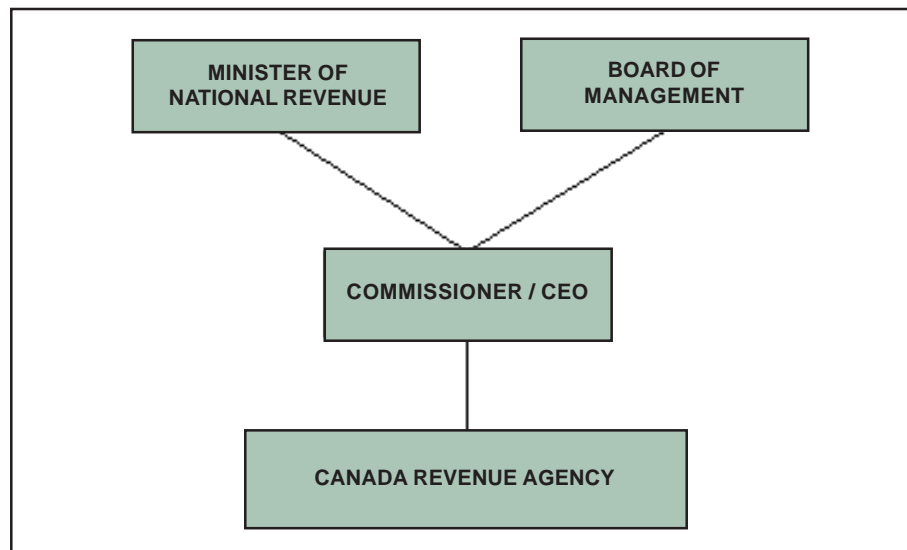
b) Agency governance model

The Canada Revenue Agency was created by the Canada Customs and Revenue Agency Act (CCRA Act) on November 1, 1999, with three main objectives:

- to provide better service to Canadians by focusing on the needs of taxpayers and benefit recipients;
- to become a more efficient and effective organization with greater administrative flexibility; and
- to establish a closer partnership with the provinces and territories.

To achieve these objectives, the CCRA Act established a unique governance regime for the Agency. This regime encompasses a direct legislated relationship with the Minister, and specific legislated roles and responsibilities for the Agency's Board of Management and its Commissioner.

The **Minister of National Revenue** is responsible to Parliament for all CRA activities and has access, as required, to all of the information in the Agency. The Minister exercises powers relating to regulation making and the provision of reports to Parliament or the Governor in Council (Cabinet), as well as certain program powers involving matters of a significant and sensitive nature. The Minister is not involved in decisions relating to audits and investigations. As well, the responsibility for tax policy rests with another minister, the Minister of Finance.



The **Board of Management (BoM)** is responsible for ensuring the rigour and probity of the CRA's human resources and administrative systems. It is accountable to Parliament (through the Minister) for the administration of the human resources, administrative, real property, procurement and contracting authorities that are vested in the Agency. The CRA Act provides that the BoM may advise the Minister on the general administration and enforcement of program legislation, and that the Minister can issue directives to the BoM regarding any matter materially affecting public policy or public finances. As a general practice, the Minister does not send such directives. The Board does not have access to confidential taxpayers information.

The Board of Management consists of 15 members who are appointed by the federal government: the Chair, the Commissioner, and 13 Directors (eleven of whom are appointed from a list of nominees submitted by the provinces and territories, and two of whom are federal

nominees). Essentially, the BoM functions along the same principles and rules that govern a Board of Directors in the private sector.

As the CRA's chief executive officer (CEO), the **Commissioner** is responsible for the day-to-day administration of the Agency. He is accountable to the BoM for the daily management of the Agency, the supervision of its employees, and the implementation of management policies and budgets. The Commissioner is also accountable to the Minister and must assist and advise him or her with respect to legislated authorities, duties, functions, and Cabinet responsibilities.

At a national level the Board of Management and the Commissioner along with the Agency Management Committee:

- Establish strategic direction, objectives and priorities for the organization and monitors overall performance.
- Ensure that the laws, regulations, policies and processes are administered in a consistent fair, and uniform manner.
- Ensure that the Agency provides high quality, responsive and cost effective services to Canadians.

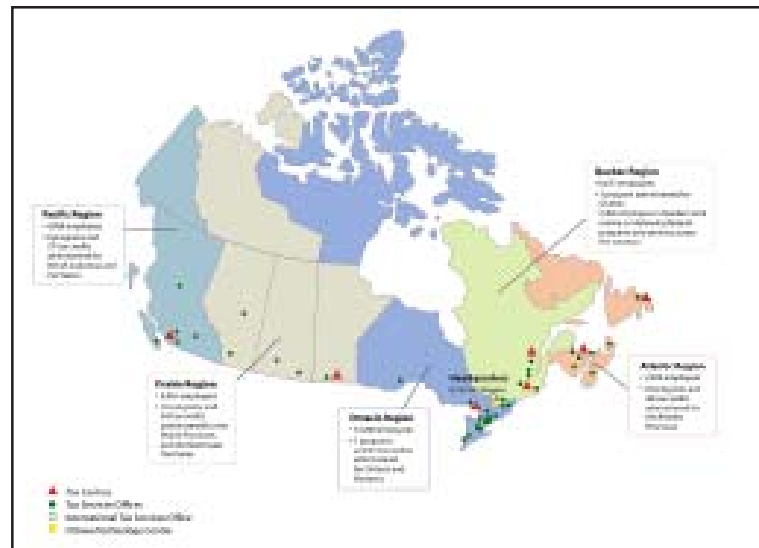
c) One national revenue agency - five regions

Canada is a large country that spans some 4,500 miles from east to west across 4½ time zones. The second largest country in area after Russia, Canada has coastlines on the Atlantic, Arctic, and Pacific oceans, giving it the longest coastline of any country. In area, Canada is slightly larger than the United States, but has only 11 percent as many people. It is one of the least densely inhabited yet one of the most prosperous countries in the world. The Canadian economy is considered to be one of the strongest and healthiest among the G-7 countries. Canada also enjoys a healthy participation rate in the tax system with some 93% of all adult Canadian taxpayers filing their annual income tax return on time.

Under Canada's federalism model, the country is divided into ten provinces and three territories with each having its own provincial/territorial government. As Canada's national revenue collection agency, the CRA collects tax revenues and administers social benefits on behalf of provinces and territories under formal arrangements with the federal government.

For administrative purposes, the CRA has established five regions across Canada. Each region has a high level of social and economic consistency that provides an effective basis for program planning and delivery. For example, the four east coast provinces that make up our Atlantic Region are characterized by a strong relationship to the sea. Fishing occupies a central economic and cultural role in this region. Other industries such as forestry, tourism and, more recently, offshore oil and gas exploration are also important to the regional economy. The chart below shows the location of CRA's offices as well as the distribution of its staff and programs.

CRA'S REGIONAL OPERATIONS



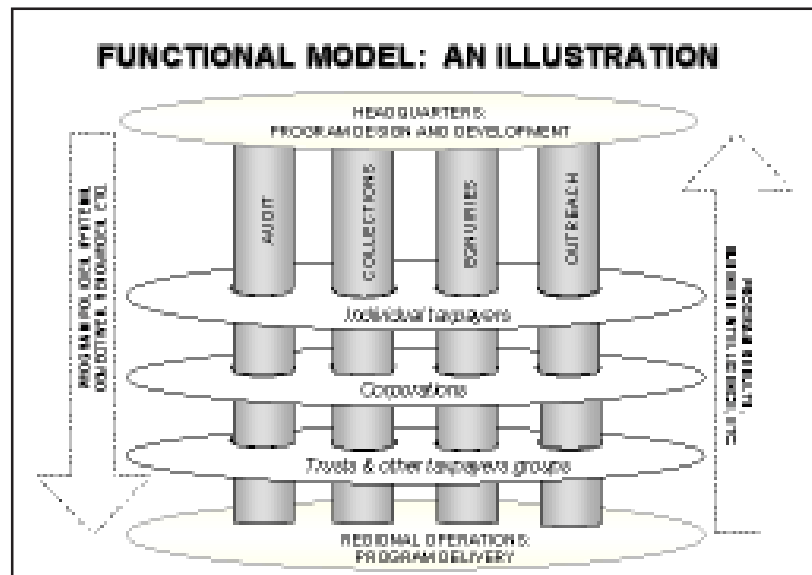
II. CRA'S ORGANIZATION STRUCTURE

a) Functional model overview

The term **organization structure** refers to how formal reporting relationships are designated in an organization, which includes the number of hierarchical levels and the span of control for each management level. It also identifies the grouping together of individuals into departments and of departments into the total organization. Organization structure also includes the design of mechanisms to ensure effective communication, coordination and integration of efforts across departments.

An important aspect of organization structure is the grouping of work activities, or departmentalization, to enable coordination, better communication and integration of activities. There are two basic approaches that are used by today's tax administrations: the functional approach and the taxpayer-centred approach.

In a functional approach, employees who perform similar functions or work processes and/or who bring similar knowledge and skills to bear are grouped together. These groupings allow for specialization, establish a scale of effort that ensures an ever-increasing level of expertise and helps ensure and promote consistency in the interpretation and application of law, policies and administrative practices - all essential attributes of a healthy tax administration.



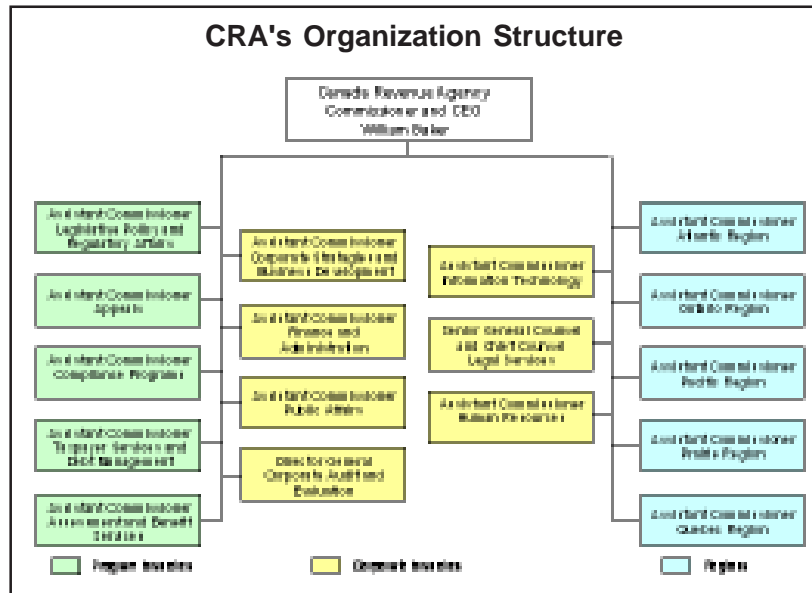
A taxpayer-centered model, on the other hand, organizes services and enforcement functions principally around segments of taxpayers (such as small businesses, large, businesses, individuals etc) to provide what some call a "whole of taxpayer perspective". This can facilitate a more comprehensive understanding of the taxpayer attitudes, needs and compliance behaviors and helps ensure that all of the functions, working together, are achieving the desired results for each taxpayer group.

The **functional model** that has been adopted in the CRA sets out the architecture of the Agency's corporate accountability regime. The model reflects the vision and values that underpin the Agency's approach to planning and managing its programs and services, and allocating its resources. It is predicated on the key role that the Agency's senior executives play in promoting and facilitating the understanding that they work as a team to ensure that corporate and program objectives are met.

b) Why is this model appropriate for the CRA?

The functional model is derived from the CRA's statutory authority and accountability for results, framed around national programs, and reflects the organization's mandate and business lines.

The CRA is responsible for the administration of a wide range of national programs, and a number of provincial programs. National policies, systems and processes are designed and developed by the Headquarters functional branches, with input from the regions. Programs and services are delivered at the regional level, through tax services offices and taxation centres. Moreover, as an operational rather than a policy organization, the CRA has a number of opportunities for operational efficiencies and economies of scale, arising from the decentralization of operations to the field, with numerous points of service delivery. This approach equally affords the CRA the opportunity to develop centres of expertise or knowledge specialists located across the country to deal with important issues. For example, as part of its approach to address aggressive tax planning practices and schemes, the CRA has established 11 centres of expertise in the regions that are staffed with specialists in tax avoidance.



The Agency uses the functional model as the basis to plan, budget, manage, and monitor its program activities. Under this model, priorities, performance expectations and budgets are first determined for each of the Agency's five program and seven corporate branches. Each Branch in turn establishes the priorities, performance expectations and budget for each Region over a three-year planning horizon. The Regions then allocate work and budgets to their respective offices to deliver the programs and services according to the priorities and objectives that are established. This cascading of management direction establishes a clear line of sight for management accountability and a common understanding throughout each program of what is important and what is to be achieved.

c) Key model components

The CRA model is comprised of the following three key components, each of which has distinct roles, responsibilities and accountabilities:

1. Commissioner and Agency Management Committee (AMC)
2. Headquarters Functional and Corporate Branches
3. Regions

The key responsibilities for each component are described below.

1. The **Commissioner**, along with the fifteen **Assistant Commissioners** who make up AMC, are collectively responsible for:

- Establishing the strategic direction, objectives and priorities for the organization, and for monitoring overall performance.
- Ensuring that the laws, regulations, policies and processes for which the CRA is responsible, are administered in a uniform, consistent and fair manner.
- Ensuring that the CRA's commitment to providing high-quality, responsive and cost-effective services to Canadians is met.
- Approving key policy/program directions and strategic investments, consistent with corporate resource management strategies.
- Providing executive oversight for the management of issues of national or special importance, and key horizontal issues, and the integration, both internally and externally, of programs and processes.
- Establishing the modalities and protocols for integrating the respective roles, responsibilities and accountabilities of Headquarters Branches and the regions.
- Negotiating and agreeing upon program results/outcomes, performance targets and annual resource allocations for both program development and program delivery.
- Supporting the Minister and his/her staff and the Board of Management.

2. **Headquarters Branch Heads** are responsible for:

- Carrying out strategic planning for the functions assigned to them:
 - o setting national priorities and long-term program/corporate goals;
 - o determining specific program results to be achieved nationally;
 - o setting short-term goals and priorities;
 - o managing Branch human resources.

- Developing annual business plans for their business line, function or program in consultation with the Regions:
 - o designing and developing policies, programs, services, systems and processes;
 - o consistent with the objectives and priorities in the Corporate Business Plan.
- Providing the regions with the required support to achieve targeted program results, and service standards, including:
 - o resources (i.e., human resources and finance and administration);
 - o functional and technical advice, guidance and direction;
 - o functional and technical training and related support.
- Providing the regions with functional and technical advice and direction on specific program issues, and on selected case/file management issues which are of national importance or which have significant program implications.
- Monitoring and reporting program performance nationally, and conducting quality assurance activities.
- Identifying and providing the regions with functional and technical advice and direction on:
 - o risk management of issues with national or special significance;
 - o management of horizontal issues related to national programs.
- Following a corporate approach with respect to planning, prioritizing and resourcing.
- Communicating the Agency's priorities, goals, and activities to clients and stakeholders.

3. Regional Assistant Commissioners are responsible for:

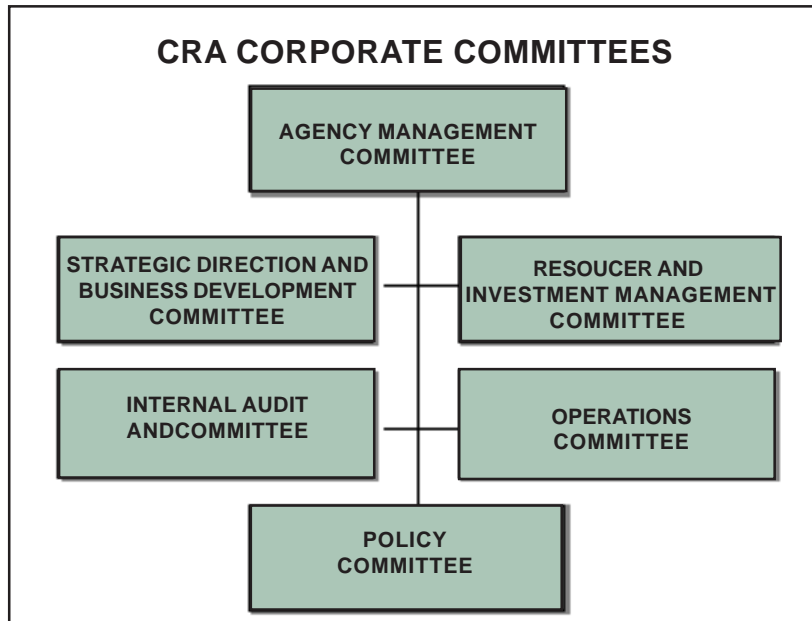
- Establishing a regional management structure consistent with program and corporate strategies, priorities, goals and values:
 - o setting region-specific priorities and objectives;
 - o managing regional resources, including human resources;
 - o providing advice to HQ Branches on the planning related issues.

- Delivering high-quality programs, service standards, and services to support national program objectives and targeted results, as outlined in the Corporate Business Plan:
 - o determining, in consultation with HQ, regional operational results to be achieved, consistent with the level of approved resources;
 - o achieving targeted results, within the context of regional pressures and challenges.
- Providing input into the design, development and implementation of national policies and programs
 - o providing advice to HQ branches in the setting of national objectives and priorities;
 - o monitoring operational performance and reporting operational results;
 - o identifying improvement opportunities for policy, program and systems development.
- Providing a regional perspective on, and input into major management, organizational and operational issues.
- Providing an on-site, operational focus for federal-provincial-territorial liaison, supporting and managing federal-provincial/territorial relations consistent with the national agenda, and communicating the CRA's priorities, goals and activities to clients and stakeholders.
- Managing resources in accordance with annual performance agreements with the Commissioner and pre-agreed objectives and results with HQ Functional Branches.
- Following the resource allocation rules that are part of the functional model.

d) Integrative mechanisms

If the fundamental division of responsibility between Headquarters and the Regions is essential to clarify lines of accountability, there is also a requirement for integrative mechanisms in order to allow the Agency to operate in a cohesive fashion. The CRA has a number of integrative mechanisms to ensure that this harmony is achieved.

CRA's corporate committees provide the organizational support necessary for cohesive management. For example, the Agency Management Committee (AMC), which is chaired by the Commissioner and comprises all Headquarters and Regional assistant commissioners, oversees program development and delivery, as well as the day-to-day business operations of the Agency. Other executive committees exist to oversee the development of the Agency's strategic direction, business development, and budget allocation and control. These committees are key integrative mechanisms that ensure the convergence of distinct accountabilities into a complementary and coordinated blend of accountability.



In addition, the CRA undertakes periodic cross-functional reviews that examine the service directions and compliance strategies across the full spectrum of programs for specific taxpayer groups. For example, in 2001 the Agency launched the Future Directions initiative to examine our services and programs for four major taxpayer groups, individuals, small and medium enterprises, large business and charities, and to develop a strategic vision for promoting compliance and achieving taxpayer satisfaction. This initiative involved 18 months of consultation with taxpayers in each of the four groups and the production of an action plan for program improvements.

In 2004, the Agency undertook another crosscutting initiative, the Compliance Review. This initiative brought together senior managers from across branches to map and review the strategies, programs and compliance issues for each of five major taxpayer groups: individuals; corporations; GST registrants; employers; and other groups (charities and registered plans). The result of this exercise led to the establishment of four major compliance priorities and to a number of strategic investments for enhancing the Agency's compliance efforts in these priority areas.

The above integrative mechanisms allow the CRA to reap the benefits of the functional model, such as the development and deployment of specialized expertise, while ensuring our basic strategies for major taxpayer groups are responsive and fine-tuned for achieving tax compliance and providing service that is relevant to the circumstances and needs of each client sector.

III. MANAGING UNDER OUR STRUCTURE

a) Benefits and challenges

As with any organizational structure, the functional model has clear benefits along with challenges that must be managed to ensure the optimal delivery of efficient and effective programs. The section of the report discusses some of the lessons learned in the CRA's experience with this model over the past several decades of its operation.

The functional model offers stability, predictability, and clear expectations of duties, authority, responsibility and behaviour of employees. It also allows for specialization of tasks and the standardization of operating procedures, which does maximize efficiency and effectiveness in the performance of tasks under the required conditions of uniformity, competence, and fairness. These attributes are highly relevant and desirable in the field of tax administration where job demands, competencies and performance expectations range from programs that involve routine processing transactions to those that are highly technical in nature such as the audit of large corporations or the establishment of first positions that are the domain of tax rulings.

On balance, although the functional model allows for stability and control, it does not provide a systemic means for encouraging cooperation across functional departments. This may contribute to inter-program conflicts and/or delays in responding to problems or cross-functional issues. To counter this potential obstacle, opportunities for cross-program exchanges (committees, networks, etc.) need to be formally established to ensure that horizontal issues are identified and managed on a timely and cooperative basis.

As previously stated, the functional model establishes clear lines of accountability and responsibility through unity of command. The linear relationship between the program functional authority located in Headquarters and the management and program delivery chain in the regions promotes congruence in the priorities, performance objectives and ideals for each program. This symmetry of purpose provides a consistent foundation for program monitoring, performance assessment and management accountability.

An important prerequisite for managing successfully under a functional model is an open and continuous flow of information up and down the program hierarchy. For regional operations to be in lockstep with the program, clear directions need to be provided and supported by the functional program authority in Headquarters. For timely, responsive and effective program policies and objectives to be established, the functional authority relies on sound advice and business intelligence to flow up from the frontline of program operations. This mutual dependency relies on trust, transparency and respect for the role and importance of co-managing toward common business goals and outcomes.

A further challenge under a functional model is the ability to develop a whole-of-client perspective to evaluate and shape overall program strategies. This perspective may, for example, point to information gaps, compliance issues and more summative views on the effectiveness of multi-program strategies. The added advantage of obtaining a whole of client view is that a more comprehensive assessment can be made of tax compliance as it pertains to filing patterns, reporting accuracy and the timely payment of tax liabilities. In a functional model, these three aspects of compliance tend to form the basis for delineating functional areas of responsibility.

In recognition of the value of attaining a more comprehensive understanding of client group behaviour, some tax administrations (notably, Australia and the United States) have organized their programs

along client groups. In Canada, the CRA has taken a different tact with the same objective in mind. To assist in developing a better understanding of the compliance and service needs and issues within major client groups, many of our core programs have been subdivided along client lines. For example, the CRA's business audit program is subdivided into programs for small and medium enterprises and large and international businesses, each with its own functional program authority, budget allocation and dedicated regional resources. To manage major compliance issues, such as the underground economy, separate organizations are created to develop broad multi-faceted compliance strategies. These strategies often pull together Headquarters and regional resources from various programs to launch a concerted strategic set of initiatives directed at addressing the compliance challenge.

b) Key considerations in applying this structure

The following is a list of factors or considerations that should be examined in deciding how best to adapt a functional model approach in organizing the development and delivery of tax programs.

Size, diversity and maturity of the taxpayer base - Whether the tax laws require universal participation by citizens or apply to a smaller sub segment of the population; the diversity of economic activity and industries operating within the jurisdiction; the levels of compliance and the need for sophisticated or multi-faceted compliance strategies to advance the administration's compliance goals and objectives; and the dispersion or concentration of the taxpayer base across the country. In many ways, the nature of the relationship between the tax administration and taxpayers is a reflection of the relationship that exists between the state and the businesses and individuals operating within the economic and social infrastructure of the country.

- **Nature of the tax system** - Considerations include whether the tax system is based on self-assessment, encompasses withholding taxes; is based on a flat or progressive tax regime; and the degree to which the tax system is used to advance the government's social and economic policies through tax incentives and/or benefits.
- **Tax administrator's mandate** - Related to the above point, the number of taxes administered - sales/commodity taxes, personal/corporate income taxes, tax collections for other levels of government - each which may require specialized knowledge

and skills to administer and/or may require a physical presence throughout the country.

- **Scope and complexity of tax programs** - The extent to which the administration employs a broad range of education, incentive and enforcement tools and by extension requires a diversity of staff competencies and administrative skills to design, develop and deliver the programs.

The general rule of thumb to be applied in reviewing the above points is that the functional model works best in a regime where there is a higher level of sophistication and diversity in the tax system and its administration. This complexity may be derived from the nature of tax laws; the range of tax avoidance and non-compliance issues; and the operating environment (taxpayer base, social and economic conditions, and government demands) in which the administration must carry out its responsibilities.

Case study

Topic 1.2

CRITERIA FOR DEPARTMENTALIZATION

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*CONTENTS: 1. Introduction.- 2. SARS understanding of departmentalization.-
3. Applying the criteria to SARS.- 3.1. Applying the criteria to SARS.-
3.2. Improvisation.- 3. Product.- 3.4. Function and process.- 3.5. Client
segmentation.- 3.6. Geographic location.- 4. Conclusion*

1. INTRODUCTION

2007 marks the tenth anniversary of the establishment of the South African Revenue Service (SARS). Minister Manuel, the Minister of Finance, in wishing SARS a happy tenth birthday during the presentation of the 2007 National Budget speech to Parliament on 12 February 2007, stated that "...it is remarkable that an organization, just ten years old, can do so much good for our country and our people - congratulations Commissioner Gordhan to you and your dedicated band of 15 000 staff."

The journey from an outdated apartheid institution to one which is making its humble contribution to public sector modernization and an enhanced national awareness fiscal citizenship has been long, arduous but also exciting and enriching. But there is still much to do!

Central to the SARS journey has been the challenge for the organization to respond to and support - through its structures and programmes - the Constitutional imperative of a South Africa that positions itself as a

democratic, developmental state based on social cohesion and economic democracy. President Mbeki has in the past verbalized the challenge as follows: ***"Success in our economy should be measured not merely in terms of the returns that accrue to investors or the job opportunities to those with skills. Rather, it should also manifest in the extent to which the marginalised in the wilderness of the Second Economy are included and are at least afforded sustainable livelihoods."***

In responding to the challenge, SARS has had to come to grips with what is expected from the developmental state and what SARS must do and look like to give effect to national and even international expectations in this regard.

Of necessity, a strong developmental state has to be efficient and capable state. It must be driven and operated by a public servant inspired by the values of the South African Constitution. It must be driven by a passion to deliver and deliver quickly, creatively and compassionately to all the people of SA. It must be a state that creates conditions for aspirant commercial and social entrepreneurship, without which we will be a society of dependents.

But a capable developmental state is also a state that has access to resources without growing indebtedness. All of us can be proud of the fiscal capability and sovereignty that our government has been able to attain. This manifests in twelve years of revenue collection successes, meeting and exceeding revenue targets in the face of a constantly increasing revenue yield. During the 2006-07 fiscal year, revenue collections exceeded the target by R6 Billion.

But the lesson from many other countries is that unless there is a determined effort by all stakeholders to create a credible and sustainable tax compliance culture and an increasingly broad tax base with an effective and efficient tax and customs administration, this fiscal capability cannot be achieved.

Leveraging taxation for poverty alleviation means that a sustained effort must be made to grow a positive compliance culture, broaden the tax base and at the same time collect enough revenue to enable government to deliver to the poor and invest in a vibrant supportive infrastructure for economic growth.

We believe that we have a potentially "winning formula" in SA - increasing compliance culture, tax base, tax policy, the right incentives, and a reliable revenue flow combined with effective trade facilitation and

border security, better education and service to the public, are all creating a foundation for sustainable fiscal capability.

So- how do does SARS garner departmentalization as part of this effort?

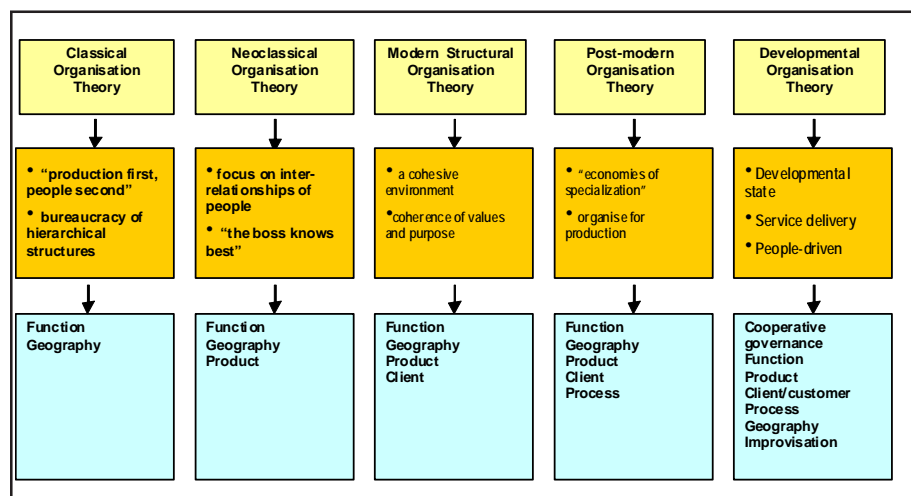
To answer the question, we need to focus on two aspects:

- First- we have to briefly outline our understanding of departmentalization as a process and the criteria that ideally inform implementation of that process; and
- Secondly- how have and are those criteria being applied within SARS.

2. SARS UNDERSTANDING OF DEPARTMENTALISATION

Departmentalization, as a basic concept, means the process of grouping activities into structural units or departments based on specific criteria. What the criteria may be and how those interrelate, have been the subject of ongoing theoretical debates for the past 400 years. Every age has had its preferred theories ranging from Classical, Neoclassical, Modern Structural to Post-Modern Organisation theories. SARS has drawn from all of those and practically come up with its tailor made arrangements which, for purposes of this discourse, could be termed the Developmental Organisation Theory.

In a nutshell, the following diagram illustrates the evolution of organizational thinking in this regard.



Central to the Developmental Organisational Theory lie the goals of establishing the developmental state and ensuring service delivery. From SARS' perspective that has meant, and still means, retaining the valuable in the old, introducing a new culture, orientation and capability, implementing the injunction of the Constitution to create a representative organization and creating a work ethic and service orientation to the public.

Tested criteria such as function, geographic location, product, client segmentation and process still stand central in the Developmental Theory. To that we have found the need to add co-operative governance and organizational improvisation. See the discussion below under paragraph 3.

3. APPLYING THE CRITERIA TO SARS

3.1 Co-operative governance

Co-operative governance is a principle enshrined in the South African Constitution and amplified in the Intergovernmental Relations Framework Act No 13 of 2005. Section 41(1)(h) of the Constitution provides as follows: ***"All spheres of government and all organs of state within each sphere must co-operate with one another in mutual trust and good faith by: fostering friendly relations; assisting and supporting one another; informing one another of, and consulting one another on, matters of common interest; co-ordinating their actions and legislation with one another; adhering to agreed procedures; and avoiding legal proceedings against each other"***.

Modern, effective border control management can only be executed on the basis of public sector co-operative governance. SARS' internal structures have had to reflect this through the establishment of the Inter-governmental Relations Division in 2006. A more detailed discussion of this follows later.

3.2 Improvisation

Organizational improvisation has proven to be fascinating. Improvisation can broadly be defined as the conception of action as it unfolds, drawing on available cognitive, affective, social and material

resources. From a theoretical perspective, the jazz and African music metaphor of organizational theory, in particular, appeals to South Africans. After all, Mamelodi, a suburb of Tshwane (Pretoria), is known internationally as the "home" of jazz; Cape Town hosts the annual International Jazz Festival and South Africa is the breeding ground for kwaito.

Globalization, more open yet distorted markets, the technological revolution, and a dynamic geo-political situation present formidable challenges. Although, as stated above, we may have a potentially "winning formula" in SA (ie increasing compliance culture, tax base and tax policy, the right incentives and a reliable revenue flow combined with effective trade facilitation and border security, better education and service to the public), we should be aware that unless we make the commitment to development and the accompanying commitment to pay taxes, build good corporate citizenship, integrity and sound ethics among professionals, and make tax and customs evasion and aggressive avoidance a social and moral crime, we will undermine our progress. Accordingly, on the one hand, this realization has, for example, driven the establishment of the small business and the small business amnesty units equipped to nurture small business towards fiscal citizenship and incrementally progressive compliance with tax laws. On the other hand, it has also driven the establishment of unit for the prevention of tax avoidance and aimed at deepening tax justice.

3.3 Product

Pre-2000, product was a dominant criterion for purposes of departmentalization at SARS. So for example, there were separate account maintenance departments for the different tax products: income tax, VAT and PAYE and staff were organized in separate, multi-functional departments for each tax type or product. The challenges with this form of structure were that duplicated functions created inefficiencies and the separation of functions complicated the management of tax compliance with its separate audit and debt collection functions. This structure fragmented the overall management of the tax administration and complicated organisational planning and coordination. In addition, co-ordination amongst departments was weak.

Since 2000, product, as a criterion, has become less pronounced in favour of function and process. However, it retains its potential for use in the incubation of new products with dedicated structures in anticipation of mergers with functional and process departments.

3.4 Function and process

Since 2000, SARS has transformed itself into a process-modeled, team-based organisation, organized by functional groupings and work across tax types. In addition, we have dedicated multi-functional units to administer the affairs of large taxpayers, parliamentarians, high net worth individuals and tax practitioners.

The appointment of Mr. Gordhan as Commissioner of SARS in late 1999 saw the beginning of an in depth analysis and interrogation of the manner in which business was conducted at SARS. The management team, headed by Commissioner Gordhan, remained convinced that there was a burning need for change in the organisation as SARS still performed significantly below its full potential. The diagnostic reinforced the views of management that:

- **The organisational structure did not operate efficiently** - roles and responsibilities were not clearly defined, significant differences exist between branches in terms of performance and process, and SARS was still organised according to function and not according to process. The organisation as it stood in early 2000 was too bureaucratic with too many layers and too narrow spans of control. SARS was also not sufficiently customer focused.
- **The core business processes were very inefficient.** Significant duplication existed between tax types and many of the processes were performed at sub-scale locations. The processes were not standardised across branches and as such efficiencies varied significantly between branches. The processes were fragmented, contained too many hand-offs and too many steps. There was also no prioritisation of work resulting in a sub-optimal allocation of time and effort to high impact areas such as audit and collections.

The findings of the diagnostic highlighted the need for a transformation programme that would address the process, people, technology, organisational and infrastructural inefficiencies identified, while

modeling the organisation on best practices and benchmarking locally and internationally. This transformation programme was branded 'Siyakha', which means 'We are building', signifying an ongoing commitment to re-engineering and improvement towards the future health and sustainability of the organisation. The Siyakha Programme was to fundamentally change the way in which SARS conducted its business, improving both efficiency and service provided to taxpayers, as well as improving revenue collections and customs control. It would build the platform that SARS needed to achieve its social and economic obligations in the changing face of the South African environment.

Since 2000, SARS has re-structured/transformed itself around process and taxpayer interest. This model saw the establishment of separate processing centers, which combined the different tax types or products into a single registration department and a single assessment department at each office/location. Dedicated Compliance/Enforcement Center centralized auditing and collections activities. The model also introduced dedicated Taxpayer Service and Community Outreach Centers and numerous call centers, ensuring a commitment to the needs and interests of the taxpaying public. All round, processes were standardised and streamlined, creating operational and economic efficiency gains. It is envisaged that the new social security tax announced by the Minister of Finance in the 2007 Budget Speech will be shoe-horned into the existing functional and process structures.

Siyakha was, and still is being, rolled out in phases, on a regional basis. At each roll out many successes were achieved, however, many challenges and opportunities also presented itself so that the implementation model could be enhanced with lessons learnt. Siyaka enabled a flatter, more empowered organisation and has created efficiency gains from specialization, greater standardised of work processes across tax type and streamlined processes.

3.5 Client segmentation

The management of SARS recognized though that a "one size fits all" approach is not appropriate given the varying attitudes to tax compliance by the different categories of taxpayers. As a result SARS established dedicated multi-functional units to administer the affairs of large taxpayers, parliamentarians, high net worth individuals and tax practitioners.

In the case of the large business centers, staff is organized according to function and process and works across tax types. That means that a sector -specific sub-department provides the full range of services across all tax types to the client concerned. The Large Business client segmentation model recognizes 8 different industry sectors such as the primary sector, mining, manufacturing, construction, retail, financial, ICT and general.

3.6 Geographic location

Constitutionally, South Africa is a unitary state comprising national, provincial and municipal spheres of government across 9 provinces. SARS is a centralized institution comprising a head office based in Tshwane (Pretoria), regional representation that matches up with the provincial borders of the country and 106 branches spread across the 9 provinces. In addition, Large Business Centers are located in three provinces namely Gauteng, Western Cape and KwaZulu Natal being the hubs of economic activity in the country.

4. CONCLUSION

The gains in development and maturity that SARS has made over the recent years provide us with a strong platform from which to launch the SARS Modernisation Programme. This Programme provides a vehicle for further growth and development as it advances our vision of a future SARS that is smarter, more visible, more accessible and more responsive to the needs of our taxpayers and traders.

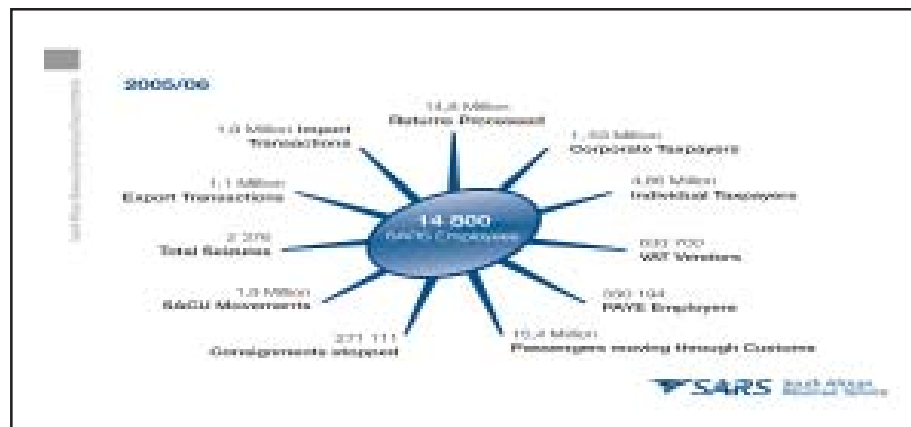
- 4.1** The challenges of ongoing improvement will no doubt necessitate a re-look at the criteria for departmentalization and how these will be applied- possibly the first input into the Neo-developmental organization theory?

- i By way of background, SARS is the Revenue Agency for Government. We are responsible for the collection of all taxes at the national level, direct and indirect. We are also responsible for the administration of Customs in South Africa since 1998/9.

SARS collects approximately 90% of total Government revenue, in excess of R490 billion this past year - in direct and indirect taxes. The top 100 companies pay 70% of all provisional payments and the top 400 companies pay 90%. SARS administer 22+1 (Social Security Tax) tax types and deal with over 5 million registered taxpayers and taxpaying entities in this regard. We are responsible for the collection of some social contributions [Unemployment Insurance and SST (2010)]

Our mandate in terms of the SARS Act (34 of 1997) is 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 to advise the Minister of Finance on tax and trade policy.

We operate from over 100 sites nationwide and employ over 14 000 staff. We run a lean administration at the administration costs to total revenue collected of less than 1.5%. The following diagram is reflective of the demand on our resources:



- ii 2005 State of the Nation Address
- iii Ken Kamoche et al "Towards a Theory of Organizational Improvisation: Looking Beyond the Jazz Metaphor" Journal of Management Studies 40.08 December 2003 p.2024

Case study

Topic 1.3

CENTRALIZATION AND DECENTRALIZATION OF TAX PLANNING AND MANAGEMENT

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CONTENTS: 1. Introduction.- 2. Origin and Evolution of the Planning and Control Activities in The Italian Financial Administration.- 3. The DFP System.- 3.1 System Roll-Out. Stages.- 3.2 The Plan of Accounts.- 3.3 The Reporting and Accountability Model.- 3.4 Operation.- 3.5 Perspectives.- 4. Tax Agency Planning.- 4.1 Public Revenue Agency.- 4.1.1 Public Revenue Agency.- 4.1.2 Planning.- 4.1.3 The Reference Model.- 4.1.4 Planning Process Stages.- 4.1.5 Stages in Budget Estimating and Fund Allocation.- 4.2 Territory Agency.- 4.2.1 Organization.- 4.2.2 Planning.- 4.3 Customs Agency.- 4.3.1 Organization.- 4.3.2 The Reference Model.- 4.3.3 Strategic Planning and the Triennial Plan.- 4.3.4 Operating Programming.- 4.3.5 Management Control.- 4.3.6 The Agency Management System.- 4.3.7 The Customs Agency's Integrated Management System: The Subsystems Which Integrate it.- 4.3.8 Management Direction System.- 4.3.9 Characteristics of the Management Information System.- V. Conclusions

1. INTRODUCTION

The Italian Financial Administration is linked to the Department of Fiscal Policies (hereto forth DFP) and to four autonomous bodies: State Assets, Customs, Public Revenues and Territory. DFP collaborates with the Ministry in the areas of fiscal policy-making, regulatory design and in coordinating the activities of the different agencies, following the Ministry's mandate in connection to the Italian fiscal system.

The Public Revenue, Customs and Territory Agencies, according to their own competencies, ensure the enforcement of the tax system and are in touch with the taxpayers, verifying compliance with tax obligations and taking care of tax collection. The Agency of State Assets (public economic agency) manages the State real estate, maintaining and optimizing its use on the basis of service contracts yearly signed with the Ministry.

The areas of structure planning and control of the Financial Administration necessarily differ and are separate units. Nevertheless, they are integrated and coordinated in order to comply with the directives on fiscal policy issued by the Ministry.

In view of this, we shall firstly describe the evolution of the planning and control system at the fiscal administration, and then we shall provide details about the models applied by DFP and the Public Revenue Agency, Customs Agency and Territory Agency, respectively, and finally we shall put forth some conclusions.¹

2. ORIGIN AND EVOLUTION OF THE PLANNING AND CONTROL ACTIVITIES IN THE ITALIAN FINANCIAL ADMINISTRATION

The application of government models based on business management logics within the Public Administration in Italy dates back to the early 90s. Changes in the social and productive contexts in which the public subject developed (growing business dynamism and internationalization, increasing public debt, etc.) on top of community commitments derived from the European unification process, imposed a radical process of renewal in organizational and operational guidelines, with the incorporation of results-based management models.

Within this highly radical and innovating change, the priority was evolving towards management systems based on planning, programming and control criteria applied at strategic and managerial level, seeking coordination and complementation. In parallel, the creation and implementation of performance measurement systems resulted in a basic instrument for verifying the attainment of the set goals and for providing full justification for levying taxes and for using public resources.

¹ *The particular nature of the Agency of State Assets and its special mission do not allow for drawing a significant comparison with the planning systems adopted by the other fiscal Agencies.*

For the design of planning, programming and control systems in financial administration to be fully efficacious, it should be coordinated and complemented with the complex system of the overarching financial programming of the State. For the purpose of financial administration, this vehicle is two-pronged and particularly significant, because said administration is, in strict terms, the main enforcement instrument in fiscal policy and the result of the administrative activity is in good part made up of or identifiable with assessed or collected tax revenues.

From this perspective, the process begins with the presentation, during the month of June on an annual basis, of the FEPD (Financial Economic Programming Document), a true tableau de bord of all the economic and financial actions of the government. In fact, based on this document, the Government identifies the strategic macroeconomic objectives of a triennial period and lays the ground for the annual and multi-annual budget. The document also helps define the limits within which each Ministry, according to its competencies, shall contribute to the attainment of goals set to meet community demands. These programming guidelines are translated into specific resource allocations to the different budgetary items, which are presently based on an economic analytical accounting system based on cost centers, and is geared at the identification, analysis, verification and monitoring of costs, yields and results of the administrative actions. The instrument connecting the political and managerial spheres is the General Ministry Directive: this document is a key tool whereby each Ministry formalizes the available resources and the methods through which it plans to attain the pursued goals.

3. THE DFP SYSTEM

The model for strategic and general planning followed by the Department of Fiscal Policies, represents the evolution of the system previously developed by the former Ministry of Finance and still maintains its characteristics of unity and homogeneity.

The phases of strategic planning and general programming which we have outlined above, are jointly developed and are connected in two broad stages:

- 1) the "**upstream stage**": it begins when the Head of Department issues the programming directives and prepares, by gathering the proposals put forth by each Office, a Directive proposal and a draft management program.

- 2) the "**downstream stage**": it begins when the Directive is issued and concludes when the management program is defined and the operating goals are allocated to the heads of central Offices.

The control of achieved results in the area of planning, compared with the established goals, is carried out throughout the year and ex post, and is supported by a management information system, aimed at providing useful information for the evaluation of the individuals responsible for the results and for facilitating possible "course corrections".

Below, we shall analyze the concrete way in which these activities are organized by the Department of Fiscal Policies.

3.1 System roll-out. Stages

The main objective of the Planning and Control system is specifically identifying the Department's management goals, ensuring that the available resources are allocated to the different organization units of the DFP efficiently and efficaciously, to ensure said goals are effectively attained.

The Ministerial Decree of November 21, 2001 (identification and regulation of non general managerial offices in the Department of Fiscal Policies) assigned to the Office of Internal Accountability the role of collaborating with the Head of Department in the definition of multiannual plans, budgets and action plans, by means of managing the sources feeding into said processes. The Decree also suggests to the Head of Department possible corrective measures to be applied, and the office also identifies and proposes possible corrective measures to be applied to management processes and defines the criteria for allocating costs to the offices and to the services delivered by the Department.

DFP's Planning and Control System consists of two components:

- A structural component, for the identification of the subsystems to monitor (for example, organization units or processes) and of methodologies for accounting and non-accounting measurements;
- A process component, referring to the management activities in the different stages of planning and control (for example, methods and terms in budget estimation, use of reports, etc.)

In the system design, certain elements which are part of the model basis have been identified, and instruments to allow for their implementation shall be created. With special regard to the purpose of adjusting the Planning and Control system to the new organizational structure, certain points have been identified:

- Responsibility Centers (RCs): the basic budget for the planning and control system should be designed so that it may measure the economic effects of the activities within the responsibility of each head of area. From this perspective, DFP's organizational structure allowed for the identification of Responsibility Centers, thereby having each organization unit led by an individual who is ultimately responsible for all the specific and relevant tasks from the management point of view. The RCs allow for measuring the effects of the decisions made by their Heads of area and are, therefore, the basis of the management control system. They represent special "subsystems", which coincide with the organization units of the departmental structure.

Since this structure is organized in a vertical sense, the responsibility centers have been disaggregated into several levels, so that the responsibility centers of the higher levels are in turn responsible for the results of the centers at the lower levels.

We have therefore identified:

- o 4th level RCs, corresponding to organization units called "sections", which report to an "area";
 - o 3rd level RCs, corresponding to organization units called "areas" or "sections" reporting directly to the "offices";
 - o 2nd level RCs, corresponding to the "offices" or, in more general terms, to all organization units reporting directly to the Head of Department;
 - o 1st level RCs, whose top responsible individual is the Head of Department. The responsibility for and control of results are the competence of the political Authority;
- Cost centers: within the sphere of RCs, Cost Centers have been identified, that is, the centers which are responsible for how and when to use the allocated resources. For the purpose of identifying the Cost Centers, all the cost-generating elements have been considered, that is, all the elements which are ultimate recipients of the costs.

A set of cost-generating elements constitutes a cost center.

For the purpose of defining the list of cost centers within DFP, the criterion followed was homogeneity of the activities carried out and of the activated processes, thus reflecting the organizational structure of DFP. The management organization chart for cost centers included four different levels. The fourth level was assigned to the "elementary" cost centers, therefore, the other levels represent cost aggregation centers.

In the specific case of the Department, identified as a whole as Responsibility Center reporting to the State General Accounting Department, the structure consists of 11 2nd level cost centers, listed below:

1. Offices directly reporting to the Head of Department
2. Office of Economic and Fiscal Studies and Policies
3. Office of Legal Tax Studies and Policies
4. Office of Fiscal Agencies and Entities
5. Office of Resource Administration
6. Office of International Relations
7. Office of Fiscal Federalism
8. Office of Institutional Communication
9. Office of Coordination of Information Technologies
10. Central Tax Commission and Presidents Council of Fiscal Justice
11. Peripheral Tax Commissions

The cost center of the peripheral Tax Commissions is clearly the grouping of all the commissions, both regional and provincial, distributed throughout the national territory, which represents 3rd level cost centers.

- Institutional missions: regarding the goals to be attained, Institutional Missions have been identified, representing the general goals and purposes of the Administration.
- The nature of costs: Analyzing the cost items of DFP the necessary costs for its operation were identified. Said costs have been grouped in terms of their nature. The classification based on nature is based on the physical and economic characteristics of the resources used in the productive processes. The grouping was made at three levels, according to annex "B" of Legislative Decree N° 279/97.

- Cost allocation methods: regarding the connection between cost and structure (cost center) or the purpose (institutional mission), costs are split into direct and indirect costs, according to the allocation methods used.

A cost is defined as direct cost when it is directly chargeable to the cost center, as long as the use of its resources depends upon the head of the center. Staffing costs, for the "sector/function" and "missions" items within the plan of accounts, are always considered direct regarding the cost centers, since it is presumed that the use of human resources always depends on the head of the center. The indirect cost, on the contrary, corresponds to the use of resources which are not directly correlated to the cost center, since their use does not depend, or depends only in part, on the individual responsible for said center. In general, indirect costs are those referred to logistics (rentals, services, real estate maintenance, facilities and machinery, amortization of real estate purchases, infrastructure and machinery for general use on the part of the Administration), auxiliary services (surveillance, cleaning), information services, except those directly managed by the center itself. Once the indirect costs of several cost centers have been identified, these are charged on each one of the centers on the basis of specific charging parameters. The parameter used for cost charging is that which best expresses the use of resources by the structures, and is also the one which may be more easily obtained, that is, the number of man hours consumed by each Cost Center. Therefore, the man hour parameter is consistent with what the State General Accounting Rules indicate in its provisions referred to a single economic accounting system for cost centers in public administration and it allows, besides, for unification and comparison of data gathered by the administration. The mentioned parameter is used both in the preparation of the Budget and in the economic accountability exercise. Adding the direct costs of a cost center to the indirect costs charged to it, the full cost of the cost center is obtained. Regarding the connection between the cost and its destination (institutional mission), a cost may be defined as direct when there is a relation between the development of the corresponding activities and the use of the corresponding resource, so that if one varies, the other does as well. Staffing costs, for the "sector/function" and "missions" items within the Plan of accounts are always considered direct, not only with regard to the cost centers, but

also regarding the Institutional Missions, since it is presumed that there always exists an immediate and measurable correlation between the use of the human resource and the development of the activities related to the Mission itself. Indirect costs relative to the cost centers are also generally considered indirect regarding the institutional Missions and should be allocated to them on the basis of a proper parameter. In this case also, the cost allocation parameter used is the one which best expresses the use of the resources on the part of the missions and is besides the one which is more easily obtained. This parameter is that of man hours consumed by each one of the Institutional Missions (or by the process/product, when a more in depth analysis is sought). It should be underscored that some direct costs for the cost center may not be so for each one of the missions attributed to it. In this case also, said costs shall be distributed on the basis of the identified parameter. On the other hand, it is necessary to point out that:

- o The classification is not closely linked to the cost nature, in the sense that the same type of cost may be identified sometimes as direct and sometimes as indirect cost. Rentals, for example, are directly posted on each one of the Secretariats they refer to, whereas they are indirectly distributed for the Central Offices.
- o The same cost may be considered direct regarding a cost center, as long as it refers to a resource acquired and directly managed by the center, and also indirect regarding the missions developed by the center.
- o Oftentimes, due to the difficulty in obtaining cost-related information, a cost which could in theory be considered direct could be treated as indirect, given the difficulties in its direct charging to the centers or the missions

3.2 The Plan of accounts

The expense items in the State budget involving DFP have been the object of analysis which led to identifying the types of accounts included in each one of the items and reformulating them so that several accounts may correspond to one item but only one item may be assigned to each account.

The Plan of accounts for economic accounting used at the Department of Fiscal Policies is the tool containing all the identified accounts for describing the economic phenomena, and in part the net worth phenomena, which have involved the Department at the time of accountability, or which shall involve the Department at the time of programming.

Therefore, it is an instrument for the classification of the different types of function costs generated in the development of the activity.

Said Plan is closely related to the Single Plan of Accounts mentioned in Heading II of Legislative Decree N° 279 of August 7, 1997, which constitutes the key link between the Public Administration and the State General Accounting Department.

The Department's Plan of accounts is comprised of four levels in terms of functioning costs, pursuant with the principles currently applied and issued by the General Accounting Department. The estimates and the survey of the functioning costs should be carried out at the 2nd level, except for amortizations, where it is necessary to apply the 3rd level.

More specifically with regard to management control, it is worth pointing out that, in connection to the executed budgets and balance sheets in the different responsibility centers of the 2nd level (Central offices), the charging of costs is made on basis of the man hour criterion used in economic accounting for all sorts of costs, excepting the direct charging of operating and IT investment costs.

It is also necessary to stress that, regarding the projects included in the General Directive for administrative action and management, the amounts of resources, both planned and executed, are determined as the summation of the human resources costs (in man hours), planned and absorbed by the project, and the financial resources foreseen for the Technical Automation Plan for operating and IT investment expenses which have been effectively used.

3.3 The reporting and accountability model

Models referred to accountability process outputs have been defined, that is, the systematic gathering of data and information in the organizational structures, geared at permanently knowing the management results, which is the basis for directional and strategic management control.

In view of the provisions contained in Legislative Decree N° 300/99, specially paragraphs 24 and 56, and with the purpose of surveying and analyzing the respective costs, there has been a proposal to update the functional classification of the activities in connection to the institutional missions attributed to the Department of Fiscal Policies.

3.4 Operation

The full operation of the planning and control system was achieved, at all organization levels, through the following phases of operating programming of activities:

- Designing the guidelines for programming the fiscal year's activities, on the basis of the development and enhancement goals defined in the General Directive for administrative action and management, and notifying the individuals who are responsible for 2nd level RCs in the Department.
- Designing the instructions for directional programming, which will be the basis for directional programming proposals and their presentation by the RCs of the 2nd, 3rd and 4th levels of the Department;
- Organization of meetings with all Office Directors and with the individuals who are responsible for lower level RCs, with the purpose of collaborating and accompanying the development of the activities aimed at defining and designing the directional programming proposals;
- Defining, at the 3rd and 4th level RCs in the Department, a proposal for operating programming of the activities for the year 2003, to be submitted to the individuals who are responsible for the 2nd level RCs;
- Designing, on the part of all the individuals responsible for the 2nd level RCs of DFP, a proposal for annual operating programming of the activities to be submitted to the Head of Department;
- Gathering operating programming proposals and organizing meetings with the Office Directors and the individuals responsible for lower level RCs, with the purpose of going over said proposals;
- Drafting of the final annual program and assigning the operating and project goals, through a provision issued by the Head of Department to the individuals responsible for the 2nd level RCs;

- Assigning, by the Directors of 2nd level Offices, the operating and project goals to all the 3rd and 4th level RCs of the Department.

Accountability is achieved by means of the following stages:

- Preparing a grid describing processes and macro processes, agreed upon by the different organizational levels, which responds to the organizational model, to be used for the programming activity and on the basis of which, thanks to the "destination-defined resources" IT process, the human resources used in each one of the processes into which all the Department activity has been disaggregated can be analyzed;
- Preparing an output list for each operating and project goal to allow for better control over the results;
- Developing training/reporting activities on programming management and control activities, specially aimed at senior officials;
- Identifying a "structure" at each 2nd level RC, which may develop the liaison function with the Office for Internal Accountability in the Department;
- Partial stages throughout the year for accountability of the results achieved and the resources used by each 2nd, 3rd, and 4th level RC.
- Checking on the progress of the activities developed on the basis of the plan;
- Implementing management initiatives to overcome possible obstacles in the attainment of established operating and project goals;
- Preparing accountability processes at the Department for the Internal Control Service;

The results achieved through the implementation of the Planning and Control System may be summed up in the following points:

- More attention to process cost allocation;
- More attention to resource use in operating activities;
- Better knowledge of the cause/effect relation between goals assigned to the different RCs and between these and the strategic goals of DFP;
- Designing a quantitative measurement of results which allows for identifying the degree of DFP's compliance with the strategic goals;

- Senior officials performance assessment based on the degree of compliance with the DFP goals and RC goals (for the part included in the performance assessment system)

3.5 Perspectives

DFP intends to adopt the approach of the Balanced Scorecard (BSC), developed at Harvard Business School by Professors Kaplan and Norton, for management planning, programming and control. In fact, we consider that this approach is instrumental for better communication (and higher consensus) of the strategic and operating goals and for greater relevance and possibility of measuring these goals. This approach, besides, allows for greater consistency in the programming process through better connection of the goals derived from the Directive with the goals set by the Offices, as well as more efficacious commitment by the structures in the proposal of said goals.

Among near future developments we may outline:

- Defining a reference grid for monitoring the attainment of the goals assigned to the Offices during their development. For this purpose, it is key to prepare an indicator system, both quantitative and qualitative;
- Designing a "news flash" methodology, to systematically account for the goals achieved during the period, as well as the criticalities and expectations on achievement of expected results at the end of the period;
- Correlating the measurement system and the incidence of the strategic and operating goals with the senior officials assessment system;
- Communicating the programming competencies even through specific training initiatives.

4. TAX AGENCY PLANNING

The advent of the Agencies is part of the restructuring processes of public administration geared at improving the services rendered to the citizens and in connection to civil society, in an attempt at reducing the burden of the resources needed for the operation of the bureaucratic apparatus.

The Administration's reform, passed through Legislative Decree N° 300 of July 30th, 1999, implied the adoption of new organizational models, transferring the operating activities to structures characterized by greater management autonomy.

The Fiscal Agencies for the areas of Customs, Revenues and Territory created by the mentioned decree, have become operational since January 1st, 2001.

Said agencies are non economic Public Entities, and operate with full managerial and operating responsibility with regulatory, administrative, net worth, organizational, accounting and financial autonomy and are subjected to control by the Ministry of Economy and Finance.

The provisions which regulate its operation are submitted to the Ministry, who may decline his approval, on merit or legal grounds.

The Agencies organizational model is based on the delegation of the fiscal system operating management to bodies with economic and managerial autonomy and on formalizing, through an agreement (between the Minister of Economy and Finance and the Fiscal Agencies, prepared by the Department of Fiscal Policies) on the goals to achieve on the basis of the expected results in public finance and the Minister's directives.

The Agreement has a three-year horizon, with annual adjustments made each fiscal year. It includes the goals to be attained and the human resources to be allocated to said purposes within the financial resources allocated to the Agencies through the National Budget Act.

4.1 Public Revenue Agency

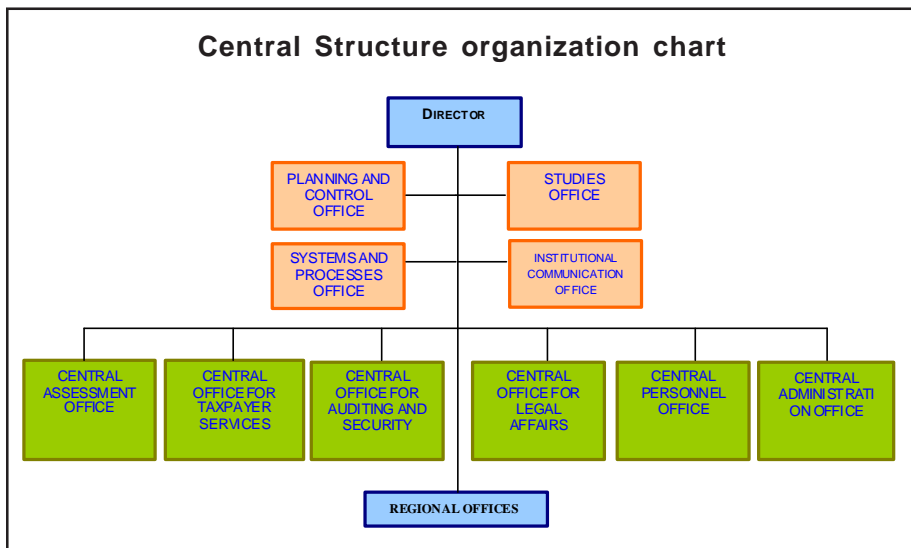
The Public Revenue Agency, in the development of its institutional functions, pursues the following objectives:

- Simplifying relations with the taxpayers;
- Improving the assistance and information services;
- Strengthening measures against tax evasion;
- Seeking the highest efficiency, even through innovating organizational and planning models.

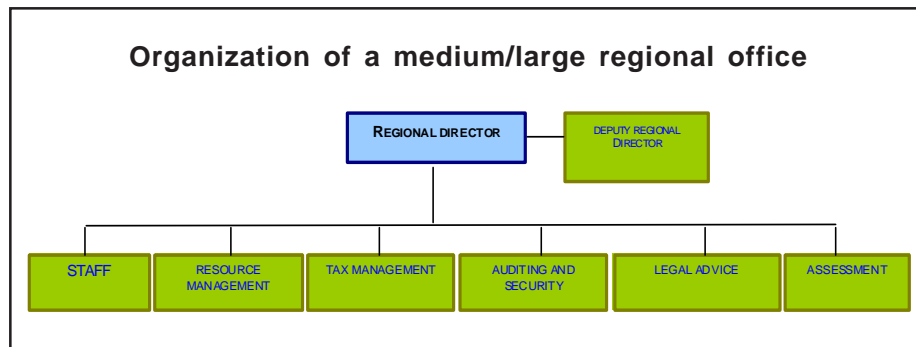
4.1.1 The organization

The organization consists of central and regional offices, with the main functions of programming, guidance, coordination and control, and of local offices, with operating functions (For. 2 of the Administration Rules for the Public Revenue Agency)

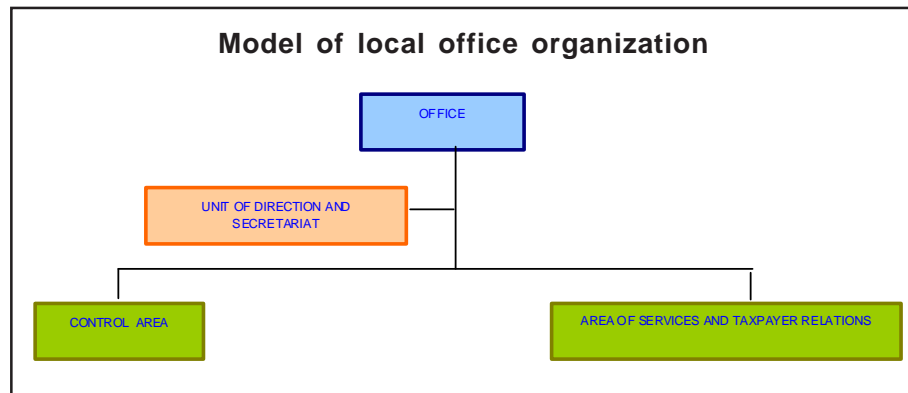
At central level the structure is comprised of 4 Agency Director staff offices and 6 Central Offices.



At regional level, the Agency is divided into 19 Regional Offices and 2 Provincial Offices (Trento and Bolzano), which exercise the functions of programming, guidance, coordination and control, and into peripheral offices, which also develop operating activities particularly relevant in the areas of tax management, assessment, collection and contentious affairs.



To ensure the distribution of financial administration, there are approximately 380 local offices throughout the territory, which provide the citizens with assistance and information services and develop measures for fighting against tax evasion.



Seeking to strengthen user service, Multichannel Assistance Centers (MAC) have been created, which may be reached over the telephone from any point of the national territory, to provide the taxpayers with information on the status of their fiscal errands, tax obligations (regulations, deadlines) and on taxpayers' fiscal situation (tax returns, rebates), as well as assistance in electronic submitting of income tax returns.

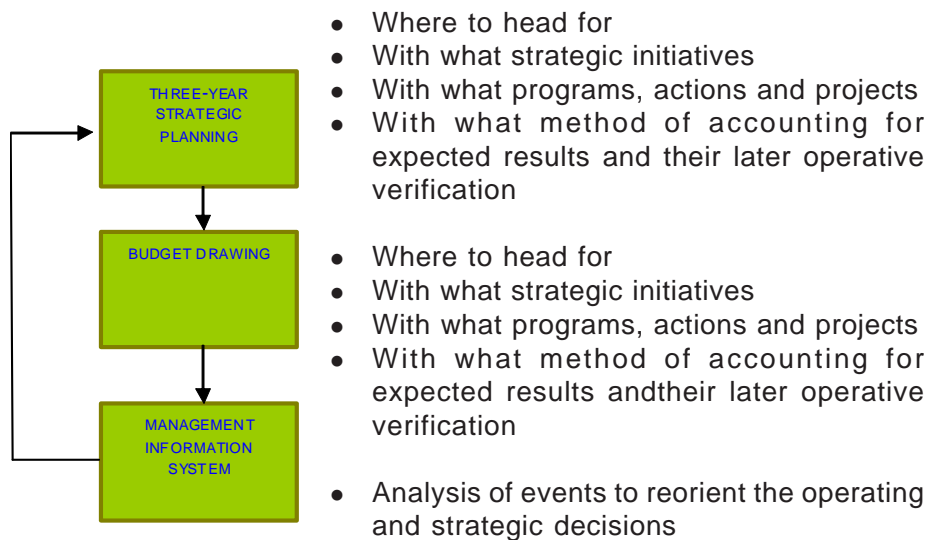
4.1.2 Planning

Planning is of utmost importance, since it is the process which, on the one hand, leads to the construction of the best possible strategy within the limits of available resources, responding to the organization's characteristics and to management's capabilities, and on the other hand, translates the strategic vision into operating instructions for putting it into practice.

The three-year strategic plan, which is the final output of the planning process, is the formalization of this result and is a basic reference for the organization at all levels. The latter includes:

- The definition of strategic decisions and control of their validity;
- The transformation of strategic decisions into action programs and objectives defined over time (budget) and assigned to the different organizational levels;
- The control of consistency among strategies, action programs and objectives and results as they are achieved.

The process is based on the following structure:

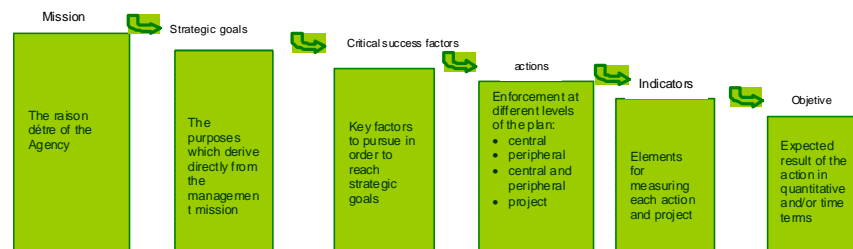


4.1.3 The reference model

The planning process and the corresponding management of strategic actions are achieved on the basis of a consolidated approach within the performance systems at managerial level, known as Balanced Scorecard (BSC). The goal of the BSC is transforming the mission, vision and strategy into a series of goals which may be related at all levels of the organization (central and peripheral).

Once the goals have been defined, the strategic components are linked to the operating elements, that is, strategic goals are transformed into critical success factors (CSF); then the initiatives/actions which shall contribute to attain them and which may be more easily measured are established.

On the chart below, we have represented, under the BSC logic, the planning stages, which from the mission of the Public Revenue Agency reach the definition of each one of the actions (with indicators and target).



4.1.4 Planning process stages

The three-year plan based on the political guidelines (Directives and Budget Act) which have a determining impact on the activity of the Agency, is the input for the process of annual budget drawing, for the negotiation of the Agreement with the Minister and for the formal allocation of the Budget to the internal Agency structures.

The generating process of the triennial strategic plan includes central and peripheral Agency structures. This plan is the point where all considerations on actions to be undertaken by managerial staff at all the involved organizational units meet. Throughout the process, the Planning and Control Office serves as "facilitator", wide spreading the operating indications and coordinating the different stages.

4.1.5 Stages in budget estimating and fund allocation

The process of budget estimating starts with the intention of pursuing the strategic goals set for each three-year period, already formalized in the Triennial plan and as full response to the objectives expressed by the Minister of Economy and Finance in the Directives.

The system for budget estimating foresees the formulation of productive and economic components referred to the different objects, by filling in the corresponding charts, each one of them referred to a specific analysis component (productive or economic) for each type of object.

The first stage of budget estimating involves, in the first place, the Central Offices and the Planning and Control Office, with the role of defining and/or updating their operating logics.

The Planning and Control Office is specially charged with wide spreading these principles to all the involved organizational units, thus relating the budget process to the corresponding methods for its preparation.

Likewise, it activates the involved subjects and defines the expected outputs and the execution terms.

Always at this stage, the PCO prepares the necessary material for budget estimates on the part of 2nd and 3rd level structures (regional offices and operating offices). The PCO, specially in collaboration with the higher central structures, confirms/updates the data on products/services, actions/activities and projects and on the Cost Centers which are part of the budget process, and then indicates, for each surveyed object, the structure involved and the surveying instruments and methods.

For this purpose, the Planning and Control Office prepares a draft grid showing the meeting point of the actions derived from the triennial plan and the budget objects, on the basis of which the central higher structures indicate, each one for the activities which are part of its competence, the data to post in the budget of the following fiscal year, providing details about the criteria used for the survey of the respective indicators.

Then, the PCO prepares a draft classification of the excellence levels surveyed in practice (best practices) for each area of employee management which, once the Central Offices which are functionally competent have evaluated them, become the basis for determining the human resource requirements.

Once this stage is over, the higher authority of the Agency, after having received the contents of the Directives issued by the Minister of Economy and Finance and considering the evaluations of the functionally competent Central Offices, indicates the budget goals for each strategic area.

Then, with PCO collaboration, a report is prepared including the budgetary guidelines (Budget letter) which, once signed by the Agency Director, is sent to all the Central and Regional Directors.

The contents proposed in budgetary guidelines are the basic principles on which the structures involved in the budgetary process shall focus the core of their budget proposals.

At this stage, the Central and Regional Offices, based on the indications included in budgetary guidelines, as well as on the pre-evaluation data corresponding to the previous fiscal year, on the elements contained in the first year of the triennial plan, with the purpose of confirming or possibly updating the plan proposal made at the time of drawing the triennial

Plan of the Agency, are invited to submit a preliminary budget proposal which is later analyzed and confronted during the meetings coordinated by the Planning and Control Office.

All the elements prepared by the structures which have participated in the budgetary process within the stage described above, are discussed and confirmed throughout a cycle of meetings between the central and regional structures, coordinated by the PCO as facilitator, in order to arrive at a commonly agreed definition of the respective budgetary proposals, according to the established working calendar and agreed upon by the involved structures.

The budgetary elements thus determined are the basis for the later budgetary estimate on the part of the 3rd level territorial structures.

After validating the budget proposal at central and regional level and pursuant with budgetary guidelines, begins the later stage where all the structures which have been part of the budgetary process indicate their estimates for the following fiscal year, which consist of the following components:

- Production budget, divided into:
 - Production budget for products and services (differentiated according to the type of structure involved in the budgetary process);
 - Production budget for projects;
- Human resource budget and allocation of the latter to the different budgetary items;
- Economic budget.

After consolidating the budgetary data indicated by the offices involved in the process, the budget proposal thus prepared constitutes the first version of the Agency budget, whose contents are verified by the competent grouped structures. During said verification the stage of optimization/negotiation among the different levels of the structure may be activated, during which possible changes may be suggested, which will be directly included in the budget items by the structures involved in the process and which shall become the final version of the Agency budget.

In parallel, the PCO and the Central Administration Office, once the budget proposals for the projects have been consolidated, will inaugurate a stage of technical and economic verification of the presentations made by each unit. The result of this verification (which will generate a report which shall be submitted to the Commission on project evaluation and expense control) shall be submitted to said commission for confirmation and final approval of the Plan. This will be the basis, on the one hand, on which to sign the annual executive contract with partner Sogei, and on the other, for the Agreement with the Minister.

All budget estimates referred to production volumes, human resources and their corresponding allocation and economic resources, should then be posted on the Agency integrated system (currently OFA - Oracle Financial Analyzer). The methods and the necessary terms for the eventual transfer of budgetary data to the integrated system shall be established at the beginning of each budgetary cycle and shall be timely communicated through specific operating instructions issued by the Planning and Control Office.

The data residing on the system, once the final version of the budget has been approved by the higher Agency Authority, shall become the goals assigned to each organizational structure.

After the negotiation stage with the structures which have been part of the budgetary process, the Regional Offices shall present version V1 of the budget to the functionally competent Central Offices for them to verify the contents and the consistency of the data regarding the budgetary guidelines.

At this point, if changes should be necessary, they will be added and they shall become part of an eventual version V2 of the Agency budget (to be used as a reference for the negotiation on the elements to include in the Agreement).

On the other hand, if during the negotiation between the Agency and the Ministry of Economy and Finance, there should be additional changes in some elements of the budget cycle, the latter shall be taken into account and could lead to a new approval of the budget. If no further changes are needed, the proposal shall become the final version of the budget to allocate to the heads of structures and project leaders.

4.2 Territory Agency

The Territory Agency develops its institutional functions and obligations bestowed upon it, ensuring:

- Services referred to land registration, mapping and surveying services, and real estate advertising services;
- Designing an integrated register of real estate assets throughout the national territory;
- Integration of state activities referred to this area with those attributed to local agencies;
- Managing the Observatory of the Real Estate Market;
- Offer of technical and assessment services;
- Support in the process of decentralization of land register management functions towards local agencies.

4.2.1 Organization

The Agency consists of the Agency Director, the Management Committee and the Auditing Department.

The Agency is divided into central and regional structures, whose main functions involve programming, guidance, coordination and control, and into provincial offices, charged with operating functions.

The individuals responsible for the higher central structures report to the Agency Director, the individuals responsible for higher regional structures report to the Agency Director in the hierarchical sense and to the central structures in the functional sense. The other regional directors report to the Deputy Central Director of the Central Mapping, Land Registration and Real Estate Office in the hierarchical sense and to the central structures in the functional sense.

There are 19 regional offices and they are responsible for managing the goals and the resources in their geographical area of competence, especially:

- a) Ensuring the planning and control processes, defining goals and resources with the dependent provincial structures and with the central structures in the process of budget preparation;
- b) Taking care of coordinating the operating management of the services rendered by the provincial structures, assuming joint responsibility for the results;
- c) Exercising the decentralized functions not attributed to provincial structures;
- d) Managing the relations with the region and coordinating the set of relations with the system of local autonomies and respective associations.

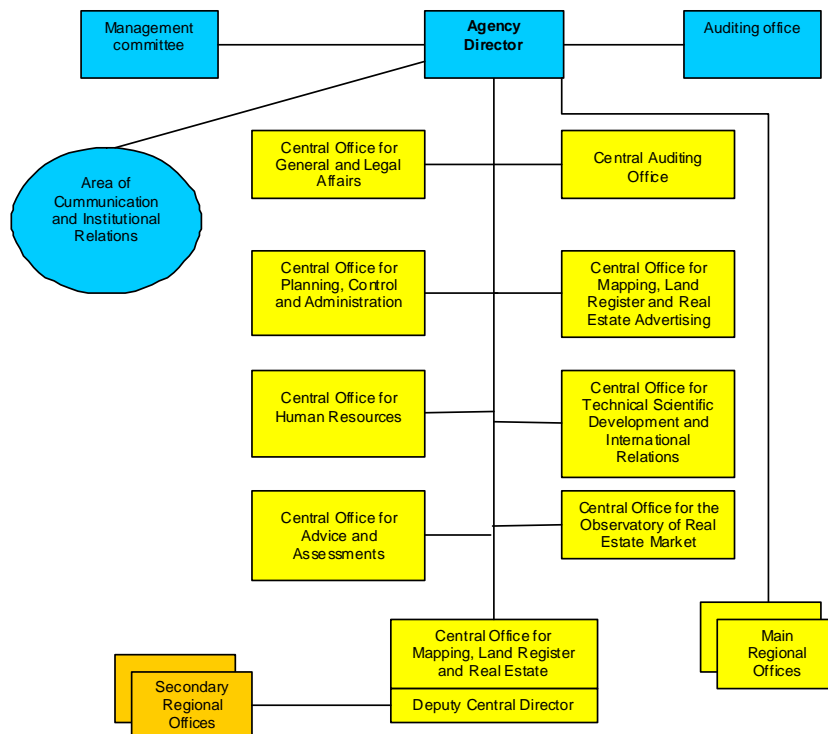
Regional offices are located in the capital city of each region, except for the office at Trentino Alto Adige. In fact, the provincial Offices in Trento and Bolzano report to the Regional Office of Veneto.

In the regions of Basilicata, Molise, Umbria and Valle d'Aosta, where only two provincial offices operate, the regional office also assumes the operating functions which correspond to the provincial office of the capital city.

Provincial offices have their headquarters in the province capitals, and they mainly develop operating functions delivering services to the Agency in the provincial sphere of competence and they take care of the relations with the municipalities and the other local agencies, even in matters relative to the signing and management of agreements, as they develop the management functions assigned to them. Within the framework of the programs planned by the central structures, the provincial offices cooperate among them developing operating functions referred to provincial affairs outside their competence, using electronic technological solutions.

The provincial offices report to regional offices with which they define, within the framework of the budget preparation process, the goals to pursue and the related resources, responding to them in connection to management monitoring and in the event of collaboration and coordination requirements to them.

Organization chart of the Territory Agency



4.2.2 Planning

The relations between the Ministry of Economy and Finance and the Territory Agency, whose activity is geared at ensuring the "quality" of the services rendered to the users, specially those rendered to citizens in connection to land registration and filing activities and also granting "equality" in services related to real estate taxation, are regulated by the "Agreement" whereby, based on the Minister's directives, they define:

- The goals to attain and the terms to comply with;
- Strategies for optimization;
- Available resources (with regard to the State Budget);
- The indicators on the basis of which management evolution will be measured.

Regarding the goals set by the Agreement, throughout the year the Department of Fiscal Policies carries out two monitoring processes in order to gather the necessary information for the development of the agreements with the Agency (by May 31 and September 30). At year end it verifies results, identifying the causes of eventual diversions.

This phase for programming the commitments agreed with the Ministry of Economy and Finance is accompanied by an internal planning and control phase at the Agency, where the budget process which is part of the latter is included.

The Agency, through operating procedure N° 60/2003, defines the budget as an "organic budget document on the basis of which the Agency carries out all its programming and control activities".

There are different types of budgets:

- **The physical-technical budget** which contains all the quantitative elements referred to the results of the activity and the human resources used. The sphere of application includes production, structure activities, the corresponding use of human resources and efficacy indicators.
- The **operation budget** which includes the number of all the economic resources made available to the Responsibility Center (RC) which it is authorized to use.
- The **investment budget** which includes all the expenses for the purchase of financed goods and services with resources allocated

to the investment account. It may also extend to costs, direct and indirect, involved in the use of internal staff, as long as the latter is destined to investment specific projects.

- **The budgetary process** is the support for the formulation of the Agency Plan, which is the basis of the commitments that the Agency undertakes, through the Agreement, with the Ministry.

Therefore, the budget:

- Identifies the goals, construed as activities, and the resources made available to the structures so that they are able to attain them;
- It is the reference, for the control activity, to assess the degree of goal attainment.

Before beginning the budget process it is necessary to carry out some previous activities, aimed at preparing the two fundamental elements to set the process in motion:

- a) The guidelines which are the reference framework within which the budget is designed and which help translate the strategic framework of reference into operating instructions for the responsibility Centers;
- b) The operating instructions which allow for the regulation of the budgetary process, in its concrete temporal development and in the use of instruments, providing the process players with all the necessary indications, based on the roles they play.

Once these activities are over, the budgetary process begins, which is divided into several stages:

Pre-evaluation: it is the best possible estimate of results of the current year, and it is used, for budgetary purposes, as a way to count with a realistic basis for the following year's programming, for which the main responsibility for the information contained in pre-evaluations lies with the organizing level closer to the operating areas.

Initial proposal for 1st level budget: it is made by the Central Office for Planning, Control and Administration, which is the organic transformation of the guidelines into quantitative terms, both regarding the technical-physical dimensions and the economic ones, and it aims at serving as "matrix" for the following production process, with automatic mechanisms, for the initial proposals of the budgets for the

basic levels (2nd level RCs for the Central Offices, 3rd level RCs for Regional Offices and Provincial offices).

Preparation of budget proposals: this process is divided into 2 stages, each one having a different goal and development, to be attained on the basis of the working calendar defined by the Central Office for Planning, Control and Administration:

- a) Budget proposals for the basic levels, which allows the basic level RCs to change, in certain conditions and following the appropriate rationale, the proposals automatically derived from the initial budget proposals put forth by the 1st level. This stage is geared at receiving proposals, requirements and specifications expressed by the levels which are closer to the effective operating areas, adjusting them in accordance with the preset goals and the available resources.
- b) Review of the budget proposals for the basic levels, which regulates the negotiation between the basic level with the immediately higher level, of the developed budget proposals. The review of the basic level budgets implies, automatically, that of higher levels.

Final proposal of the Agency budget: this stage allows for the consolidation of the budget, with coordination by the Central Office for Planning, Control and Administration, and for verifying that it adjusts to the guidelines.

Review of the budget proposal: eventual stage in the budget process, which occurs in the event of changes deemed necessary by the Agency Director, including those cases when it is necessary to change the proposal so that it stays consistent with the indications arising during the signing of the agreement with the Minister.

Approval of Agency budget: the budget proposal is presented to the competent bodies for approval (Directive Committee for economic-financial objectives and corresponding expense considerations for higher central and peripheral structures; Agency Director for technical-physical budget).

In order to solve the limitations of the traditional monitoring model, as well as to transform the competitive strategies into performance indicators, ensuring balance in short-term services, in order to have superior competitive services which can be sustainable over time, as

of 2004 the Balanced Scorecard has been adopted in the management monitoring process, both by the Department of Fiscal Policies and by the Territory Agency, which is an instrument designed to breach the gap between the strategy development and implementation.

4.3 Customs Agency

The Customs Agency is charged with the development of services corresponding to:

- The administration, collection and contentious affairs of Customs duties and of the internal fiscal system in international trade;
- Taxes on specific consumption

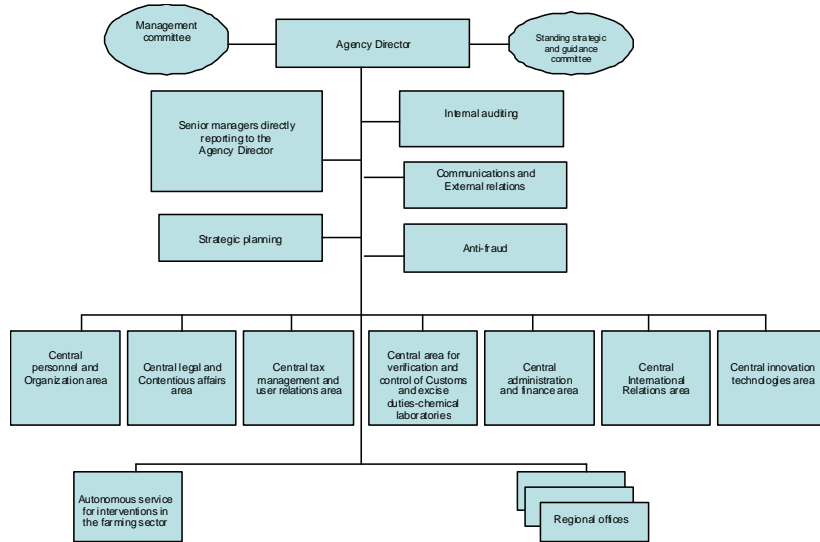
The Agency operates in close connection to the European Union bodies within the framework of harmonization processes and the development of European unification. The Agency is also charged with the functions arising from European Union treaties or from other international acts and conventions.

4.3.1 Organization

The Customs Agency is divided into central and regional offices, whose role includes programming, guidance, coordination and control, and into Customs offices, with operating functions.

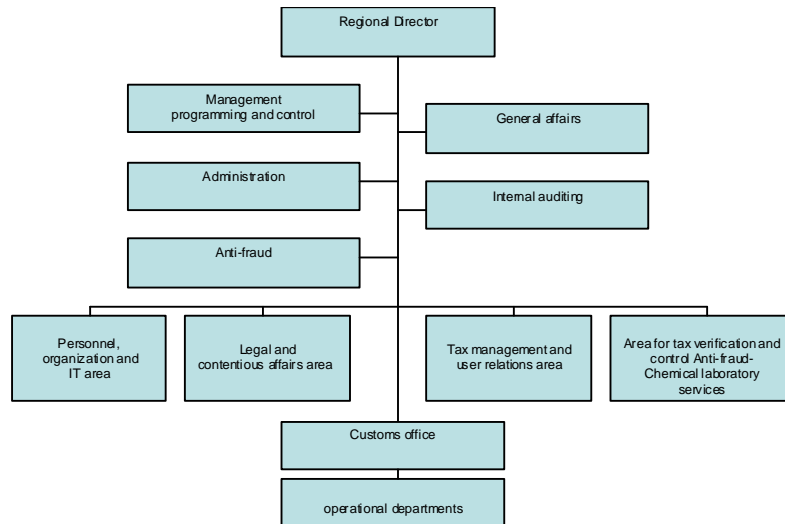
At central level, the structure is made up of 4 staff offices for the Agency Director, 7 Central Areas and the ASFSI (Autonomous Service for Farming Sector Interventions)

Central level organization chart



At regional level, the Agency is divided into 14 Regional Offices which exercise programming, guidance, coordination and control functions over the Customs offices. They also carry out operating activities of particular relevance to the tax management, assessment, collection and contentious affairs areas.

Organization of a medium/large regional office



There are also 116 Customs Offices in the territory which - after the reform brought about by Legislative Decree N° 300 - absorbed the competencies of the suppressed Customs jurisdictions, the chemical laboratories and the financial technical offices. Other peripheral structures are included in the plan wherever they become necessary, the so-called TOS (Territorial Operating Sections). The process of setting the Customs offices and TOS in motion is still under way.

4.3.2 The reference model

To manage and measure performance the Agency applies a structured system of "Planning and Control" - defined in accordance with the institutional and operational context of reference, with the general missions and objectives within their competence and which is functional to the adopted organizational model.

The Customs Agency, just as the other fiscal agencies and within the framework of the broad autonomy granted to said bodies by Legislative Decree N° 300/1999, adopted an integrated management system capable of relating all the management functions in a single planning and control system, as well as the management and organization of all the activities of the structure, persuaded that in order to ensure the right business leadership, it is key to count with reliable and timely information.

The budget estimating system foresees the following functions:

- **Budget model:** this mechanism designs the budget, manages details and the allocation of resources to direct demands. The budget is an estimate which should represent the best possible hypothesis of the management costs for the fiscal year and which defines the number of economic resources available for the development of the activities and the achievement of objectives.
- **Process of economic and production budget:** it consists of the design of the organizational and decision-making process; the programming of production volumes and the allocation of human/economic resources to the activities.

- The annual Agreement signed between the Minister of Economy and Finance and the Agency Director, defines the amount of the transfer with which the Agency will have to face all the expenses referred both to management charges and investments.
 - The Agency Director allocates to regional Directors, with reference to the established objectives, the necessary financial resources as foreseen on Para. 4 of the Accounting Rules.
 - The 2nd level RCs allocate to the depending offices, with reference to the established objectives, the necessary resources for their achievement.
 - The budget thus defined represents, for each RC, the cost objective established for the attainment of the assigned objectives.
 - The heads of the offices constantly monitor the flow of expenses so that the limits of the assigned budget are not exceeded, as foreseen on paragraph 15 of the Agency Accounting Rules.
 - The budget estimate shall be made considering the executed historical data, so as to ensure the attainment of the established objectives.
-
- **Allocation and distribution:** this function allocates the personnel costs to different destinations, and previously quantifies by destination the costs referred to the purchase of goods and services, and also manages amortizations corresponding to each destination.
 - **Simulation:** allows for simulating personnel costs, the consistency of human resources and the respective available hours, the activity Plans, the balance of costs and income and the costs corresponding to the purchase of goods and services.
 - **Management information system:** provides the reports on economic and technical-physical programming.

Planning and control are the moments of a cyclical process which allows for:

- Definition of long-term goals and the corresponding lines of action;
- Programming short and medium-term operating activities;
- Monitoring and eventually correcting the plans, to guarantee the achievement of the established objectives.

Therefore, management control helps understand if the progress of activities will allow for attainment of the established long-term goals and, eventually, which are the causes of diversion and the possible and most appropriate corrective actions.

A system of planning, programming and control seeks, therefore, the basic goal of granting quality to the decision-making process in each one of the hierarchical levels and for each "moment". The decision-making processes are strictly related and integrated; the usefulness of control depends on the planning quality.

The Public Administration, unlike private businesses, is not characterized by profit seeking, but rather pursues different, and sometimes changing, objectives. Oftentimes it is not possible for Public Administration to define "business" objectives, such as operating profit target, market shares, etc. But despite these difficulties, it is necessary to ensure the efficacious management of structures, through the programming of operating objectives which minimize the discretionality margins, assign responsibility to the managerial level and ensure levels of management efficacy, efficiency and economy.

The definition of said goals is an activity based on the evaluation of the expected results regarding the available resources and foresees analysis and quantification processes which, sometimes, are relatively simple whereas in some other cases they present remarkable margins of complexity and discretionality, in the case when they are conditioned by factors falling beyond the scope of the Administration.

The definition of the goals is not the only management control activity, since it is necessary to know to what extent and with how many resources the programmed goals have been reached. Therefore, it is necessary to assess the administrative action from the point of view of efficacy, efficiency and economy.

4.3.3 Strategic planning and the Triennial Plan

Planning leads to knowing and determining, in the best possible way, the "course of events" through the anticipated definition of the best decisions and the evaluation of the impact that these could generate, so as to maximize the degree of attainment of the expected goals.

The planning process consists of the progressive definition- single, balanced and consistent- of:

- *objectives* (consistent with the strategy, sustainable, measurable and challenging);
- *actions to attain them* (including projects);
- *necessary resources* (human, technological, economic).

The Triennial Plan is defined through the Planning process, which foresees the action strategies shared by all management levels. The logical process of analysis and definition of goals is summed up in the Plan structure, which describes:

- the macro economic scenario of reference at international, national and community level;
- the general goals of the Plan, which include multiannual actions and investment projects;
- the production plan, designed on the basis of demand and available resources, as well as the respective variations planned over time;
- sectoral plans inherent to personnel and training;
- the Budget;
- the investment plan.

4.3.4 Operating programming

The programming process, referred both to economic and operating activities and development is consistent with the contents of the Triennial Plan and includes an annual adjustment.

The programming process involves different players and implies the following stages:

- The definition of priority strategic goals on the part of the senior management (top down approach);
- The existence of goals shared by all management levels (bottom up negotiation approach);
- Assigning shared goals (top down).

The programming goal is defining a plan of activities which is measurable, consistent with the effective operating capabilities of the structures and with the available resources, both human and financial.

4.3.5 Management control

The control process allows for verification of the management evolution during the period of reference regarding the established objectives.

Control continuity also ensures the possibility of solving eventual significant diversions from the program, adopting the necessary managerial measures or, in the event of unforeseen or insurmountable events, proposing the setting of fresh objectives, in accordance with the planned priority directives.

Therefore, control implies:

- The comparison between management evaluation and established goals
- The analysis of eventual diversions, to identify their causes
- The adjustment of the preset goals, regarding the evolution of scenarios and the eventual resetting of goals, early on, based on preliminary evaluation data
- The identification of the necessary corrective actions

4.3.6 The Agency management system

The development of the Agency management system is characterized by the strong integration of procedures and functionalities in homogeneous or compatible environments, which leads to simplified use, at the same time enhancing its services.

The main focus of attention, for the development of the system, used to refer, and still refers, to:

- Improvement in data quality through the gradual replacement of the data entry systems by the automated registration system;
- The expansion of "controlled" management areas:
 - o Integrated budget
 - o Cost control of institutional activities
 - o Cost/income control of market activities
 - o Control of project costs
- The creation of a management information system ready to provide a representation of economic and technical-physical data which adjusts to the actual information demands of recipients at different responsibility levels.

The Agency management system allows for the integration of all relevant data for the purpose of managing the structure, making it available, at varying levels of detail - with regard to the assigned responsibilities - to exercise control-related functions (strategic, management, operational).

4.3.7 The Customs Agency's integrated management system: the subsystems which integrate it

The use of an integrated system guarantees the unity and consistency of information.

- The subsystem of "accounting management" offers the necessary support for the management of:
 - o data registration (accounts plan, clients, suppliers, items, banks, etc.);
 - o cycle of goods and services supply, divided into the phases of purchase order, order, delivery and warehouse management;
 - o sales cycle;
 - o goods;
 - o accounting aspects (invoicing, accounting registers and compulsory production outputs for economic and fiscal purposes);
 - o treasury (payments, collections, reconciliation of payments and collections)
- The "personnel management" subsystem offers support for:
 - o agency organization management;
 - o legal and personnel data management;
 - o treatment of professional information (curriculum);
 - o management of personnel files;
 - o training management;
 - o analysis of personnel data (query and management information system);
 - o personnel assistance management.
- The "management control" subsystem offers support for:
 - o the management of the economic and production budget, both at the time of preparing it and during partial reviews throughout the year.
 - o the evaluation and information of economic and production data for the purposes of internal control and monitoring.

- o the management of Analytical Accounting (An.Acc), to determine the cost and value of production through the evaluation of the costs paid and of the income/production realized during a certain period, destined to Responsibility Centers and Process/Product and Projects.
- o the management of Industrial Accounting (Ind.Acc.) for the evaluation of the operational costs of the operating structures and of the production costs for each one of the services, separating the institutional activity from the commercial activity.

4.3.8 Management direction system

The purpose of the "Management Direction System" is making data and information timely available, with internal and/or external validity, capable of representing management evolution, focusing attention on the most relevant phenomena, which mostly impinge on the implementation of strategic actions, then allowing for detailed analysis, according to different analysis dimensions, in so far as there are management criticalities (significant diversions between plan and reference target, for example: significant diversions between the plan and the effective results).

The management information system offers:

- To Higher Management, a practical and efficacious tool to verify that the Agency is implementing the strategies established for the attainment of the business mission and that said strategies are effectively valid;
- To external individuals, interested in management evolution and useful information for the corresponding evaluations.

The Directional System has been developed following the logic of the Balanced Scorecard (BSC) which allows for:

- Transforming the "business" Mission into Strategic Objectives;
- Identifying the Critical Success Factors (CSF) necessary for the achievement of the Strategic Goals;
- Associating CSF to efficacy and action/project indicators to monitor the evolution of the activities with regard to the Objectives.

The indicators refer both to economic-financial aspects and operational aspects (for example: customer perspective, internal business process, learning and growth, economics & financial) and allow, at different structure levels, for focusing the areas of specific interest in terms of responsibilities and competencies.

The fine-tuning of a balanced and harmonious set of indicators, financial and non financial, allows for explaining, for each level of responsibility, the correlations between planning, execution and control.

The Agency, considering its organizational characteristics and its management demands, is geared at reviewing the planning and control processes, foreseeing the use of different instruments of "business intelligence", so as to ensure shared management of data at the different responsibility levels, multidimensional analysis of data and information, the preparation of simulations which dynamically correlate production results with necessary resources, the negotiation of objectives through the IT channels which provide the process with reliable terms and homogeneous methods.

4.3.9 Characteristics of the management information system

The reports generated by the direction system meet internal and external demands. In fact, the reporting structure helps, internally, to discriminate the information and the degree of detail in accordance with the level of responsibility and with the geographical area of competence. The management information system, directed to external individuals (e.g.: DFP, SECIN, Accounts Tribunal), presents the relevant information oriented to the exercise of monitoring and control functions, following the predefined plan. The management information system includes, besides, synthesis information, such as: a graph summing up the goals and result indicators; a summary of the main statistical and economic indicators referred to the evolution of the Agency; a progress chart regarding the incentive system indicators; analysis of the progress attained in the Agency projects.

5. CONCLUSIONS

The organizational systems and the management of the financial Administration's structures evolved hand in hand with structural and operational changes introduced by the regulations in past years.

Nevertheless, the description of each one of the systems shows a substantially unified evolution line and a trend towards the identification of a commonly agreed planning and control model, although characterized by the peculiarity of the activities respectively developed by the Department and by each one of the Agencies.

From planning based on functions developed by the structures, the focus went to planning by objectives, concentrated on the fiscal and tax strategies indicated by the political Authority rather than on the activities and with greater emphasis on results.

The present model makes it necessary for all levels of the financial Administration to know and share the goals established by the Minister. For this purpose, the planning process is organized into two main stages. One of them foresees the issuing of strategic guidelines on the part of the higher Authority (head of Department and Agency Directors), the gathering of proposals made by subordinated Offices and the preparation of plans and programs. The second stage begins with the "Plan officialization" and ends with the definition of the management direction program and the simultaneous allocation of operational objectives to the heads of all the Offices.

This interaction between higher authorities, the middle management level and the operating level decides if the plan formulation terms and the establishment of individual objectives shall be extended. However, it is necessary for each component in the organization to become aware of the contribution it is specifically responsible for. On the other hand, we thus establish jointly agreed objectives which take into account the internal context (resources) and the external context (territory) in which each structure operates. And of equal importance, the use of advanced technologies allowed for greater efficiency in the exchange of information between the center and the secondary offices, progressively reducing the terms needed for the consolidation of plans and programs.

Based on the above, an evaluation of the importance of the negative or positive aspects of the current planning and control methods and instruments needs to consider the evolution that these have experienced. In fact, they have been modified to face the difficulties that their application made evident over time, and to ensure consistency with the organizational transformations which took place in past years.

All this has led to methodology stratification, which emerged within a "fluid" institutional context, which is still evolving, and which could determine new adjustments in the planning and control organizational methods to improve them and thereby attain greater efficacy.

Case study

Topic 1.3

CENTRALIZATION AND DECENTRALIZATION OF PLANNING AND MANAGEMENT OF THE TAX ADMINISTRATION

Deborah Nolan

Commissioner of the Large and Mid-Size Business Division
Internal Revenue Service
(United States of America)

CONTENTS: - I. Introduction.- II. Background and Overview of Current IRS Organization Structure.- III. Servicewide Governance Within the IRS.- IV. Management Functions - Structure and Governance.- V. Strategic Planning in Internal Revenue Service - A Brief Overview.- VI. Centralization versus Decentralization

I. INTRODUCTION

The purpose of this paper is to present an overview of centralization and decentralization of two areas within a tax administration agency- strategic planning and management functions.

II. BACKGROUND AND OVERVIEW OF CURRENT IRS ORGANIZATION STRUCTURE

On July 22, 1998, President Clinton signed into law the Internal Revenue Restructuring and Reform Act of 1998 (RRA98) in the wake of growing public dissatisfaction, distrust, and criticism of the IRS. This law gave the Service a clear direction and new challenge-it must do a better job of serving the public, based on a better understanding of

TOPIC 1.3 (USA)

the taxpayer's point of view. As required by the RRA '98, the IRS updated its mission statement to better reflect its new emphasis on customer-focused tax administration.

Prior to the enactment of RRA '98, the IRS' organizational structure was a complicated network of functional and geographic entities, organized by four regional commissioners and district directors located geographically across the United States. Semi-autonomous local offices each attempted to meet customer needs, while regional commissioners and assistant commissioners tried to set and enforce policy.

While the IRS succeeded in its core mission-collecting federal taxes according to the law without political or corrupt influence-the agency continued to operate on an outdated business model. Consequently, it became increasingly voluminous and complex in its operations. Some of the most prominent problems cited were inadequate technology, failure of technology modernization programs, poor service to taxpayers, violations of taxpayer rights, failure to follow established procedures, lack of adequate training and resources for IRS employees, and inappropriate use of enforcement statistics.

Former IRS Commissioner Charles Rossotti led the effort of transforming the Service into a customer service focused organization modeled on the best practices of private industry. One of his key priorities was to create a flatter, less bureaucratic IRS organization that eliminated or substantially modified the three-tier geographic structure and replaced it with a business model that features operating divisions that meet the unique needs of similar taxpayers.

Rising to this challenge was no simple task, and was extremely risky. It required a shake-up of the status quo-a top-to-bottom re-organizational change that eliminated the traditional districts, regions, and service centers throughout the country. This was a significant fundamental change that affected almost every aspect of the IRS and affected the way almost all employees worked with taxpayers and with each other.

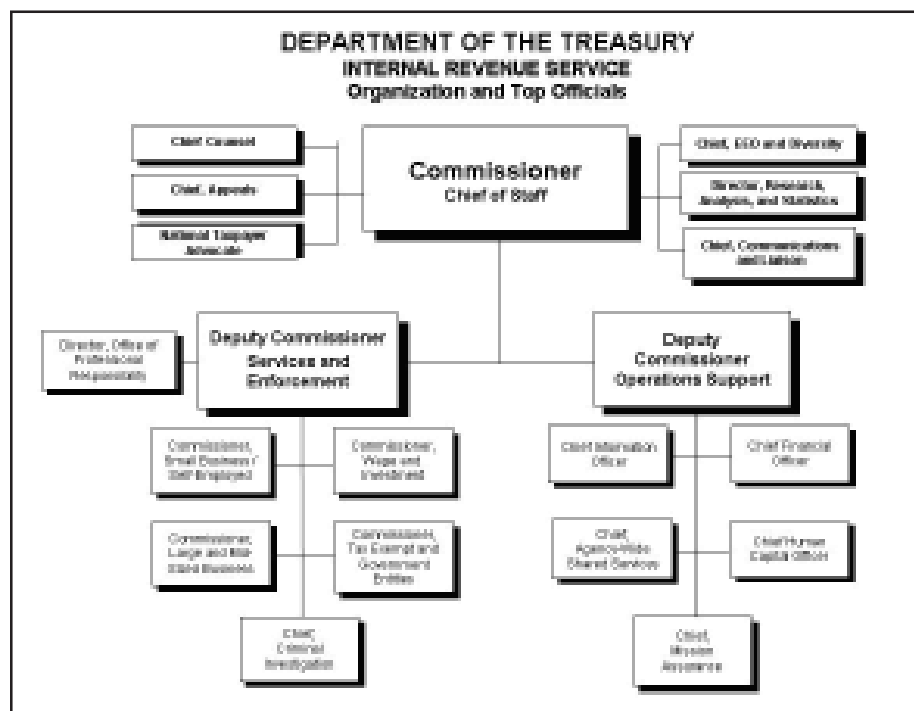
Rossotti's secondary challenge, as identified in RRA '98, was to modernize the Service's technology to replace inadequate and obsolete systems. Significant progress has been made in this area to date, and this initiative remains a top priority.

In June 2000, the IRS reached a significant milestone when it stood up its new organizational structure, which aligned operating divisions with

specific groups of taxpayers with similar needs and compliance issues that tend to be industry-specific. The foundation of this "new" IRS is built upon four operating divisions:

- Large and Mid-Size Business (LMSB) Division
- Small Business/Self-Employed (SB/SE) Division
- Wage and Investment (W&I) Division
- Tax Exempt and Government Entities (TE/GE) Division

The following is a depiction of the IRS' current organizational chart:



This model benefits taxpayers by providing them with customer-centric service; knowledge and expertise around similar compliance issues; more consensus around executing effective compliance strategies; more open and honest communications; more accountability and integrity; and additional rights of protection.

The new structure also improves business results and customer satisfaction by providing for uniform tax administration, end-to-end accountability, and improved management efficiency and operational effectiveness. It also addresses concerns around workload imbalances

across teams, and management duplications and overlaps in some posts. Finally, the current structure enables quick decision making, and coordination with both Counsel and the Treasury Department on issues of tax policy.

III. SERVICEWIDE GOVERNANCE WITHIN THE IRS

With the development of these new operating divisions also came the challenge of addressing issues of planning and management. Decisions were made to keep some functions within the operating divisions internally centralized; others embedded within each of the respective business units; and still others hybrids of the two. In most instances, governance included decision-making, executive level boards and council.

Today, the governance structures within the IRS are well-defined and include a mix of centralized, decentralized and hybrid functions, and provide for independent, but interdependent accountability. Four primary internal boards provide Servicewide oversight of IRS operations. These boards serve as policy and decision-making bodies for their respective areas of focus. Membership on the boards includes heads of the organization with program or functional responsibility, as well as key executive leadership representing the business divisions.

The following is a brief description of the purpose, roles, governance and membership of each of the boards.

o ENFORCEMENT COMMITTEE

- Guides the development and implementation of Servicewide enforcement strategies, concentrating on high visibility issues that require the involvement of multiple divisions to resolve or that have the potential for significant compliance impact.

Membership: Deputy for Service & Enforcement; Chair
Deputy for Operations Support
Chief Counsel
Commissioner, Small Business/Self-Employed
Commissioner, Wage and Investment
Commissioner, Large and Mid-Sized Business
Commissioner, Tax Exempt/Government Entities
Chief, Criminal Investigations
Director, Office of Professional Responsibility
Counselor

o **STRATEGY & RESOURCES COMMITTEE (S&RC)**

- Establishes strategy and oversees resource planning to ensure resource allocations are adequate to meet the business needs of the Service and its customers in the future, the IRS created the S&RC. The committee ensures that program plans and budget requests are aligned with strategic goals and objectives. It also ensures that the IRS achieves the President's Management Agenda's focus on Competitive Sourcing, Improving Financial Performance, and Budget & Performance Integration initiatives.

Membership: Deputy for Operations Support; Chair
 Deputy for Service & Enforcement
 Chief Financial Officer
 Chief Information Officer
 Commissioner, Large and Mid-Sized Business
 Chief, Communications and Liaison
 Director, Research, Analysis & Statistics
 Counselor

o **SERVICES, SUPPORT & MODERNIZATION COMMITTEE (SSMC)**

- Oversees the development and implementation of programs that are required to support IRS business needs, the Service formed the SSMC. The committee ensures the appropriate selection and delivery of IRS modernization initiatives. It also ensures that IRS services are appropriately delivered and service levels met. The committee ensures that Operations Support services are responsive and easily accessible to all IRS customers. It monitors initiatives to ensure appropriate results at appropriate costs. The committee ensures avoidance of unacceptable actions and situations.

Membership: Deputy for Operations Support; Chair
 Commissioner, Wage and Investment
 Commissioner, Small Business/Self-Employed
 Chief Financial Officer
 Chief Information Officer
 Chief Human Capital Officer
 Chief, Agency-wide Shared Services
 Chief, Mission Assurance
 National Taxpayer Advocate
 Chief of Staff

o **HUMAN CAPITAL BOARD (HCB)**

- Advises and assists the Commissioner in setting Servicewide human capital management strategy and fostering collaboration across organizational boundaries to ensure a coordinated, Servicewide approach to IRS human capital plans, policies, and practices.

Membership: Commissioner, Tax Exempt/Government Entities
Chief, Appeals
Chief, EEO & Diversity
Chief of Staff

These boards ensure organizational alignment, direction and consistency throughout the organization.

The senior executive team, comprised of the top leadership (including the commissioner, deputy commissioner, and their direct reports), provides an overall long-range strategic view for the organization on tax administration policy and operations.

IV. MANAGEMENT FUNCTIONS - STRUCTURE AND GOVERNANCE

The following provides a closer look at some of the management functions within the IRS, including their purpose, roles and responsibilities, organizational alignment, and governance structures.

o **RESEARCH, ANALYSIS AND STATISTICS (RAS)**

National level:

The Office of Research, Analysis, and Statistics (RAS) supports IRS senior management, the IRS Operating Units, their research organizations, Treasury Department, and general public. The analyses RAS produces range in duration from multi-year studies to short-term program evaluations and responses to ad hoc requests from senior IRS management. In addition, the Statistics of Income Division continues to provide data sets on a regular basis to the Treasury Department, the Joint Committee on Taxation and other federal agencies, and to publish tax data for the general public. The Office of Servicewide Policy, Directives, and Electronic Research develops and provides research and reference tools for front line IRS employees.

Embedded: Each operating division has a research unit that focuses on research related to their unique taxpayer.

- o Governance: The Servicewide Research Council serves as a forum for sharing information, coordinating crosscutting actions and resolving procedural issues that affect the execution of research and analysis across operating divisions. Additionally, the Council serves as a vehicle to reach mutual agreement on the use of any common assets (portfolio) intended to serve the entire Research "enterprise," and also as the forum for resolving other issues related to research and analysis affecting high impact cross-divisional projects and initiatives.

Membership: The permanent Council membership includes the leaders of the research function from each of the four operating divisions, from Criminal Investigation, and from National Headquarters, including:

- Director, Research, Analysis and Statistics of Income; Chair Embedded Research Directors
- Research Director, Criminal Investigation
- Research Director, National Headquarters Office of Research
- Director, Statistics of Income
- Director, Office of Program Evaluation and Risk Analysis
- Director, National Research Program
- Director, Servicewide Policy, Directives and Electronic Research
- Alternate member when permanent member is unavailable

- o **FINANCIAL OFFICE**

National level:

The Chief Financial Office is comprised of four units: Corporate Performance Budgeting, Corporate Planning and Internal Control, Internal Financial Management, and Revenue Financial Management. This organization has responsibility for the custodial accounting of \$2 trillion in taxpayer receipts and the IRS' \$10 billion annual operating budget. The CFO serves as the principal advisor to the IRS Commissioner and Deputy Commissioners on financial management, financial systems, strategic planning, performance measurement, budget formulation, budget execution, and internal controls.

Embedded: The Management and Finance (M&F) Office is an embedded function within the divisions that formulates the submission of the division-specific budgets, develops divisional strategic plans, manages resource distributions, and ensures that Servicewide financial plans support division priorities. In addition, the embedded financial offices track the use of resources and establish financial policies, procedures, and controls in coordination with overall Service guidelines and the Servicewide Chief Financial Officer.

The embedded finance offices are divided into two distinct functional areas-labor management and financial support. Labor management projects labor requirements, develops hiring plans, and creates future year budgets. Financial support manages day-to-day budget execution, financial plan development, Congressionally-mandated appropriations, and spend rates within LMSB. Both functions conduct ongoing strategic planning to ensure that financial projections adequately meet both short-term and long-term needs.

- o Governance: The CFO Financial Board is the executive governance body responsible for approving the selection and placement of all senior manager finance positions within the IRS. It also oversees the optimal distribution of financial resources (i.e., staffing levels and grades) throughout the organization.

Membership: Chief Financial Officer; Chair
Embedded Financial Officers

- o **HUMAN CAPITAL OFFICE (HCO)**

National level:

The Human Capital Office's fundamental role is to ensure the success of every Business Unit by providing human capital strategies and tools for recruiting, hiring, developing, retaining, and transitioning a highly-skilled and high-performing workforce to support IRS mission accomplishments.

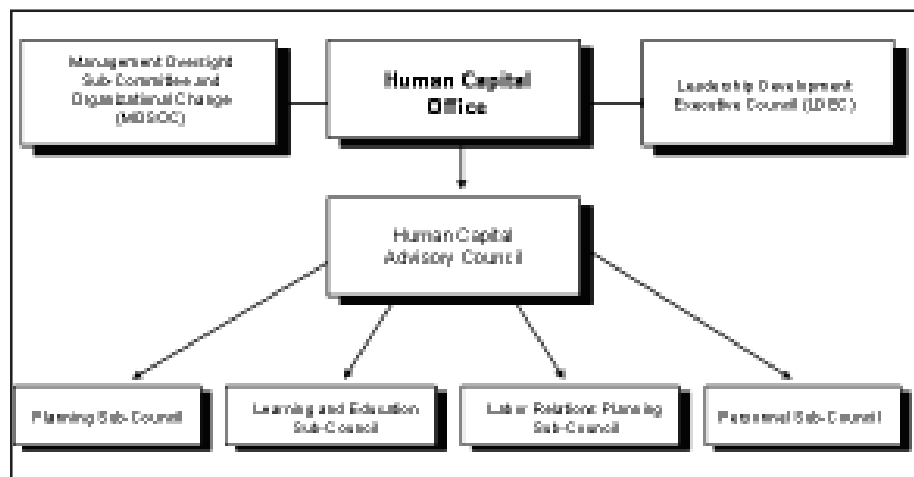
Human capital is a critical link to business strategies and organizational success. Within the Internal Revenue Service (IRS) the term "human capital" represents the philosophy that linking

critical human capital assets to business strategies ultimately leads to organizational success, and that IRS employees are recognized as critical to the attainment of the IRS vision.

Embedded: The Human Capital Management component is an embedded HCO function within each division, whose fundamental role is to, develop, implement and evaluate policies and programs that meet unique division-specific strategic human resource needs. These policies and programs include workforce forecasting, recruitment planning and identification, and resolution of Division-wide labor management issues. Efforts are coordinated, as necessary with the Service's Human Capital Management function and Agency-Wide Shared Services.

Although this business model has been successful, recent discussions at the Servicewide level have focused on considering a more corporate approach, specifically regarding hiring and recruiting.

- o Governance: The Human Capital Office sits within a governance structure (pictured below) that was designed to ensure both customer involvement and a streamlined process to create strategic alignment throughout the IRS Human Capital Community.



In short:

- o The Executive Resources Board (ERB) manages all executive resources and establishes all bureau policies associated with career appointments of Senior Executive Service (SES) and Senior Level (SL) positions.

Membership: Deputy Commissioner for Operations Support;
Chair
Deputy Commissioner for Services and Enforcement
Chief of Staff
Chief, EEO and Diversity
Chief Human Capital Officer

- o The Human Capital Board (HCB) advises and assists the Commissioner in setting Servicewide human capital management strategy and fostering collaboration across organizational boundaries to ensure a coordinated, Servicewide approach to IRS human capital plans, policies, and practices. The HCB provides oversight for the Management Oversight Subcommittee.

Membership: Chief Human Capital Officer; Chair
Commissioner, Tax Exempt and Government Entities
Chief, Appeals
Chief, EEO and Diversity
Chief of Staff

- o The Human Capital Advisory Council (HCAC) supports the HCB by identifying human capital issues and presenting recommendations to the HCB. The HCAC is chaired by the Deputy Chief Human Capital Officer and includes representatives from major organizations and an advisor from General Legal Services, Chief Counsel.

Membership: Deputy Chief Human Capital Officer; Chair
Human Resource Specialist Representatives from major organizations
Advisor from General Legal Services, Chief Counsel

- o **COMMUNICATIONS AND LIAISON (C&L)**

National level:

The Office of Communications, under the Chief Communications & Liaison, is the focal point for planning, coordinating, and producing Servicewide communications. C&L provides a wide range of expertise, products, and services to assist stakeholders achieve their business outcomes through communications with employees, managers, the media, and other audiences.

Embedded: Communications and Liaison (C&L) is an embedded function within each division that provides strategic communications counsel, conducts short and long-term strategic planning, and implement communications tactics to meet the needs of the divisions' various internal and external audiences. Stakeholder relationship management is a key component of this office with unique stakeholder groups depending on taxpayer segment.

- o Governance: C&L directors within the Service meet quarterly with the national director of communications to discuss quarterly plans, collaborate on communications strategic planning initiatives, discuss communications concerns and issues, and share best practices.

Membership: National Director, Communications; Chair
 Embedded C&L Directors
 Director, Communications, Appeals
 Director, Communications, MITS
 Director, Communications, CID
 Chief, Corporate Television
 Chief, Media Relations
 Chief, Internal Communications (Servicewide)

- o **EQUAL EMPLOYMENT OPPORTUNITY AND DIVERSITY (EEOD)**

National level:

The Equal Employment and Opportunity and Diversity Office (EEOD) develops standards and procedures, and provides policy direction and program oversight to encourage and ensure all IRS employees receive equal opportunities and fair treatment. EEOD also provides

general oversight and monitoring of the IRS EEO counseling and complaint process. Oversight responsibilities include coordinating the appropriate actions to findings of discrimination, responding to allegations of breaches of EEO settlement agreements, fact finding employee concerns regarding their dissatisfaction with the EEO process, and providing coordinating information in response to Servicewide discovery and Freedom of Information Act request. Finally, the EEOD Office prepares annual reports for the Department of the Treasury's Office of Workforce Development and EO Division. Finally, EEOD oversees training activities to help all employees and all levels of management understand their obligation to respect and value diversity within our workforce.

EEO is divided into three tiers-Servicewide, which defines EEO policy for the entire Agency; the embedded EEOD Offices, which manage strategic planning and integration, systemic issues; and EEO Field Services, which provides EEO counseling, conducts investigations, and oversees EEO training.

Embedded: EEOD provides and disseminates guidance regarding equal employment opportunity and diversity policy to each of the embedded business divisions. These divisions primarily conduct strategic planning, monitors EEO trends and workforce profiles, and follow-up with settlement agreements in accordance with overall Service guidelines.

Governance: An EEO Advisory Group, headed by the deputy commissioner of operations, governs the direction and compliance of equal employment within the IRS.

Membership: Chief EEO Director; Chair
Embedded EEO Directors
Chief, EEO Field Services

o INFORMATION TECHNOLOGY (IT)

National level:

The Office of Modernization and Information Technology Services (MITS) provides leadership in the delivery of information technology solutions that anticipate and meet enterprise-wide needs by empowering employees to deliver customer-centered, value-creating systems, products, services, and support. The Office of

MITS Services reports to the Commissioner of the Internal Revenue Service and is the principal source of advice to the Commissioner on strategic technology planning, data administration, technology standards and privacy assurance, and telecommunications.

Embedded: Information technology (IT) responsibility in the divisions is primarily a centralized function managed by the Business Systems Planning (BSP) Office. BSP's role is to manage short and long-term strategic planning to ensure that automation supports the needs of division employees. The director works collaboratively with Modernization & information Technology Services (MITS) in defining division specific requirements and leveraging existing Service-wide technologies. BSP embedded staff manage day-to-day IT operations, tactical implementation, and special projects.

- o Governance: MITS has a governance structure that ensures enterprise-wide coordination and integration of information technology and systems planning and execution. The Modernization and Information Technology Services Enterprise Governance Committee (MEG) is the highest-level governing body in MITS, and serves as the forum for MITS executives and business operation and functional division executives to jointly oversee and enhance 1) management of our enterprise-wide portfolio of information technology initiatives, 2) management of our resources; and 3) advancement toward our modernized vision and strategy.

Membership: Chief Information Officer; Chair
 Associate CIO, Management and Finance
 Associate CIO, BSM
 Associate CIO, Information Technology Services
 LMSB Deputy Commissioner
 SB/SE Deputy Commissioner
 TE/GE Deputy Commissioner
 W&I Deputy Commissioner
 Chief Financial Officer

- o **MISSION ASSURANCE AND SECURITY SERVICES (MA&SS)**

Mission Assurance and Security Services (MA&SS) is a service and support organization that assists all IRS Operating Divisions in maintaining secure facilities, technology, and data. MA&SS provides the operational support to enable an integrated approach to

physical, information technology, and personnel security. The MA&SS organization is matrixed to enable an integrated approach to meeting security needs. Five core programs - Information Technology Security, Physical Security, Emergency Management, Personnel Security and Privacy - shape the direction of services and initiatives.

- o Governance: The IT Customer Support and Enterprise Risk Management Board (CSB) reviews Requests for Information Services (RIS) and other customer requests related to the certification and accreditation process. The board also evaluates all requests to create uniform responses and initiates streamlined approaches for handling Certification and Accreditation (C&A) issues.

V. STRATEGIC PLANNING IN INTERNAL REVENUE SERVICE - A BRIEF OVERVIEW

The Internal Revenue Service's strategic planning process is designed to support IRS executives in making decisions about what goals and strategies should drive the agency in meeting its overall goals of ensuring that taxpayers understand and meet their tax obligations in a timely and accurate manner, allocating resources to achieve those goals, and evaluating the results.

At the national level, the Office of Corporate Planning and Internal Control (CPIC) under the Chief Financial Officer, is the focal point for strategic planning for the IRS. CPIC leads the development of the IRS Strategic Plan and processes for determining, collecting, analyzing, reviewing, reporting, and communicating the measures of IRS Service wide performance and integrating performance and cost information. Within the embedded operating divisions, strategic planning is conducted to ensure taxpayer segment focus, consideration of compliance risk, workforce demographics and organizational capacity and efficiency. Coordination among all business units is essential. The Strategic Planning Office ensures that strategic direction supports Servicewide strategies and goals, and facilitates the development of Strategic and Annual Plans.

The process:

Each year at the beginning of a (two-year) planning cycle (e.g., FY`09), each division goes through a process of strategic planning. A Senior Leadership Team (SLT) meets to develop the "Commissioner's Specific

Priorities," that outlines specific priorities for the IRS, as well as guidance for developing strategies and budget resource initiatives & reinvestments. At this stage in the process, a planning coordinators meeting is also held for the four business operating divisions (BOD) and Criminal Investigation (CI) to provide a preliminary summary of their respective strategies, operating priorities and information technology projects.

Time is allowed for the functional and support divisions to review the operating divisions' strategic assessments and provide additional input to determine what additional support needs the BODs and CI should consider in developing strategies and budget resource initiatives and reinvestments. The BODs and CI generally work with the functional and support divisions from inception of the cycle to ensure that sufficient background has been provided to assist in determining budget initiative and reinvestment projects. The BODs and CI submit Budget Resource Initiative & Reinvestment Reports, incorporating the needs of the functional and support divisions. The Deputy Commissioners prioritize Budget Resource Initiatives and Reinvestments through the Strategy and Resources Committee.

The BODs and CI coordinate with other functional and support units that own programs that directly affect their customer segments. Coordination is essential, as it is imperative that all significant issues be raised through the appropriate customer segment. Also balance in providing business results, customer satisfaction, and employee satisfaction should be maintained.

Each division goes through six phases of the Strategic Planning Process, as outlined below:

1. **Strategic Assessment** - A broad assessment of the customer segment to determine emerging trends, issues and problems that impact tax administration. During this phase, proposed solutions and strategies to address these trends, issues and problems are generated, and a determination of resource availability is made.

Strategic Assessment Reports are prepared only for the four BODs and CI, using a customer segment approach. All other divisions and offices provide copies of these five reports to use in developing their Budget Initiatives & Reinvestments needed to support the BOD's and CI's strategies.

The business divisions and CI address all issues affecting their customer segment, regardless of who owns the program area. For example:

- Electronic Tax Administration (ETA) is now owned by MITS, however the ETA strategies that are needed for the Wage and Investment Taxpayer Segment would be included in W&I's strategic assessment report. Likewise, ETA strategies that are needed for the Small Business Taxpayer Segment would be included in SB/SE's strategic assessment report.
- Appeals identifies Technical Guidance issues that affect Large and Mid Size taxpayers, the issue should be surfaced to LMSB for consideration/inclusion in the report Large and Mid-Size Customer Segment.
- The National Taxpayer Advocate identifies issues affecting the Earned Income Tax Credit (EITC) program, these EITC issues should be surfaced to the W&I for consideration/inclusion in the report on the Wage and Investment Taxpayer.

Strategic Assessment Reports generally include:

- Descriptions of high-priority trends, issues or problems (TIPs)
 - Explanation of how the TIP supports the Commissioner's Priorities
 - Proposed responses to the TIPs, including major strategies, operating priorities and improvement projects
 - Expected progress for each fiscal year and an explanation of how progress will be measured
 - Explanation of the specific impact the response will have on performance
2. **Commissioner's Planning Guidance** - Commissioner's Planning Guidance and business divisions collectively ensure evaluation of priorities, alignment, and appropriate consideration of support, infrastructure and modernization plans reflect the Servicewide plan. The IRS Commissioner uses the Strategic Assessment Reports to assess strategic priorities, evaluate resource availability and target allocations IRS-wide.

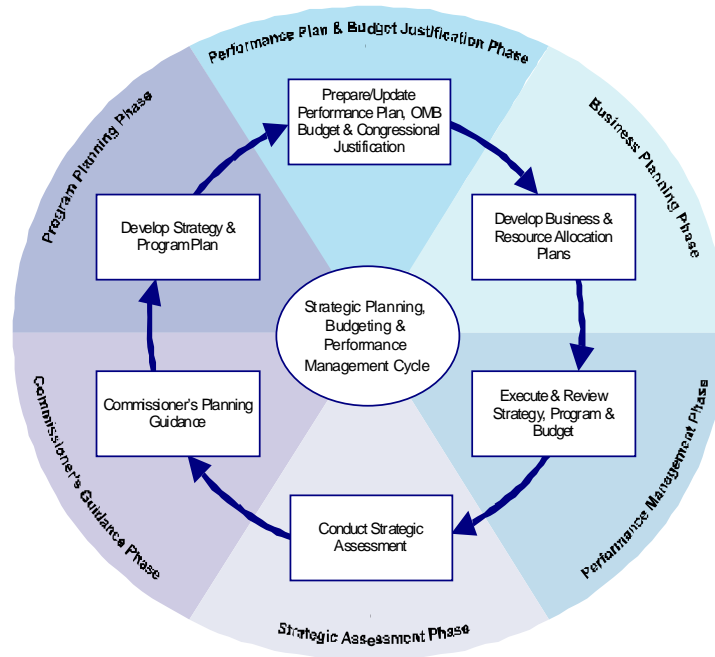
Once these two key elements of the strategic planning process agreed upon, the strategic planning process proceeds to the next steps as follows.

3. **Program Planning Phase** - Operating divisions prepare Strategy and Program Plans (SPPs) that address the questions: what will be done to achieve identified strategies; what resources are needed; what are the performance expectations. During this phase, the resource initiative requests and performance targets are developed.
 - a. **Resource Initiative Development:** Information from the strategic assessment, prior business performance, and staffing/workload studies is used to develop justification for additional resources. Processes that will create savings are identified.
 - b. **Performance Targets Development:** Resource initiatives are costed and performance targets determined to establish the benefits of the resource requests.
4. **Congressional Justification** - The Performance Plan and Budget Justification phase includes preparing and submitting the IRS Annual Performance Plan (APP), Treasury and OMB Budget Submissions, and Congressional Justification (CJ).
5. **Business Planning Phase** - During this phase, the strategic initiatives developed in the Strategy and Program Plans are translated and developed into business plans, taking the strategic to the tactical. Communications is key for implementation to ensure all levels of the organization are engaged in support of the mission, goals, strategies, and performance. At this stage, measures and targets are finalized and linked to specific action plans and managers' commitments.
6. **Performance Management Phase** - The Business Performance Review is the central process for measuring, reporting and reviewing performance against plans. The sixth phase of the cycle-Organizational Performance Management -- is quite different from the preceding phases in that it is performed as a continuous, iterative process throughout the year. As such, it is a common integrating theme throughout all phases of the cycle.

Organizational performance management hinges on using measures developed within the balanced measurement framework to gain insights into an agency's performance against plan.

The performance management phase emphasizes achieving specific results against plans and linking these results to achievement of the overall mission and strategic goals of the IRS. This system ensures that three components of balanced measures—customer satisfaction, employee satisfaction, and business results—are carefully considered when setting organizational objectives, establishing goals, and assessing progress and results.

The following is a graphical depiction of the IRS' strategic planning process:



As previously stated, Servicewide governance for strategic planning is provided by the Strategy & Resources Committee. This committee provides a forum for effective management and decision making at a strategic level. Based on the input from the divisional and functional offices, the committee members collaborate and systematically work through each of the six steps of the strategic planning process to determine which strategies, operational priorities, and improvement projects will move the organization towards a modernized IRS. In addition, the committee sets priorities for allocating resources throughout the IRS to ensure appropriate levels of service and enforcement.

VI. CENTRALIZATION VERSUS DECENTRALIZATION

As tax administrations evaluate the efficiency and effectiveness of their organizational structures, the question of centralization versus decentralization typically arises. This occurs several times in the lifecycle of any organization as internal and external dynamics and needs shift. The debate over the centralization versus decentralization of operations within a large enterprise is a never-ending one. It is an age old battle of standardization versus autonomy, business efficiency versus local effectiveness, and pressure on costs and resources versus accommodation of specific local needs. A popular theory states that organizations vacillate between a strong centralization philosophy and a strong decentralization philosophy in roughly three-year cycles.

As an example, the scenario works like this:

Those who favor decentralization will analyze a key centralized operation within the organization and discover gross inefficiencies. The centralized system is perceived to be too slow to react to problems in the field or to issues within a particular division. Responsibility for decisions, actions and record-keeping is then moved out to be closer to the source. The intended result is quick reaction and speedy solutions. The answer: decentralize.¹

Those who favor centralization will analyze a key decentralized operation within the organization and discover gross inefficiencies. The decentralized operation is perceived as fragmented and inconsistent. The employees in one division are operating according to their own procedures and policies with little or no regard for organizational goals and objectives. Headquarters cannot get consistent organization-wide reporting. The answer: centralize.

Benefits of Centralization

Some of the benefits of centralization include:

- Creation and execution of shared vision
- Significant economies of scale
- Reduction of redundancies in processes and procedures
- Improved management efficiencies

¹ *Learning in the Large Enterprise: Centralized vs. Decentralized*, Joe Ellis and Todd Mauldin

- Reduction in the number of systems / infrastructure required to support the program
- Promotion of standardization
- Reduction in number of staff and management positions
- Standardization of policy
- Standardization of communication
- Ability to more easily align employee objectives with organization objectives
- Simplified and enhanced accuracy in reporting

Benefits of Decentralization

Some of the benefits of decentralization include:

- Increased control at the local level
- Enhanced understanding on the needs of the "customer"
- Autonomy to make decisions about information and customer related requirements
- Efficiencies in timeliness and ease of delivery of service
- Control over local resources
- "On the spot" delivery of service
- Accountability and ease of cost management
- Timeliness of reporting
- Enhanced innovation in process or product improvements

In both the private and public sectors, there has been an increasing trend towards a structure where the benefits of centralization and decentralization can be achieved through a hybrid structure. The concept is to find a way to capture the strengths of both models, while effectively managing the relationship of the corporate organization (centralized) and the embedded (decentralized) organizations.

Regardless of the structure, strong management and a governance structure and body is essential to ensure that objectives are met efficiently. Concrete plans, clear expectations, and agreements on level of service, roles and responsibilities must be in place, with a continual evaluation of the efficiency and effectiveness of the structure.

The challenge faced by tax administrations in an increasingly changing and fast paced environment is to develop a governance structure that can work collaboratively. Incorporating key stakeholders, divisions or business units in the governance with those responsible for delivering

the service or setting overall policy will ensure collaboration provided that all members have shared objectives and are held accountable for organizational performance.

Oftentimes, symptoms of poor service or inefficiency are attributed to organizational centralization or decentralization when the cause could be a lack of strong management, accountability, clear goals for outputs and outcomes, and a strong customer focus.

Certainly, the business decision to use a centralized, decentralized, or hybrid model for the planning and management functions of a tax administration is customized to the function and the individual characteristics and resources of the tax administration. Understanding the benefits of each model, and quickly identifying the symptoms of the models that are not working, such as "shadow staffs" appearing in the operations of a "centralized" structure and a high level of dissatisfaction with service delivery, will enable quick adjustments and will, perhaps, avoid the costly restructuring and alignment cycles of centralization and decentralization.

Centralization versus decentralization? The trend in both private industry and public organizations is to strive for the best of both.

TOPIC 2

**MODELS OF RELATIONSHIP OF THE CENTRAL TAX
ADMINISTRATIONS WITH OTHER COLLECTION
INSTITUTIONS**

Lecture

Topic 2

**MODELS OF RELATIONSHIP OF THE
CENTRAL TAX ADMINISTRATIONS WITH OTHER
COLLECTION INSTITUTIONS**

Jorge Rachid

Secretary of the Federal Revenue
(Brazil)

CONTENTS:1. Introduction.- 2. Relationship Models Involving Public Organizations.- A) Types of Relationships and Players.- B) Cooperation.- C) Cooperation strategy.-3. Cooperation between the Central Tax Administration and other entities.- 3.1. Domestic Relationships.- A) Regional and Local Tax Administrations.- B) Customs.- C) Social Security Entities.- 3.2. International relationships.- A) Types of Relationships. - B) Information Exchange.- 4. Brazil - a case study.- 4.1 The Relationship between Receita Federal and State and Municipal Treasury Departments.- A) Cooperation agencies.- B) Cooperation Projects.- 4.2 The Integrated Tax, Social Security and Customs Administration Model.- 4.3 Other domestic relationships - Public and Private Entities.- 4.4 International Relationships.- 5) Conclusion

This paper discusses relationship models between the central tax administration and other public and private entities, with a special focus on cooperation. It takes as its starting point public organization models and sets out the theoretical conditions for cooperation; it then goes on to address the subject of tax administrations in particular, with special emphasis on relationships between the central tax administration and entities that play a similar role at the subnational level. It also inquires into the situation of customs and social security contribution collection departments vis-à-vis tax administrations, mentioning examples of integrated models. It briefly looks at the international level, observing the existence of the more usual mechanisms, such as information exchange, mutual cooperation in credit recovery and technical

assistance, besides noting a real strengthening of relationships between international tax administrations. It makes a study of the current scenario in Brazil, a federation of states, where cooperation between tax administrations has been greatly enhanced by the development of important joint projects, such as the Synchronized Register (Cadastro Sincronizado) and the Public System Electronic Register (Sistema Público de Escrituração Digital - SPED). The presentation refers to the merger between the internal, customs and social security contribution departments that has been taking place in Brazil. It describes the international experiences that Receita Federal do Brasil (Brazilian National Tax Authority) has had in the areas of information exchange and other cooperation initiatives, and concludes that there seems to be a general trend towards cooperation between tax administrations, with potentially major consequences for the relationship with the taxpayer during the next decades.

1. INTRODUCTION

Within the central topic of the Barbados General Assembly, entitled "**Key Structural Aspects of Tax Administrations**", it fell to Brazil to develop topic 2 - "**Relationship Models of the Central Tax Administration and other Collection Institutions**". According to the Assembly technical program, the topic should cover:

- Cooperation mechanisms between the Central Tax Administration and other entities with similar functions;
- Types of relationships between the Tax Administration and domestic and foreign entities which, based on mutual interests and/or common objectives, aid the Tax Administration to increase the level of taxpayer compliance;
- A description or examples showing how these relationships introduce facilitation and control, the two main types of actions undertaken by tax administrations to improve compliance.

However, the technical program suggests that reference should be made not only to the relationships with other collection institutions but also to the relationships between the Tax Administration and "society as a whole, and private sector entities that represent taxpayer sectors".

This significantly widened the field of study. However, it was decided that the text should focus on relationships between Receita Federal do Brasil and collection institutions, particularly those in the Brazilian

states, as there have been very enriching experiences gained within this context. Experience with other entities is mentioned more briefly to avoid presenting an excessively lengthy text.

It is important to note that topic 2 is one of the Assembly's "general topics", meaning that the approach should be conceptual and generic. Nevertheless, in this particular case, the technical program specified that it would be convenient to include references to practical cases.

Despite its wide scope, the topic offers a good opportunity to share some Brazilian experiences. Besides permitting a theoretical reflection on the relationship processes between Receita Federal do Brasil and other entities, it allows us to share with sister tax administrations the rich experience garnered in projects that are being developed together with Brazilian federal states and municipalities, such as the Synchronized Register and Public Electronic Register System (SPED).

- **Text Structure**

Following the introduction, Section 2 deals with the theoretical aspects of public entity relationships in general. Section 3 focuses specifically on tax administrations, a particular type of public entity, although still in a general way, and includes some examples. Section 4 offers practical examples relating to Receita Federal do Brasil, with special emphasis on relationships with state and municipal tax administrations. Section 5 presents some final comments.

Topic development seems to reflect that there has been a strengthening of cooperation and integration processes in Brazil and perhaps across the world, not only between domestic entities but also internationally. Although some results can be perceived already, it is believed that the next decade will be the time for reaping, as many investments with great future impact are now being made. It is likely that these actions will reshape the relationships between tax administrations and taxpayers, which are becoming increasingly automated.

2. RELATIONSHIP MODELS INVOLVING PUBLIC ORGANIZATIONS

Organizations, like people, establish relationships. The theory of cost and production¹ highlights that the need to maximize profit is the essential point governing inter-company relationships. Based on the interests and strategies involved, company relationships include models commonly found in economic literature, such as competition, monopolies, oligopolies, cartels, monopolistic competition, etc.

In public organizations, decision-making is no longer governed by profit but by their legislative mandate². Ultimately, each and every public organization is established in order to provide society with public goods or services³. This is what characterizes its mission and key strategic objectives.

Therefore, every public organization's legislative mandate governs its relations with other entities, both public and private, always with a view to ensuring the provision of the public good or service that it offers, with the best quality.

¹ *"The theory of cost and production is central to company economic management. Consider the problems that a company usually faces. How much equipment and workforce are needed in a factory? What are the foreseen costs for the year? How are these costs affected by the levels of production? Questions such as these do not only apply to private companies but also to other providers of goods and services, such as governmental agencies and non-profit organizations." - translated from "Microeconomics", by Pindyck and Rubinfeld, 4th. ed., São Paulo, Makron Books, 1999, pages 186, 187, adapted version.*

² *"Those legislative mandates properly guide public sector production specifically because they define collective aspirations" - transcribed from "Creating Public Value - Strategic Management in Government", by Moore, Harvard University Press, Cambridge, Massachusetts, USA, 1995, page 30.*

³ *Within this context, it is necessary to understand the words "good or service" not only as being applicable to public organizations that provide direct services to the public (for example, hospitals or schools). Evidently, public organizations with the mission of establishing obligations serve society as a whole, i.e., collective aspirations for justice, peace and security, among others.*

It must also be stressed that mandate compliance may not be enough in itself to ensure the good performance of a public organization. Similarly to bureaucratic organizations⁴, a public organization must be in strict compliance of rules and regulations, but this did not always please the public.

In truth, the bureaucratic model has and still holds great influence in many, particularly public, organizations. Certain bureaucratic merits should be maintained. However, acknowledgedly, limitations do exist, and there is room for new public management ideas.

Today, the new public management paradigm makes it mandatory for each decision to be taken with the intention of "creating public value"⁵. According to this new perspective, much in the same way as the private manager should aim to make a profit, the public manager should envisage his organization's mission, based on its legislative mandate, like an entrepreneur, and discover opportunities that can be used for the benefit of the society which he or she serves.

Whereas, in the past, the public manager focused on obeying rules and regulations and spent little time looking into external opportunities and threats, today the development of strategic thinking in public organizations, together with society's demand for improved services, has brought about a real managerial revolution. Cooperation between public organizations or between public and private entities is now based on prior analysis of opportunities and threats and the identification of converging interests.

⁴ *The term bureaucracy appears in the works of Max Weber, who defines it as a "type of organization that stresses the need for precision, speed, clarity, regularity, reliability and efficiency, attained through creating well-defined attributes, hierarchical supervision, in addition to clearly detailed rules and regulations." However, real bureaucratic organizations were not capable of meeting all these requirements satisfactorily. There are many reasons for this, as shown by various experts, who observed shortcomings in the bureaucratic model. Very briefly, bureaucracies often lose efficiency and time because strict compliance with the rules and hierarchy becomes more important than the goal itself; notwithstanding, no organization can be an end in itself, because organizations are formed to serve society, with a specific aim. The maxim holds that "the public manager may only do that which is established by law", and it was often taken literally, without much thought to the context. This reflects what was expected of the public manager: to give continuity to the defined tasks, without being creative or innovative. In the modern world, marked by deep transformations resulting from the technological and economic processes, society needs and expects its public agents to take on a different attitude. Society today, which bears the costs of bureaucratic actions, is clamouring for change. Such is the case that the word "bureaucracy" has become synonymous with slowness and inefficiency, so far from its original meaning.*

⁵ *For information on "creating public value", consider the following recommended reading: Magretta, Joan, "What is Management", The Free Press, NY, 2002 e Moore, M., "Creating Public Value" , as quoted in the text.*

At times, the degree to which public organizations identify with each other is so high that the government decides to surpass the limits of simple cooperation and merge them under one same single entity, with a specific purpose.

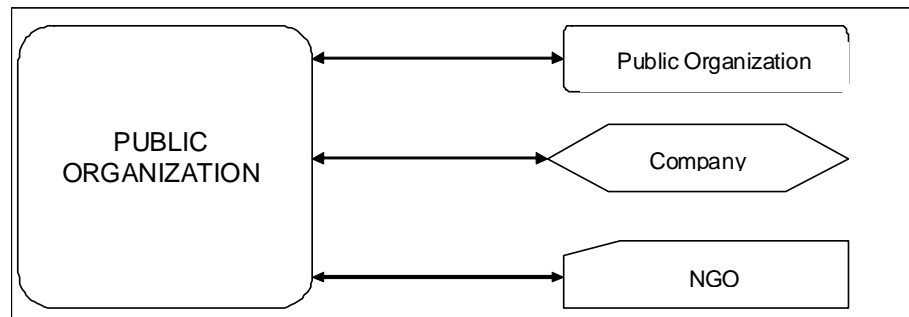
Based on the assumption that cooperation is a tool that may help increase a public organization's value or, in other words, how it is valued by society, by the public and political representatives; the next subsections will attempt to investigate, on a theoretical basis, when, with whom and how a public organization should establish a relationship for cooperation purposes.

A. Types of Relationships and Players

As concerns the agents on the other side of the relationship, public organizations may identify three types⁶ of entities found on the domestic or international stage:

- Another public organization;
- Private company;
- Non-profit organization.

Fig. 1 - Entities that establish relationships with public organizations



⁶ Relationships with individuals were not listed, based on the understanding that are not within the scope of the General Assembly technical programme.

Each of these entities has its own characteristics that influence the relationship model. For example, relationships between two public organizations, not hierarchically subordinated to each other, can be agreed by the signing of a cooperation agreement, which in the absence of a coercive power could be a weak one. On the other hand, relationships between a public organization and a company or NGO in the same jurisdiction could be marked by subordination on the part of the latter to the former that is invested with constraining powers by the State.

There are various types of relationships. However, for characterization purposes, first it is necessary to identify the existing ties between the organizations. If such ties do not exist, then there is no relationship, or it may be said that the relationship is marked by indifference.

On the basis that such ties do exist, their nature will shape the relationship. For example, contractual ties between a public organization and a private company may mean that the latter is in the role of goods supplier or services provider. A different situation occurs when a public organization is subordinated to another through legal ties. A hierarchical relation is established, with adoption of superior and subordinate roles.

However, according to the scope defined in the technical program, it may be inferred that, amongst the different possible types of relationships, the focus of interest lies in partnership relationships involving cooperation. This is understood by use of the expression "other collection entities with similar functions".

B. Cooperation

Taking cooperation to mean collaborative actions carried out by the organizations involved, aimed at a common goal, it excludes hierarchical relationships, based on the fact that collaboration implies voluntary, not mandatory, consent.

All contractual relationships are also excluded, such as those established with suppliers and service providers, due to the fact that they enter into a relationship of their own free will, but once the contractual tie is made, it becomes mandatory and non-compliance may give rise to penalties.

Cooperation ties are somewhat more subtle, as the entities involved can usually still exercise their sovereign will and breaking the tie should not result in any penalties being applied, other than the loss of the benefits gained from the relationship. Therefore, the higher the benefits, the greater the loss generated through breaking the tie.

It is interesting to note that, although cooperation implies having interests and/or objectives in common, this is a necessary but insufficient condition for establishing cooperation links, which requires the elimination of circumstantial barriers.

With respect to the number of entities concerned, cooperation can take place bilaterally, between two entities, or between multiple entities. On the whole, the latter is more difficult to achieve, because the multiple entities involved must have converging interests. On the other hand, multilateral cooperation may generate greater benefits for those involved.

Different cooperation mechanisms exist, such as information exchange, for example. Information exchange is becoming an increasingly more usual form of cooperation between tax administrations, although not the only possible one.

Alternatively, there can be several reasons for non-cooperation, including:

- Lack of common interests and/or goals or the inability to identify them;
- Mistrust or aversion to risk;
- Conflicting interests;
- Other obstacles.

Sometimes, organizations are not aware of their common interests and objectives, when they do not have enough information or when they are in the more serious position of not knowing their own strategic objectives. This may be one possible explanation for the existence of relatively few partnership relationships in the past, as recent technological developments have resulted in easier access to information. It is also important to stress the role of the public manager as an agent who explores the environment, searches for information and uses it for the benefit of his or her organization.

Lack of information concerning the other party may generate uncertainty, mistrust and prevent cooperation. Sometimes, it takes years to build a relationship of trust, but a mere incident can lead to its rupture. It must be noted that the decision to cooperate usually brings about a certain loss of autonomy, yet another adverse factor.

Competition arises from a conflict of interests. In theory, differently from companies, public organizations should not compete domestically, for they serve the greater aims of society and their specific objectives should be harmoniously designed to that end. If the State is to provide society with a specific good or public service, ideally it must define its policies in such a way as to avoid duplication and inefficiency.

In practice, however, situations arise in which public organizations do compete. Sometimes, they come to market in search of the same goods. Consider the example of the investment market. Brazilian states compete in this market, giving tax incentives, in a phenomenon known as "tax war". Federal autonomy has made this possible, and currently the issue is included on the agenda of the tax reform bill debate.

Therefore, in countries with a federal regime, autonomy granted to the subnational levels may generate conflicts of interest. On the whole, the greater the autonomy, the more need for and the more difficult the cooperation.

Lastly, cooperation may be prevented by adverse factors, such as lack of financial resources, socio-economic differences between potential partners, an unstable political environment, etc.

If the domestic stage is marked by indifference and competition, this will be all the more likely on the international stage, due to information barriers that may be cultural, linguistic, economic, etc, or due to issues concerning the national sovereignty of various countries, which may have many different and at times conflicting interests.

However, globalization has acted as a counterforce, reducing barriers and producing a convergence of interests, particularly economic interests. As concerns tax administrations, access to information abroad - so necessary in fighting tax evasion - has boosted cooperation.

After attempting to identify reasons for the lack of cooperation, the public manager will feel more certain about his decisions. In fact, the

information may be central for taking a decision to end a harmful, competitive relationship and conflict of interest, and signing another agreement built on mutual cooperation and benefits for both parties. However, it calls for great business skill on the part of public agents.

C. Cooperation Strategy

Before going on to examine which strategy the public manager should adopt, it is necessary to consider the extent of the discretionary powers that he or she enjoys in decision-making. In fact, if the interpretation of the courts is too restrictive, the public manager will not be motivated to use the discretionary powers that he or she has, being afraid that some personal loss will be incurred.

There are cases in which he or she is bound by rules and regulations, whereby the term cooperation is not applicable. In other cases, a lack of rules and regulations may generate uncertainty and, similarly, no cooperation will ensue.

Otherwise, rules and regulations provide help for the manager, regulating the environment and establishing favourable conditions for cooperation.

The dichotomy between tax secrecy and information exchange offers an interesting example. Without a law to render the former more flexible, fear of risk-taking could mean that the tax administrator is unwilling to cooperate, even if the exchange of information were beneficial. On the contrary, a more flexible law on tax secrecy setting information exchange restrictions could break the deadlock in negotiations and provide greater social benefit through cooperation.

Based on the assumption that the public manager has some power to decide on cooperation matters, the following question must be considered: on what will decisions be based?

Although in administrative practice, the manager's sensibility concerning the scenario and the strategic limitations greatly influences such decisions, a rational choice should be based on the best cost-benefit relation.

However, the question of whether to cooperate can be treated as a solvable problem based on the games theory. Consider, hypothetically, that two tax organizations would like to have, in the long term, higher

tax rates on capital so that both can receive higher revenues, although, in the short term, both would stand to gain more from keeping tax rates low, because if only one of them were to raise tax rates and not the other, in all likelihood the former would see a drop in revenues resulting from the migration of capital to the neighbouring organization. This is similar to the well-known "prisoner's dilemma", applied to tax policy.

Rodrik (2000) identifies this situation and claims that cooperation is the best strategy for either player (or tax administration, in this example) if the net benefits to be gained through cooperation are higher in the long run than the short-term benefits of non-cooperation, on applying the appropriate discount rate.

Rodrik's Rule:

Net short-term benefits gained from "defecting" < discount rate X future net benefits gained from cooperation

Once it has been found that cooperation is advantageous in the long run, each player will adopt the following strategy: start cooperating, continue cooperating if the other party has been cooperating recently or cease cooperating, if not.

In a static situation, this strategy can sustain cooperation for a long time, but it is probable that the initial conditions will change and that the short-term benefits gained from defecting will increase. If this were to occur, the cooperation relationship model would be jeopardized and perhaps be doomed to failure. In the real world, this could lead to the breaking of a contract and undermine trust, to increased future risks, project postponement, wasting of resources, among other deleterious effects.

Rodrik suggests including "escape valves" to avoid such problems. The partnership does not need to end if one of the parties momentarily does not feel motivated to sustain cooperation. Nonetheless, it must not go too far, because an excessive number of escape valves may jeopardize the relationship.

After this brief analysis of the theoretical basis for cooperation between organizations, the next section will focus on cooperation models between tax administrations and other public or private organizations.

The Prisoner's Dilemma

It is interesting to recall this traditional mathematical problem that is applicable to cooperation between tax administrations. Two suspects are arrested and put into separate prison cells, but there is insufficient evidence against them for sentence to be passed. It is decided that the possibility of an agreement will be offered to both under the same conditions: if one of the prisoners testifies against the other and that prisoner remains silent, the latter will be set free and the silent accomplice will serve a twenty year sentence. If both remain silent, they will each be sentenced to one year in prison. If they both testify against each other, each will serve a five-year prison sentence. Each prisoner takes his decision without knowing what the other will decide and is not sure about the other's decision. The question set in this dilemma is: how will the prisoner react? The table below summarizes possible results.

	Testifies against	Prisoner B	does not testify against
Testifies against	-5. -5	Prisoner A	0. -20
Does not testify against	-20. 0		-1. -1

In brief, the dilemma is as follows: if prisoner A remains silent, he may help his buddy but runs the risk of being given a longer sentence. If A testifies against B in the hope of getting away scot free, B might do the same and then both will find themselves in a worse situation than if they had kept quiet. If both could remain silent, or in other words, if they could come to some sort of agreement amongst themselves, both would receive one-year sentences, which would be the best solution for both, on the whole, but can they trust each other?

The prisoner's dilemma is simply a case of the widely applicable games theory. With regard to the economy, for example, the object of the game is to help companies reach strategic decisions, aimed at maximising profits, when reflecting on how to consider the actions of other companies in the market.

For tax administrations, the problem might be that of maximising revenues, or minimising tax legislation non-compliance, by taking into account the behaviour of other organizations. Therefore, the games theory can help tax administrations to take strategic decisions concerning cooperation with other organizations. For this, it is advisable to make a table of possible results and examine the strategies that can produce the best results in the game.

3. COOPERATION BETWEEN THE CENTRAL TAX ADMINISTRATION AND OTHER ENTITIES

As in the particular case of a public organization, the tax administration is guided by its mandate, as defined by law or another legal instrument. The relevant document usually sets out its mission and its scope, even if not explicitly. Missions of one Tax Administration and another will vary, but typically include two main objectives:

- **Providing the State with resources for public financing;**
- **Enforcement of tax legislation.**

This last goal implies attempting to reduce non-compliance, aiming ideally at bringing it down zero. To this end, the Tax Administration must adopt two main types of action: compliance facilitation, for those who are ready to fulfil their obligations; and control, for compelling taxpayers who do not voluntarily wish to fulfil their obligations to do so.

The mission of the Tax Administration determines its relations with other entities. Unless there is no such possibility, which may be the case as a result of a law or higher regulation, the tax administrator must consider establishing a relationship with another organization, on the basis of what the relationship is likely to contribute towards the fulfilment of the Tax Administration's mission. For a tax administration to enter a relationship that has little or nothing to do with the fulfilment of its mission means that it will be using the scarce resources available for a purpose that is of little or no benefit to its organization. In sum, when taking a strategic decision, the tax administrator should aim to guarantee the necessary revenues for financing the State and reducing non-compliance of tax obligations.

With the tax administration as its focal point, this section analyses possible cooperation with other entities, public or private, domestic or international, with greater emphasis on the former. References to cooperation mechanisms are included.

On the domestic front, the analysis was divided by the type of entity that takes on the role of the other party in the relationship: regional and local tax administrations, customs, social security entities and other public and private entities. With regard to the latter, it was decided that the analysis should not be too wide in scope.

3.1 Domestic Relationships

A. Regional and Local Tax Administrations

The relation between the Central Tax Administration and domestic tax administrations is defined by legal limits to the scope of action permitted to each, limits that mostly derive from the political-administrative and fiscal decentralization organization model. Regional and local collection entities are not just found in federations, for they also exist in unitary states. Nevertheless, in federal regimes, the administrative autonomy granted to the provinces or states render cooperation and coordination more necessary between public entities.

In general, cooperation potentially offers positive long-term results, both for the Central Tax Administration and regional and local tax administrations, for the following reasons:

- As information is the basic raw material⁷ for tax administrations, information exchange makes it possible to have more knowledge of taxpayer operations and profiles, which is important for reaching both key strategic goals: reducing non-compliance and guaranteeing revenues;
- coordinated action and sharing resources may generate large gains for both parties in the relationship;
- both organizations use similar techniques, which facilitates interaction.

Nevertheless, cooperation between the Central Tax Administration and other regional or local tax administrations may be timid or non-existent. Possible reasons for this examined in a generic way in section 2 were lack of information, feared loss of autonomy and revenues, uncertainty with regard to tax secrecy, a highly bureaucratic culture, socio-economic differences between partners, etc.

Despite the difficulties, it can be observed that cooperation is gaining ground, thanks to factors such as:

- a change of management paradigm on the part of the tax administrations, which are adopting an increasingly strategic point of view;
- a more flexible attitude towards tax secrecy, due to the need to uncover money laundering schemes, used for financing organised crime and even terrorism;
- pressure by society to produce results and include the issue on the government agenda;
- full use of more sophisticated technological resources.

With the objective of offering lessons, examples of relationships between the Central Tax Administration and regional and local tax administrations are included.

⁷ *At the CIAT Technical Conference in Madrid, Brazil's designated topic dealt with the importance of information for combating evasion.*

Spain

In Spain, the Joint Coordination Committee on Tax Management is a collegiate body formed by the Autonomous Communities and the towns that have autonomy statutes in the Spanish Tax Administration - AEAT. Amongst its many functions are:

- Tax management policy design, including taxes that are passed on to and managed by the Tax Administration and the establishment of guidelines for policy application;
- Establishment of uniform criteria for action;
- Establishment of criteria for management coordination and information exchange between the Autonomous Communities and towns with autonomy statutes, and between them and the Spanish Treasury;
- Extension of proposals for the deployment of specific telematic information exchange systems in areas of interest to the Tax Administration and autonomous communities and towns.

In Spain, although certain taxes are under the jurisdiction of the Central Tax Administration, they are managed by the Autonomous Communities and towns under the autonomy statute. However, AEAT has the remit to define management policies, and to monitor and evaluate results.

The Spanish model establishes strong interdependence between the Central Tax Administration and the regional and local tax administrations, both sharing a common interest in ensuring that the assigned taxes be managed in the most effective and efficient way possible. Both the Central Tax Administration and regional and local tax administrations are responsible to the Spanish people, and both are judged by their results.

In this kind of relationship, partnership and cooperation are mandatory, as evidenced by the establishment of the Joint Coordination Committee on Tax Management. Without it, there would be a greater danger of disjointed actions and failure.

The importance of the tax decentralization political model is worth noting, in this case, for the purpose of defining the relationship between the Central Tax Administration and the regional tax administrations. The remit of the Autonomous Communities and towns under the autonomy statute and the attributions of the Spanish Treasury set the "backdrop" for defining cooperation strategies and mechanisms

between tax administrations. It should be mentioned that the Spanish Constitution was adopted in 1978, when the Autonomous Communities were established. However, it may be said that the relationship is relatively recent in its current form.

Argentina

Argentina is based on the federal system and has 23 autonomous provinces. In recent years, the Central Tax Administration (Administración Federal de Ingresos Públicos - AFIP) has signed agreements with the provincial and municipal tax administrations, and this has helped to promote regional and local tax administration modernization. The Argentine authorities acknowledge the strategic importance of strengthening domestic tax collection agencies, and have been promoting increased cooperation between them, in view of the fact that the expected long-term benefits represent the best means of controlling tax evasion and reducing the cost of tax administration.

These agreements include clauses concerning information exchange, single identifier usage⁸ in real estate registers, simultaneous inspections, tax education programmes and the sharing of information systems. Furthermore, they foresee the widespread adoption of the Central Tax Administration (AFIP) collection system at all tax administration levels. The benefits of scale observed are due to the fact that this measure tends to drastically reduce tax collection costs.

Cooperation also provides financing for structural modernization.

It is also to be noted that, in Argentina, there is a clear trend of cooperation between the Central Tax Administration and regional tax administrations, with the adoption of different and innovative mechanisms, including, particularly, information exchange.

France

France is a unitary state, which delegates responsibility for the management of all its taxes to the Direction Générale des Impôts (DGI). The DGI is present across France in hundreds of local and special

⁸ *This identifier is known as CUIT.*

units. The relationship between the DGI and the French people is managed through management contracts. A national performance contract establishes the terms under which the DGI must report to the Finance Ministry. At the local level, DGI units interrelate with the central administration through specific performance contracts that evidently must be aligned to the national performance contract.

Although France does not have local tax administrations, this is an interesting example, nonetheless, as it allows us to consider an integrated Tax Administration model, based on the political administrative organization of the French state (unitary state). In an integrated model, strategic objectives, procedures and information systems are under one command, and the notion of cooperation between tax administrations at different government levels is not applicable.

Despite the limitations mentioned in previous parts of the text affecting different countries, it is these limitations that allow us to observe that relationship models between domestic tax administrations are essentially a reflection of the political administrative organization of the state, there being a stronger need for cooperation in countries where regional, provincial and municipal governments enjoy greater autonomy in tax administration. Thus, there should be a direct relation between the need for cooperation and the degree of fiscal autonomy in the decentralized units.

Within this context, on seeking to create public value and responding to social concerns, the tax administrator should identify cooperation opportunities as a means of attaining these objectives.

B. Customs

The kind of relationship between the central tax administration and customs tends to vary from country to country. In some countries, the two are merged into the same body, as in the case of Argentina, Brazil, Spain, Holland, Mexico and the United Kingdom. Other countries, however, choose to keep them separate, as in the case of Canada, the United States and France.

Obviously, no one model is superior to another, for each country has its own peculiarities. However, there are reasons for cooperation to

exist, at least, between central tax administrations and customs, including:

- Customs and tax administrations usually have many taxpayers in common. Strategy alignment, joint operations and shared information may help reduce the cost of tax compliance, improving the business environment and making taxpayers' lives easier;
- Shared information tends to increase the possibilities of fighting tax evasion;

In the United Kingdom, the merger of the customs and internal revenue departments occurred recently (2005) and was preceded by a study⁹ aimed at assessing the pros and cons of various alternatives to improve the relationship between the two departments, such as:

- status quo plus - the departments would be kept separate, but would suffer minimal organizational changes to allow for governmental policy implementation;
- strategic alignment - a board would set up for the strategic management of the two departments, aligning long-term strategies;
- redistribution of departmental responsibilities - for example, the former British customs department was responsible for collection of Value-Added Tax (VAT) and specific taxes (excise taxes), which could be assigned to the internal revenue department;
- establishment of a new department, merging the former ones.

After careful analysis, the study concluded that the establishment of a new department, merging the former customs and internal revenue departments, would serve as the best option in light of potential benefits, particularly:

- improved taxpayer services and compliance costs, as one single tax agency would institute a uniform relations policy;
- greater effectiveness potential, through strategy alignment, consistent treatment of information, integrated audits and more flexible allocation of resources;
- greater potential equity, by ensuring payment of taxes;
- efficiency gains promoted through economies of scale.

⁹ *"Financing Britain's Future - a Review of the Revenue Departments" - prepared by Gus O'Donnell for the British Crown.*

It is interesting to note that, in the United Kingdom, the departments had already been working in cooperation nine years prior to the merger, but, according to the O'Donnell report, the establishment of the new department could lead to more extensive results, in terms of efficiency and effectiveness.

In Canada, in 1992, the customs and internal revenue departments departed on a merger process, for similar reasons to those of the United Kingdom. In 1997, the merger process was concluded, but, in 2003, customs and internal revenue were once again separated.

The reasons for the separation in Canada seem to derive from a strategic positioning on the part of customs, which was more closely involved in matters of internal security than tax administration issues.

In Brazil, customs and internal taxes were merged in 1968, when Secretaria da Receita Federal was formed. After surmounting initial difficulties, such as issues regarding responsibilities, linked to former career paths, and a rearrangement of functions, today it can be said that there is perfect harmony in the running of the organization. There were evident gains, including:

- shared structures and material;
- integrated information systems;
- flexible allocation of human resources;
- improved scheduling and monitoring of Treasury revenue;
- integrated resources for fighting tax evasion.

In sum, the relationship models between the Central Tax Administration and Customs vary from country to country, some using integrated models and others that have separate entities. However, cooperation should exist even in the case of models that are not integrated.

C. Social Security Entities

As previously mentioned, countries have different models of relationships between the Tax Administration and entities that are responsible for managing and collecting social security contributions.

Once more, it is also not possible to state that one model is superior to another, as the best solution depends on the existing situation in each country.

It is important to stress that social contributions have been managed traditionally by integrated bodies, with responsibility for the collection and payment of benefits. Nonetheless, a current phenomenon in some countries consists of the social contributions department being kept separate from the social security agencies, which become mainly responsible for making benefit payments, and the social contributions area being placed under the remit of the tax administrations.

Within in this context, mention must be made of the IMF study (2004), which identified six reasons¹⁰ for the social contributions administration to be absorbed by tax administrations in Eastern European countries:

1. **"Tax and social contribution administrations share many common processes and characteristics**, as both, generally, have taxpayer registers, declaration systems, taxation at source systems, similar definitions of income, collection and supervision systems, modern methods of information verification based on risk analysis.
2. **Efficient resource allocation** - the marginal expansion costs were relatively small for tax administration systems to take on responsibility for social contributions, a fact that could benefit small economies with few resources.
3. **Social contributions and taxes share many similar characteristics** - principles of contributions collection are similar to those used in tax collection, particularly in the case of taxation at source. Differences in terms of objectives can be overcome by appropriate accounting classification and the transfer of relevant information to specialized agencies.
4. **Collection, levying and supervision functions are better performed by the tax administration than by social security agencies** - social security agencies typically tend to recognize the individual's right to benefits and develop organizational cultures and processes that are in line with this approach. Responsibility for collection is counterintuitive to them but not to tax administrations.
5. **Reduced government administration costs** - due to elimination of the need to duplicate the various corporate processing, collection and audit functions. This can help to significantly reduce government administration costs, through (1) fewer technical staff and economies of scale in human resources management and training,

¹⁰ Adapted text.

fewer managers, implementation of integrated processes for tax returns, payments, supervision, data entry, audits and verifications; (2) lower infrastructure costs relating to facilities, telecommunications networks and others of a similar nature; (3) eliminating duplication of information technology costs and less system development and maintenance risks; amongst others.

6. **Reduced compliance costs** - the use of single forms, books and audit systems can help lower compliance costs."

Another important work of reference is the OECD study entitled "Tax Administration in OECD Countries: Comparative Information Series (2004)", which states that social contributions are collected by the tax administration in countries such as Canada, U.S., United Kingdom, Holland, Sweden, Norway, Ireland, Denmark and countries in Eastern Europe. On the other hand, this is not the case in Spain, Portugal, Italy, France, Belgium, Germany and Austria.

In Brazil, the establishment of **Receita Federal do Brasil**, this year, in 2007, led to the merger, under a single entity, of Secretaria da Receita Federal, which consisted of the tax administration and customs, and Secretaria da Receita Previdenciária, previously responsible for the administration of social security contributions.

Even prior to the establishment of the new department, the former ones worked in cooperation, performing many joint actions. It is important to mention that even before the merger, Secretaria da Receita Federal was always responsible for the administration of social contributions, with the exception of social security contributions that relate to payroll taxes.

- **Other Entities**

Besides the above-mentioned entities, the Central Tax Administration can establish partnerships with various others.

- **Service Facilitation**

Partnerships with banks and collection agents help to do away with payment centres and to replace them with online services and even credit card usage - in line with the tax administration strategy aimed at promoting service facilitation -, and consequently result in lower tax compliance costs. Furthermore, use of the banking network saves the

Tax Administration from having to invest in taxpayer service infrastructure, so fraught with risks, and from handling cash in its offices.

Advantages to banks and collection agents are evident, for they become responsible for the administration of larger financial resources and collect the corresponding service fees.

In addition to banks, accountant associations that are frequent users of tax administration services, trade associations, official company registration agencies, real estate registers, could all be potential partners, particularly if information technology resources were to be used for taxpayer/citizen services in an integrated manner. It should be mentioned that there is a trend in rendering service availability through the Internet.

- **Control**

Relationships between tax administrations and courts, including audit courts, government ministries, police and many supervision agencies, can ensure an effective means of fighting tax evasion, both through information exchange and joint operations.

3.2 International Relationships

Similarly to what has been happening in domestic relationships, international cooperation between tax administrations has been growing, as both internally and externally, tax administrations feel moved by an increasing need to employ effective means of fighting tax evasion and protecting their tax bases.

While it was said that at the domestic level, the need for cooperation increases according to the degree of autonomy held by the decentralized bodies, at the international level, with all the more reason, national sovereignty signifies that if a joint objective is sought, it can only be viable through cooperation, as no single legislation exists for taxpayers operating in different countries.

If at the domestic level, in certain situations the law defines the scope of the relationships between the Tax Administration and other organizations, in international relationships, there are treaties, agreements and conventions for the same purpose. However, it is necessary to understand that agreements are not drawn up randomly, but that they testify to a previous willingness for cooperation on the part of countries involved.

This willingness arises when a common interest is identified, although not so easy to do at the international level as at the domestic level, due to the fact that the interests at stake at the international level are those of societies in different countries.

However, globalization as a propelling force has sometimes led to the faster identification of similar interests at the international level than at the domestic level.

Therefore, the tax administrator who thinks strategically must be aware of external threats and opportunities. In a globalized environment, there are high risks of tax evasion and revenue erosion, forcing the tax administrator to take an active stance in seeking solutions. Rodrik's rule as previously mentioned may be more clearly applicable.

Within this context, this section briefly attempts to present aspects of the Tax Administration's relationships with partners abroad, as concerns the more common forms and mechanisms. It is worth stressing that the topic was addressed in depth at the last CIAT General Assembly in Florianopolis (2006), by the US, Portugal and OECD. The aim is not to reproduce material that has already been made available but to highlight some aspects relating to the topic under discussion.

A. Types of relationships

The following types of relationships have been identified:

- Bilateral relationships - commonly identified in double taxation treaties and information exchange agreements. They occur between two countries;
- Multilateral relationships - this is case of cooperation forums. Generally, in the taxation area, they cannot compel tax administrations to do or not do something. Their role is usually focused on issuing recommendations (soft law) and promoting technical assistance through experience and study exchanges. The CIAT is a case in point, as is the OECD Committee on Fiscal Affairs, amongst other forums¹¹.

¹¹ A description was given of many such forums in the text prepared by the IRS -USA at the General Assembly in Florianopolis, in 2006.

B. Cooperation mechanisms

Key mechanisms include information exchange, mutual assistance in tax collection and technical assistance.

- **Information Exchange**

Historically, it may be said that what inspired the first cooperation links between modern tax administrations were double taxation agreements and conventions concerning income tax. In general, these agreements were drawn up by the governments of two countries with the aim of protecting their revenues by means of preventing tax evasion abroad of any income subject to domestic taxation. They also hoped to protect the interests of multinational companies, thus avoiding the double taxation of the same income in two different states.

Once in force, these double taxation agreements made the tax administrations responsible for exchanging information according to the limits established therein. This meant that as these agreements principally dealt with income tax, they could not be used by tax administrations as appropriate instruments for information exchange on taxes other than those included within the text of the agreement or convention.

Mention must be made of the use of information exchange as a basic mechanism in these agreements. It is evident that, within this context, cooperation was virtually equivalent to information exchange.

Later, with globalization, world discussion on transfer pricing and the fight against harmful tax competition practices further strengthened the need for cooperation between tax administrations through information exchange. At the last CIAT General Assembly, held in Florianopolis (2006), the OECD stated:

"As business becomes increasingly global, tax administrations remain confined within their respective jurisdictions. The exercise of sovereign power, including tax control, assessment and collection, is limited in general terms to the jurisdictional territory. Therefore, if a tax inspector solely relies on domestic information, he only sees a small portion of all the activities or investments effected by a passive subject operating on an international scale. Consequently, tax administrations increasingly depend on cooperation with foreign partners as a means of ensuring better and more effective enforcement of national legislation on taxation.

Information exchange constitutes a key element of this form of cooperation. It is an effective way for countries to preserve their sovereignty regarding tax legislation application and compliance and of guaranteeing appropriate attribution of tax collection functions to each of the parties to the tax treaty. Furthermore, mutual assistance for cooperation in the field of collection has become an increasingly important tool for the protection of tax revenues and improved tax compliance."

This text also underscores that tax administrations have at their disposal many information exchange instruments¹², such as:

- Bilateral tax conventions, based on the OECD model tax convention or the United Nations model convention on income and on capital, aimed at double taxation avoidance;
- Specific international information exchange agreements, based on the OECD or CIAT information exchange model agreements;
- International agreements on legal assistance, such as the InterAmerican Convention on Mutual Legal Assistance in Criminal Matters.

Therefore, improved cooperation instruments based on information exchange are a product of the perception that, in a globalized environment, such instruments are central to activities performed by tax administrations in charge of public revenue management.

- **Mutual Assistance in Collection of Taxes**

Another form of cooperation increasingly undertaken between tax administrations is that of mutual assistance in collection of taxes, which was introduced into the OECD model tax convention in 2003. Note that the introduction of this mechanism into the OECD convention is recent, when compared to existing information exchange mechanisms. OECD justified that, for a while, application of the revenue rule¹³ prevented more progress from being made through mutual assistance in collection of taxes. Today, however, the growing movement of capital has changed that understanding and mutual assistance in collection of taxes has taken on a prominent role, meaning that it could become a trend in the next few years.

¹² *Information exchange and mutual assistance in collection were addressed in greater depth at the CIAT General Assembly in Florianopolis, in 2006. For more information, suggested reading includes texts prepared by OCDE and Portugal at that opportunity*

¹³ *Principle in International Fiscal Law that prescribes that "a country will not aid another in its request for credits."*

- **Technical Assistance**

Lastly, technical assistance, in its various forms, is another cooperation mechanism between tax administrations in different countries. Within CIAT, for example, much has been done since the sixties to enable experience exchange between tax administration representatives of member countries at seminars and other events.

4. BRAZIL - A CASE STUDY

Brazil is a Federal Republic with three levels of government (federal, state and municipal). In all, there are 26 states, the Federal District and approximately 5,500 municipalities. The Brazilian Constitution gives these levels of government the power to establish¹⁴ and collect taxes, granting them a high degree of autonomy.

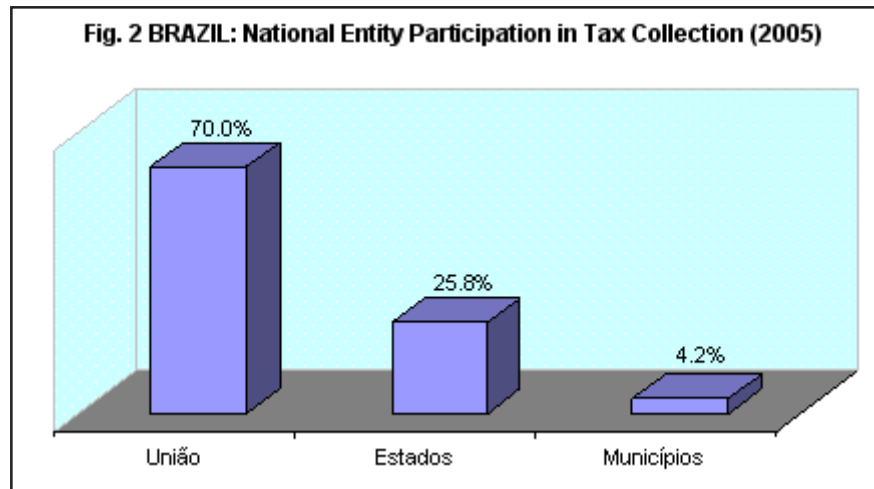
The Federal state is responsible for the administration of income tax, both relating to individuals and corporate bodies, foreign trade taxes, rural property taxation, industrialized goods taxation, regulatory tax on credit operations, foreign exchange, insurance and securities, as well as various contributions for financing social security or intervening in the economy.

The states have jurisdiction over the following taxes: value-added tax on sales and services (ICMS), vehicle tax and transfer tax. The first tax generates the country's highest tax collection, raising approximately 21% of total revenues.

On the other hand, municipalities collect services tax¹⁵, town property tax and property transfer tax. The following figure shows national entity participation in tax collection.

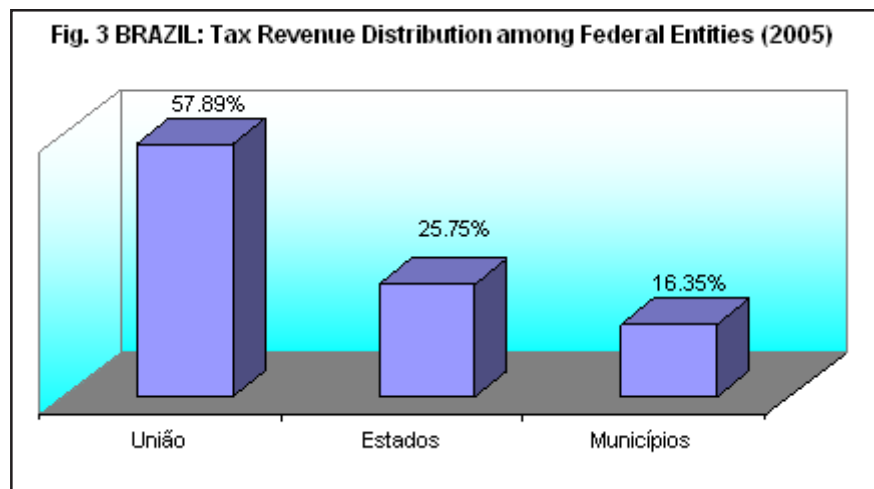
¹⁴ A more detailed description of Brazilian federalism may be found in the annals of the 36th CIAT General Assembly, topic 2.3.

¹⁵ Municipalities' services tax (ISS) base does not cover services included in the state tax base.



Source: Receita Federal

The Brazilian Constitution provides that the resulting taxes collected be distributed among national entities. Transfers are made from the Federal state to the states and municipalities and, also, from the states to the municipalities¹⁶. Thus, the figure below illustrates federal entity participation in the resources effectively available.



Source: Receita Federal.

¹⁶ Special mention has not been made to tax revenue distribution rules, although the interested reader may find reference to them in the annals of the 2002 General Assembly, topic 2.3.

Therefore, of the total collected in 2005, 42.1% went to the subnational levels (states and municipalities). This percentage, known as the decentralization rate, has been close to 40% for the past ten years.

Based on this discussion, certain characteristics of Brazilian federalism can be noted, such as the degree of autonomy of the three government levels and the high degree of fiscal decentralization. Both suggest that there exists a complex network of relationships between the national entities.

Within this context, public policy efficacy depends on coordination and cooperation, although the real challenge is to achieve coordination and cooperation with autonomous entities.

4.1 The Relationship between Receita Federal and State and Municipal Treasury Departments

In Brazil, cooperation between Receita Federal (the Central Tax Administration) and the state and municipal treasury departments was already contemplated in the National Tax Code, published in 1966, which stated in article 199:

Art. 199. The Federal state treasury and state, federal district and municipal treasury departments will provide mutual assistance to each other in supervising the collection of respective taxes and information exchange, as established, in general or specifically, by law or through an agreement. (Adapted)

In 1970, the National Treasury and The State Treasury Departments signed an agreement for the establishment of the National Integrated Fiscal-Economic Information System - SINIEF. It was the first cooperation instrument used between the Federal state and state tax administrations, aimed at standardization and information exchange.

SINIEF produced important results, such as book and invoice standardization for taxpayer use, legally valid across the country, and initial actions aimed at establishing a single classification for economic activities and the exchange of registered information.

However, lack of coordination and technology delayed making use of the assumptions contained within the scope of SINIEF, which was aimed at implementing a basic, homogeneous information system for fast access by parties to the agreement, amongst other objectives.

It should be noted that SINIEF did not include municipalities.

However, SINIEF proved to be a step forward, strengthening relations between tax administrations and laying the foundations for more efficient cooperation instruments to come.

A. Cooperation Agencies

- **CONFAZ**

In 1975, in response to the need for greater state activity coordination, most particularly due to the fact that the main Brazilian tax, known as ICMS, comes under jurisdiction of the states, the National Revenue Policy Board (Conselho Nacional de Política Fazendária, CONFAZ) was established. Its functions include policymaking and harmonization of tax competence rules and procedures for the states and Federal District. Additionally, it works in collaboration with the National Monetary Council (CMN) in the areas of Internal and External Public Debt policymaking for the states and the Federal District and in advising state public financial institutions.

It is composed of representatives from each of the states and the Federal District and a representative of the Federal Government, in the person of the Treasury Minister, whereas the states and Federal District are represented by the state secretaries for the Treasury, Finance or Taxation.

The Board has the following attributions, amongst others:

- Promoting the signing of agreements, for granting or revoking ICMS tax exemptions, incentives or benefits;
- Promoting actions aimed at tax control and administration, and mutual assistance and information exchange between state and Federal District tax administrations;
- Promoting the implementation of the National Integrated Fiscal-Economic Information System (SINIEF), for the collection, elaboration and distribution of basic key data needed for fiscal-economic policy formulation and for constant improvements in tax administration work.
- Promoting studies for the improvement of the Tax Administration and the National Tax System, as a means of furthering social and economic development, in the field of the federal and state taxation interrelations.

Confaz has an Executive Secretariat and a Permanent Technical Commission (Cotepe), in charge of making proposals on tax matters under state jurisdiction. Cotepe, in turn, is organized into various workgroups that primarily discuss issues regarding ICMS policy.

Consequently, it is a forum for daily meetings attended by representatives of the national and state economy ministries. Amongst its achievements, Confaz includes the establishment of the Integrated Information System concerning Interstate Goods and Services Operations (SINTEGRA), which was adopted in 2000, resulting in the development of the technological base used in the recent initiatives, such as the public system electronic register, the electronic invoice and synchronized register.

On establishing an environment that facilitates dialogue and the spread of information, so essential for identifying common objectives; Confaz and Cotepe contribute, even if indirectly, towards achieving progress in the relationships between Brazilian tax administrations.

Confaz does however have its limitations. Firstly, it only includes states and not municipalities. Secondly, from the point of view of Receita Federal - it does not have the right to a vote in Confaz - the forum deals with issues of interest to tax administrations, but only as a matter of secondary concern. The establishment of the National Tax Administrators Meeting (ENAT) fulfilled expectations by promoting greater dynamism in decisions concerning the actions of tax administrations.

- **National Tax Administrators Meeting - ENAT**

Even under the legal instruction to render mutual assistance, contained in the Tax Code published in 1966, there was little incentive to promote closer cooperation links. Before the 1988 Constitution, political and citizens rights were not fully protected. The closed political regime favoured highly hierarchical relationships, typical of bureaucratic models, leaving little room for the development of cooperation ties. After 1988, the understanding of the need for cooperation grew gradually as a result of the greater protection of citizens rights.

During the nineties, it was understood that strong tax administration autonomy had been generating multiple work routines, excessive bureaucracy and lack of compatibility in fiscal-economic taxpayer data. To individuals, the State appeared multifaceted, inefficient and slow.

To governments, control seemed difficult, because an integrated vision was needed with regard to taxpayer actions. Tax compliance costs were high, favouring tax evasion and creating barriers against investment.

It was necessary to reverse the situation. Brazilian lawmakers fulfilled general expectations, basically, by means of two important actions: Constitutional amendment 42/2003 and Complementary Law 104/2001. While the latter rendered tax secrecy more flexible and favoured information exchange within the public administration, the former determined the integrated role that was to be taken by national, state and municipal tax administrations, including register and tax information sharing.

However, the constitutional text was bold when it provided that cooperation between Brazilian tax administrations should involve **integrated actions and the sharing of information**, two concepts that led to profound changes. Prior to that, since 1999, Secretaria da Receita Federal had already signed information exchange agreements with nearly all the states as well as the Federal District, but the will to work in cooperation was lacking.

Constitutional Amendment 42/2003 and Complementary Law 104/2001 laid the ground for dialogue between national, state and municipal tax administrations. Thus, in July 2004, the first National Tax Administrators Meeting (ENAT) was held, gathering the heads of the federal, state, Federal District and municipal capitals tax administrations.

The meeting was aimed at seeking joint solutions to enable the three levels of government to achieve greater administrative integration, standardization and better quality information, rationalization of costs and operational taxpayer services workloads, greater supervision efficiency, more opportunities for carrying out integrated and coordinated fiscal actions, greater opportunities for tax information exchange between the different government levels, large-scale data cross-checking with standardized data and uniform regional and local procedures.

The first ENAT strengthened cooperation ties between tax administrations. Meetings began to be held annually, based on the needs that were identified. Altogether, during ENAT I, II and III, six protocols on technical cooperation were adopted, with a special mention to the Synchronized Register and the Public Electronic Register System -SPED.

It is important to note that technical cooperation protocols are the legal instruments for establishing ties between tax administrations, which permit them to perform the necessary actions for undertaking common projects.

B. Cooperation Projects

- **The National Synchronized Register**

There arose in the nineties a desire to build joint solutions for improving registry procedures in the three levels of government, after the signing of ICMS Convention 08/1996, within the framework of Confaz. The CNPJ register that replaced the former General Taxpayer Register (Cadastro Geral de Contribuintes - CGC), under the remit of the National Treasury, as of 1st. July 1998, was seen as a means of rationalizing resources and procedures in the various registers and for promoting cooperation between different government level tax administrations, in an attempt to facilitate tax compliance by the business sector.

On the establishment of the CNPJ register, it had been foreseen that all the economic entities in the state and municipal administrations would use the register, and that later the tax register would be adopted nationally. At the time, taxation issues and operational difficulties, particularly of a technological nature, prevented the CNPJ register from achieving foreseen objectives.

The matter was taken up again at ENAT II, at the signing of the protocol that founded the synchronized register by state and Federal District economy ministers, the Head of Receita Federal and economy department representatives of the municipal capitals.

The National Synchronized Register¹⁷ contains tax registration procedures used by the National Tax Administration and tax administrations at the state, Federal District, Municipal levels, and other agencies and entities involved in the process, with a view to creating:

- Simplified and rationalized procedures regarding registration, modifications, and withdrawal of legal and other (economic) entities, resulting in cost and time savings;

¹⁷ For more information on the Synchronized Register, visit <http://www.receita.fazenda.gov.br/CadastroSincronizado/CadSincrDefault.htm>.

- Harmonized register data on legal and other entities, for improved efficiency and efficacy in Brazilian tax administration procedures.

The problems that prevented the CNPJ from becoming a single register served as a lesson in the search for a solution to the synchronized register. In this perspective, the entities involved still have autonomy over and the right to manage their respective registers, which will be synchronized in the future, but the CNPJ number will be the single registration identifier.

In the synchronized register, single data collection is performed, aimed at integrating the actions of the entities involved, such as sharing of registers and tax information. Register data will be inserted, modified and withdrawn with the joint approval of the entities involved. If effected by one of the participating entities and in conformity with legal requirements, registry actions will be accepted by the others.

Implementation has been gradual. The project was initiated in the states of São Paulo and Bahia, but cooperation agreements include other states and municipal capitals, so that there is an implementation schedule.

Besides tax administrations, other public entities will also reap the benefits of this synchronized register, such as trade boards, official company registration agencies, fire brigades, notaries public and health control agencies.

This is a typical case of positive output, in which the benefits will spread to other agencies.

Technologically, it is interesting to note that Rede Intranet Sintegra (RIS), previously established for information exchange between state economy administrations within the scope of the ICMS, became perfectly adapted to the requirements of the synchronized register and used by the state economy and finance departments, which were already connected to the network. This TCP/IP network is separate, with encoded traffic and managed by providers, and enables participating entities to interconnect.

For those entities that do not dispose of the Rede RIS (municipalities, for example) a new backbone is being created to provide connection between the RIS network and a new structure, the Synchronized Network.

The participating entities must arrange to be connected to Receita Federal, the project coordinator, and dispose of file servers that enable secure information exchange between systems. Receita Federal will provide all with the required system and connection components.

The participating entities are also responsible for data/information development, maintenance, adaptation (interface) and updating their respective databases. Access to information can only be obtained through digital certification.

For taxpayers, this clearly simplifies matters. In the past, taxpayers needed to go to each governmental department to introduce register modifications. Some of the departments depended on authorization from other agencies, rendering the process substantially complex.

With the synchronized register, taxpayers access the system via an internet address, where they can download forms or help programmes, or complete the forms online. While the requests are pending, taxpayers may follow progress at the same electronic address, without leaving the office. They no longer have to go to the different departments, but simply view a single governmental portal.

Internet access poses no difficulty in Brazil, as each company files their returns to the Receita Federal via the web.

- **The Public Electronic Register System - SPED**

In August 2005, at ENAT II, the head of Receita Federal, the state and Federal District treasury ministers and representatives of the municipal capitals treasury departments signed Cooperation Protocols 02 and 03, which aimed to achieve the development and implementation of the Public Electronic Register System and the Electronic Invoice.

Under Receita Federal, Sped is part of the Customs and Tax Administration Modernization Project (PMATA), which aims to implement new processes based on appropriate integrated information systems, information technology and logistical infrastructure.

Sped will produce great advances in digitalizing the relationship between the tax administration and the taxpayer. It consists of updating the current system for compliance with associated tax obligations, used by

taxpayers to send information to tax administrations and supervision agencies, which is based on digital certification for the signing of electronic documents and guarantees legal validity to the digital form only.

In brief, SPED:

- Has three large subprojects: the Electronic Bookkeeping Register, the Electronic Tax Register and the Electronic Invoice - for national use;
- Is an integrated initiative by tax administrations at the three levels of government: federal, state and municipal;
- Has partnerships with 16 institutions, including public entities, trade boards, civil entities and associations, for joint elaboration of the project;
- Permitted cooperation protocols to be signed with 24 companies that took part in the pilot project, aimed at joint task development and orderliness;
- Permitted - through partnerships between the tax administration and companies - early solution planning and identification, for compliance with associated tax obligations as defined by tax administration requirements;
- Effective taxpayer participation in defining forms of taxpayer services for associated tax compliance, as defined by tax legislation, permits mechanisms to be improved and provides these instruments with greater social legitimacy;
- Instead of the traditional concept of information exchange, the technological platform permits the use of a new, more powerful concept: information sharing;
- Establishes a new type of relationship, based on mutual transparency, with positive results for all of society.

The objectives of SPED are:

- To promote integrated actions on the part of tax administrations: sharing information will permit greater ease of access to information by the various agencies involved in the project, which after SPED deployment, will be the proprietors of the data, with the appropriate respect for constitutional and legal restrictions;
- Rationalize and create uniform associated taxpayer obligations: SPED will provide a single means of complying with various associated tax obligations at several different agencies.

- Speed up identification of tax violations: on receiving corporate accounting entries and through easier access to information, each project partner-agency will develop applications for cross-checking returns and data provided by taxpayers and their accountants.

Amongst the expected benefits, the following are highlighted:

- Lower costs in complying with associated tax obligations;
- Improved business environment;
- More audit efficacy, efficiency and time savings;
- Lower tax evasion due to the possibility of more effective control based on use of technology;
- Repercussions on the whole of society and the economy resulting from: e-commerce incentives, new opportunities in the services area, standardization of electronic intercompany relationships, reduced paper consumption, producing ecological impact.

There follows a short description of each SPED project.

SPED CONTÁBIL - Accounting

A large number of taxpayers already use information technology resources for doing their bookkeeping, with all paper images based on existing electronic information.

For tax administrations, although not yet available in real time, easily accessible bookkeeping records provide a better chance of selecting taxpayers and substantially reduce audit times.

However, taxpayers who keep records on paper, and additional lack of uniformity in accounting information specifications and treatment, produce the following situation:

- Low audit productivity;
- Unreliable information on tax returns;
- Easy commercial transaction simulation;
- Difficulties in effecting control actions;
- Lack of compatibility in taxpayer fiscal-economic data;
- Information on commercial transactions is not available within the required time;
- Difficulty in rendering available, sharing and exchanging information;

- High cost of printing, handling and storing business bookkeeping records;
- Difficulties in complying with associated tax obligations;
- Lack of standardization between the states and Secretaria da Receita Federal - SRF - for compliance with associated tax obligations;
- Misplacement of tax records as a means of hampering fiscal actions;
- Difficulties in monitoring covert operations.

SPED CONTÁBIL is aimed at replacing accounting records (Journal and Ledger) that are issued on paper with digital ones. Ledgers and Journals records are represented by a single set of data.

The solution must involve the federal, state and municipal tax administrations, in addition to other public administration agencies.

SPED - Fiscal

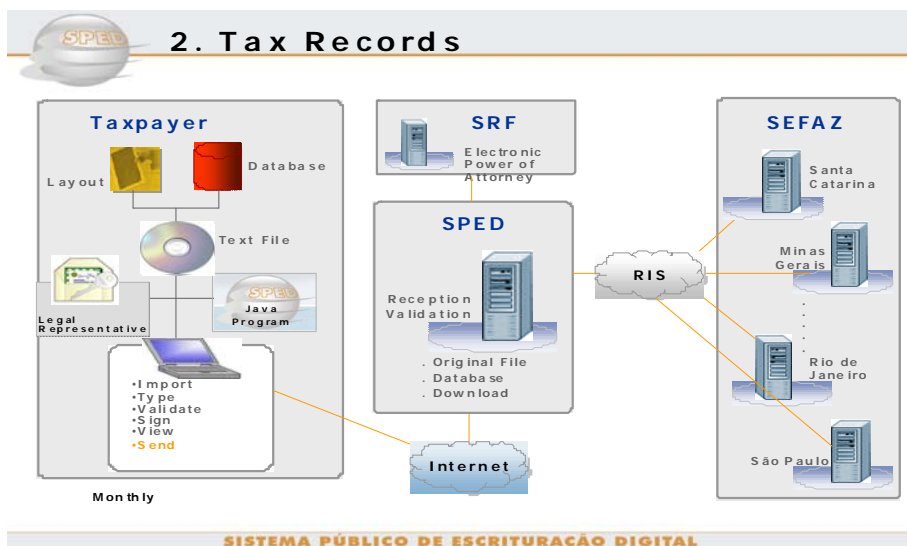
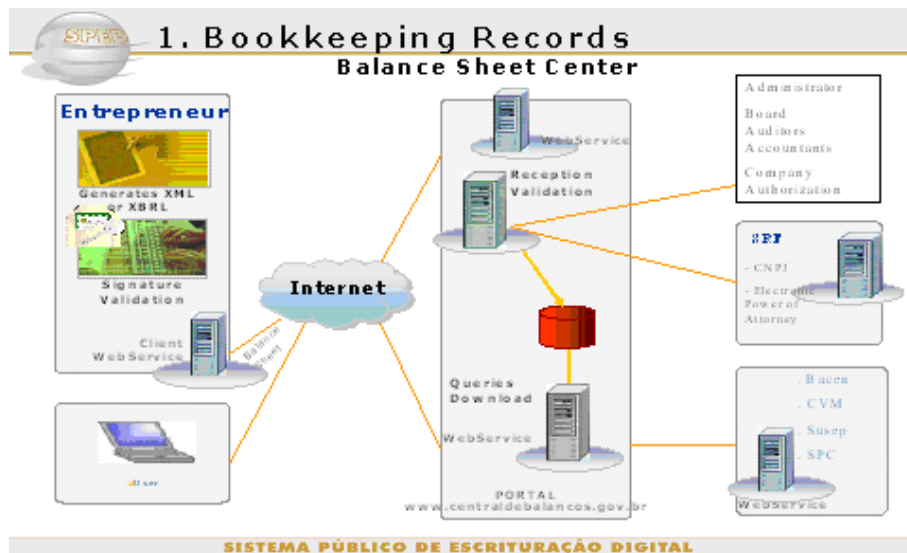
Currently, information required by the tax administration is supplied on various electronic statements, as well as physical media in some cases, which requires large structure for the reception, processing and control thereof.

SPED Fiscal permits tax administrations to obtain higher quality information and taxpayers do not have to store tax information on paper.

After the deployment of Sped accounting and Sped fiscal, once a company has provided information on Sped, it will not need to present many associated tax requirements at the three levels of government nor compliance requirements of other entities participating in the project.

SPED - E-Invoice (NF - e)

Today tax administrations use a great deal of resources in capturing, storing and making available information concerning taxpayer invoices. The volume of transactions effected and resources transferred grow increasingly, and likewise the amount needed by the State for detecting and preventing tax evasion.

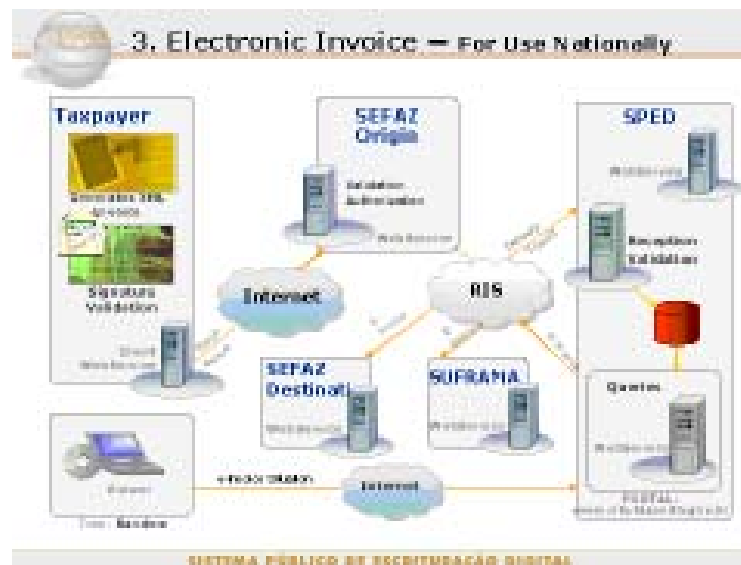


Sped NF- e addresses the need for public investment in the tax control integration process, and enables:

- Enhanced information exchange and sharing of information between tax administrations;
- Reduced costs and red tape, facilitating tax compliance, and tax and contribution payments;
- Better control and supervision.

The project will provide the following benefits and advantages for parties involved:

- More reliable Invoices;
- Improvements in the tax control process, generating enhanced information exchange and sharing of information between the tax administrations;
- Reduced control process costs relating to invoices captured by goods controlled in transit;
- Less tax evasion and increased collection;
- Support for electronic bookkeeping and tax records projects under the responsibility of Secretaria da Receita Federal and other state economy departments;
- Closer integration between tax administrations, facilitating tax administration control, resulting from cross-checking of information in electronic invoices;
- Fast access to information;
- Elimination of paper;
- Increased auditor productivity through elimination of steps in file collection;
- Cross-checking of electronic information.



Lastly, reference must be made to the fact that Sped is an entirely new cooperation experience between Brazilian public and private entities. At present, there are twenty-five companies in the project, including large multinationals from areas such as banking, car assembling,

beverages production, pharmaceutical products, tyres, foods, telecommunications service providers and transport.

Among the public entities and non-profit organizations, besides tax administrations at the three levels of government, more than 20 entities are taking part in SPED¹⁸, with special mention to the Central Bank, various ministerial departments, trade associations, economy sector representatives and financial market entities.

4.2 The Integrated Tax, Social Security and Customs Administration Model

The recently formed **Receita Federal do Brasil (RFB)**¹⁹ is responsible for internal taxes, customs and social security contributions administration.

Previously, Secretaria da Receita Federal (SRF), as of 1968, was responsible for internal taxes and customs, while Secretaria da Receita Previdenciária (SRP) was in charge of collecting social security payroll contributions.

The merger of the internal taxes and customs departments made it necessary to streamline the collection and control machine, and to promote greater integration between the tax administration and taxpayers, in order to facilitate spontaneous tax compliance, solutions to potential problems and access to private personal information.

Additionally, by merging the internal and customs tax administration, SRF was born strong, and to this day adoption of this model has proved to be satisfactory, particularly due to the fact that it provides an integrated view of the taxpayer, procedure rationalization and lower costs. The new Secretaria da Receita Federal was a significant advance in facilitating tax compliance, contributing towards increased collection at the end of the sixties. The national tax burden rose substantially, from 16-18% of the Gross Domestic Product (GDP) at the beginning of the decade, to over 24% of GDP after 1968.

¹⁸ For information on Sped, including a list of participating companies and entities, please visit: www.sped.fazenda.gov.br.

¹⁹ Receita Federal do Brasil - RFB was established in March 2007.

The RFB is the central higher body of the Tax Administration, being under direct authority of the Treasury Minister, and exercising basic functions in the areas of tax control, standardization, collection and supervision - including customs taxes, and federal and payroll contributions. At the advisory level, it is also involved in national tax policy formulation and, at the administrative level, it rules on taxpayer complaints.

Creation of the RFB was aimed at lowering operational costs, process simplification, integrated taxpayer service, control and information technology systems, as well as the adoption of other administrative efficiency measures, with a view to improving efficiency in tax and contribution collection.

To the public, it will result in a simplification of tax obligations, corporate interaction with only one Federal Tax Administration representation and better taxpayer services, enabling an immediate, conclusive solution to tax issues, and producing time savings and lower costs.

4.3 Other Domestic Relationships - Public and Private Entities

It was shown that relationships between Receita Federal do Brasil and the subnational tax administrations have been strengthened as a result of the establishment of deeper cooperation ties in concrete terms. The Synchronized Register and Sped projects, while still in preparative stages, are already seen to be making a strong impact on society, in view of the large number of public and private entities involved.

Therefore, Sped would have been enough of an example of the partnership ties between Receita Federal do Brasil and other public entities and companies. Even so, although very briefly, mention must be made of some successful partnerships, without discredit to those not included below:

- Financial banks and agents that, since 1967, have performed federal revenue collection and that, in 2005, went on to be partners in digital certification;
- the Brazilian Geographical and Statistics Institute - IBGE, which, together with Receita Federal, and state and municipal treasury departments and universities, have been enhancing the national economic entities classification system (CNAE), and have been working on development of an automatic classification project based on artificial intelligence;

- Research institutes and universities working on gauging systems development, for fiscal control actions in the beverage and cigarette manufacturing industries;
- Treasury Administration School (Escola de Administração Fazendária), which in addition to being involved in the selection and training of Receita Federal personnel, is now responsible for coordinating the National Fiscal Education Programme (PNEF), together with the state and municipal treasury departments, the National Treasury Department, as well as schools and other public and private players;
- Serviço Federal de Processamento de Dados (Federal Data Processing Service - SERPRO) is a state company that has held a long partnership with the Tax Administration, and "aims to make all relevant information available to Receita Federal in an integrated manner, providing it with modern, efficient technology, tools and instruments, in order to facilitate its collection, management and decision-making processes, rendering the relations between the taxpayer and tax administration easier and more user-friendly".
- Accounting Pronouncements Committee (CPC) seeks convergence of Brazilian accounting to International Accounting Standards;
- partnerships with the Federal Police Department and the Justice Ministry that have been successful in various joint actions against tax evasion;
- information exchange agreements have been signed with the following: the Brazilian Securities Commission, the Brazilian Institute for the Environment and Renewable Natural Resources (Ibama), the Central Bank, the Federal Justice Ministry, the Federal Police Department, various municipalities, legal entity and individual registration agencies and the federal courts, among others.

4.4 International Relationships

Information Exchange

Double taxation treaties regarding income tax generally include an information exchange provision, which is why they are also an important source of information, particularly concerning transactions by non-residents and residents who do business abroad.

At present, Brazil has double taxation treaties with over 20 countries, including Argentina, Belgium, Canada, Chile, China, Czech Republic, Denmark, Slovakia, Ecuador, Finland, France, Germany and India.

As concerns customs, Brazil is party to many information exchange and mutual administrative assistance agreements. Among the information exchange agreements, special mention should be made to agreements signed for foreign trade control: the Multilateral Convention on Cooperation and Mutual Assistance between the Customs departments of Latin America, Spain and Portugal; and the MERCOSUL Customs Administrations Convention on Cooperation and Mutual Assistance in customs violations prevention (Decision taken by the MERCOSUL Common Market Council - CMC - on 01/97). The Multilateral Convention on Cooperation and Mutual Assistance between the Customs departments of Latin America, Spain and Portugal was signed by Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Portugal, Spain, Uruguay and Venezuela. MERCOSUL countries and Chile are signatories to the MERCOSUL Customs Administrations Convention on Cooperation and Mutual Assistance in customs violations prevention.

Additionally, customs information exchange agreements have been signed with France, the United States, Russia and Holland; and others are moving through Congress or under negotiation.

As concerns customs, there are other channels available for information exchange with other countries, such as attaché offices, information networks (such as RILO²⁰), direct use of diplomatic channels and letters rogatory.

Within the MERCOSUL framework, automated exchange is available via Indira, an integrated foreign trade information system, based on each country's proprietary system: Siscomex (Brazil), Maria (Argentina), Luzia (Uruguay) and Sofia (Paraguay). Access is via the Internet.

The Indira system is primarily aimed at:

- automatic foreign trade information exchange between the customs departments of the party-States;

²⁰ *The Regional Customs Intelligence Liaison Office is a World Customs Organization (WCO) project.*

- speeding up information exchange procedures;
- providing assistance in customs violations prevention;
- being an instrument for import operations identification and treatment;
- feeding a single database with necessary information for future distribution of MERCOSUL customs revenues.

Lastly, the information exchange agreement with Argentina, which was drafted according to the CIAT model information exchange agreement, and signed during the CIAT General Assembly in Buenos Aires, encompasses internal and customs taxes. Information may be exchanged automatically, spontaneously or by placing an advance request. Restrictions concerning Information exchange include supplying information that goes against public order, or obtained by means that are against the law in the country to which the request was made, with the exception of banking or tax secrecy legislation. The agreement must also provide for simultaneous inspection actions (to be undertaken by each TA in its own jurisdiction, simultaneously and with a common interest) and in the presence of inspectors from one country on the other's territory.

- **Technical Assistance**

Like the ENAT, at the domestic level, in 2006, a forum of MERCOSUL tax administrators was formed, with support from CIAT, which meets every six months, for the purpose of discussing and increasing cooperation ties between party-states. It is hoped that, just as ENAT triggered concrete actions for improved facilitation and control, this forum will foster joint actions. Discussions have already been held on topics such as electronic invoicing, the fight against fraud, coordinated inspection actions and information exchange. These meetings present an opportunity for closer cooperation development between MERCOSUL tax administrations.

The IBSA tax administrators' forum, the India-Brazil-South Africa Dialogue Forum, was also recently established and held its first meeting in 2006. The meeting highlighted that there was growing economic activity between the respective countries and an increase in trade and investment relations, which call for closer cooperation on taxation and customs matters.

Some of the cooperation activities agreed on at that meeting involve:

- aiding in the facilitation of legal trade and investments, in order to strengthen economic relations between India, Brazil and South Africa;
- work on electronic connectivity development, ideally aimed at permitting information exchange to occur in real time between Administrations, as a means of promoting closer cooperation;
- cooperation in the fight against commercial fraud, drug trafficking and other illegal activities, by establishing a mechanism for information exchange and for comparative data analysis for the purpose of drawing up risk profiles;
- development of a mechanism, within the scope of the IBSA, for reducing the number of transactions, agreements, operations and schemes that involve tax evasion, through use of information exchange provisions contained in our bilateral double taxation agreements and simultaneous inspections, whenever possible;
- information exchange on tax and customs modernization in our respective Administrations and identification of areas for increased cooperation and capacity-boosting;
- development of a Trilateral Agreement between the Tax Administrations of India, Brazil and South Africa for supporting cooperation activities;
- hastening the conclusion of the final texts of Mutual Administrative Assistance Agreements on customs matters.

The technical cooperation agreement signed between Receita Federal do Brasil and the Foreign Office provides for the implementation of an institutional reform project and increased capacity-boosting in Receita Federal investigational practices. Within the scope of the agreement, seminars, visits, consultations, reports and system development specifications are already underway, focusing on aiding Receita Federal in its organizational restructuring process and tax intelligence techniques.

EUROsociAL - a regional programme for cooperation with Latin America, promoted by the European Commission - aims at promoting greater social cohesion in Latin American, through public policies, and is another important initiative in which Receita Federal do Brasil is involved as part of a consortium of entities. The programme boosts cooperation between Latin American and European organizations, through seminars, visits and virtual forums.

One of the events, a Meeting of Brazilian and European Union Tax Policy Experts was held in Brazil, and was aimed at contributing towards the Brazilian tax reform process, by providing examples of the European experience in social cohesion. Also of note are various initiatives now underway relating to register standardization, large taxpayer control and collection procedures.

Lastly, the importance of CIAT as a leading international organization in promoting experience and cooperation exchange amongst tax administrations, and the role of the World Customs Organization (WCO) within this context, cannot go unmentioned. Receita Federal do Brasil has played an active part in exchange and cooperation programmes in both organizations, with excellent results.

5. CONCLUSION

Both at the domestic and international level, tax administrations are seen to be adopting a clearly pro-cooperation stance.

This was mainly the result of technological advances that increasingly permit faster access to information, dynamic relations resulting from globalization, actions by citizens who seek to exercise their rights more forcibly, and use of strategic thinking in organizations.

At the domestic level, national and subnational tax administrations have presented joint programmes, as in the cases of Spain, Argentina and Brazil. This seems to mark an irreversible trend, on the basis of the long-lasting benefits to the taxpayer, in terms of facilitation and lower costs, and to the tax administrations, in terms of lower costs and improved controls.

In their relationships with customs and social contribution administration departments, tax administrations have increased cooperation and information exchange, in cases where governments do not decide to go further by merging them into a single organization, as occurred in Argentina, the United Kingdom and Brazil.

As concerns other institutions, there seem to be partnership opportunities with banks, accountant associations, trade associations, official company registration agencies, real estate registers, legal bodies and courts, police and supervisory bodies, many of which offer potential gains for both parties.

Despite promising possibilities, tax administration cooperation with other segments of society can still be developed further, considering the many existing obstacles that need to be overcome. Links with the media are one example of a relationship in which it is not always possible to establish common interests.

Additionally, cooperation ties are relatively recent, meaning that more concrete results should become evident in the short term future.

At the international level, information exchange mechanisms have already produced results, although more recently, like the CIAT model information exchange agreement, these mechanisms are becoming more encompassing and sophisticated, broader in scope and covering different types of taxes - previously, actions were more specifically directed at income and foreign trade taxation - and permit simultaneous inspections and electronic information exchange.

Still at the international level, the network of cooperation relations and mechanisms is growing, beyond traditional information exchange, and involves activities based on mutual assistance in credit recovery and technical assistance for very diverse purposes.

The Brazilian experience has a little of all of this. At the domestic level, clearly, there are obstacles, but cooperation between Receita Federal do Brasil and subnational entity tax administrations are making gigantic steps forward, particularly from 2004 onwards, when the first National Tax Administrators Meeting ENAT was held and six cooperation protocols were signed. The need to reduce compliance costs and improve the business environment in Brazil has helped to guarantee the necessary financing for tax administration modernization, such an essential factor for undertaking cooperation projects.

The development of the Synchronized Register and the Public Electronic Register System faces a similar situation. Both will bring crucial benefits to taxpayers and the Tax Administration. Both are part of the new ideas on integrated tax administration actions and information sharing that should lead to definitive changes in relationships between tax administrations and taxpayers within the next few years. The concept of information sharing is much more powerful than that of information exchange and, therefore, its impact is much more wide-ranging, as has already been seen by the great number of public entities and companies that are taking part in the project. Successful results in the deployment of Sped will also determine whether it can be adapted for use in information sharing internationally.

The recent establishment of Receita Federal do Brasil also indicates that there is a strong trend in Brazil towards lower administrative costs and promoting higher efficiency targets for collection institutions.

At the international level, in addition to various double taxation agreements and many customs initiatives, with special mention to electronic foreign trade information exchange (the Indira system) with MERCOSUL partners, Brazil has been negotiating information exchange agreements concerning all the federal taxes under the remit of Receita Federal do Brasil.

Internationally, Brazil plays an increasing role, not only with regard to information exchange, but also in various technical assistance forums and relating to other forms of cooperation, such as EUROsocial and IBSA, in addition to its obvious presence in CIAT and WCO.

Of all the aforementioned, it can be said that fairly significant results are expected during the next ten years, in terms of improved control and greater facilitation and lower costs for the taxpayer and the tax administration, as a result of initiatives now being developed involving cooperation and use of technology. Some years ago, globalization brought a degree of uncertainty regarding the future for tax administrations, with responsibility for revenue collection and law compliance, following the establishment of tax havens and e-commerce, among others. Nevertheless, it is evident that tax administrations have been active, by forming cooperation ties, or even going beyond and merging their activities. Tax administrators today need to be fully aware of their strategic positioning, seeking the right partnerships for reaping the desired benefits in the medium and long term.

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Case study

Topic 2.1

INTEGRATION OF THE ADMINISTRATION OF INTERNAL TAXES, CUSTOMS DUTIES AND SOCIAL SECURITY CONTRIBUTIONS

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*CONTENTS: 1. Introduction.- 2. Importance of cooperation mechanisms.-
3. Argentina's experience in integration.- 3.1. The path towards a "single
agency" 3.2. Integration guidelines.- 4. AFIP, ten years after integration.-
4.1. Organization's characteristics.- 4.2. Different paths.- 5. Final comments*

1. INTRODUCTION

This paper aims at sharing the experience of the Federal Administration of Public Revenue (AFIP, its Spanish acronym) of Argentina in the integration of domestic tax, customs and social security administration, within the framework of the so-called "single agency" model.

In this regard, it will describe the process implemented in Argentina as well as the mechanisms used to implement the integration of agencies and the main aspects considered on the path to unification.

Likewise, the paper sets forth progress made on the basis of the comprehensive approach to tax administration. In this analysis emphasis will be placed on those management tools that cut across AFIP, generating benefits that would be difficult to obtain if there was no synergy among the three operational agencies: the Internal Revenue Service or Directorate (DGI, its Spanish acronym), the General Customs Directorate (DGA, its Spanish acronym) and the Directorate of Social Security Resources (DGRSS, its Spanish acronym).

Finally, it also includes comments stemming from the implementation of the single agency model in Argentina, with the expectation that this experience can be useful for those countries willing to analyze the possibility of introducing changes in their tax administrations.

2. IMPORTANCE OF COOPERATION MECHANISMS

Tax administrations are one of the most important, complex and dynamic interfaces in the State-society relationship. In view of their nature, they must make permanent efforts to adjust to new economic and social scenarios as well as to the changing political and institutional conditions.

Additionally, they must be capable of promptly meeting citizens' demands, showing a transparent management of the resources they handle as well as responsibility in their duties.

These requirements make it necessary to have enough information to be able to analyze the context in which they operate, to be adequately informed about the administered individuals/businesses and their operations, identify new operations and assess strategies which allow them to fulfill their objectives.

To this effect and given the fact that many natural and legal persons pay domestic and external taxes and levies and contribute to social security, it is important to have an appropriate level of cooperation among the agencies in charge of administering these three facets of the relationship with the tax authorities.

In this regard, it is necessary for tax administrations to establish cooperation mechanisms with other registration and control agencies with which the administered individuals and businesses must relate, that is, those that grant legal personality, the real estate cadastres, property registries, and vehicle, aircraft and vessel records.

In those countries with a federal organization, the jurisdiction of many of these agencies is decentralized, which forces them to double their efforts to agree by consensus on cooperative schemes, due to the functional and operational features in each jurisdiction.

Furthermore, it is advisable for tax administrations to interact with other government agencies to promote normative stability and harmonization or support the enactment of rules to help them carry out their functions,

either by simplifying procedures, solving legal vacuums or creating new instruments to fight against fraud.

Given these circumstances, cooperation, integration and/or coordination of tasks among related agencies which have supplementary responsibilities/competences is productive, particularly among those organizations related to taxes, customs and social security, regardless of the characteristics of each country.

3. ARGENTINA'S EXPERIENCE IN INTEGRATION

3.1 The path towards a "single agency"

There are no single answers when it comes to evaluating organization structures for tax administrations. The feasibility of the different options will depend on a number of internal factors in each State: its organization, idiosyncrasy, system of rules and even its cultural aspects.

In Argentina, besides the arguments pointed out in the previous chapter, the authorities considered certain temporary causes which helped towards creating a favorable environment for the integration of Customs and the DGI-IRS, which were assessed when the time came to analyze cooperation, integration and/or coordination options among the agencies responsible for tax administration.

On the one hand, in 1989, the Argentine government had started a State reform process to streamline public management, which presupposed the merger, suppression or refunctionalization of public agencies. Moreover, there was a growing need to adapt the customs service to changes in foreign trade, which had undergone an important opening to the rest of the world, in line with the increase in the flow of goods and services traded with foreign countries.

Within this context, a strategic decision was made to integrate functions inherent to domestic tax administration, the control of foreign trade and the management of social security payments and contributions into a single agency, convinced that this would benefit all parties involved.

Different merger models entailing different degrees of integration were assessed and discussed: from the maximum level of separation between institutions within a single organizational environment, to the greatest level of integration of processes.

The minimum level of integration entailed maintaining the functions of existing agencies almost unaltered, being the Federal Administrator in charge of establishing strategic guidelines and controlling the legality of their acts. Contrariwise, the maximum level scheme favored the integration of strategies, programmes, rules and functions up to the regional unit level, under which the offices are divided by customs and tax functions.

The model finally adopted in Argentina represents an intermediate stance between both extremes, since it defines a level for the Federal Administration of Public Revenue, where strategies, plans and programmes are established, and where common services and operations take place, and another level which carries out tax, customs and social security management, made up of the DIG-IRS, the General Customs Directorate and the General Directorate of Social Security Resources.

3.1.1 Merged agencies

Customs, which has a strong identity based on its longstanding tradition, was set up in colonial times. The Buenos Aires Royal Customs was formally created in 1778 although there were customs offices before that. In 1853 customs in the interior of the country joined the Buenos Aires Port customs under federal jurisdiction, well into the national organization process in Argentina.

Regarding the collection of "domestic" taxes, different agencies started merging between 1891 -when the General Administration of Domestic Taxes was created that, in 1902, absorbed the National Alcohol Administration- and 1947, the year in which the Internal Revenue Service (DGI, its Spanish acronym) was started up.

Subsequently, and in acknowledgment of its technical capacity, in 1993 the DGI-IRS undertook the function to collect and manage social security resources, thus partly absorbing the agency that fulfilled these duties. When AFIP was created, such duties remained within the scope of DGI-IRS but were then assigned to an agency which did not exist for long, the National Institute for Social Security Resources (INARSS). In the middle of 2003, the collection and management of social security resources was returned to AFIP, under the responsibility of the General Directorate of Social Security Resources (DGRSS, its Spanish acronym)

3.1.2 The transition

The Federal Administration of Public Revenue (AFIP) was formally created in mid-1996.

A first Executive Order established the merger of the Internal Revenue Service (DGI) and the National Customs Administration (ANA). Regarding taxes, the name DGI was kept given its acceptance by and insertion in society. In the case of customs, the new agency did not keep its previous name and started to be called the General Customs Directorate.

In order to allow enough time for drafting the rules to provide legal capacity to the new agency, a second Executive Order established a transition period until its effective start-up and determined that AFIP would operate as a decentralized body, under the Ministry of Economy and Public Works and Services.

After the formal creation of AFIP, a long process started for setting up the organization's foundational instruments, defining the main fields of action to promote integration and carrying out activities to implement the adopted model.

In order to plan and facilitate the transition a "Committee to Start-up AFIP" was set up and played a dominant role on the complex path towards integration. Such Committee not only programmed and collaborated in implementing the different activities but also minimized expected reactions in the resistance to change, clearly communicating the objectives pursued and the merger dynamics so as to reduce uncertainty.

In turn, Working Groups were set up with officials from the two agencies that were merging, with the purpose of facilitating integration, establishing each one's jurisdiction and generating a space for dialogue and discussion.

Within this framework, a series of measures were adopted as part of the AFIP Implementation Plan, which included the following activities:

- Definition of a management and activity model. The model was prepared with the active participation of tax and customs officials. Support was also rendered by the Inter-American Center of Tax Administrations (CIAT), which provided valuable information on similar experiences in other countries.

- Preparation of the bill for the organization, jurisdiction, powers and duties of AFIP and the powers assigned to its highest authority.
- Definition of strategic guidelines for this new agency.
- Preparation of the structure of the higher levels, pursuant to the management model established.
- Preparation of the lower level structure.
- Preparation of essential rules for AFIP's operation: delegation of authority, appointment and replacement of administrative judges, regulation of rules enacted, etc.

Another aspect which had a positive influence on the transition process was the prompt unification of the agency's management in a single official, which provided consistency to the process.

Moreover, the support of the country's political authorities was essential to facilitate the consolidation of a single agency, especially the support from the Ministry of Economy and Public Works and Services and the President's Office.

Nine months after the merger was decided, the creation of AFIP was perfected in July 1997, through an Executive Order which established its jurisdiction, powers, rights and obligations. In 2001, once integration had progressed, AFIP's management capacity was strengthened by granting it budgetary independence.

3.1.3 Difficulties

As could be reasonably expected, certain pressures cropped up during the transition given the fear there was to face the changes imposed by this merger.

Initial uncertainty vis-à-vis the possibility of losing vested rights led to resistance by some officials. In no way did this weaken the unification process, which took place as specific measures were adopted to start up AFIP.

Furthermore, the process developed without any major difficulties since a set of factors converged to facilitate integration. Among them, it is worth paying special attention to the fact that representative trade unions of the two agencies that were merging, adopted a constructive position of collaboration, making contributions and stating criticism which served to perfect the design of the new agency.

Initially, the decision was made not to alter collective bargaining agreements which governed the activities of both agencies until integration had been duly consolidated. This situation is still in place nowadays so it would be worth making further efforts to have a scheme agreed upon by consensus, with regard to the single labor regime applicable to the whole of the organization.

3.2 Integration guidelines

Both agencies carried out substantive processes in their business areas, using their own resources, procedures and IT systems, which had been established and defined according to their needs and management capabilities. The same happened with services and their support processes, such as the management of human, material and financial resources.

Since the process of change had to take place concurrently with the agency's daily operations, the formulation of integration guidelines envisaged the original situation of the institutions to be merged and, especially, the natural differences of the substantive processes carried out at the tax, social security and customs offices.

The quest for economies of scale in resource administration and infrastructure and management costs - communication networks, mail systems, input stocks, etc. - should also be considered to make the use of available means more efficient.

Once the desired Administration model was defined, the guidelines to govern integration-related activities were established.

The main guidelines followed in the unification process and that are still in force are the following: (i) centralization of plans, programmes and services and management decentralization; (ii) process integration; (iii) management synergies; (iv) IT unification; and (v) caring for the human capital.

The integration guidelines that the organization had to bear in mind were disseminated to all managerial levels, in the understanding that spreading the "ground rules" was necessary to support and provide continuity to the expected changes.

3.2.1 Centralization of plans, programmes and services and management decentralization

Management related to domestic taxes and the control of foreign trade remained in the hands of the Internal Revenue Service and the General Customs Directorate, respectively, each having retained specific functions and operational resources.

Throughout their existence, both agencies built appropriate mechanisms aimed at decentralization and the delegation of their operational authority. This allowed progress along these lines by strengthening the managerial role assigned to the heads of region, and customs and tax agencies to which the authority was given to direct their units.

On the other hand, AFIP maintained horizontal processes common to the whole of the organization.

Under these guidelines, the sectors that prepare plans and establish programmes common to the management units -collection, inspection and services- were placed directly under the Federal Administration, together with the units in charge of IT, internal audit., planning, legal affairs and management of human, financial and material resources.

These offices play a two-fold role: on the one hand, they are responsible for the formulation and coordination of policies, plans, rules and systems regarding organization processes, all of which are carried out jointly with DGI-IRS, DGA and DGRSS, given the knowledge and experience they have in their respective fields.

In this manner, the intention is to adopt homogeneous criteria tending to streamline and simplify the rules and procedures governing the tax authorities-administered individual/business relationship.

3.2.2 Process integration

Since the management of domestic taxes, customs duties and social security payments has different characteristics and peculiarities, it is not possible to integrate all substantive processes which make up their respective operation nodes.

There are certain processes, however, that in view of their characteristics and scope can be shared by different business areas. An example are the processes for registration, capturing of tax returns and payments, managing debt, collecting, handling guarantees and carrying out risk analysis, among others of different importance for each unit.

In this regard, it must be recognized that the different business areas can have various requirements for each of the processes regarding the flow of information, data characteristics, calculation methods, etc. Although these circumstances add a certain complexity to the design and implementation of the commonly used tools, they do not invalidate any efforts made to promote unification.

The integration of this kind of processes leads to a greater rationalization in resource management and to a greater uniformity in the interactions with the administered individuals/businesses. Likewise, the General Directorates responsible for operational management can increase their efficiency, since they can access a pool of resources reinforced by integration.

In this same regard, progress was made in the integration of the support processes which cut across all AFIP areas. Among the most significant it is worth mentioning those related to human resource and economic-financial management as well as to the management of administrative documentation.

The integration of support processes brings about important benefits related to the centralized management of the agency's resources, efficiency in their use and cost reduction through an economy of scale.

3.2.3 Management synergies

On a daily basis, individuals and businesses must relate to the agencies managing domestic taxes, controlling foreign trade and handling social security resources so it is therefore essential to have appropriate cooperation among them, especially regarding control and service.

Since the control processes play a decisive role to improve fiscal compliance, and the scope of such processes faces limitations, it is necessary to work strongly on integrating the risk analysis of the administered individuals/businesses, and on the different forms of control and audit so as to increase risk perception among the citizens identified and punished when they act in an irregular manner.

It should be borne in mind that whoever alters the actual values of import or export transactions is also evading domestic taxes and those who have unregistered workers also conceal revenue or alter expenses. Consequently, an illicit act identified at some stage of an economic agent's activity allows action on the remaining stages.

This broader outlook on the administered individuals/businesses, no longer focused exclusively on their tax obligations, on their foreign trade operations or on their contributions to the social security system allows the assignment of a risk value based on existing data in the different information systems.

On the other hand, in order to promote voluntary compliance with fiscal obligations, it is important that there is also public service vocation so as to facilitate, to the extent possible, fulfillment of obligations and indirect fiscal cost reduction.

Although this concept is accepted by all tax administrations, when the single agency model is adopted, special importance is attached thereto because the model cannot be legitimated if society is not led to perceive that the organization is more efficient, more aware to its demands and closer to its needs.

3.2.4 IT unification

The complex IT scenario at the time of integration is reflected in the fact that there were six development and systems operation areas, over 130 small IT centers throughout the country, several system architectures and development and operations platforms, many of them operating with their own database copies. According to their technological histories, some systems were outsourced to different degrees.

In order to integrate the IT systems, it was necessary to overcome obstacles stemming from the IT asymmetries of the integrated agencies and the diversity of existing system architectures and computer platforms.

In this regard, there follow the main guidelines defined to redirect IT activities and consolidate the AFIP integration process:

- Recovery of IT independence in areas related to its essential functions.
- Re-engineering of pre-existing systems so as to adapt them to new, homogeneous architectures.
- System integration and immediate updating of its databases.
- Opening of the organization to the Internet.
- Implementation of the principle of transparency regarding the display of the databases' contents.
- Integration of development and support areas.

3.2.5 Caring for the human capital

Besides the improvement of procedures, organizational adaptations, information integration and new technological tools, it is the quality of human resources that allows the challenges of the new organizational model to be overcome.

Following this approach, an agenda of priority issues was drawn up to help towards a more harmonic development of staff in the different areas and to the setting up of a comprehensive organizational structure, for instance, progressively making labor rules compatible in order to have similar working conditions for identical functions, taking into consideration each operation's peculiarities and facilitating internal mobility.

4. AFIP, TEN YEARS AFTER INTEGRATION

The permanent interaction of agencies in charge of tax, customs and social security fund management and the interaction with the areas that establish strategies, plans and programmes and carry out common operations and services, has all promoted significant progress in integration.

Adaptation capacities and the soundness of the management team committed with the adopted direction have facilitated the consolidation of the single agency model, thus accelerating the quest for synergies between DGI-IRS, DGA and DGRSS.

4.1 Organization's characteristics

The availability of an appropriate legal framework and of the necessary resources has favored AFIP's management. Furthermore, the use of flexible coordination and planning mechanisms, as well as the capability to adapt its organizational structure allowed the Administration to be ready to face contextual challenges.

4.1.1 Management capability and autonomy

Besides the resources it needs to meet the Government's and society's demands, the tax administration requires a certain administrative flexibility to overcome the problems it faces on a daily basis.

As from the year 2001, AFIP operates as an independent entity within the Ministry of Economy and Production. Such self-sufficiency is essentially based on two pillars:

- Autonomy in the management of its resources which are made up of a percentage of the total collection of taxes and customs duties.
- Stability in the post of Federal Administrator, subject to meeting the quantifiable objectives established in the Annual Management Plans.

Management Plans are periodically evaluated and their execution is verified by an Advisory Council made up of representatives from the different sectors of society, both public and private, among which are the Ministry of Economy and Production, the Central Bank of Argentina, the National House of Representatives and Senate, the National Social Security Administration, provincial government officials and renowned tax experts.

4.1.2 Planning and coordination

In order to support the model's integration and development process, it was necessary to create new planning and coordination mechanisms that would bring about changes in the attitudes of those responsible for the different units and facilitate the consideration of their work as part of a serial process, within which it could be advisable to modify relations with others with which they were interacting.

Some of the mechanisms used to fuel the process of change were exchanging experiences, critically analyzing situations and promoting the review of prevailing patterns.

At the macro level, since the beginning of the integration process, great efforts were made to implement the appropriate planning processes to set up a consistent activity framework for the whole of the Administration, which would help to coordinate efforts in the different business areas to achieve global organizational goals.

In this regard, Annual Management Plans have become a valuable tool to consolidate AFIP. They include the goals to be achieved and the initiatives that are considered important for the whole of the institution, as well as the performance indicators to assess progress in the implementation of the envisaged activities.

In order to facilitate the follow-up of the established plans and programmes, a management control system was started up through an on-line portal used at the different managerial levels.

At present, with the purpose of further strengthening the planning process, the AFIP Strategic Plan is being formulated with the active participation of all the agency's areas.

4.1.3 Organizational structure

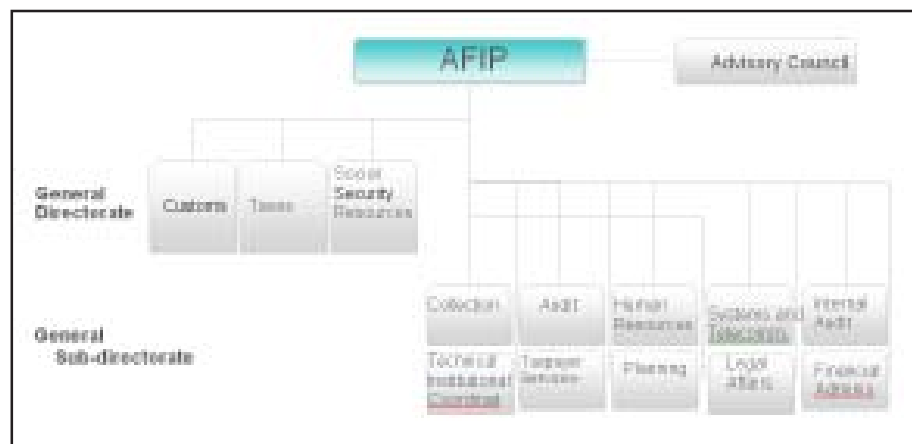
Since the creation of AFIP, the organizational structure was gradually adjusted to improve management efficiency and facilitate its relationship with the community.

Regarding Customs, regional units were set up with responsibilities similar to the regional tax units. Likewise, a managerial area was set up to provide homogeneity to customs risk management, carry out investigations related to ex-post audits and interact with other countries' customs.

As far as taxes are concerned, the functions and profiles of the different units were adjusted, such as those devoted to investigations, which were geographically decentralized throughout the whole of the national territory.

Agencies and customs offices were also created and the jurisdictions of some units were readjusted.

As reflected in the following graph which shows AFIP's basic organizational structure, other significant modifications were directed to creating managers' offices for coordinating technical-institutional aspects, providing services to taxpayers and customs users, and for financial administration purposes. Furthermore, a legal affairs manager's office was created to centralize and provide greater uniformity to analysis, interpretation and advice in legal issues related to taxes, customs and social security matters.



4.2 Different paths

Since its creation, AFIP has been promoting cooperative measures and initiatives to achieve greater efficiency in domestic tax administration, in the control and facilitation of foreign trade and in the collection of social security monies.

There follows a summary of the most significant steps related to the integration process pursuant to the action pillars established by AFIP to improve management, its organizational development and its relationship with society.

4.2.1 Management

- **Unified registry**

At the time of integration, the agencies that merged had their own registries of taxpayers, foreign trade users and employers. Since they did not always have compatible data, the management areas had difficulties when exchanging information.

When AFIP was created there was the need to make the information of the different registries compatible and then build a "unified registry" for all the responsible parties foreseen in the tax, customs and social security legislation.

When the Tax Registry System -SRT- was created, appropriate data became available on all gatekeepers with which AFIP should relate, even those that due to their specific characteristics (grain operators, withholding agents, etc.) were included in certain "special registries".

Having a "unified registry" has allowed the Administration to have a more complete tax profile of the natural and legal persons it relates to.

- **Registry of operations, revenue and collection**

Collection

Before integration, capturing tax returns and revenue through the collection of domestic taxes and social security monies was carried out through independent collection systems which, besides having been shaped using different technical criteria, had certain functional and technological restrictions. Furthermore, some of the functionalities were outsourced.

In order to overcome these restrictions, which hindered the integration of information, a new collection system called OSIRIS was designed and started up to process tax returns and tax and social security payments.

The new system allowed historical bank conciliation problems to be solved since the design of the new system maintains the tax return and payment circuits logically unified.

Payments can be made by using cash, checks, direct debit in accounts or over the Internet through the bank network. Currently transactions are carried out through 43 banks, with over 5,600 branches and their pertinent ATMs, as well through collection companies which use the shops adhering to their network to collect money.

Electronic transactions without using paper records make registration easy and secure and allow greater control over taxpayers' self-settlements.

Important progress in the use of the Internet as a means for submitting tax returns and making payments has brought about additional benefits, since the term for submission is extended an extra 24 hours and it produces savings for the agency.

Currently, 83% of tax returns and social security payments and 81% of the sums paid are received over the Internet.

It is worth highlighting that the OSIRIS collection system, initially shaped to be used only by AFIP, is also being used by several provinces and municipalities to collect taxes and contributions and other levies.

- **Foreign trade management**

Based on a cooperation agreement between France and Argentina, the Maria IT System -SIM- was created, entailing great progress in the registration of import and export operations and goods in transit, as well as in the control of tax obligations and their related benefits.

The creation of AFIP promoted this system's strengthening as well as the technological independence of the company that built it and that had been developing software with new functionalities.

At present, the 54 customs throughout the country have been automated, interconnected and related to the other AFIP systems, providing on-line homogeneous information for managing customs, improving control and audit and simplifying administrative paperwork.

It is worth highlighting that all import, export and in transit customs clearances are received electronically over the Maria IT System. Payment of export duties can also be made over the Internet, through the OSIRIS system. The idea is to soon include in this payment mechanism all duties and taxes payable on foreign trade transactions.

Likewise, the internalization of SIM and the developments achieved in the last few years allowed the extension of its scope to other agencies related to the control of international transactions such as, the Secretariat of Industry, the Agricultural Control Office, the Central Bank, among others, which use it as a tool for carrying out the necessary formalities and their follow-up.

- **Current account**

Since before the creation of AFIP there coexisted several sub-systems to control tax and social security obligations under different operational modalities, according to the type of debt and the taxpayer segment to which such control was addressed, it was necessary to standardize management of non-compliances and improve certain functionalities.

A new comprehensive control system for obligations is currently being developed. Some of its modules have already been implemented and envisage the control of tax, customs and social security credits as well as the calculation of all forms of settlement and credits in favor of gatekeepers.

Obligations are controlled as from their creation up to the maximum limit of non-compliance management and a follow-up is envisaged for gatekeepers' and the Administration's operational units' proceedings.

The new Tax Current Account System has a portal on the Internet which allows taxpayers to gain access to information on their fiscal status and carry out formalities, such as payment reallocations, enquiries on the statement of accounts and requests for compensations, so as to reduce the need for taxpayers to go along to the agency's offices.

This portal is meant to promote transparency of the Administration's management since it displays information available at the agency to taxpayers. For instance, the module called "MY WITHHOLDINGS" which was recently implemented, allows the individuals or companies affected by withholding and/or collection regimes to consult information and make claims when data in the system are not complete or differ from those provided by the withholding or collection agents.

The system is also available to those taxpayers that have adhered to the Simplified Regime for Small Taxpayers and for self-employed workers, who can modify their registration status in each regime and gain access to information on the amount and status of their obligations, payments, integrated tax, and personal contributions to the social security system.

- **Non-compliance management**

Management of non-compliances regarding taxes and social security monies is integrated. When the control systems identify irregular situations in tax return filing or in the payment of obligations, unified requests including all non-compliances are issued.

- **Collection and safeguard of fiscal credits**

AFIP uses a unified procedure for the coercive collection of taxes, customs duties and social security funds.

The execution orders include a single social security and tax debt document, having an equal priority status in the execution of the coercive procedures.

Once the execution order has been issued to collect the money in arrears, the first attachments are filed over the Internet on the bank accounts, which are only released once the debtors pay their obligations or submit a request for payment in installments.

Should a bank attachment have a negative outcome, other measures can be used to safeguard fiscal credit, such as the seizure of recordable assets (real estate or vehicles), the assistance of a collector, etc.

Concurrently there are several regimes for taxes, customs and social security which set forth the obligation of securing any fiscal credit as a pre-requisite to granting benefits or authorizing transactions.

Since different requirements are in force with regard to the granting of guarantees which hinder the relationship with taxpayers and foreign trade operators, as well as the management of guarantees in the portfolio, AFIP established a unified regime to set up and manage guarantees.

Furthermore, the "electronic policy" mechanism was implemented to simplify formalities for the submission, setting up, replacement, amendment or extension of the guarantees issued as collateral for customs transactions, as well as for facilitating their inventory at the closing date of financial statements.

- **Control and auditing**

In order to increase among the administered individuals/businesses the risk of being detected or sanctioned when they carry out any irregular act, it is necessary to improve the risk analysis method and integrate the different control and audit phases, with the support of existing technological tools.

In this regard, the integration of functions inherent to the management of domestic taxes, the control of foreign trade and the collection of social security funds is an opportunity to reinforce the Administration's control capabilities as a whole.

- **Feedback between agencies**

The joint work of the tax and customs control area has advantages which arise from articulating technical-operational actions in the cases in which ex-post audits of certain foreign trade operators or operations require the analysis of information and/or documentation which has an incidence on both fields.

Controls can be targeted to verifying the tariff classification and assessment of goods and to determining the economic reality of transactions and their appropriate tax treatment, when documenting foreign trade transactions and a posteriori. Such is the case of the triangulation of exports which AFIP is investigating, through which an attempt is being made to liquefy the taxable base of transactions in fiscal havens or in countries with no or low taxes.

Activities carried out encompass not only the intervention of the areas in charge of customs assessments and investigations and tax

investigations and audits, but also the central AFIP areas in charge of analyzing transfer prices and managing the exchange of information among tax administrations from different countries, with the purpose of gathering necessary evidence to support the fiscal position.

- **Integrated database management**

The Administration's available information is an essential pillar for risk analysis.

The integration of functions facilitated the process of adding into the databases the information provided by the administered individuals/businesses to the DGI-IRS, DGA and DGRSS and making it duly compatible, besides integrating such information with the data provided by the information agents and other organizations.

Among other data, AFIP has information on the following:

- Tax returns and payments
- Import and export customs clearances
- Social security declarations and payments
- Alternative addresses
- Data provided by withholding agents
- Real estate - provided by provincial cadastres and registries of real estate and transactions before notary publics.
- Vehicles and transactions of second-hand automobiles
- Aircraft
- Vessels
- Relevant purchases and consumptions
- Financial operations - opening and closing of accounts, bank credits, credit and debit card transactions, money orders from and to foreign countries, purchase/sale of foreign currency-
- Stock exchange deals - purchase and sale of public and private securities
- Withholdings informed and undergone
- Transfer price declarations

- **Detection and investigation of illicit acts**

Interaction between tax, customs and social security management mainly takes place at the beginning of the audit process.

All information available in the databases is analyzed by the areas participating in investigation and audit, using different IT tools, among which the "e-fisco" (or e-Tax Authority) is worthwhile pointing out because of its versatility.

This tool assists investigators to select the individuals or businesses to be audited, since it provides their profile and classifies them into categories according to different criteria, such as economic activity, amount of sales and purchase volume. Systematic data matching allows the detection of inconsistencies -generally in taxes and social security- which gives rise to office audits carried out in over 40 decentralized DGI-IRS offices.

In this regard, it is worth highlighting that when DGI-IRS carries out an audit, whichever its origin, there is a joint verification of taxes and social security issues (unregistered jobs, differences in declared salaries, undue use of promotional employment regimes, etc.).

In order to investigate irregularities in customs, other information is also taken into account, either from security agencies, other customs or international coordination bodies.

Likewise, since the follow-up of specific imports and exports to and from certain countries results in an appropriate procedure to analyze and investigate suspicious trade activities, AFIP signed an agreement with the United States government to join the Trade Transparency programme and exchange information between both countries' customs. The implementation of this agreement will allow AFIP to guide investigations and procedures to repress customs fraud, include into their databases information obtained and promote a greater integration for auditing foreign trade as well as domestic market operations.

- **Shared use of data originating in technology-based controls**

Physical control of goods entering or leaving Argentine territory is supported by tools which incorporate state-of-the-art technology, such as electronic security devices - ESD- and non intrusive inspection systems -scanners.

On the other hand, satellite images are used for taxation purposes. Once the images are construed, they provide information on farms, their size and sown area by type of crop.

Beyond the natural advantages of using this kind of applied technology for control purposes, the information originating in the procedures to which it is applied is integrated into the AFIP databases and considered in the risk management processes, with the purpose of strengthening the detection capabilities for future fraud cases.

- **Risk profile of the administered individuals/businesses**

Besides the available investigative IT tools, the Risk Profile System - SIPER- was recently implemented based on the theory of the discriminating factor.

IT processes are used to compare the behavior of individuals/businesses included in homogeneous sets - regarding taxes, social security and customs- with the purpose of recognizing those encompassed within a range close to the pre-defined standard for the sector, those that behave above standard and those below standard. The latter segment requires special attention from the Administration.

- **Verification of benefits and formalities**

The existence of several regimes which envisage tax benefits such as total or partial deferral of VAT in import operations, total or partial Income Tax exemption for exports included in the promotion regime and exemption of payment against VAT for bringing in capital goods, leads the tax and customs management to work jointly.

In this regard, IT procedures were developed for exchanging information in two ways: (i) when the tax office negotiates the benefit and a given certification is required from customs (e.g. final destination of imports) and (ii) when the customs office in charge of verifying customs clearance documents checks the fiscal status of the importer (e.g. validity of the benefit granted).

- **Promoting the reform of rules**

The integration of functions brought together different experiences in the enforcement of existing rules in taxes, customs and social security and identified opportunities for improvement.

In this regard, since 2004 a series of legislative reforms were promoted under the names "Plan I against Evasion" and "Plan II against Evasion". The first included tax procedural proposals, while the second included initiatives mainly on customs and social security as well as supplementary tax initiatives.

The main aspects addressed in "Plan I against Evasion" referred to: (i) the extension of binding responsibility to certain individuals/businesses; (ii) the inclusion of new assumptions in the Tax Procedural Law; (iii) the granting to the National Executive Branch of the authority to condition calculation of deductions, fiscal credits, and (iv) the incorporation of resistance to audits as an offense.

The main topics addressed in "Plan II against Evasion" referred to:

- At the customs level: (i) banning foreign trade operations which involve counterfeit goods; (ii) facilitating the disposal or sale of goods seized by Customs; (iii) re-defining the taxable base of certain foreign trade operations; (iv) limiting the time up to which the customs declaration can be rectified; (v) optimizing coercive collection of customs-related debts; (vi) adjusting the offense of minor smuggling and establishing greater sanctions for smuggling punishable by the courts; and (vii) empowering AFIP to set up guarantees by electronic means.
- In the field of social security: (i) review of the domestic service workers' regime; (ii) promotion of standards to combat the use of legal institutes to evade payment of social security contributions; (iii) determination of the debt on a presumed basis when the employer does not register or declare its personnel; (iv) implementation of a regime of sanctions applicable to withholding agents and those in charge of collecting social security monies, similar to what exists for taxes; and (v) reduction of procedural terms for social security matters.
- At the tax level: (i) granting of authority to AFIP to carry out preventive seizures and the potential confiscation of goods; (ii) consideration of an electronic address as a fiscal domicile; (iii) determination of an alternative fiscal domicile, with full validity for all legal effects; (iv) creation of the concept of the "inspector fedatario" (a sort of undercover agent to detect non-compliances); and (v) start-up at the national level of a unified registry for legal persons.

- **Services and facilitation**

The single agency model enhances the possibilities of facilitating the relationship with society and, consequently, helps to achieve the objective of voluntary compliance.

In order to attain this objective, besides carrying out control actions, it is essential to act with firm public service vocation with the purpose of

facilitating, to the extent possible, compliance with fiscal obligations and reducing indirect fiscal costs.

- **New service model**

Regarding customer service, the adoption of a citizen-oriented management model has been promoted. This new customer service model provides citizens with the possibility of having free advice in tax, social security and customs issues, in offices with the proper facilities to provide such services.

In this regard, the DGI-IRS and Customs Agencies were re-functionalized with the purpose of ensuring better geographical coverage and a more equitable distribution of taxpayers. Agencies were divided, new Customs Offices were opened and lower-level offices were transferred.

On the other hand, new customer service units were created and called service centers, located in strategic sites in Buenos Aires City and the interior of the country, whose essential function is to provide information and assist citizens.

- **Telephone assistance**

The development of telephone assistance was a key line of action since at the time of integration of the different agencies there were several customer service centers, with different services, timetables, tools and access lines.

As from 2002, AFIP has a Telephone Information Center -TIC-, the only one responsible for answering enquiries on domestic taxes, foreign trade and social security resources, as well as a Help Desk for questions on the use of the applications distributed by AFIP for meeting obligations. Furthermore, it receives claims or suggestions at the Taxpayer and Customs User Ombudsman's Office and facilitates the verification of the identity of inspectors working for the Internal Revenue Service (DGI-IRS).

This service can be accessed through low-cost, standard telephone lines throughout the country, from 8 a.m. to 8 p.m., with one hundred remote operators, information and line operation systems and a structure which allows a million calls and 250,000 e-mails to be answered every year.

Both the TIC as well as some help links on the AFIP web page can be accessed from mobile telephones. In the first case, access can be gained to all TIC functionalities at a preferential cost (*afip). In the second case, there is a summarized version of the web page that can be accessed from mobile phones that have Wap technology to consult, inter alia, about any taxpayer's fiscal status and the identity of DGI-IRS inspectors.

- **Defense programme**

A unified system for claim and suggestion management was set up and called Taxpayer and Customs User Ombudsman's Office, through which all presentations are received and channeled, whether they were made personally, over the phone or the Internet, and in all fields of action: domestic taxes, customs, social security and/or administrative issues.

In order to increase the services offered to specific users, links with intermediate agencies have been intensified to detect concerns. Such agencies can be councils, associations and professional chambers whose opinions and suggestions are especially taken into account by AFIP.

- **Knowledge bases**

Tax administrations overall, and particularly those with an integrated tax, customs and social security administration, have a high knowledge capital which they generate through regulations and related procedures, and whose size and complexity hinder easy accessibility by citizens.

In order to democratize access to such information, work is being performed on the following:

- Rules Digest: the main rules, their amendments and supplementary enactments have been grouped into thematic digests which outline the information and facilitate its understanding.
- Orderly texts: when a regime undergoes several changes, a new rule is enacted to bring together all amendments.
- Knowledge base: frequently asked questions on several tax, customs and social security issues are published on the AFIP web page, using different structuring criteria to facilitate their search.
- Simple manuals: manuals in colloquial language have been drafted for massive scope regimes so as to illustrate citizens and favor compliance.

- **E-government as a lever to integrate management**

In the last few decades, the inrush of new information and communication technologies greatly impacted on the government-society relationship since this leads to offering better services to citizens, guaranteeing transparency in government actions, facilitating formalities and reducing costs, generating new participation forums and promoting integration of national production into the global market.

Having integrated the administration of taxes provided a favorable scenario to apply this concept in a more widespread manner and an opportunity to demonstrate it is possible to give greater sense of unity to public management.

- **Unified authentication mechanisms**

In order to make it easier for citizens and companies to carry out transactions over the Internet, authentication mechanisms were generated to allow transactions to be effected in a reliable environment, according to differentiated levels of reliability and to the risks inherent to each transaction.

Procedures were established to provide "fiscal passwords" that enable their holders to gain access to a series of applications, which entails a qualitative leap in services offered to taxpayers, customs users and those paying into the social security system. To date over four million fiscal passwords have been granted.

The National Government recently enacted the digital signature regime and appointed AFIP as certifying authority. The agency's new capability will allow a continuous enhancement and an improvement in the scope and reliability of transactions on the web.

- **Virtual counter**

The degree of interactivity with citizens has increased considerably through a series of applications which aim at facilitating transactions between the internal revenue service (DGI) and taxpayers.

Decisive progress has been made in developing the "Virtual counter" which offers citizens the possibility of carrying out a series of operations over the Internet that before had to be done personally at the tax,

customs or social security offices. Nowadays, through simple, accessible and transparent instruments, individuals/businesses can carry out transactions, verifying progress in each case. The following are worth mentioning:

- The service called "My Installments" offers taxpayers and customs users on-line information on all kinds of debts and the possibility to regularize their status through an automatic payment plan. One of the main functionalities is a "simulation" tool through which each taxpayer can choose the most convenient plan.
- "My Customs Operations" allows customs operators to gain access through the Maria System (SIM) over the Internet, to information related to where their formalities stand, thus allowing a more adjusted programming of logistics so as to reduce distribution and storage costs.
- The tool "My Contributions" allows employed workers to verify their employers' declarations, checking amounts and destination of payments made to the social security system.

- **One-stop window**

AFIP is developing a programme called "One-stop Window" which will offer citizens the possibility of solving all formalities in a one-stop manner, instead of carrying out such paperwork at different agencies. A clear example of this modality is the programme called "My Simplification" which allows employers to register their workers in the different social security agencies -health plan, pension fund, workers' compensation, etc.- through a single formality over the Internet.

The programme is the single source of social security data and allows access in real time to reliable, consolidated data of employers, workers and their families. This procedure not only entails simpler registration procedures for employers but also allows an intensification of fiscal intelligence by promoting a greater concentration of data on labor relations.

Besides AFIP that is in charge of collection and control, this project is also developed by the Ministry of Labor, Employment and Security, the Workers Compensation Superintendent's Office, the National Social Security Administration, the Health Services Superintendent's Office and the Pension Fund Managers Superintendent's Office.

- **Closing the digital divide**

In order to promote the massive use of information technologies by new sectors of society, it is necessary to reduce the digital divide of people, companies and communities which have less possibilities of gaining access to such technologies.

Among the activities to reduce the digital divide, AFIP is signing agreements with shops that have a connection to the Internet -such as phone banks- so as to allow free access to the Administration's services, the provision of free Internet connections over the phone, connectivity in remote sites, etc.

4.2.2 Organizational development

- **Information Technology**

Criteria were established to standardize methodologies and tools that were being used, taking into account asymmetries, architecture diversity and processing platforms which existed in decentralized computer centers and processing units that provided IT services to tax, customs and social security offices before the merger,.

A homogenous and controllable system architecture was designed for all the organization's systems to facilitate the development of new services. Database integration in real time was included as a development requirement for new systems. In this regard, a standard web service was implemented to render "server-to-server" services by using a single technology, and common procedures were established for the authentication and authorization of external and internal users.

Processing infrastructure was significantly reinforced. New central computers were incorporated, storage and data processing capacity was enhanced and farm servers, thousands of PCs and notebooks were also brought in.

Telecommunications went side-by-side with this growth, through new networks and microwave systems for customs warehouses located in places which are not very accessible.

A new Computer Center was built to lodge these IT facilities, with innovative physical and logical security systems as well as modern

support elements (motorgenerators, UPS, etc.) and those used for problem detection and solution.

Given the amount and sensitivity of the agency's information, IT security practices were strongly reinforced with new procedures, pieces of equipment and specific software, besides a permanent monitoring to face potential attacks from hackers.

- **Human resources**

The human pillar is always the most complex one in any organizational change. The Tax Administration's integration process is no exception to this general rule and progress achieved has resulted from a great adaptation effort.

With a view to the cultural integration of the agencies which make up AFIP and the development of their human resources, the focus was placed on progressively addressing the priority issues agenda.

There follow the main actions carried out and those ongoing activities:

- A department was set up with special jurisdiction in staff management, training and development of human resources, which provides homogeneous services indistinctly to customs, tax and social security branches and their main offices.
- An updated and comprehensive Job Catalogue was drafted will all AFIP functions and a model of Management by Competences was drawn up which facilitates the incumbent / job adjustment process.
- Procedures that were being used for recruitment, selection and hiring of staff were re-formulated so as to be more in keeping with job requirements and the staff to be taken on. Stages have been established with regard to the contractual relationship, which allows a better evaluation of staff before their final incorporation into the organization chart.
- Similar performance evaluations, competitions and incentives have been established for staff in all three agencies; some of them are to be reviewed to optimize their operation.
- After a call for bids, an educational platform called "Virtual Campus of Knowledge" is under implementation, which will allow greater thematic and geographical coverage, reaching out to more people, through the inclusion of e-learning.

- Managers' training has been a priority since the creation of AFIP given the critical value this represents in setting up a leadership identity. All higher and intermediate managerial levels received intensive training in the last year.
- A human capital development model allows the identification and subsequent development of staff with a growth potential within the organization. An Annual Fellowship Plan was established for postgraduate studies which will promote excellence in all the fields covered by the agency.
- A Human Resources Administration System -SARHA- was implemented to unify staff management procedures.
- New internal communication channels and formats were established, for instance, the publication of a monthly bulletin on human resources, the implementation of periodic surveys on the organization's working environment and the organization of focus groups for opinion polls on specific subjects.

At the time of the merger, Customs and the DGI-IRS had different trade unions and collective bargaining agreements, with peculiarities according to the agencies' characteristics. Although many of the rules were similar, others required adjustments in order to homogenize labor conditions and allow internal mobility. In these last few years, those aspects that required preferential treatment have been assimilated through specific agreements.

Labor relations are currently normalized, actions have been agreed upon to re-establish personal career possibilities which had been frozen for several years and collective bargaining agreements are being discussed with the purpose of reaching a conventional renewal that envisages the organization's new needs to standardize relevant issues as, for instance, job categorization, the administrative career and remunerations.

- **Institutional strengthening**

Besides the efforts made to fulfill its function, AFIP had to shape its own institutional identity at the national level and work to deepen the relationship with government agencies, public and private entities and the international community that the merged agency had been promoting.

Among the lines of action developed, it is worth mentioning the following:

- **Single institutional identity**

The integration process into a single agency enhanced the Administration's capacities both in terms of services and control. Anyhow, to improve the context in which the Administration worked, the new potential of the unified agency had to be perceived by the whole of society.

The community had to be aware of the fact that a new organization was being shaped, with a renewed service vocation and capable of enforcing the law throughout the national territory.

The refunctionalization of customer service areas, the possibility of carrying out formalities and receiving information on a single web page and the gradual operational simplification stemming from close cooperation among AFIP units, started defining the new guidelines for relating to the community, while instating the idea of a single tax administration.

Of course, these guidelines include the idea of an administration that is close to citizens, committed to the quality of the services offered but also based on the idea of a strong organization, which generates a perception of risk among the administered individuals/businesses, that know about the great resource potential of the Administration to verify law enforcement and prevent fiscal crimes.

At the same time, general and specific tax awareness campaigns were organized to combat smuggling, promote invoice issuance and allegations against informal work, as well as specific interventions to communicate the new offer of services to the community through the Administration's innovations.

- **Alliances with other agencies**

Given the need to promote cooperative mechanisms aligned with the Administration's purposes, interaction was promoted with other national, provincial and municipal agencies to exchange mutually relevant information, increase the perception of risk, fight comprehensively against non-compliance and develop tax education programmes, as well as to reduce collection costs.

The use of a Single Tax Identification Number in tax, real estate and cadastral registries, and the homogenization of the collection scheme are two of the basic aspects fostered through agreements and accords.

As part of the cooperative scheme adopted, the technological products developed by AFIP have been made available to the agencies that require them. It is worth mentioning the following: (i) the system for capturing tax returns and payments; (ii) the system for managing and administering human resources; (iii) the system for handling court orders and levying attachments over the Internet; and (iv) the single IT system for managing court-related issues.

The promotion of the Federal Network of Tax Administrations at the national level is important to channel improvement initiatives generated in national, provincial and municipal agencies. Furthermore, AFIP is authorized to allocate resources to those programmes under a shared-execution modality which are compatible with the agency's purposes.

On the other hand, proactive policies were designed to favor social acceptance of taxes and launch specific campaigns against the informal economy and unregistered jobs.

- **International cooperation**

Cooperative actions must necessarily be extended to the international level. A lower level of effective tax power of the countries, resulting from economic globalization, leads to the need for strengthening assistance mechanisms among tax, customs and social security organizations in the different countries, so as to diminish the negative contextual effects.

In this regard, the countries have signed agreements to avoid international double taxation, administrative cooperation agreements and mutual legal assistance treaties. Their purpose is to establish assistance mechanisms to prevent evasion, avoidance, fraud and other illicit tax and customs-related acts.

Among the agreements signed to avoid double taxation, it is worth mentioning those entered into with Australia, Austria, Belgium, Bolivia, Brazil, Canada, Chile, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland and the United

Kingdom. Likewise, AFIP has reached a direct understanding for exchanging information with the tax administrations of Spain, Brazil, Chile and Peru, without the need for intervention by the pertinent foreign affairs offices. It is also important to mention recent agreements with the United States within the framework of the Trade Transparency Units and the Container Security Initiative.

On the other hand, the Argentine tax administration participates actively in conferences, workshops and other forums related to tax, customs and social security, organized by international organizations such as CIAT, OECD, WCO or OISS.

Such interrelations have allowed access to valuable information and have facilitated a fruitful exchange of experiences, consolidating the Administration's international bonds and preparing it to better face the challenges from the international arena in times of growing interdependence and globalization.

4.2.3 AFIP and society

- **Tax culture**

AFIP believes that, in order to improve short-term fiscal goals and favor fiscal sustainability in the medium and long run, it is necessary to do ground work to foster citizens' motivation to comply with fiscal obligations. In this regard, actions related to citizens' education are promoted so as to generate individual and collective awareness, and specific analysis is reinforced within the academic world, seeking to incorporate more particular diagnoses to guide the institutional decision-making process.

Since the provinces are mainly in charge of public education, tax training programmes are implemented through agreements with the provinces, thus allowing the training of teachers and students using courses with tailor-made contents. In turn, progress has been made in educational experiences through workshops and seminars with secondary and university-level students.

The development of the course contents was entrusted to the School of Philosophy and Literature, Universidad de Buenos Aires, where the Education Sciences career is taught and where there is a consulting service renowned for its technical solvency.

The University not only drafted teaching material for the so-called Polimodal Education (intermediate-level education) in subjects addressing Ethics and Citizenship, Economics, History and Geography, but also became an external evaluation authority, analyzing the devices and impact of the teachers' training programme, which reached out to ten thousand educators throughout the country.

In a supplementary manner, non formal educational proposals in the different provinces promote the values supporting the tax culture. The activities include non competitive sports games, drama competitions, staging of theater shows, stands in play areas such as the Museo de los Niños (Children's Museum) and dissemination on T.V. programmes and through printed publications.

Given its great acceptance among the youngest, it is worth mentioning the Programme "Values of the Game" in which primary school children carry out multidisciplinary activities conducted by renowned sportspersons.

On the other hand, the Tax, Customs and Social Security Resources Institute -created as a decentralized body of the Tax Administration- carries out research work and studies in tax, customs and social security administration, and with regard to the economic and social issues which have an impact on the Tax Administration's actions.

Another of its main objectives is to contribute to the professional training and technical specialization of AFIP and of other tax administration staff, through the exchange of experiences at conferences and seminars organized by the Institute, and direct training through fellowships and traineeships to carry out studies and research work.

- **Social inclusion**

The integration of the administration of social security resources to tax and customs management introduced new analysis dimensions which led to rethinking the ways of relating to society.

Beyond the interest to collect, there is a group of citizens which act informally or that find it difficult to keep formal and that must be helped to become adequately inserted into society and gain access to the services provided by the State.

In order to achieve the above, AFIP has carried out a series of actions which lead to a process of greater social inclusion. Among the most relevant, it is worth mentioning the preparation of the plan for small taxpayers, the "Monotributo" or Single Tax, the objective of which is to promote compliance and facilitate payment. This has allowed over a million taxpayers to gain access to health services and to the pension system.

Furthermore, specific strategies have been designed to favor inclusion, such as the project to promote registered work in the domestic employment sector, which has traditionally lacked protection. Through the sector's incorporation into the formal social protection network, these workers gain access to health services and can freely elect their health scheme, and can be paid disability or retirement pensions. In turn, the employer has been encouraged to enter into the formal regime.

Registration of domestic employees increased by 310% between January 2005 -when the regime started to be publicly discussed- and September 2006.

- **Transparent administration**

AFIP's active policy is to promote respect for ethical values through the development of activities and relations with the society in which it is embedded, as well as the maximum protection of information under fiscal secrecy.

Desirable behavior for the staff was set forth in the AFIP "Ethics Code", approved in 2001, which also includes other higher level standards such as the Public Ethics Law and the Code of Ethics for Civil Servants. Since then, agents joining AFIP go through induction activities, including a course on Ethical Performance that includes, inter alia, an analysis of the Code of Ethics.

Additionally, in 2006 an agreement was signed with the Office to Fight Corruption to design cooperation, technical assistance and training programmes related to transparency control in administrative management, part of which will be carried out under the e-learning modality.

- **Deepening control mechanisms**

The internal control methodology applied to the Federal Administration of Public Revenue arises from the Law on Financial Administration and Control Systems of the Public Sector, and remains under the control of the General Syndic's Office (SIGEN) and the Internal Audit Units.

In order to supplement this internal control system, the law establishes the framework for the external control system, to be exercised by the Legislative Branch, with the General Auditor's Office as governing body.

In order to reinforce the control environment, in 2005 AFIP signed an agreement with the General Syndic's Office to implement specific actions for reinforcing the internal control system.

- **Accountability**

Beyond the formal control schemes imposed by law, AFIP has adopted a series of measures as part of its accountability policy towards society.

Reports are published on an annual basis for AFIP to disseminate important management data. Among these, "AFIP Rinde Cuentas" (AFIP is accountable) and "Memoria y Balance" (Annual Report and Balance Sheet) are published as part of the Administration's commitment to society, in the understanding that making more information available to provide a better knowledge of what the Administration is doing and plans to do, generates conditions to promote a more responsible and active citizenship.

Likewise, on its web page the agency publishes, among other issues, the budget for the current year, the Management Plan, the status of procurement and tenders at the central office and at its decentralized units, and the agreements signed by AFIP with different agencies.

5. FINAL COMMENTS

This paper has intended to describe the path Argentina walked along to adopt a tax administration model in which there is a convergence in the administration of tax, customs and social security resources.

The application of the single agency model in Argentina has been beneficial and has generated positive synergies among its member organizations.

Nonetheless, there is still a long way to go to improve the adopted model's operation. Issues related to labor relations, the notion of a "one-stop window", the harmonization of criteria for the application of control instruments and penalization regimes are only some of the fields in which AFIP must continue working.

Besides the above, generally speaking the agency's control capacity has been enhanced through the design of coordinated and/or joint interventions and a stronger relationship with citizens. Processes related to important functions have been improved, for instance, registration, revenue, collection, control, auditing and those connected to services offered to the administered individuals/businesses.

The level of development AFIP has reached nowadays would not have been possible if the Administration had not had the resources available to implement the important changes required and had not reached the high levels of application of information technology in the last few years.

Although from the operational viewpoint, the resulting Agency strengthened its capacities, based on the synergies and joint efforts of the DGI-IRS, DGA and DGRSS, there are a few aspects related to the integration process to which special attention must be paid:

- **Respecting the diversity of cultures and specificity of functions**

For integration to be productive, it is necessary to bear in mind that the organizations which become part of the single agency have their own nature, diverse functions and characteristics, although supplementary to fiscal tasks. Likewise, respect for the different identities and cultures stemming from its historic structure -particularly in Latin America, Customs are prior to national organizations- plays an essential role when it comes to consolidating the new agency.

- **Identifying added-value processes for the organization's integration**

Management of customs, social security and domestic taxes has a scope and peculiarities which differentiate one from the other, so it is only possible to integrate the processes that can be shared by different business areas. Anyhow, the integrated process must respect specific issues in each environment.

- **Planning the transition**

It is desirable to appropriately plan the measures to be taken during integration to minimize possible design and implementation errors of the new organization. The structural design process faces difficulties due to the specific circumstances that crop up when offices, posts and tasks must be modified and/or unified. The adoption of a temporary structure can be useful to ensure the agencies' management during the transition.

- **Having an effective internal and external communication strategy**

In order to minimize the natural fear and uncertainty entailed in all change processes, an attempt must be made to have a clear communication policy with regard to the objectives pursued and mechanisms to be used. The process should not be understood as the "absorption" of one agency by another, so as to minimize the fears of eliminating posts and tasks and losing vested rights. Therefore, it is crucial to clearly communicate the "integration" of institutions, ensuring respect for the different identities. It is also important to understand that as a result of these efforts, the agencies have higher management levels than when they acted separately.

- **Having appropriate resources**

Besides the habitual processes to fulfill their functions, the agencies must make additional efforts to integrate their processes and develop new cooperation mechanisms. It is therefore important to provide the institution with administrative flexibility to overcome the problems they must face on a daily basis and that stem from the merger process.

- **Considering labor relations**

When defining and starting up integration strategies, it is important to try and homogenize labor conditions and favor internal mobility. Human resource initiatives are closely linked to the existence of trade unions and specific collective bargaining agreements in each of the merged organizations.

Finally, it must be pointed out that cooperation among the three General Directorates has allowed AFIP to be more efficient in its mission,

increasing productivity and the quality of the service provided to the community thanks to the joint programming and implementation of control and facilitation actions.

Consequently, society has started to notice the presence of a more homogeneous, unified and strong organization, with the capability to detect and prosecute fiscal non-compliance.

The current expansion of Argentine economy, the increase in society's perception of risk, new services, a closer relationship with the community and the incipient impacts of actions to raise tax awareness are converging to increase the average level of voluntary compliance. It is expected that ongoing projects and initiatives will create a virtuous circle which will allow the consolidation of this streamlining process in the next few years.

Case study

Topic 2.1

INTEGRATION OF THE ADMINISTRATION OF INTERNAL TAXES, CUSTOMS DUTIES AND SOCIAL SECURITY CONTRIBUTIONS

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CONTENTS: Introduction.- I. Cooperation and coordination with the Social Security System.- 1.1 Background.- 1.2. Development of the agreement: main actions.- 1.3. Difficulties faced in consolidating this process.- II. Merger of domestic taxes with customs.- 2.1. Background.- 2.2. The merger process: Main actions.- 2.3. Difficulties faced in consolidating this process.- III. Achievements.- 3.1. Achievements as a result of cooperation and coordination with EsSalud-ONP.- 3.2. Achievements as a result of the merger with Customs.- IV. Conclusions and future challenges

INTRODUCTION

In Peru, the taxation power is exercised at three levels of government: the national government (specifically, the legislative and executive branches), the regional governments and the local governments. The latter exercise such power within the limits set by the Political Constitution not only because they have a given geographical scope but also because they may only create, change, eliminate or exempt contributions and fees within their jurisdictions, under the limits established by law.

Our National Tax System is composed of the Tax Code and the taxes established under the corresponding regulations, which may be created in order to raise the resources needed to meet the purposes of the national government, the local governments or other purposes. It is worth noting that in Peru there are no taxes aimed at the regional governments yet.

To briefly review the taxes that make up our Tax System, we may say that the taxes corresponding to the national government are levied on the various expressions of wealth, as is the case of Income Tax; consumption, as is the case of the General Tax on Sales and the Selective Consumption Tax; property, as is the case of the Special Tax on Net Assets; foreign trade (specifically imports), as is the case of tariff duties; financial transactions, with the Tax on Financial Transactions, among others. Also part of the National Tax System is the New Simplified Tax Regime for small taxpayers.

Some of the taxes corresponding to the local governments are the Real Estate Tax, the Tax on Automobile Ownership, the Tax on Leisure Boats, and the Tax on Real Estate Conveyance.

In addition, in Peru there are taxes created for special purposes, which are known as non-fiscal contributions. Among them, social security contributions like contributions to the social healthcare system (EsSalud), to the National Pension Office (ONP - Oficina de Normalización Previsional), and the Solidarity Contribution for Provident Assistance (Contribución Solidaria para la Asistencia Previsional).

Finally, other existing contributions are the Contribution to the National Technical and Industrial Training Service - SENATI, and the Contribution to the National Construction Industry Training Service - SENCICO.

Until the late 90's, the National Tax Administration Superintendency (SUNAT)'s scope was restricted to the administration of the domestic taxes that make up the Public Treasury's revenues. However, in 1999, such jurisdiction started to be expanded.

Within the framework of the modernization process that the Peruvian State is undergoing, according to which the new public administration is aimed at serving citizens, improving the services rendered, increasing the productivity of the resources of the State, avoiding the overlap of jurisdictions, roles and powers among sectors and entities, in 1999 several agreements were signed with EsSalud and the ONP for the integrated collection and control of the contributions that make up the revenue of such government entities, as well as for other non-tax revenues. This implied transferring to a third party -in this case the SUNAT- processes like the collection and administration of contributions, which were not part of the core business of these institutions, allowing

them to focus their efforts on the performance of their core activities - rendering healthcare services in the case of EsSalud, and managing pension funds in the case of the ONP.

In turn, the SUNAT would have additional information to help consolidate its National Data Base and it would also integrate the taxes on wages, making it possible to simplify employers' procedures and obligations, and reduce evasion and avoidance, thus increasing revenues.

Subsequently, in 2000, once the agreements mentioned above had been implemented and the objectives were being met, the National Congress passed a law whereby the SUNAT was charged with the administration of the tax contributions corresponding to the two institutions. Likewise, the law empowered the SUNAT to administer other non-tax revenues of EsSalud and the ONP, as provided for under the corresponding interinstitutional agreements.

In 2002, the Government decided that the SUNAT would take over the National Customs Superintendency -ADUANAS-, based on the conclusion that the two agencies had similar functions, powers and organization, which made it feasible to integrate activities.

Since then, the collection of domestic and foreign trade taxes has been consolidating in a single institution with the purpose of avoiding the overlapping of jurisdictions, powers and functions, and in order to increase productivity in the use of government resources.

We may also note that since 2004 the SUNAT has been responsible for auditing and collecting the tax on leisure boats, which, as was mentioned before, is a municipal property tax. Along the same line, through various rules, the SUNAT has been charged with collecting and auditing Mining Royalties, which is a non-tax payment that mining companies are obliged to make and which makes up revenues for universities, and local and regional governments of the area where such companies operate.

There is a clear trend in Peru towards centralizing in a single agency the collection of different taxes or revenues of the State, beyond the domestic taxes of the national government. The positive external factors and the benefits of this policy for the work of the SUNAT, in addition to the increase in the State's resources are the aspects that we will address in the next three chapters, making specific reference to the links we have created with social security contributions and customs.

In the first chapter, we will address SUNAT's involvement in the collection and control of the contributions to EsSalud and the ONP, with special reference to the major actions implemented and the difficulties faced in consolidating this process. In the second chapter, we will analyze the merger with Customs, the main actions implemented and the difficulties faced in the process of consolidation. In the third chapter, we will discuss the main achievements resulting from the new links created with these institutions. Finally, we will draw some conclusions about the issue under discussion, and the challenges that lie ahead of us.

I. COOPERATION AND COORDINATION WITH THE SOCIAL SECURITY SYSTEM

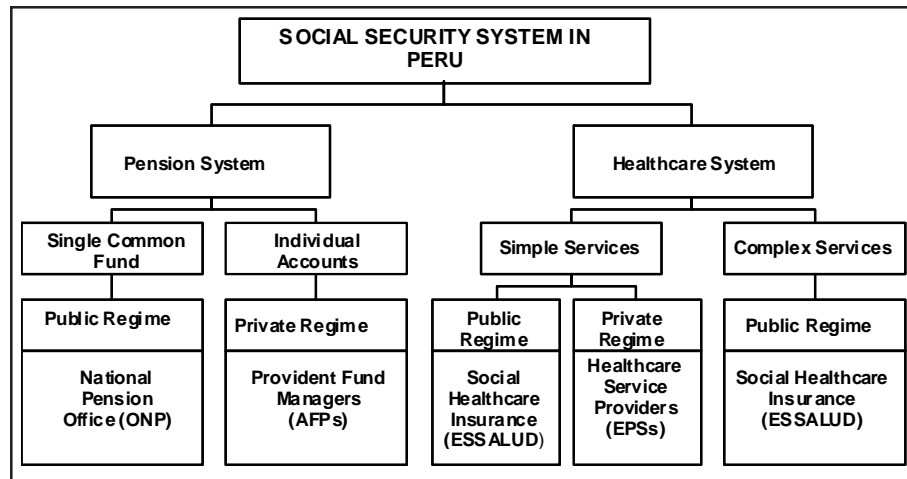
1.1. Background

In the 1990's, Peru's Social Security system was reformed. In December 1992, the Private Pension System (SPP) was created, allowing employees in the public and private sectors to choose either to join the new system or remain under the government regime, called National Pension System (SNP), on an exclusive basis.

Until then, it was mandatory for employed workers to be insured by the SNP, which was managed first by the Peruvian Social Security Institute (IPSS) and then by the National Pension Office (ONP), which was created in July 1994. In turn, the SPP pension funds started to be managed by Private Provident Fund Managers (Administradoras de Fondos de Pensiones - AFPs).

In addition, in 1997, the Social Security System for Health was reformed, creating the Healthcare Service Providers (EPSs), which are private entities that provide simple healthcare services to employed workers on a complementary basis with the public system. However, complex healthcare services continue to be provided exclusively by the latter.

The chart below shows the current structure of the Social Security System in Peru, with its two big components the Pension System and the Healthcare System.



Until 1999, the Social Healthcare Insurance (EsSalud) -created in January 1999 on the basis of the IPSS- was responsible for the collection and control of the contributions to the social security system for health and to the National Pension System, in the case of the latter, at the request of the ONP. As of mid that year, upon the signing of specific agreements, the SUNAT became responsible for the collection and control of those contributions.

1.2. Development of the agreement: main actions

The agreement signed by the SUNAT and EsSalud - ONP is based on the firm belief on the part of the Peruvian State that each government agency should focus on its core activity and transfer to a third party the processes that are not business critical. In this context, on August 11, 1998, the SUNAT and the ONP signed a framework agreement for the provision of a comprehensive service of collection and control of the contributions managed by the ONP, whereby the SUNAT took over the processes of revenue raising, collection, auditing and complaints. For this purpose, in June and November 1999, two specific agreements were signed.

On the other hand, on February 24, 1999, EsSalud and SUNAT signed a framework agreement so that SUNAT would provide to EsSalud a comprehensive service of collection and control of the mandatory contributions managed by EsSalud. For such purpose, in June and October of that same year, three specific agreements were signed.

In this context, on July 30, 2000, Law No. 27334 was published, expanding the functions of the SUNAT, which was given the responsibility to manage the contributions corresponding to EsSalud and the ONP. The operational processes relative to the contributions that are now under the responsibility of the SUNAT are: guidance, registration, tax returns and payment, accreditation, debt settlement, auditing, complaints, refunds and collection.

To perform these new functions, the SUNAT has been implementing several actions, among which it is worth noting those aimed at revenue raising, auditing, technological development and taxpayer services.

Revenue raising and accreditation

When taking over the administration of social security contributions, the SUNAT had to take certain measures to ensure the adequate declaration and payment of such contributions, which is an issue of great importance since it determines the "accreditation" of workers and their rightful successors so that they may receive the healthcare services and/or economic benefits of the social security system.

In order to have information about workers and their rightful successors, the Register of Beneficiaries and the Register of Rightful Successors were created. The SUNAT validates information by means of crosschecks with the National Register for the Identification of Natural Persons (RENIEC). It may also validate the truthfulness of employers' data through the Single Taxpayer Register (RUC).

In this context, the system for the Telematic Filing of Returns (PDT) was implemented, allowing taxpayers to file their returns and make their contributions to EsSalud and the ONP by magnetic means. This software minimizes errors in the calculations involved in the declaration and assessment of the amount due and is compatible with employers' spreadsheet systems. In addition, filing and payment sites were established and systems were developed for virtual payment and filing over the Internet.

With the information contained in the tax returns, in the case of Large Taxpayers, it is possible to determine the amounts due and infractions online; and in the case of Medium and Small Taxpayers, the amount

due is resettled to determine amounts due and infractions (batch process); finally, the debt statements are issued and taxpayers are given notice. It was necessary to create new codes to differentiate social contribution revenues and amounts due, and also codes for infractions.

Regarding Enforced Collection, like in most processes, the tools used for the collection of domestic taxes had to be adapted to the collection of social security debts, based on technology developed at SUNAT.

Auditing

The links established with EsSalud and the ONP have also entailed the design of ad hoc auditing plans and strategies by the SUNAT, the main objectives of which are, among others:

- To reduce the registration gap, that is, to make sure that employers declare all their employees.
- To prevent fraudulent registration with EsSalud, removing from the workers' register all the persons that have access to healthcare or obtain undue economic benefits.
- Check compliance with employers' tax obligations, which means that employers should declare all their employees, the entire tax base, that they should use the EPS¹ credit when applicable, that they should duly assess the tax and pay the corresponding contributions to EsSalud and the ONP.

The selection of taxpayers to be audited evolved from an initial strategy which prioritized individual behavior within the universe of employers, towards a strategy which is based, since 2004, on the criterion of economic activity, as we shall see below, although the two strategies are not mutually exclusive.

¹ The "EPS credit" is the amount that the employers who choose to engage Healthcare Service Providers may deduct from their total contributions to EsSalud, the upper limit being 25% of such contributions.

Technological development

To carry out its new mission to manage social security contributions, the SUNAT set two objectives relative to processes supported by Information and Communication Technologies (TICs). On the one hand, to have an electronic service network to facilitate revenue raising and the rendering of services to beneficiaries and pensioners. On the other, to create an Intelligent Control Network to make good use of the information available, thus improving auditing actions. This process provided the opportunity to improve the control of fourth and fifth category income².

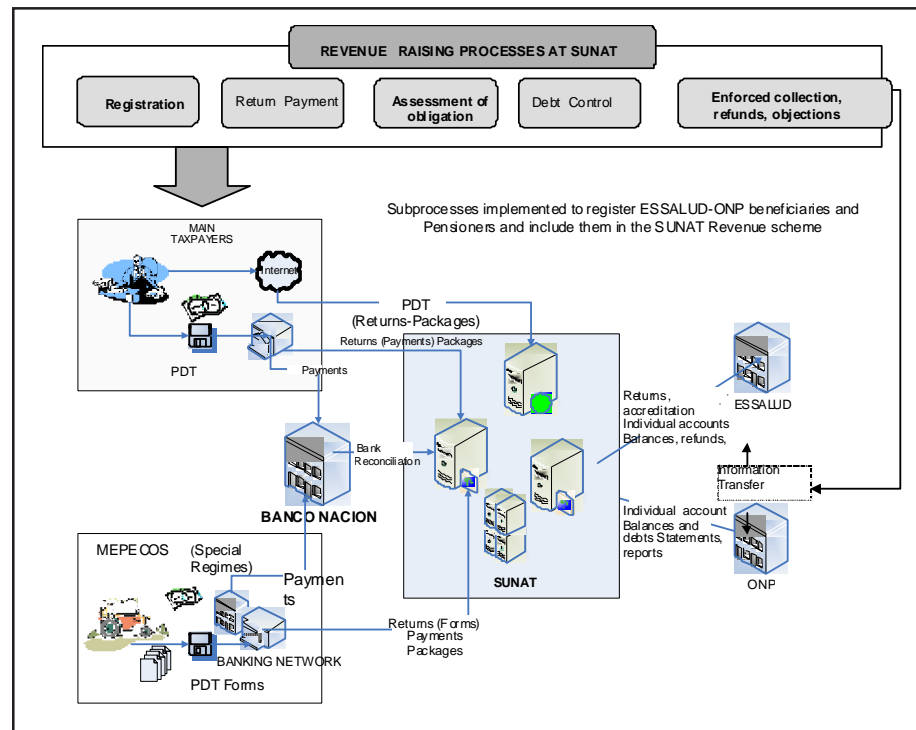
These premises were the basis for the development of the conceptual model of the Collection and Control System for the EsSalud and ONP contributions, shown in the chart below, which indicates the main processes and their interfaces, indicating opportunities for improvement with the new technology available at SUNAT.

Taxpayer services

The SUNAT has had to implement the following actions, among others:

- Permanent training to employers in the use of electronic tools for the correct declaration of wages and assessment of amounts due, through the Internet public booths.
- Training and coordinated work with the offices where the EsSalud and ONP beneficiaries are served.
- Campaigns, like that aimed at registering housekeepers.
- Implementation of a piece of software called Capture and Query of Complaints and Suggestions, through the SUNAT portal or at the units responsible for taxpayer services, which makes it possible to provide immediate assistance to beneficiaries that experience problems with their accreditation.

² *Fourth category income is income of self-employed workers, while Fifth category income is that corresponding to employed workers.*



On the other hand, through its Tax and Customs Administration Institute (IATA), the SUNAT has held a series of training events for its staff on issues relative to social security contributions. It is worth noting that since 2003, the Tax Administration Courses that applicants must follow and pass to join the SUNAT workforce include courses relative to labor regulations, EsSalud, ONP and related topics.

1.3. Difficulties faced in consolidating this process

SUNAT's administration of the social security contributions has not been free of difficulties, mainly at the first stages of the process. Among them, we can mention those relative to auditing actions, several of which were solved over time:

- There were no selection variables included in the Integrated Auditing System for Schedulers. Also, ad hoc auditing procedures had to be established.
- It was necessary to adjust the Tax Code in order to establish new infractions and their corresponding sanctions (not allowing

an examination, failure to report workers, underdeclaration of wages, etc.).

- Diversity of labor regulations which provide for different rules relative to compensations not subject to social security contributions, which leads to an inadequate assessment of the tax base.

Another difficulty faced is EsSalud's implementation of processes in addition to the information it receives from SUNAT, which creates uncertainty for both employers and beneficiaries. In the case of rightful successors, although the SUNAT forwards information about those registered, this information is not used by EsSalud, which requires beneficiaries to re-register their successors.

This situation occurs apparently because while the SUNAT registers and identifies beneficiaries with the National Identification Document (as do all the other government agencies), EsSalud identifies them with an algorithm generated by its internal processes. This situation affects the integration and consistency of information.

Another difficulty is the lack of a single identification of underage rightful successors and housekeepers. Developing a joint process with RENIEC and EsSalud will be essential to make the best use of the potential that the registration process offers.

Another major difficulty that is still to be solved is the low quality of the information transferred by EsSalud and the ONP about debts prior to 1999³, which has caused SUNAT to divert resources and has led to an increase in the debt stock, which appears to be difficult to recover. Thus, there are problems with overdue debts, bad debts, costly collection, attached goods which are in bad condition, etc. Solving these issues requires that action be taken at several levels.

Thus, for example, we could analyze the possibility to amend the Tax Code taking into account the cost entailed in collecting overdue debts with those institutions. On the other hand, considering that a good portion of the debt is amounts due by government entities (municipalities, regional governments, etc.), a withholding system is being proposed, whereby the Ministry of the Economy and Finance

³ *Transfer of information started in 2002. To date, six transfer processes have been conducted in the case of EsSalud, and four in the case of the ONP.*

(MEF), instead of allocating to such entities the amounts corresponding to the payment of taxes and social contributions as part of their budget, would deposit such amounts in a special account at Banco de la Nación so that they are used for the payment of social security obligations.

II. MERGER OF DOMESTIC TAXES WITH CUSTOMS

2.1. Background

Since 1998, the Customs Administration had been experiencing operational problems because of the steady reduction in revenues, resulting, in turn, from a reduction in tariff duties established by the Peruvian trade policy⁴. This led to limited attention to logistic needs and also limited possibilities to acquire the equipment necessary to duly implement actions to prevent and sanction smuggling and to control borders. What is more, control posts had had to be closed down due to lack of resources and the payment of some labor benefits had to be suspended.

In the two years before the merger, the payroll accounted for approximately 90% of the expense budget. This led to a reduction in the amounts spent in goods and services and capital expenditure, with the subsequent shortage of goods and supplies, and the lack of maintenance and replacement of equipment.

As regards administrative processes, Customs acquisitions and contracts were executed in a centralized manner, which meant that the needs of branches were met from the central level. In turn, the Domestic Tax Administration, even if it made purchases and executed contracts in Lima, had devolved the responsibility to make certain purchases and contracts upon the regional departments and branch offices.

Regarding human resources, at the time of the merger, Customs had 2,513 workers and SUNAT, 4,070.

In this context, in July 2002, the national government decided that the SUNAT would take over the National Customs Superintendency ADUANAS. The SUNAT was instructed to start operating as a merged entity as of January 1, 2003.

⁴ *Customs revenues resulted from the application of a 3% commission on import taxes and tariffs.*

2.2. The merger process: Main actions

The merger of SUNAT with Customs has entailed the implementation of a series of actions, the main aspects of which could be summarized as follows:

Planning of the merger

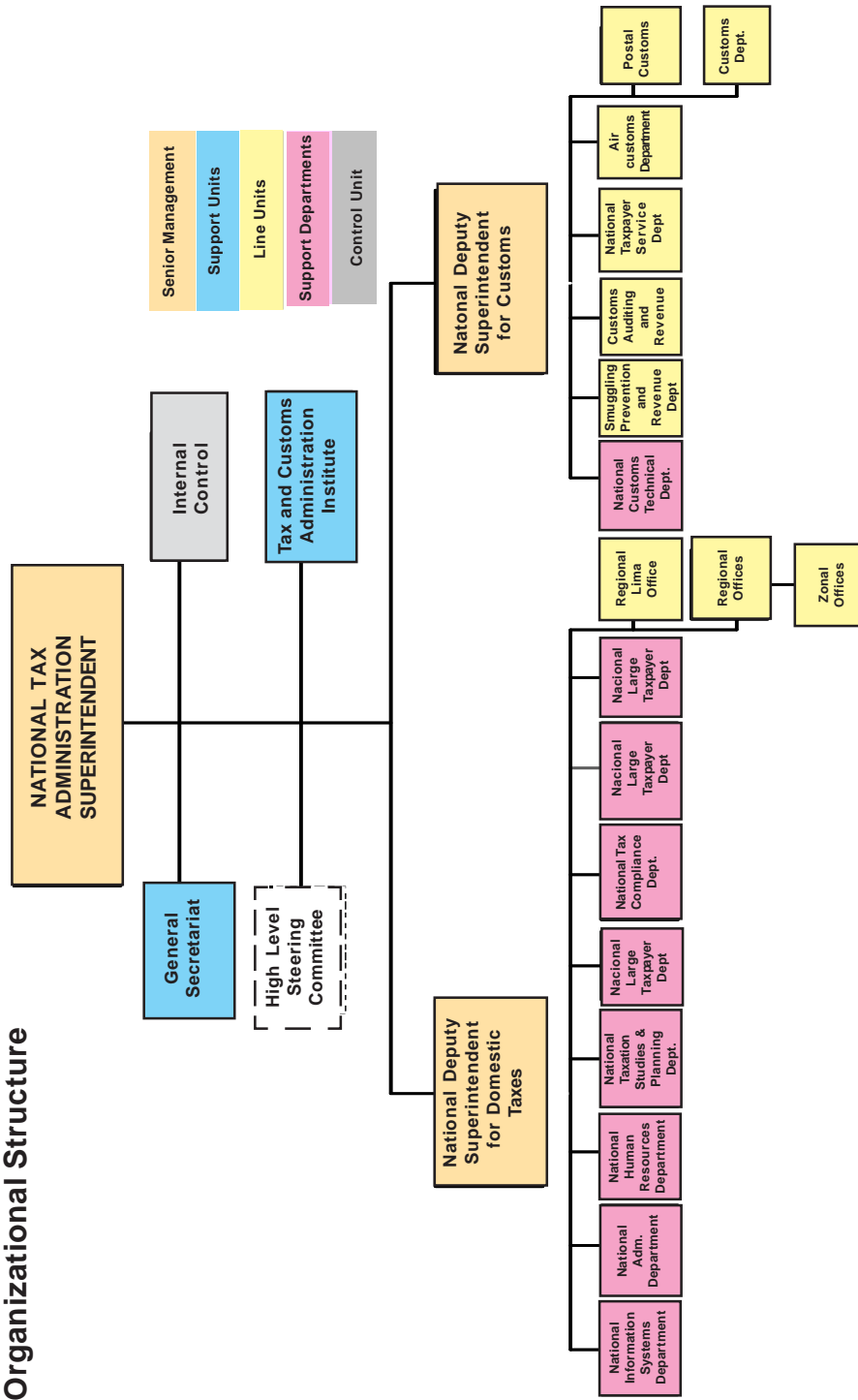
The merger process started with the creation of a High Level Committee made up by the directors of both institutions with the purpose of planning and steering the process. This committee diagnosed the situation of both entities and identified the main strengths, weaknesses, opportunities and threats of the new SUNAT.

The initial strategy coincided with the most successful international experiences in the last fifteen years: to have shared support structures, in order to favor coordination and attain economies of scale, making good use, for example, of the information stored in single powerful databases. The integration of the operational processes of revenue raising, collection and auditing was left for a second stage.

Changes in the organizational structure

As part of the implementation of the first stage of the merger strategy, a new organizational structure for SUNAT was approved in October 2002, which was made effective on January 1, 2003.

Organizational Structure



In the current structure, two fundamental aspects are identified:

- There is an integration of the support areas relative to human resources, finance, logistics, IT, training and legal affairs.
- The functions of the business units -Domestic Taxes and Customs- continue to be performed independently, each one reporting to their respective National Deputy Superintendent.

Technological change

From the technological viewpoint, the merger process was based on synergies, that is, on incorporating the Customs' strengths and best practices into the experience and good practices of SUNAT. This approach has pursued three objectives: a) increasing the efficiency of tax and customs systems and processes; b) reducing costs by improving management thereof; c) increasing and improving services for taxpayers and foreign trade operators.

We shall now describe some of the actions taken in different areas:

In business process systems

- o Integration of the institutional portal into a single one: www.sunat.gob.pe
- o Implementation of a tax or customs complaints system on SUNAT's portal.
- o Adjustment of the crediting system, incorporating foreign trade revenues into the domestic tax reconciliation process.
- o Using domestic tax information to define the Directory of Frequent Importers, the main benefit of which is that the valuation-based control is left for a subsequent stage.

In support process systems

- o Implementation of the Document Management System -SIGED- as the single electronic internal document management application, to replace the Electronic Document Form -FEDI Aduanero.
- o Implementation of the human resources, logistic, financial, accounting and budget system used in domestic taxes as the only system for the entire institution.

- o Standardization of systems development methodologies, attaining a single methodology for the analysis, design and development of systems.

In the integration of the technological infrastructure

- o Standardization of the IT equipment in both businesses.
- o Centralization of the Maritime and Air Customs databases in the Miraflores Computer Center.
- o Implementation of the Customs Extranet.
- o Integration of the telephony service
- o Integration at the Lima offices: Voice-over-IP telephony (Wilson - San Isidro and Miraflores) was incorporated to the Chucuito office.
- o Implementation of connectivity at the Customs and Domestic Tax control posts with satellite technology.

It is worth mentioning that SUNAT's senior directors made the decision to maintain the Quality Management System in the customs service. Therefore, the Quality Steering Committee and the Quality Technical Secretariat were created to steer, supervise, assess and develop the process of migration and deployment of the Quality Management System according to the standard ISO 9001:2000. After much work, in February 2004, the institution was certified under ISO 9001:2000⁵, in the processes of Waybill, Retained Import and Export; at the offices of the Maritime and Air Customs of Callao.

Integration of administrative processes

As was already mentioned, the first step of the merger process was the integration of support processes. In this context, at a national level, an assessment was made of the technical conditions and characteristics of the physical infrastructure of premises, thus surveying needs in terms of infrastructure, maintenance and acquisitions. Vehicles were purchased for the activities of the customs business distributed throughout the country, to strengthen operations.

⁵ *Certification issued by the Instituto Colombiano de Normas Técnicas y Certificación - ICONTEC, which is recognized in Peru -on account of its being accredited before the National Anti-trust and Intellectual Property Protection Institute -INDECOPI- and abroad, since it is a member of the International Accreditation Forum -IAF (Accreditation DAR TGA - Germany) and of IQNET.*

On the other hand, several administrative procedures were implemented at customs offices to act upon urgent requirements and standardize procedures with those of domestic taxes. For this purpose, a series of rules were issued in connection with the drafting, implementation and amendments to the Annual Plan for Purchases and Contracts, implementation of the Selection Process, Electronic Procurement Procedure, among others.

Integrated human resources and training

In the area of human resources and personnel training, efforts were made to simplify processes and avoid duplication, and to obtain standardized, uniform and easily accessible processes.

In order to consolidate the merger process, the Tax Administration Institute (IAT) for Domestic Taxes became the Tax and Customs Administration Institute (IATA), which performs activities aimed at delivering good technical training in tax and customs matters.

Action was also taken in connection with training for non-technical development of the staff, under the responsibility of the National Human Resources Department, like the workshops on Team Work and Leadership, aimed at the staff of both businesses.

Operational processes

Even if the integration of the businesses was left for a second stage, action has already been undertaken to integrate and improve some operational processes or subprocesses. Below we shall describe the main ones:

Unification of the TUPA. One of the most important tasks performed was the integration of the procedures of each administration into a single document -Single Text for Administrative Procedures (TUPA). Up to date, three editions of the TUPA have been drafted, the latest of which was adopted in January 2007.

Adoption of Unified Rules of Procedure for Enforced Collection, applicable to the recovery of Domestic Tax and Customs debts.

Implementation of a single procedure to support collection, in order to regulate the actions to be carried out by the operational areas. To meet such objective, proposals have started to be drafted and reviewed to modify the Tax Code, the Rules of Procedure for the Organization and Functions, and the Customs Law, in order to lay the foundations for a unified collection procedure. In addition, internal procedures have started to be developed and actions are being undertaken to integrate the current IT systems.

Pilot test for the merger of the operational process of enforced collection in Cusco and Salaverry. With the purpose of surveying the operational procedures of both businesses, a pilot test was run for the merger of the collection procedures in the offices of Cusco (in the South of the country) and Salaverry (in the North of the country). The pilot test was run in the last quarter of 2006, making it possible to gather information about the way the collection teams work in Customs and Domestic Taxes, and also to identify operational, legal and systems-related problems which must be solved in order to consolidate the integration of the collection process.

Coordinated auditing. In May 2003, a multidisciplinary team of professionals in both Domestic Taxes and Customs was called upon to analyze and implement, at a pilot stage, auditing actions in domestic taxes with information from customs and viceversa. Considering the good results obtained with this pilot experience, on May 19, 2004, the decision was made to make it permanent, thus creating the Coordinated Auditing Team, which continues to conduct joint auditing actions.

Joint actions between the Smuggling Prevention and Border Control Department, the Customs Departments and the Regional Departments (Domestic Taxes), in order to strengthen and reinforce controls on the movement of goods, means of transport and persons, exercising the powers of both businesses. These actions have made it possible to improve results in terms of seizure (in the case of Customs), and also the issuance of confiscation rulings (in the case of Domestic Taxes) in the areas where they were implemented.

Automation and management of the risk allocation system for Customs declarations, incorporating the sources of information of Domestic Taxes. In addition, references are used based on which Customs declarations are assigned to the red channel (physical checks), in order to prevent and control its impact on the attention capacity and time of customs experts.

2.3. Difficulties faced in consolidating this process

One of the main difficulties faced during the SUNAT-CUSTOMS merger process has to do with the expert knowledge of the topics of each business. To address this difficulty, "cross-training" has been implemented, under the responsibility of the IATA, through which Customs staff has received training in issues relative to Domestic Taxes, and vice versa: Domestic Taxes staff has been trained in customs matters.

Resistance to change, bringing with it distrust and fear, which affected the work environment. This situation has been addressed by implementing various activities, like Integration Days, joint sports activities, among others.

The merger process made the dispersal of both institutions' staff countrywide more evident. This situation made the delivery of training more complex, for which e- learning courses were implemented.

The use of tax and customs information for both businesses is being consolidated. Access to the various Management Systems is being expanded (User Database - BDU, which is made up of views of the National Database - BDN, and the Taxpayer Selection System - SISCO).

It is important to note that merging the two organizations meant bringing together two different cultures, one of which was focused on facilitating foreign trade, and the other, on controlling voluntary compliance with tax obligations. Even if one cannot categorically say that Customs would only prioritize trade facilitation while Domestic Taxes would focus solely on control, it was obvious that each entity had its own focus. This has been a key aspect in the development of the merger process and both characteristics are now present in each business of the newly merged agency.

III. ACHIEVEMENTS

We shall now summarize the achievements made in terms of efficiency and efficacy in the performance of SUNAT's activities, as a result of the cooperation and coordination with EsSalud-ONP and the merger with Customs.

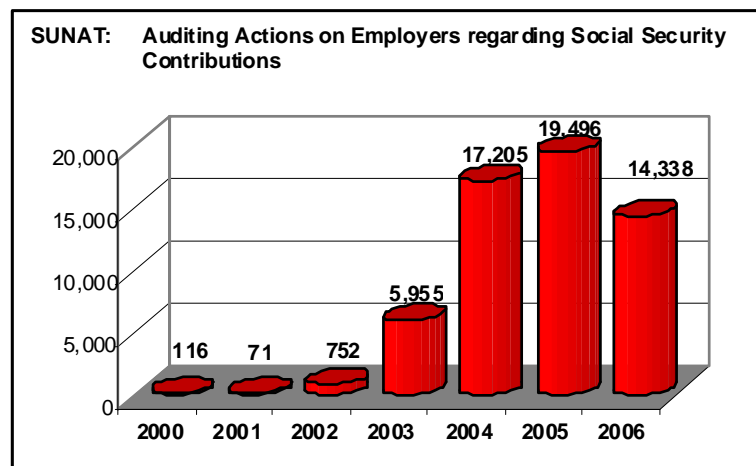
3.1. Achievements as a result of cooperation and coordination with EsSalud-ONP

Auditing

As was already mentioned, since 2004, the SUNAT has been implementing an auditing strategy based on identifying those sectors in the economy that do not report their workers and therefore do not pay the corresponding social security contributions. Studies conducted with information as of October 2006 showed that of the 577,959 taxpayers registered in the RUC, only one fourth (141,820 taxpayers) declared that they had employees; 174,218 declared that they did not have employees or income; and 261,921 reported income allowing them to maintain a payroll, but they do not declare their workers.

Consequently, an auditing strategy has been designed to address two major groups: taxpayers that declare income and workers; and taxpayers that declare income and do not declare workers.

The total number of auditing actions completed gives us an idea of the effort that the SUNAT has been making to meet the commitments undertaken in terms of social security contributions. Thus, while in 2000 only 116 actions were completed, in 2006, 14,338 actions were completed⁶.



⁶ The goal for 2005 and 2006 was 15,000 auditing actions per year. In 2005, that figure was exceeded, but in 2006 action was undertaken against Educational Centers that would not declare their workers, which aroused opposition in society and had to be suspended.

TOPIC 2.1 (Peru)

From 2002 to the end of 2006, the ONP issued 280,996 debt statements for an amount of US\$ 124 million, and EsSalud issued 659,038 debt statements for an amount of US\$ 666 million.

**SUNAT: Insurance of EsSalud-ONP debt statements
In thousands of dollars**

		2002	2003	2004	2005	2006	TOTAL
ONP	Number	24,668	44,190	65,196	97,735	49,207	280,996
	Amount	16,049	26,501	25,587	29,511	25,918	123,565
ESSALUD	Number	57,265	90,669	145,563	225,158	140,383	659,038
	Amount	83,729	131,343	166,844	155,417	129,131	666,463

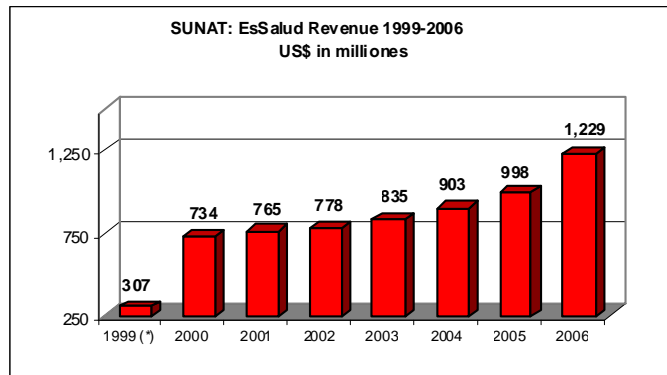
As regards the payments made, the ONP collected 116,094 debt statements in 2002-2006, for an amount equivalent to US\$ 39 million, showing a 32% recovery rate; while EsSalud collected 402,866 debt statements for an amount of US\$ 328 million, with a 49% recovery rate.

**SUNAT: EsSalud – ONP Payments
In thousands of dollars**

		2002	2003	2004	2005	2006	TOTAL
ONP	Number	16,475	26,310	28,957	22,636	21,716	116,094
	Amount	5,671	6,080	6,417	11,222	9,591	38,983
ESSALUD	Number	47,408	67,333	87,028	106,367	94,730	402,866
	Amount	56,100	68,572	70,427	67,500	65,149	327,748

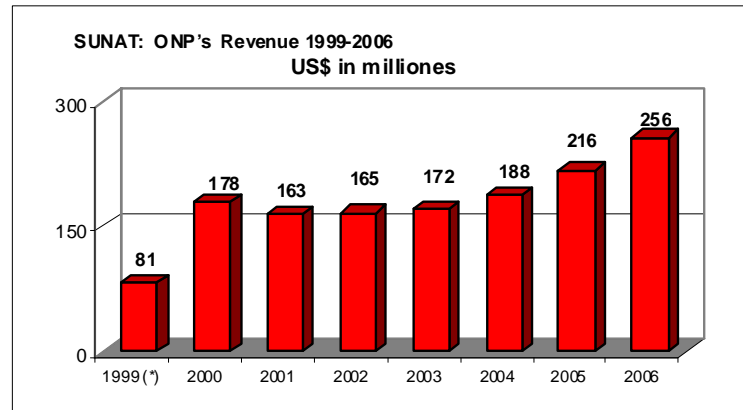
Revenues raised

EsSalud's revenue grew by a little more than 67% between 2000 (US\$ 734 million) and 2006 (US\$ 1,229 million).



(*) Since August.

In turn, the ONP's revenue also recorded a significant increase of a little more than 43% in the period under analysis. Since 2002, this revenue has followed an upward trend.



(*) Since August.

Registration process

As regards registration processes, even if the number of employers with obligations before EsSalud has shown a downward trend since 2004, the number of beneficiaries has been increasing steadily, with a 62% increase between 2001 (1.6 million) and 2006 (2.6 million): approximately one million more beneficiaries.

The number of accredited individuals has been increasing even more markedly, from 1.7 million in 2001 to 2.9 million in 2006; that is, a 69% increase.

In the case of the ONP, the trend is similar. Even if the number of employers subject to these contributions has remained relatively stable, the number of beneficiaries has increased from 398 thousand in 2001 to 571 thousand in 2006.

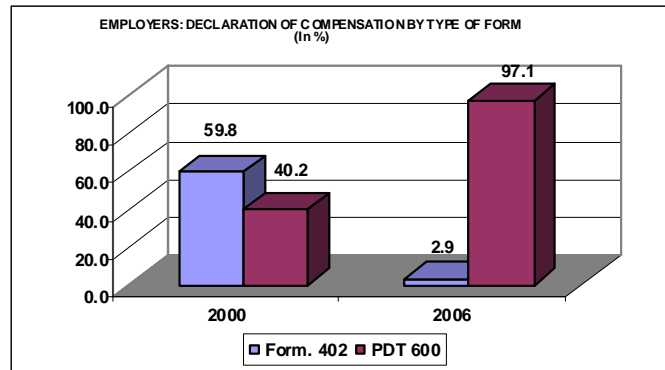
Registration Process in EsSalud and ONP

Year	2000	2001	2002	2003	2004	2005	2006
Number RUC	1,971,741	2,181,515	2,421,178	2,675,515	2,917,980	3,283,378	3,482,079
	2000	2001	2002	2003	2004	2005	2006
ESSALUD EMPLOYERS		181,081	187,871	189,783	172,327	119,472	122,907
ESSALUD BENEFICIARIES		1,588,078	2,225,627	2,414,348	2,482,454	2,553,405	2,568,937
ESSALUD ACCREDITED INDIVIDUAL		1,742,243	2,029,175	2,458,788	2,620,034	2,781,721	2,947,666
ONP		2001	2002	2003	2004	2005	2006
EMPLOYERS SUBJECT TO ONP		122,560	126,597	126,494	117,712	117,136	121,909
ONP BENEFICIARIES		398,078	436,547	464,429	468,121	496,138	570,961

IT solutions

As regards IT solutions to facilitate employers' compliance with their obligations, we may note that, between 2002 and 2006, the number of Declarations of Compensation increased by a little more than 23%, from 1.3 to 1.6 million respectively.

Currently, 97% of Employers file their Declarations of Compensation with electronic forms (PDT 600) and only 3% do so with paper forms (Form No 402). Micro and small companies are the ones that benefit the most from this IT solution, since 65% of employers that file electronic forms have less than four employees.

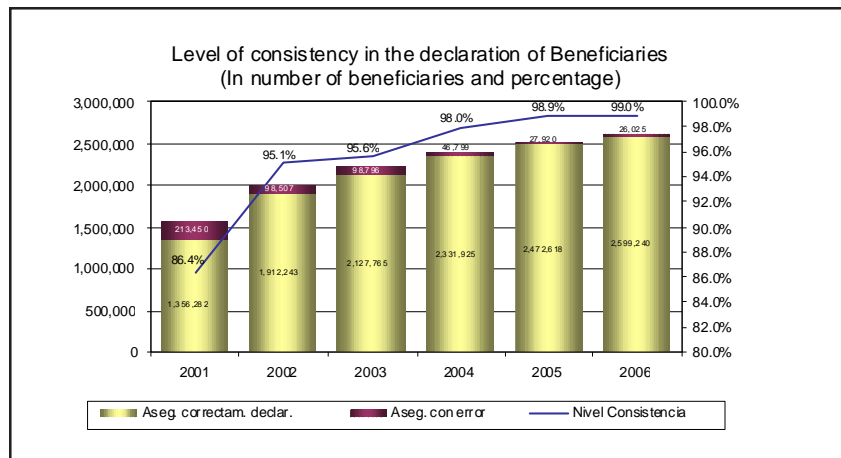


However, in terms of amounts, practically 100% of the revenue is raised through Telematic Declarations.

Taxpayer services

There has been a significant improvement in terms of access to healthcare, as a result of the correct identification of beneficiaries. Errors in the identification of primary beneficiaries have decreased from around 14% in January 2001 to 1% in December 2006. Thus,

EsSalud is now able to serve beneficiaries upon their showing their ID card, unlike the previous procedure, which required that they show the slips proving payment of compensation when they required any healthcare service.



3.2 Achievements as a result of the merger with Customs

Integration in terms of infrastructure and administrative and financial processes

To date, the following have been integrated:

- Regional Department and Customs Department in Cuzco.
- Customs Department and Remote Office in Madre de Dios.
- Remote Office and Customs Agency in Talara.
- Customs Department and Taxpayer Service Center in Pisco

In addition, in order to improve the physical condition of premises, and to standardize their infrastructure, work has been done in different parts of the country, upon a Management Service Agreement that SUNAT has signed with UNOPS-UNDP.

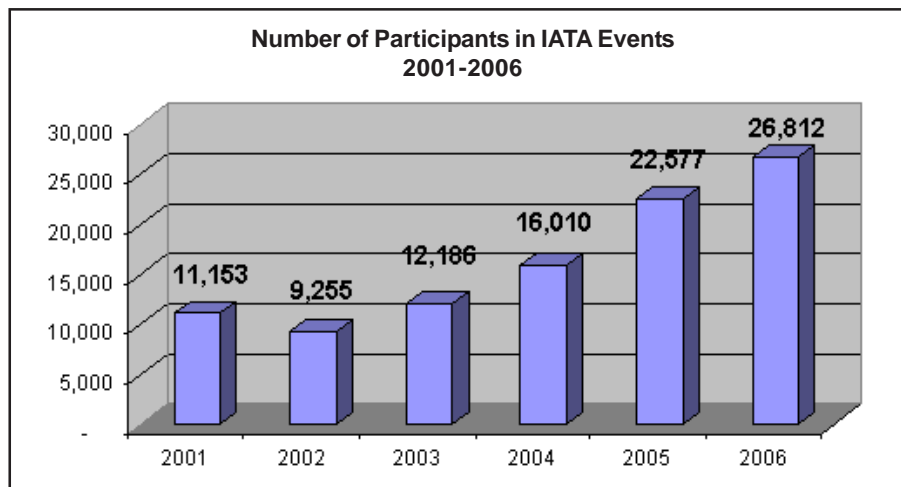
From the administrative viewpoint, with the drafting and adoption of rules and guidelines in different aspects of administrative management, procedures have been standardized in the Customs Departments, Domestic Tax Departments, National Departments and Offices, which brought about better results in the administrative management of the SUNAT.

On the financial side, since 2003, the SUNAT includes in its budget 2.5% of all import duties and tariffs raised by Customs. As was already mentioned, until before the merger, such percentage amounted to 3%. In 2005, it was brought down to 1.5%. This income, plus the 1.75% raised through domestic taxes, makes it possible fund operations relative to both businesses with the agency's own resources.

Integrated human resources and training

Training in areas relative to the tax and customs businesses has been increasing steadily. In 2004, goals were set as regards the number of training hours and number of participants, in line with the decision to make greater emphasis on training and the development of workers. Thus, in 2006, the areas linked to the tax and customs businesses received 5,768 training events, and support areas, 1,528.

As shown in the chart below, the IATA has steadily increased its technical training services, with an approximately 190% increase in the number of participants in the last five years.



In addition, programs or courses for integration, and the exchange of staff between Taxes and Customs, have helped reduce the culture gap between the two businesses, which has improved the work environment and the organizational climate for the benefit of the objectives of the merged agency.

Technological change

The merger process has made it possible to reduce compliance costs for taxpayers and users, with the simplification of procedures and the use of technology geared towards services for importers and exporters. In this context, special emphasis has been made on the mass introduction of electronic systems, with the purpose of gradually eliminating the use of paper and forms, and allowing direct communication with taxpayers and foreign trade users

A key element to meet this objective has been the integration of the Internet portals, which led to integrated information services. In 2006, around eight million transactions were made through the Institutional Portal on the Internet, which corresponded to approximately thirty web services aimed at taxpayers and foreign trade users nationwide. The services "Submission of Contribution Returns" and "Authorization to Print Payment Slips" accounted for 57% and 17%, respectively, of the total transactions made that year.

Thus, it has been possible to shorten servicing times, save taxpayers and foreign trade users from having to appear in person at SUNAT's offices, reduce the possibility of material errors and gain efficiency.

We must also note that "Neural Networks in the Process of Channel Selection for the Retained Import Regime" have been implemented to systematize historical behavior patterns of taxpayers, thus improving customs fraud detection.

This technological innovation integrated -within its knowledge base- foreign trade as well as domestic tax information, as a result of which the assessment capacity of this system is greater than that of any other selection method used before. With the implementation of this IT product, SUNAT has become the first Tax and Customs Administration in Latin America to use neural networks to combat undervaluation and smuggling. In addition, it earned it the IT-USERS Award 2004, in the category "Management Software Development", given by IT-USERS, a monthly magazine specialized in high technology for business.

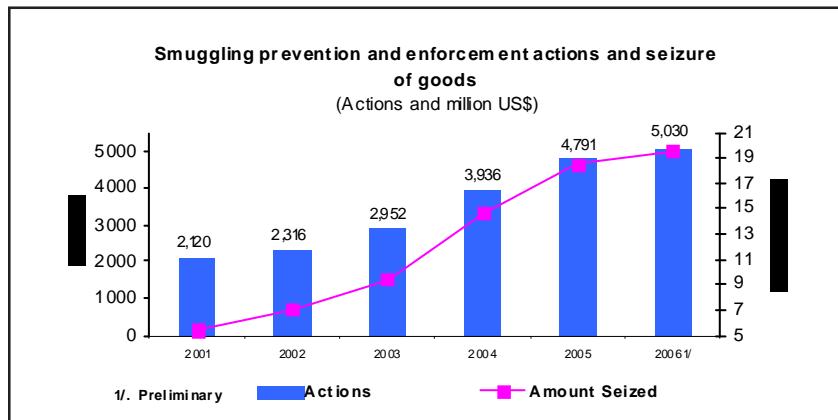
Operational processes

In the fight against smuggling, the SUNAT has obtained great results since the merger with Customs in 2002. This has been possible thanks to the framework of the new Law of Customs Crimes, the optimization of human and logistic resources, improved coordination with other agencies (mainly the National Police, the Public Prosecutors' and Defenders' Office and INDECOPI), the intensive use of technology, risk management through information shared between Domestic Taxes and Customs, and the expansion of operational management involving operational units of Domestic Taxes.

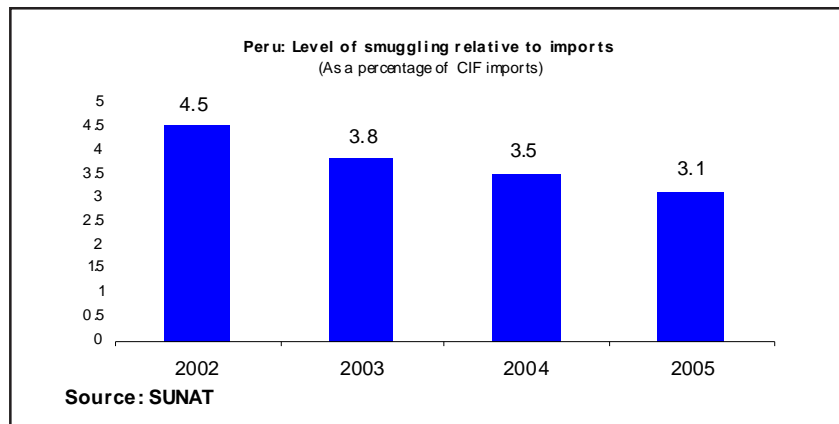
As regards coordinated audits, involving professionals from both businesses, between 2003 and 2006, 72 audits were completed, which accounted for approximately US\$ 29 million. In addition, during such period, 6 operations were conducted in connection with payment slips, and 744 mobile control actions, with the seizure of goods for an amount of US\$ 4 million, approximately.

In addition, evasion modes have been detected which affect both businesses, for example, importers who undervalue the goods imported and then fail to register the sales of those products in the domestic market, or register them with a selling price lower than the actual one. Likewise, there are taxpayers that unduly request the benefit of the Tariff Drawback Regime supporting the exported goods with fake invoices.

The number of smuggling prevention and enforcement actions increased by 137% between 2001 (2,120 actions) and 2006 (5,030 actions). Also, the SUNAT seized smuggled goods for a CIF value of US\$ 19.5 million in 2006, an amount 261% higher than the US\$ 5.4 million seized in 2001.



The achievements made in the fight against smuggling can be seen clearly when stating the level of smuggling as a percentage of goods imported, with a steady decline of such indicator, from 4.5% in 2002 to 3.1% in 2005⁷.



As regards foreign trade facilitation, at the Maritime, Air and Tacna customs, which account for more than 92% of the transaction volume, the percentage of declarations assigned to the orange and red channels declined from 51.4% to 40.2% between 2003 and 2006, in spite of the fact that the number of numbered declarations increased by 24.5% in that same period. Consequently, the green channel share went from 48.6% up to 59.8%.

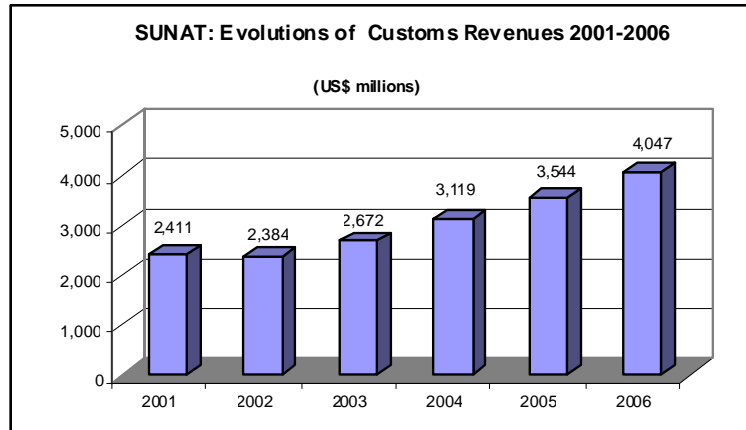
These results have been obtained without endangering the quality of customs controls, thanks to the use of new technologies and information systems, like neural networks, which we have already discussed.

In addition, with the entry into force of the new withholding regime for the IGV (general sales tax) on imports, the SUNAT now receives payments from importers who did not use to pay the tax and always had a favorable IGV balance. The SUNAT now has information to help it plan auditing actions on this sector.

⁷ In 2005, smuggling in Peru amounted to US\$ 386 million.

TOPIC 2.1 (Peru)

The evolution of customs revenues in the last few years shows quite clearly the achievements of the merger process, with a 68% increase between 2002 and 2006, from US\$ 2,411 million to US\$ 4,047 million. These results were obtained in a context of increasing economic activity and a gradual reduction of tariff rates.



Finally, since 2004, the SUNAT has been reducing goods clearance times, from 14.6 hours in 2005 to 14.1 hours in 2006, in the red channel without incidents ⁸. The SUNAT has been making efforts to continue reducing clearance times and bring them into line with international standards.

⁸ *Implies a physical inspection of goods and checking the corresponding documents.*

IV. CONCLUSIONS AND FUTURE CHALLENGES

At SUNAT we are convinced that cooperation and coordination with the social security agencies and the merger with Customs are proving to be very fruitful in terms of higher revenue for the State and a better control of tax evasion and smuggling, without neglecting taxpayer service and foreign trade facilitation.

One of the main advantages is the possibility to share information, which, combined with the use of information technologies and the Web, is producing results for the benefit of all stakeholders. Thus, the reduction in procedures and the more direct relation between citizens and the administration that is made possible by electronic services has increased voluntary compliance. As regards risk generation and prevention of non-compliance, centralized and systematized information has allowed us to conduct comprehensive audits, in the area of domestic taxes, customs and social security contributions.

As regards the close relation with EsSalud and the ONP, the fact that SUNAT has strengthened its links and coordination with other government agencies, like the Ministry of Labor and Social Promotion, is certainly an additional advantage. Thus, on July 23, 2004, SUNAT signed an agreement with this Ministry, the main benefits of which so far have been:

- SUNAT's officials have been authorized to partake in the multi-sectoral committees that analyze the current labor rules and those that are being discussed, allowing them to propose changes to the regulation that may allow for better control of compliance.
- In 2005, a Register of Workers and Service Providers (RTPS) was created, which employers must submit on a monthly basis through magnetic means as of May 2007. This record will replace the Libro de Planillas and will allow us to conduct more effective and targeted labor audits.

One of our challenges for the future is to continue optimizing the integration of SUNAT's databases with those of EsSalud and the ONP, which is one of our goals for the next few years. It is also necessary to insist on virtualizing forms, because 27% of taxpayers still pay through paper forms. We also intend to reduce the level of beneficiary identification errors to 0.4%.

TOPIC 2.1 (Peru)

The main advantage of the merger between Customs and Domestic Taxes lies in the fact that the strengths of both businesses -in their operational, support and management processes- are allowing the creation of a highly efficient organization at the service of the country and its citizens.

Some of the challenges that lie ahead of us are: reinforcing coordinated auditing actions in order to increase the risk for foreign trade operators that commit customs fraud and evade domestic taxes; and integrate revenue information as a basic element to conduct joint procedures in order to ensure effective control of tax and customs obligations and use it as a platform for integration of the other processes of the administration. This will allow us to better address the new challenges that our Tax Administration faces in connection with foreign trade: globalization supported by trade liberalization, increasing trade volume, increasingly sophisticated products, evolution of the means of transport and trade, and development of e-commerce.

We are aware that SUNAT's coordination or merger with the agencies mentioned is an ongoing process which is subject to constant review so that it can be improved to obtain the highest benefit possible for the country.

Case study

Topic 2.2

RELATIONSHIP OF THE CENTRAL TAX ADMINISTRATION WITH OTHER GOVERNMENT LEVELS

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Tax Administration (AEAT)
(Spain)

CONTENTS: 1. Introduction.- 2. Autonomous communities under the common regime. 2.1. Autonomous communities' resources.- 3. Assigned taxes.- 3.1. Definition and types of assignment.- 3.2. Economic and administrative management and claims.- 3.3. Regulatory powers vested upon the CC.AA. - 4. Bodies and forms of relationship among the government tax administrations and the autonomous communities.- 4.1. Evolution of the participation bodies.- 4.2 autonomous communities' participation bodies in the state agency of tax administration and of collaboration and coordination in tax management. - 4.3. Participation of the autonomous communities in the regional economic and administrative courts.- 4.4. Dispute resolution bodies. the court of arbitration.- 5. Local system: Navarre and Basque country.- 5.1. Liaison bodies.- 5.2. Dispute resolution bodies.- 5.3 cooperation between AEAT-Finance Ministry of the county council.- 6. Cooperation between AEAT-Finance Ministry of the county council.- 7. Local finance ministries.- 7.1 The real estate property registry.- 7.2 Economic activities' tax .- 7.3 Cooperation agreements with local entities.-

1. INTRODUCTION

The adoption of the Spanish Constitution of 1978 (hereinafter the CE, as per the Spanish acronym) entailed the implementation of a new model for the territorial organization of the State (the so-called "Autonomous State"), based on general or basic principles of institutional organization and operation as provided for in the Preliminary Title and Title VIII. One of these principles, maybe the core one, is that of autonomy, which has been enshrined in Article 2 and 137 and

determines a territorial organization structured according to three political and administrative areas: state, regional or autonomous and local.

As regards the autonomous area, the CE provides for the right to autonomy of the nationalities and regions that make up the Spanish State, guaranteeing their access to self-government. Thus, the Autonomous Communities arise (hereinafter the CC.AA. as per the Spanish acronym), which are public entities with their own power, territory and population, appearing as a political and administrative decentralization phenomena on the basis of the distribution of competencies defined in Articles 148 to 150 of the CE. They are 17 Autonomous Communities, two of them with a specific financial system, the so-called local system, which we shall refer to hereunder, and the other 15 with a common system, in addition to the Autonomous Cities of Ceuta and Melilla.

The creation of this "Autonomous State" and the growing decentralization process vis-à-vis expenditure towards the CC. AA. have significantly affected the distribution of expenditure among the different government levels. As we may infer from the table hereunder, the share of the different sub-central government levels in the overall government expenditure has grown in the course of 20 years from 22.5% to 48.5% almost fully based on the increasing role of the Autonomous Communities.

PUBLIC EXPENDITURE DISTRIBUTION BY LEVELS OF GOVERNMENT

	1985	2005
CENTRAL ADMINISTRATION	40%	23%
AUTONOMOUS ADMINISTRATION	22%	36%
LOCAL ADMINISTRATION		12.5%
SOCIAL SECURITY	38%	28.5%
TOTAL	100%	100%

Source: National Statistics Institute and AEAT.

Such expenditure decentralization process required a simultaneous income decentralization process embodied, on the one hand, in the allocations from the State Budget to the CC.AA. and, on the other, in the creation of inherent sources of financial revenue. Therefore, different financing systems have been subsequently adopted in the CC.AA. under the common system, based on specific agreements

adopted in the sphere of the Tax and Financial Policy Council. Specifically, the financing system in place as from January 1st, 2002 that was passed by the Tax and Financial Policy Council in the meeting held on July 27th, 2001.

As to the local area, once the autonomous process was consolidated and upon laying the groundwork for the new State territorial organization system, the pending work regarding the local sector was undertaken in 1985 with a great reform process stemming from Act 7/1985 of April 2nd, which governed the Local System Principles, completed three years later with Act 39/1988, of December 28th, which governed local Finance Ministries. The reform entailed the application of the principles of financial autonomy and self-sufficiency embodied in the Constitution, which translates into the power of the local Entities to govern their own Finance Ministries, doing away with the financial assistance of the State to the local sector, involving Corporations themselves in the process to obtain and employ their financial resources and enabling them to decide on the volume thereof and the free organization of their expenditure.

Therefore, the system in place not only pursues the effectiveness of the principles of financial autonomy and self-sufficiency in the autonomous and local area, but also that the sub-central Administrations assume the shared responsibility with the State to make such constitutional principles effective.

2. AUTONOMOUS COMMUNITIES UNDER THE COMMON REGIME

2.1. Autonomous Communities' Resources

The CE sets forth the general framework for the CC.AA. financing system and the bases for their system of resources, enumerating them in Article 157.1. Thus, the CE undertakes the relevant role of setting forth a financial structure for the CC.AA. and focusing on their combined nature (on the one hand, allocations from the state Budget and, on the other, income produced by the CC.AA. themselves), but does not apply a systematic criterion to classify the resources therein, leaving this task to the statutes enforced in the furtherance thereof (Article 157.3), subsequently avoiding the regulatory restrictions of the financing system.

TOPIC 2.2 (Spain)

Thus, Act 8/1980, of September 22nd, on the Financing of the Autonomous Communities (LOFCA, as per the Spanish acronym) is the legal text that constitutes the general legal structure of the CC.AA. financing system, which has governed the approval and enforcement of subsequent models from 1980 to the present.

By virtue of the provisions in Articles 157.1 of the CE and 4 of the LOFCA, the following classification of CC.AA. revenue may be inferred:

REVENUE OF THE CC.AA. UNDER THE COMMON SYSTEM

EARNED REVENUE		INHERENT REVENUE	
SPECIFIC	NON-SPECIFIC (Tax)	NON-SPECIFIC	SPECIFIC (Financial)
• Self-sufficiency fund	• Inter-regional Compensation Fund	• Inherent taxes	• Credit transactions
• Assigned taxes	• Current and capital subsidies	• Surcharges on state taxes	
• Public service charges	• Equality allocations		
	• Government-public enterprise partnership agreements and contracts		
	• European funds		

Where:

1. Based on the **revenue source**, we may define:
 - a) Inherent revenues: Those that originate in the Autonomous Community itself.
 - b) Earned revenues: Those that arise from external sources to the Autonomous Community (State or European Union).
2. According to the **CA capacity to include them in its expenditure policies**, we may define:
 - a) Specific financing: Revenue that must be allocated to a specific and concrete purpose, that is to say, conclusive revenue.

- b) Non-specific financing: Revenue that does not serve a predetermined purpose and, therefore, may be allocated to finance any type of expenditure.
3. Based on the **revenue nature**, we may define: tax, financial, civil and commercial or punitive.
4. Finally, based on their **function in the financing system**, we may define three large financial revenue categories.
- a) The autonomous category: It is made up by the revenue aimed at financing the autonomous activity exclusively, that is to say: the proceeds from Private Law wealth and income; inherent taxes; the proceeds from credit transactions; surcharges from state taxes, the proceeds from penalties and sanctions and public prices.
- b) The self-sufficiency or basic financing category: It is made up by the revenue aimed at financing assigned services from the State competencies, that is to say: assigned taxes and the Self-sufficiency Fund.
- c) The solidarity category: It is made up by the resources aimed at achieving the effectiveness of the principle of solidarity: allocations from the Inter-territorial Compensation Fund and minimum equality allocations.

2.1.1. Inherent Revenues

Of a tax nature:

- **Inherent taxes** (taxes, service charges and special levies) on matters not levied by the State.
- **Surcharges on state taxes**

Inherent taxes as well as surcharges have not been extensively applied by the Autonomous Communities and their relevance in their revenue budget is limited.

Of a financial nature:

They are made up by the set of **credit transactions**, in domestic and foreign currency, which may be undertaken by the CC.AA. pursuant to the conditions and limitations set forth in the LOFCA.

2.1.2. State Revenues

Financing made up by specific allocations:

- The specific allocation geared at correcting the regional imbalances in our country by way of budgetary resources is the one provided through the **Inter-regional Compensation Funds** (FCI, as per the Spanish acronym). These Funds, which have been governed since January 1st, 2002 by Act 22/2001, of September 27th, -in addition to Article 158.2 of the CE-, are geared at financing investment expenditures in the comparatively less developed territories, which directly or indirectly promote the creation of income and wealth. The new regulatory provision of the Inter-regional Compensation Funds, which stems from the amendments introduced by the Agreement of the Tax and Financial Policy Council of July 27th, 2001, has broken down the original Inter-regional Compensation Fund into two Funds: the Compensation Fund, which is strictly in line with the constitutional mandate, and the Supplementary Fund, which serves to finance not only investment expenditures, but also the current expenditures tied to such investments.
- The **equality allocations**, aimed at guaranteeing a minimum level of the public services deemed fundamental across the Spanish territory: education and health.
The cooperation or collaboration **Agreements** between the State and the CC.AA. to achieve a given objective. In these agreements, both parties determine the monetary contributions for each one of them and set forth the objectives and commitments thereof (for example: public works, waste treatment, water recovery, social programs ...).
- **Government-Public Enterprise Partnership Contracts**, which generally arise from an agreement between the State and a Public Company to render certain public services (specifically, passenger transportation services). These agreements generally determine investment, production and income objectives, as well as the rate amounts, with the counterpart of a state contribution to enable a financial balance in the rendering of such service.
- **Managed subsidies**. The State determines in the annual Budget the sectors or areas that will be subject to economic assistance in the form of subsidies. In the case the purpose of such subsidies is to finance sectors or areas whose competencies have been assumed by the CC.AA., the latter shall take over the administration and management thereof.

Non-specific Financing:

- Another mechanism in the CC.AA. financing system is the one made up by "other shares in State revenues". In this framework, the share in State revenue is materialized in the **Self-sufficiency Fund** which, as the closing mechanism of the financing system, shall bridge the gap between the expenditure requirements calculated for the Autonomous Community and its tax-paying capacity, that is to say, the Self-sufficiency Fund accounts for the difference, either positive or negative, between the expenditure needs determined for each Autonomous Community and its tax-paying capacity (value of the financial revenue entailed by the assigned taxes and the service contributions for the assigned services).
- The **assigned taxes**, either in whole or in part. They are addressed in a separate sub-section.

2.1.3. European Union Subsidies

Another autonomous financing category is made up by the EU subsidies. Such subsidies are chiefly classified as follows:

- **EAGGF-Guarantee** (European Agricultural Guidance and Guarantee Fund, Guarantee Section), aimed at financing the Common Agricultural Policy.
- **Structural Funds** (especially the ERDF, of the European Social Fund and the EAGGF-Guidance Section), which are chiefly aimed at leveling the differences between the most favored and least favored areas in the EU.
- **Cohesion Fund**, created with the purpose of strengthening and developing economic and social convergence based on the solidarity of the member States.

3. ASSIGNED TAXES**3.1. Definition and Types of Assignment**

Assigned taxes are those "established and governed by the State, the proceeds of which belong to the Autonomous Community."

The State may undertake full or partial assignment of taxes. Full assignment occurs in the case of the assignment of the revenue from

the overall taxable events applicable in the respective tax. Partial assignment occurs upon assignment of the revenue from one or several taxable events, as mentioned, or of a portion of the revenue from a given tax. The assignment to each CC.AA. is undertaken according to the so-called "point of connection". Thus, in the case of the Income Tax, the assignment shall refer to the tax paid by the residents in each Community and in the transfer of real estate property according to the location of such property.

The following are taxes assigned in full:

- a) Net Wealth Tax (IP, as per the Spanish acronym).
- b) Tax on the Transfer of Property and Documented Legal Acts (ITP y AJD, as per the Spanish acronym).
- c) Tax on Inheritance and Donations (ISD, as per the Spanish acronym).
- d) Electricity tax.
- e) Special Tax on Certain Transportation Means (IEDMT, as per the Spanish acronym).
- f) Taxes on Games of Chance.
- g) Tax on the Retail Sale of Certain Hydrocarbons (IVMDH, as per the Spanish acronym).

The following are partially assigned taxes:

- a) Individual Income Tax, partially up to 33% (IIT).
- b) Value Added Tax, partially up to 35% (VAT).
- c) Special Manufacturing Taxes (except for Electricity Tax), partially up to 40% for each one of them.

Contrary to the inherent CC.AA. taxes, the competencies for the enforcement and regulation of these taxes belong to the State, regardless of certain regulatory competencies attributed to the CC.AA. beginning on January 1st, 1997 that we shall address hereunder.

3.2. Economic and Administrative Management and Claims

Although the management, assessment, collection, audit and review competencies of these taxes correspond to the State, they may be delegated upon the CC.AA. and, in any case, regardless of the cooperation that may arise between both administrations (Article 19.2

of the LOFCA). The possibility that such competencies be delegated upon the CC.AA. shall not apply to IIT, VAT or to the Special Manufacturing Taxes.

This enables to define a new classification of the assigned taxes:

- a) Taxes to be managed by the CC.AA: IP, ISD, ITP y AJD, Taxes on Games of Chance, IEDMT and IVMDH.¹
- b) Taxes managed in every case by the State Agency of Tax Administration (AEAT, as per the Spanish acronym): IIT, VAT, and Special Manufacturing Taxes.

The following table reflects the relevance of financial revenue according to the direct management competencies.

CC.AA. REVENUE ACCORDING TO THE MANAGEMENT BODY

YEAR 2004	
AEAT-MANAGED ASSIGNED TAXES	36%
CC.AA.-MANAGED TAXES	13%
REMITTANCES AND OTHERS	51%
	100%

Source: Ministry of Economy and Finance and AEAT.

In any case, the State reserves certain management competencies such as the answer to queries, development of fixed conditions used for the management of assigned taxes, granting certain exemptions and collection of stamp taxes for the assigned taxes (regardless, in this case, of the allocation of the tax proceeds to each CA).

Finally, the claims against acts decided by the State as well as the CCAA vis-à-vis the application of all the taxes assigned shall remain a competency of the State economic and administrative bodies, without detriment to the CC.AA. participation in the Regional Economic and Administrative Courts.

¹ As regards the IEDMT and the IVMDH, although it has been foreseen that the CC.AA. shall assume the management competencies by delegation of the State, until the former make the formal request for the assignment of the applicable services, such management shall remain a competency of the AEAT (who shall subsequently transfer the proceeds to the corresponding CA). To date, such a transfer to a CA has never occurred.

3.3. Regulatory Powers vested upon the CC.AA.

Until 1996, the CC.AA. lacked the regulatory powers in matters of assigned taxes. Notwithstanding, as of January 1st, 1997 and after subsequent amendments, the CC.AA. have been granted the powers to regulate certain aspects of such taxes. The purpose is to enable the authentic exercise of the financial autonomy, since the CC.AA.

Shall not levy taxes which are already levied by the State, and since the State had already encumbered the main taxable events, autonomy was seriously hindered. This is a means to enable the CC.AA. to decide on the type and quality of the public services they offer to citizens, but assuming their tax responsibility and adopting for such purpose the tax measures required to finance their expenditure decisions.

The regulatory powers currently granted to the CC.AA. as regards assigned taxes may be summarized as follows:

- a) Vis-à-vis the **IIT**, definition of the tax rate and deductions from the tax amounts.
- b) Vis-à-vis **Net Wealth Tax**, the assessment of the exempted minimum and the tax rate, tax allowances and rebates.
- c) In the case of the **Tax on Inheritance and Donations**, reduction of the tax base, tax rate, the value and tax ratio for the preexisting wealth, allowances, rebates, as well as regulation of tax management and assessment.
- d) As to the **Tax on the Transfer of Property and Documented Legal Acts**, in the case of "Transfer of Property for Valuable Consideration", the regulation of the type of tax on rentals, administrative concessions, the transfer of personal and real estate property and the creation and assignment of rights in rem that may affect them, except for the right in rem pertaining to tangible property; and in the case of "Documented Legal Acts", the type of levy on notarial documents. Likewise, it shall determine tax amount allowances, rebates, as well as decide on issues of tax management and assessment.
- e) As regards **Taxes on Games of Chance**, the determination of exemptions, tax base, types of levies, fixed tax amounts, rebates and accruals, as well as the regulation of tax management, assessment and inspection. This is the tax with the broadest regulatory competencies for the CC.AA., which they have developed the most.
- f) Regarding the **Special Tax on Certain Transportation Means**, the regulation of certain types of taxes.

- g) Vis-à-vis the **Tax on the Retail Sale of Certain Hydrocarbons**, the regulation of the types of taxes, as well as the regulation of tax management, assessment, collection and inspection.

In any case, in the exercise of the foregoing regulatory competencies, the CC.AA. shall observe the principle of solidarity among all the Spanish people, as embodied in the Spanish Constitution; they shall not adopt measures that discriminate by virtue of the location of the assets, of the source of income, of the expenditure, service rendering or where business, acts or events take place; and lastly, they shall maintain an effective global tax pressure equal to the one in place in the rest of the territory.

Should the CC.AA. not exercise the foregoing regulatory competencies, the State regulations shall apply.

As regards the assigned taxes, the CC.AA. lack regulatory competencies.

The following table explains the relative importance of the CC.AA. financial resources according to their own capacity to participate in the regulation thereof.

CC.AA. REVENUE PURSUANT TO REGULATORY CAPACITY

YEAR 2004	
INHERENT TAXES	1%
ASSIGNED TAXES	
WITH REGULATORY POWERS	34.6%
WITHOUT REGULATORY POWERS	22.8%
SELF-SUFFICIENCY FUND	26.1%
INTER-REGIONAL COMPENSATION FUND	1%
SUBSIDIES, AGREEMENTS AND CONTRACTS	4.5%
EUROPEAN UNION FUNDS	10%
	100%

Source: Ministry of Economy and Finance and AEAT.

4. BODIES AND FORMS OF RELATIONSHIP AMONG THE GOVERNMENT TAX ADMINISTRATIONS AND THE AUTONOMOUS COMMUNITIES

The relationships between the government Tax Administration and the one from the autonomous community deserve special attention, based on: the relevant volume of the tax management activity undertaken by the CC.AA. plus the fact that in the new scenario of shared tax responsibility, both levels of government feature regulatory competencies that sometimes affect the same tax entities and that the bulk of the CC.AA. resources are managed by the State.

Likewise, cooperation, coordination, assistance and information exchange among Government Administrations are principles that have been generally provided by law. Thus, the vital nature of the existence of joint agencies that facilitate collaboration, coordination and information exchange between the Government Tax Administration and the Tax Administrations from the Autonomous Communities, which enable the participation of the CC.AA. in the management of taxes that are competency of the State.

4.1. Evolution of the Participation Bodies

In the dawn of the tax assignment process, arising from the development of the Autonomous State, the first cooperation bodies between the Government Tax Administration and the Administrations of the CC.AA. were created, which addressed the new needs for coordination and information exchange among such Administrations. Thus, the so-called "Coordinating Committees" and the "Collaboration, Coordination and Liaison Offices" originated, created by Act 30/1983 on the Assignment of Taxes from the State to the CC.AA.

Subsequently, in the year 1993, the Tax and Financial Policy Council agreed on some form of integration of the CC.AA. into the AEAT, in order to achieve an active participation in the IIT management initiatives. For such purpose, two bodies were created: the Joint IIT Management Committee, in the central sphere and the Liaison Bodies, in the territorial sphere. Notwithstanding, it must be admitted that the performance of all such bodies was very limited.

Act 14/1996, of December 26th, on the Assignment of Taxes to the CC.AA. and the supplementary tax measures set forth a new structure of shared tax responsibility and participation of the CC.AA. in the IIT

tax management and other assigned taxes, designing new structures and bodies, while eliminating those in place to that time. Thus, the "Joint Committee for Tax Management Coordination" and the "Territorial Steering Councils for Tax Management" were created, which are currently in operation.

Finally, Act 21/2001, in force as of 2002, introduces new CC.AA. coordination and participation mechanisms in the State tax management, while it empowers the existing ones in the exercise of shared responsibility in tax matters.

4.2. Autonomous Communities' participation bodies in the State Agency of Tax Administration and of Collaboration and Coordination in Tax Management.

4.2.1. Joint Bodies:

Steering Council of the State Agency of Tax Administration

Recently created, this body is one of the AEAT governing bodies and is headed by the President thereof and formed by members of the State Tax Administration and six CC.AA. representatives and the Autonomous Cities, designated on a yearly basis by the Tax and Financial Policy Council.

Its functions are:

- To report, prior approval, the annual Objectives' Plan -this shall include the General AEAT Autonomous Plan, as a result of the inclusion of the plans for each one of the CC.AA. and the Autonomous Cities- as well as the essential guidelines of the Tax Control Plan.
- To receive reports on the progress and outcomes of the AEAT Objectives' Plan in the course of the year.
- To advise the President regarding issues relative to the tax revenue management policy.
- To propose courses of action and priorities for the Joint Tax Management Coordination Committee and, through this entity, the Territorial Steering Councils for Tax Management, as well as advice the President vis-à-vis coordination and cooperation initiatives.

Joint Tax Management Coordination Committee:

The Joint Tax Management Coordination Committee is an integral part of the central AEAT structure and directly reports to the President thereof, who also presides over the Committee. Given its nature, it is a body made up by representatives of the State Tax Administration, representatives from each one of the CC.AA. under the common regime and the Cities of Ceuta and Melilla.

Among its most relevant functions, the following may be highlighted:

- Develop general harmonization criteria of the State regulatory policies, those of the CC.AA. and Autonomous Cities vis-à-vis the assigned taxes.
- Analyze and inform the preliminary drafts and bills to amend regulations on the assigned taxes.
- Design the general management policy of the assigned taxes managed by the AEAT and set forth enforcement guidelines.
- Define management coordination and information exchange criteria between the State and the CC.AA. and the Autonomous Cities.
- Design the basic guidelines for certain programs to be included in the control plans, vis-à-vis the assigned taxes managed by the AEAT.

Within the Joint Tax Management Coordination Committee, a **Regulatory Assessment Committee** is created with the purpose of fostering the agreement on the potential discrepancies existing vis-à-vis the tax regulation content, prior to the adoption of the applicable norms.

Territorial Steering Councils for Tax Management

The AEAT territorial structure is in line with that of the CC. AA., with a Special Delegation in each Autonomous Community. In the AEAT Special Delegation structure we find the Territorial Steering Councils for Tax Management. These are administrative bodies for the CC.AA. participation in the AEAT, in the framework of the respective Autonomous Community. These are bilateral bodies made up by four representatives of the State and three from each Autonomous Community under the common system respectively, and the Autonomous Cities of Ceuta and Melilla. Consequently, they make up a total of seventeen.

They shall mostly undertake the functions of bilateral coordination among the State Administration and the Autonomous Administration. They foster the decentralization of the collaboration mechanisms, which brings us closer to the autonomous Administrations, enabling to effectively detect the needs and issues and addressing them expeditiously.

4.2.2. Liaison Bodies with the Autonomous Communities

Regional Institutional Liaison Offices

The Agreement of the Tax and Financial Policy Council of July 27th, 2001, foresees the creation, under the scope of the Special Delegations and the AEAT Delegations, of the so-called "Regional Coordination Units with the Tax Administrations", under the higher coordination of the AEAT Department of Organization, Planning and Institutional Relations. These units may be created by proposal of the CC.AA. and the Autonomous Cities, and shall assume the coordination of the relations with the respective Autonomous Community or City. Specifically, such Units shall undertake the follow-up of the actions planned by the Territorial Steering Councils for Tax Management and shall report on their development to the competent bodies of the Autonomous Communities and Cities. To date, six have been created.

4.3. Participation of the Autonomous Communities in the Regional Economic and Administrative Courts

Article 20 of the LOFCA, in sub-sections 1 and 2 defines as follows:

- "1. The jurisdiction over the claims filed against the acts stemming from the respective Administrations on tax matters, whether referred to matters of fact or law, shall be exerted by:
 - a) Their own economic and administrative bodies, in the case of inherent taxes in the Autonomous Communities.
 - b) The State economic and administrative bodies, in the case of assigned taxes.
 - c) The State economic and administrative bodies, in the case of surcharges on State taxes.
2. The provisions in items b) and c) of sub-section 1 above shall apply regardless of the participation of the Autonomous Communities in the Regional State Economic and Administrative Courts."

Said participation has been developed in the 13th Ancillary Provision of the General Tax Act 58/2003 of December 17th, by virtue of which it may be undertaken in the regulatory terms established as follows:

- a) By the designation of officials from the Autonomous Communities as Members of the Division of the Court of Appeals in Tax Matters regarding the assigned taxes in the jurisdiction of the foregoing Courts.
- b) By the creation, in the framework of the Regional Economic and Administrative Court and by virtue of the Agreement between the Ministry of Finance and the competent Council of the Autonomous Community, of a Special Division of the Court of Appeals in Tax Matters to be presided by the Chief Justice and integrated by the members thereof to be determined by law and the Clerk of Court, as well as the autonomous community economic and administrative body, which shall act in the capacity of Division of the Court of Appeals over claims exclusively related to the assigned taxes or the State taxes to which proceeds the autonomous community is fully entitled.

To date, neither of the foregoing possibilities has materialized.

4.4. Dispute Resolution Bodies. The Court of Arbitration.

The general legal system of the CC.AA. financing system also provides for the existence of bodies to solve the positive and negative conflicts that may arise among the different CC.AA. and between the latter and the State, based on the exercise of their respective competencies, as regards the enforcement of the points of connection, the entitlement to the proceeds and the management, inspection or collection competencies in the territorial application of the assignment regulations or agreements.

Articles 23 and 24 of the LOFCA set forth the Court of Arbitration as the authority of jurisdiction for dispute resolution, whose President is designated by the Finance Minister, by proposal of the Tax and Financial Policy Council. Additionally, it is integrated by four members of Government Agencies and four from each Autonomous Community party to the dispute.

5. LOCAL SYSTEM: NAVARRE AND BASQUE COUNTRY

The LOFCA sets forth in the First and Second Ancillary Provisions, pursuant to the First Ancillary Provision in the Spanish Constitution that the general financing system does not apply in the cases of the Basque Country and Navarre, which enforce the special system of the Agreement or Convention; they have been called the Local Systems. Such special systems basically include the following features:

- They are governed by Act 12/2002, of May 23rd, which adopts the Economic Agreement with the Autonomous Basque Country Community and Act 25/2003, of July 15th, which adopts the amendment to the Economic Agreement between the State and the Autonomous Community of Navarre. Such norms are approved by the State prior agreement between both Administrations (Leyes Paccionadas (laws by consensus)) and govern the principles and bases of the special system content and determine the tax relations between the State and the local territories.
- The "County Councils" of the Basque Country and Navarre, in their respective territorial spheres, enjoy full jurisdiction to determine and enforce their tax system in full (except for import duties and import duties from Special Manufacturing Taxes and VAT).
- Thereafter, prior agreement between both Administrations, the overall amount or "quota" is established according to which each one of the historic territories that make up Álava, Guipúzcoa, Biscay and Navarre contribute to the support of the State levies not assumed by the Autonomous Community itself.

5.1. Liaison Bodies

5.1.1. Joint Committee on the Economic Agreement (Basque Country)

The Joint Committee on the Economic Agreement is a bilateral State-Basque Country body that performs the following functions:

- Decides on the amendments on the Economic Agreement.
- Decides on the collaboration and coordination commitments as regards budgetary stability.
- Agrees on the methodology to calculate the quota for every five-year term.

- Agrees on the designation and system of the members of the Court of Arbitration.
- Addresses all the agreements in tax and financial matters necessary for the correct application and development of the provisions in the Economic Agreement.

As to its structure, it is made up, on the one hand, by one representative of each County Council and an equal number from the Basque Country, and on the other, by an equal number of representatives from Government Agencies.

5.1.2. Coordination and Regulatory Assessment Committee (Basque Country)

The Coordination and Regulatory Assessment Committee is a bilateral State-Basque Country body that performs the following functions, among others:

- Assess the adjustment of tax regulations to the Economic Agreement prior to the publication thereof.
- Address the queries arising from the enforcement of the points of connection included in the current Economic Agreement.
- Undertake the studies deemed applicable for the adequate structural and functional coordination of the autonomous system with the state tax framework.
- Facilitate uniform performance criteria, plans and software and articulate the instruments, means, procedures or methods for the competent Administrations for the effective materialization of the principle of cooperation and information exchange.

It is made up by four representatives from Government Agencies and four representatives of the Autonomous Community designated by the Basque Government Administration.

5.1.3. Navarre Coordinating Committee

The Coordinating Committee is a bilateral State-Navarre body that performs the following functions, among others:

- Assess the adjustment of tax regulations to the Economic Agreement prior to the publication thereof.

- Address the queries arising from the enforcement of the points of connection included in the current Economic Agreement.
- Determine the contribution amount.
- Quantify the annual, temporary and final amount of the cost of the competencies exercised by the Navarre County Council vis-à-vis law enforcement initiatives.
- Undertake the studies deemed applicable for the adequate structural and functional coordination of the local system with the state tax framework.
- Facilitate uniform performance criteria, plans and software to the competent Administrations.
- Agree on the cooperation and coordination commitments vis-à-vis budgetary stability.

The Coordinating Committee is made up by six representatives of Government Agencies and six representatives of the County Council designated by the Government of Navarre.

5.2. Dispute Resolution Bodies

Legislation foresees the creation of a Court of Arbitration of the Basque Country and a Court of Arbitration of Navarre as the bodies to hear and decide on the disputes that may arise among the State Tax Administration and the County Councils, or among the latter and the Administration of any Autonomous Community as regards:

1. The enforcement of the points of connection of the taxes defined.
2. Determining the applicable proportion to each Administration in the assumption of joint taxation for Corporate Tax or Value Added Tax.
Legislation determines the cases in which the corporation must pay taxes with one administration exclusively and the cases in which it must pay in the Basque Country or Navarre and in the rest of the Spanish territory. In the second assumption, rules apply to determine what percentage of the debt shall be paid in each territory.
3. The construal and application of the Economic Agreement with the Autonomous Basque Country Community or the Agreement with Navarre in specific cases relative to individual tax relations.
4. Discrepancies regarding taxpayers' domicile.

In both cases, the Court is made up by three members designated by agreement of the Joint Agreement Committee and subscribed by the Ministry of Economy and Finance and the Counselor for Finance and Public Administration of the Autonomous Basque Country Community or, in the case of Navarre, by agreement between the Minister of Economy and Finance and the Counselor for Economy and Finance. The only requisite for the members is to be a legal scholar with a prestigious background in tax or financial matters.

5.3. Cooperation between AEAT-Finance Ministry of the County Council

The AEAT relations with the Finance Ministry of the County Council regarding cooperation in tax management initiatives have significantly changed from the agreements signed on May 18th (Basque Country) and June 15th (Navarre) of 2006.

Such Agreements are the outcome of the proposals undertaken by a series of technical working groups that met in the course of 2005 and 2006. The following may be mentioned:

- *Working Group on Change of Domicile.*
- *Working Group on Remittances from Revenues in the Non-competent Administration.*
- *Working Group on Tax Control and Single Tax Assessments.*
- *Working Group on Coordination and Control of VAT Fraud Schemes within the European Community.*
- *Working Group on the Garnishment of Tax Refunds (only for Navarre).*

6. CURRENT EVOLUTION OF THE FINANCING SYSTEM

Spain is currently in the process of amending the Charters of the different Autonomous Communities that shall affect the financing system. Currently, there are five amendment proposals of the Autonomy Statutes underway, and three have been already passed:

- a) Approved statutory amendments: Valencian Community, Catalonia and Andalusia.
- b) Amendment bills underway: Balearic Islands, Aragon, Canary Islands, and Castile-La Mancha.

With regards to the tax sphere, the different statutory amendments provide for relevant changes, which affect the competencies of the respective Autonomous Community as well as the organization of the administrative services that manage taxes. Some of the new provisions are directly applicable by the CC. AA. while others depend on the consensus in the Tax and Financial Policy Council or between the respective Autonomous Community and the central Government.

Briefly, and considering the new Charter of Catalonia, the changes are the following:

- 1^a. Broadening the scope of regulatory competencies in the assigned taxes, which span the following structural elements: exemptions, rebates and reductions in the tax base, type of taxes and reductions in the tax amount (Charter of Catalonia and amendment bills in Aragon, Balearic Islands and Castile-La Mancha. The remaining amendment bills approved or underway refer to what has been foreseen in the law that furthers the provisions in Article 157.3 of the Constitution).
Likewise, the Charter of Catalonia provides for the allocation of regulatory competencies in retail VAT and the retail phase of products subject to the Special Manufacturing Tax, prior European Union authorization.
- 2^a. Increase in the assignment percentage for partially assigned taxes: 50% in the IIT and VAT, 58% in the Special Manufacturing Tax (only in the Charter of Catalonia).
- 3^a. Creation of a Tax Agency that shall manage inherent taxes as well as exercise the management competencies delegated upon the Autonomous Community vis-à-vis the taxes assigned (It has been included in all the statutory amendments. Notwithstanding, the Charter of the Valencian Community employs the designation Tax Service of Valencia, and the amendment bill for Castile and Leon refers to the possibility of creating a body with legal status, but does not use the designation "Tax Agency").²
- 4^a. Creation of a Consortium with equal participation of the state and autonomous tax Administrations, when the nature of the tax requires it (Charters of Catalonia and Andalusia and amendment bill for the Canary Islands. In the bill for the statutory amendment of Aragon, the designation "common organization" is employed; in Castile-La Mancha, "common cooperation agency").

² *The Autonomous Government of Catalonia has recently passed a Bill on the Creation of the Tax Administration for said Autonomous Community.*

- 5^a. Implementation of a "one-stop shopping system" in the tax sphere (Charter of Catalonia and amendment bills for the Balearic and Canary Islands).
- 6^a. Allocation of competencies to the Autonomous Community to decide on the economic and administrative claims filed against acts of the tax administration, regarding assigned taxes and determine by bodies within the Autonomous Community itself (Charter of Catalonia and amendment bills for Aragon and the Balearic and Canary Islands).

If we consider as a reference the new Charters of Autonomy of Catalonia and Andalusia, the structure of competencies remains as follows:³

a) Taxes inherent in the Autonomous Community:

The Autonomous Community tax Administration has competencies for the management of such taxes, in the broadest sense.

b) Taxes assigned to the Autonomous Community in full:

In the case of these taxes, the Tax Administration of the Autonomous Community would enjoy the competencies for the management, in its broadest sense, of such taxes, although the holder of such competencies is the State, and what is assigned is the exercise thereof, the autonomous Tax Administration acting by delegation of the State. The Charter of Catalonia and Andalusia enumerates the following taxes: Tax on Inheritance and Donations, Tax on the Transfer of Property and Documented Legal Acts, Tax on Net Wealth and Tax on Games of Chance. The Special Tax on Certain Transportation Means and the Tax on Retail Sales of Certain Hydrocarbons have been also assigned, but the CC.AA. have been unable to assume such competency. The Special Tax on Electricity, defined in the Charter as a fully assigned tax, is equally managed by the State in the present given its peculiarities, which hinder the assignment thereof.

³ *This item only includes references to the new Charter of Catalonia and Andalusia, since they have been already passed. Nevertheless, the considerations mentioned herein are equally applicable to the remaining amendment bills in process that assign management competencies to the applicable Autonomous Community. As regards the other approved amendment bills, for the Valencian Community, the provisions in the law that furthers Article 157.3 of the Constitution apply.*

c) Partially assigned taxes to the Autonomous Community:

In the case of these taxes, the State would enjoy the management competencies and the AEAT the exercise thereof, in the broadest sense, although cooperation initiatives are being considered that may result in the creation of a Consortium when the nature of the tax requires it.

Partially assigned taxes according to the new Charter of Catalonia and Andalusia are: IIT, VAT, and Special Manufacturing Taxes.

d) State taxes not assigned to the Autonomous Community:

Such taxes do not form part of the resources of the Finance Ministry of the Autonomous Community. Therefore, for example, as provided for in Article 202.3 of the new Charter of Catalonia, which sets forth the revenue of the Finance Ministry of the Autonomous Government in items a), b) and c) on tax revenues, exclusively provides for inherent taxes, assigned state taxes and surcharges on state taxes. The same applies regarding the amendment of the Charter of Andalusia, in Article 173.2.a).

Consequently, pursuant to Articles 202.3 and 203.2, unassigned taxes are tax entities excluded from the framework of assigned taxes, and thus, from the regulatory framework of the applicable Charter, from which it may be inferred that management, in its broadest sense, may not be assigned to the Autonomous Community and shall remain a competency of the AEAT.

This group includes Customs Duties, Corporate Tax and Non-Resident Income Tax.

7. LOCAL FINANCE MINISTRIES

The local level in Spain is made up by the City Councils (8107) and certain intermediate bodies such as the provincial Councils (38) and the Insular Councils or Foras (10). As mentioned before, the Local Finance Law governs their financing system. This is fundamentally based on a series of taxes that the Law attributes to local entities and in remittances from the State Budget, and to a lesser extent, from the CC.AA. Other supplementary sources are also included. The following table presents the relative importance of the different sources of financing.

**REVENUE FROM LOCAL ENTITIES *
BY LEVELS OF GOVERNMENT**

2004	
TAXES	45.4%
EQUITY INCOME	6.2%
REVENUE FROM REMITTANCES	39%
FINANCIAL REVENUE	9.3%

* Excluding County Councils.

Source: General Directorate for Financial Coordination with Local Entities (Ministry of Economy and Finance) and AEAT.

Local entities may not create their own taxes. Taxes are created by a State law that assigns them to the local entities. They may modify certain elements of such taxes, fundamentally the tax types, which grant them the decision-making capacity on the amount of their revenue. The most relevant one in quantitative terms is the Real Estate Property Tax (IBI, as per the Spanish acronym) although they feature other relevant tax entities such as taxes on vehicles, economic activities, construction works or transfer of property.

These taxes are managed, in principle, by the local entities themselves. Nevertheless, there are certain peculiarities and cooperation areas with the State Tax Administration that are explained hereunder.

7.1. The Real Estate Property Registry

Among the taxes of the City Councils, the Real Estate Property Tax is the most relevant one as regards revenue. This tax is managed by the City Councils, but a basic instrument for the enforcement of such tax, the Registry, is a competency of the State. City Councils have the capacity to decide, with certain restrictions, the tax type, but the tax base is determined based on the assessed value.

The Registry provides a description of all the real estate property in the country, including their owner and value, and its functions are of a tax enforcement as well as non-tax enforcement nature. The creation and maintenance of the Real Estate Registry is a competency of the State, exerted via the General Real Estate Property Directorate, which relies on its own territorial network (the Regional as well as Territorial Management Offices).

Given its features and functions, the Registry management requires a close cooperation with City Councils and Autonomous Communities. For such purpose, there are a number of coordination agencies that participate in the different administrative levels, in the state sphere (High Council for Real Estate Property, High Commissions for Coordination of Rural and Urban Real Estate Property and the Technical Commission for Real Estate Property Cooperation), as well as the territorial sphere (the Territorial Councils for Real Estate Property and the Technical Territorial Boards for Real Estate Coordination, the latter focused on the technical assessment aspects).

Additionally, in order to facilitate and expedite cooperation and information exchange, the General Real Estate Property Directorate has developed a broad network of agreements with local entities.

7.2. Economic Activities' Tax

One of the taxes of the City Councils is the Economic Activities' Tax. This tax applies on any kind of business, professional or artistic activity. Traditionally, this tax has played a very relevant role from the standpoint of registration control, since all the taxpayers that perform the foregoing activities must be registered in the tax, detailing all the locations where such activities are performed. Therefore, the management of the registration in the tax has been attributed to the State Administration, although tax revenue management is a role of the City Councils. The law enables the tax registration management to be delegated upon local entities, but at all times the flow of tax registration information is guaranteed for the local entities and the State administration to readily rely on such information. The tax registration information includes data that enables to calculate the tax amount.

Twice a year, the Tax Agency provides information to the local entities, the first time, of a preliminary nature and the second, final. With this information, local entities may undertake tax and collection assessment. When the management of the tax registration process has been delegated, the City Councils are the ones that provide the information to the Tax Agency to ensure registration control.

Tax inspection, that is to say, verification that the data submitted by the taxpayer are correct, is a competency of the State Administration, but it may be equally delegated upon the City Councils.

Currently, there is a general exemption in the tax for all the taxpayers that invoice less than one million Euros. Such taxpayers shall file their tax returns but are not required to pay the tax. The Tax Agency provides the City Councils the information required to apply the exemption.

7.3. Cooperation Agreements with Local Entities

In line with the aspects defined in the foregoing taxes, there are different cooperation areas between the State Tax Administration and the City Councils that have generated numerous cooperation formulas. The main areas are:

- taxpayer assistance to meet their obligations.
- reduction of the number of formalities.
- information exchange to facilitate enforcement and control of the tax system.
- rendering of certain services, mainly debt collection.

On April 15th, 2003 the State Agency of Tax Administration and the Spanish Federation of Municipalities and Provinces (an association of local entities created by the Local System Act for the promotion and protection of their common interests and representation before other public administrations) subscribed a Protocol and four cooperation agreements with the purpose of implementing an ongoing mutual cooperation system in the area of tax administration, enforced collection of inherent taxes in the Local Entities and the supply and exchange of information. Additionally, on September 13th, 2006 an addenda to the tax information exchange and tax management cooperation Agreement was signed, with the purpose of extending the electronic garnishment procedure on tax refunds managed by the AEAT on any debt of a public nature, whether tax or other.

The Agreements approved, which the local entities may freely endorse, are the following:

- 1) **Cooperation agreement on tax information exchange and tax management cooperation**, which sets forth certain information exchange initiatives between the Tax Agency and the Local Entities, as well as a garnishment proceeding on tax refunds managed by the Tax Agency and budgetary allocations to the Local Entities. Exchanges from the Tax Agency to the Local Entities

are currently in full operation and are supplied by electronic means (the Internet), prior request from the Local Entity that subscribed the Agreement. In the area of cooperation vis-à-vis collection management, two mechanisms have been implemented with the purpose of meeting and coordinating the collection interests of the Local Entities and the Tax Agency: An automated garnishment proceeding for tax refunds processed by the AEAT in favor of the Local Entities' debtors for debts of a public nature (tax and non-tax), and a garnishment procedure on budgetary allocations to be met by the Local Entities in favor of debtors in the Tax Agency garnishment proceeding.

- 2) **Cooperation agreement on matters of delivery of tax information to the Local Entities**, geared at the periodical delivery by the Tax Agency of tax information, for non-tax purposes (to avoid the submittal of printed certificates by taxpayers through the local entities) as well as for tax purposes (compliance with local tax obligations). The requests and submittal of information is generally performed via e-mail, with certain standard formats available.
- 3) **Cooperation agreement for AEAT enforced collection of inherent taxes in the local Entities**, according to Article 8 of the General Collection Rules that enables the Tax Agency to manage collection of debts from the local Finance Ministries, provided a collection agreement is in place. Therefore, the Agreement is aimed at regulating the conditions and requirements on which basis the Tax Agency shall assume the enforced collection management proceeding of inherent taxes in the Local Entities, provided the Local Entity has not commissioned the management thereof to an Autonomous Community. When the Local Entity subscribes the Agreement, and regarding the taxes managed by the Tax Agency in the enforced collection proceeding, the Local Entity shall submit to the AEAT with a maximum one-month frequency, a single e-mail listing all the debts in the enforced collection stage, which shall not include debts for less than 150 Euros of principal per every debt claimed. On the other hand, as economic compensation for the costs incurred by the Tax Agency upon assuming such proceeding, a financing system has been put in place by which the Local Entity shall pay to the State a fixed percentage amount on the amounts for cancellation based on payment, nullity, insolvency or other causes.

- 4) **Cooperation agreement vis-à-vis electronic tax returns and IIT communications on behalf of third parties:** This agreement is based on the social tax management cooperation initiative set forth in Article 96 of the General Tax Act, and specifically in Article 64 of the Individual Income Tax Regulation, pursuant to the Second Final Provision of Act 50/1998, of December 30th, on Tax, Administrative and Social Measures, which in sub-section 1 sets forth that the Tax Agency may make social cooperation effective upon filing tax returns and communications on this Tax by means of agreements subscribed with, among others, Public Administrations. For a Local Entity to file electronic IIT statements and communications on behalf of third parties, it must represent the taxpayers on behalf of which it undertakes such proceeding, pursuant to Article 43 of the General Tax Act and Article 32 of Act 30/1992, of November 26th, on the Legal System of Public Administrations and the Common Administrative Procedure.

Case study

Topic 2.2

RELATIONSHIP OF THE CENTRAL TAX ADMINISTRATION WITH OTHER GOVERNMENT LEVELS. THE VENEZUELAN TAX ADMINISTRATION EXPERIENCE

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CONTENTS: Introduction.- 1. Legal and constitutional framework of the mechanisms and structures to coordinate and cooperate with collection bodies at other levels of the Venezuelan government.- 2. Means for controlling and promoting coordination and cooperation between tax administrations at different government levels in Venezuela.- 2.1. National tax administration.- 2.2 Office of institutional relations and division of inter-institutional and inter-governmental agreements.- 2.2.1. Inter-institutional and inter-governmental cooperation agreements signed by SENIAT.- 2.2.2. Agreements signed.- 2.2.3 Purpose of the agreements.- 3. Practical experience of the Venezuelan tax administration with regard to the mechanisms and structures implemented to coordinate and cooperate with the collection bodies at other levels of the Venezuelan government.- 4. Negotiation of new cooperation services agreements.- 5. Other fields of institutional cooperation.- Annex 1

INTRODUCTION

This proposed paper on the experience of the Venezuelan tax administration with regard to the mechanisms and structures implemented to coordinate and cooperate with collection bodies at other levels of the Venezuelan government, firstly analyzes the constitutional and legal framework that outlines the responsibilities of the different levels of the Venezuelan Public Administration and establishes, among others, the Coordination and Cooperation principles that should guide collaboration and relations between these levels and other government branches.

SENIAT, an independent Service under the Finance Ministry, is placed within the National Public Administration structure. Its organizational and functional unit includes the Office of Institutional Relations made up of, inter alia, the Division of Inter-Institutional and Inter-Governmental Agreements, which is in charge of planning, managing and coordinating municipal and state fiscal and/or tax issues that will be the object of negotiation of Inter-Institutional and Inter-Governmental Services Agreements, to be signed with public and private institutions in Venezuela, within the framework of SENIAT's jurisdiction.

Such agreements are the control and promotion means that the Venezuelan Tax Administration has to coordinate and cooperate with collection bodies at other levels of the country's Government, such as the state and municipal levels. To date SENIAT has signed 104 Agreements, whose objectives contribute to joining efforts in order to more efficiently achieve State goals, within the jurisdiction of each body or agency, but always linked to interrelated aspects.

The experience of the National Tax Administration is outlined by an important synergy between SENIAT's activities and those of the different government levels, not only with regard to state and municipal tax administrations but also with respect to other bodies or agencies of the National and Decentralized Public Administration, as well as private sector companies, focused mainly on technical advisory services, training of human resources, joint inspections, exchange of information and strengthening of the tax culture.

With the signing of these Agreements, the Tax Administration contributes to transforming the Venezuelan State and to achieving its purposes, particularly regarding fiscal sustainability, by increasing and diversifying non oil-related collection. Considering the benefits that the above-mentioned agreements bring to SENIAT, they allow this agency to further extend the network and apply the coordination and cooperation mechanisms and structures to the collection bodies at the Venezuelan Government state and municipal levels, for which 23 agreements are currently being negotiated.

1. LEGAL AND CONSTITUTIONAL FRAMEWORK OF THE MECHANISMS AND STRUCTURES TO COORDINATE AND COOPERATE WITH COLLECTION BODIES AT OTHER LEVELS OF THE VENEZUELAN GOVERNMENT.

As enshrined in Article 4 of the 1999 Constitution, the Bolivarian Republic of Venezuela is a decentralized federal State, which is governed by the principles of cooperation, solidarity, concurrence and co-responsibility. Its territory is politically organized into states, the Capital District, federal territories and departments and then into municipalities, according to Article 16 of the Constitution.

Based on this political-territorial division, the Venezuelan Government's powers are distributed between the municipal, state and national levels, as set forth in Article 136 of the Constitution, guaranteeing municipal autonomy and political-administrative decentralization. Within this context, each of the branches has its own functions but the incumbent bodies will collaborate with one another to meet the State's goals.

In this regard, Article 156 of the Constitution vests different authorities in the national branches of government, among which the following tax-related topics can be mentioned: the creation, organization, collection, administration and control of national taxes expressly set forth in this rule, and other taxes, charges and revenue not assigned by the Constitution to the States or Municipalities (paragraph 12); and the Republic's authority through the National Government to regulate and limit taxes, both at state and municipal levels, guaranteeing coordination and harmonization of the different tax authorities.

Regarding state government powers, Article 164, paragraph 4 of our Constitution establishes the States, which are independent, equal entities at the political level, with full legal personality and with powers such as those of organizing, collecting, controlling and administering their own tax areas, pursuant to the provisions of national and state laws, without entrusting them with the responsibilities for specific tax areas. Therefore, special contributions, taxes and charges to favour the states will be created or transferred by national law according to the provisions of Article 167, paragraph 5, of the Constitution.

Regarding the constitutional regulation of the municipalities' powers - primary political units of our national organization- Article 178 of our Constitution sets forth that these units shall be in charge of governing and managing their interests and those matters assigned to them by

the Constitution and the national laws. In this regard, Article 179 regulates municipal income and establishes duties, taxes and contributions for the purposes stated in such rule, as well as the share in other national or state taxes pursuant to the laws creating such levies. With regard to municipal tax powers, the Republic's Constitution (in Article 180) establishes that such powers are different and independent from those assigned to the national or state levels in certain fields or activities - municipal taxes, for instance.

2. MEANS FOR CONTROLLING AND PROMOTING COORDINATION AND COOPERATION BETWEEN TAX ADMINISTRATIONS AT DIFFERENT GOVERNMENT LEVELS IN VENEZUELA

In order to guide the activities carried out by Public Administration agencies and bodies in Venezuela to achieve the State's goals and objectives, the National Constitution itself establishes concurrent powers between different levels of the National Government, which are regulated by national law under the principles of interdependence, coordination, subsidiarity, cooperation, solidarity, concurrence and co-responsibility.

In this regard, the Organic Law of the Public Administration describes principles, values and constitutional rules by defining the guidelines and foundations that govern the organization and operation of Venezuela's Public Administration, which includes its different levels (National, State and Municipal), and its functionally decentralized administration. It establishes, inter alia, the principles of Coordination (Article 23) and Cooperation (Article 24) which must guide collaboration, and the relationship there should be between the different levels of Venezuela's Public Administration, as well as with other branches of government, in executing the main activities under its jurisdiction according to the principle of institutional loyalty.

2.1 National Tax Administration

The **National Integrated Customs and Tax Administration Service (SENIAT**, its Spanish acronym) exists and operates within the above constitutional and legal framework, and within the described structure of the National Public Administration. It is an autarchic body, without legal personality, functionally, technically and financially independent, reporting to the Finance Ministry, which is responsible for the actions

of the national tax administration, without prejudice to the provisions of other laws, other than those that created or regulated it, as stated in Article 1 of the SENIAT Law¹.

2.2 Office of Institutional Relations and Division of Inter-Institutional and Inter-Governmental Agreements.

The **Office of Institutional Relations**² is placed within SENIAT's organizational and functional structure, as defined in the rules that regulate its operation. This Office under the Superintendent's Bureau is in charge of negotiating, establishing and maintaining legal, administrative, operational and cooperative bonds on tax-related issues, with SENIAT and the national and international, public and private institutions interested in achieving the wellbeing of citizens; moreover, the Office also aims at benefiting the participating sectors. It is made up of different divisions, such as the Division of Inter-Institutional and Inter-Governmental Agreements³.

2.2.1 Inter-Institutional and Inter-Governmental Cooperation Agreements signed by SENIAT

These are inter-institutional cooperation, coordination and exchange of information services agreements entered into between SENIAT and the national, state and municipal public administration bodies as well as other public, private and Non-Governmental Institutions, framed within the principles of cooperation, collaboration and co-responsibility defined in our Constitution, and further developed in the Organic Law of the Public Administration, with the purpose of joining efforts to more efficiently achieve the State's goals, within the jurisdiction of each body or agency, but linked in all interrelated aspects.

¹ *Law on the National Integrated Customs and Tax Administration Service. Published in Venezuela's Official Gazette No. 37,320 of 8 November 2001.*

² *Article 8 of Administrative Resolution No. 2.205 dated 10 Sept 2004, published in Venezuela's Official Gazette No. 37,780 of 22 September 2004.*

³ *This Division's functions and the topics on which it renders advice to the bodies that have signed the Cooperation Services Agreements are described in Annex 1.*

2.2.2 Agreements Signed

Within this framework, so far SENIAT has signed the following Inter-Institutional and Inter-Governmental Agreements:

AGREEMENTS SIGNED

Bodies	Number of Agreements
Mayors' Offices (Municipal Government)	82
Governors' Offices (State Government)	8
Metropolitan District of Caracas	1
Universities	6
Other agencies and companies (Ministries, public agencies, private companies)	7
Total	104

Source: SENIAT. Office of Institutional Relations. Division of Inter-Institutional and Inter-Governmental Agreements.

2.2.3 Purpose of the Agreements

Among the main purposes of the agreements, it is worthwhile highlighting the following:

- To join efforts in order to create a reciprocal information network to facilitate the assessment and collection of national taxes and the conduct of inspections under SENIAT's responsibility; also state and municipal taxes, according to each case;
- To establish cooperation mechanisms for training and updating the knowledge of staff at state and municipal Tax Administrations, diminishing the cost of training for such personnel;
- To apply, upgrade and increase inspection and/or control procedures for taxpayers living within the jurisdiction of each Municipality or state, in order to achieve optimum levels of collection of national, state and municipal taxes, because of the incidence of SENIAT as well as of the responsible bodies or Services of the State and Municipal Tax Administrations;
- To carry out joint audits. These procedures are implemented by staff from SENIAT and from the Mayor's Office, Governor's Office and/or state and municipal bodies responsible for the administration of the pertinent taxes;

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- To render technical advice and implement activities to streamline existing tax systems at state and municipal agencies;
 - To design and establish joint programmes for strengthening tax culture at the local and national levels;
 - To ensure a sustained increase of tax collection, at the national as well as at the state and municipal levels;
 - To provide technical assistance -through SENIAT- to state and municipal tax administrations and to other bodies that have signed the above-mentioned agreements;
 - To update and exchange the information contained in the pertinent taxpayer, contractor and supplier records, which can be used as the basis for the efficiency and effectiveness of national, state and municipal tax management, particularly regarding the assessment of the actual income obtained;
 - To exchange information among the different agencies on the geographical areas in which tax inspection and control operations have taken place within the jurisdiction of the respective municipality or state, as well as on the non compliances identified with regard to other bodies' jurisdictions. To this effect, the Agreements state that each official, when exercising his/her duties, can request the information expressly pointed out with regard to the taxes administered by the other signatory entity.
 - To update state and municipal tax regulations -through SENIAT;
 - To provide technical assistance -through SENIAT- with regard to the systematization of state and municipal tax administration processes;
 - To render technical advice and work jointly to create an Independent Municipal or State Tax Administration, when such Service does not exist.

3. Practical experience of the Venezuelan Tax Administration with regard to the mechanisms and structures implemented to coordinate and cooperate with the collection bodies at other levels of the Venezuelan Government

After having negotiated and enforced the above 104 Agreements, the experience of the Tax Administration can be summarized in the important synergy there is between SENIAT's actions and the different Government levels, not only with state and municipal tax administrations but also with other agencies or bodies of the National Public and Decentralized Administration, as well as with private sector companies. Therefore, the agreements signed and those under negotiation are not restricted to state and municipal governments but also encompass Ministries, Independent Institutes, other public agencies or bodies, Government-owned companies and private ones. Each of the agreements thus have different objectives according to the interests and needs of each body and of SENIAT, ranging from technical assistance and staff training through to joint inspections and tax culture-related actions.

Some of these agreements are enforced by the Division of Inter-Institutional and Inter-Governmental Agreements. Those related to training and updating the knowledge of human resources are implemented by the Fiscal Studies Center and most of them, given the nature of their objectives, are enforced by SENIAT's operational units, mainly the Domestic Tax Regional Offices.

With regard to the mechanisms and structures implemented to coordinate and cooperate with collection bodies at other levels of government through the above-mentioned cooperation services agreements, although the Venezuelan constitutional and legal framework establishes a wide range of activities -as stated at the beginning- in practice work has focused mainly on technical assistance, training of human resources, carrying out of joint inspections, exchange of information and strengthening of the tax culture.

Technical Assistance has mainly focused on:

- Consideration and formulation of tax bills and creation of Independent Municipal or State Tax Administrations;
- Analysis and applicability of laws on taxes which have been transferred to the Municipal Governments (Spirits and Alcoholic Species) and to the state Governments (Fiscal Stamp Law), as well as on national taxes (such as Income Tax and Value-Added Tax withholdings);

- Management of taxes levied on licit lotteries, games and bets.
- Formulation and upgrading of rules, procedures and programmes for inspecting and controlling municipal and state taxes, duties and contributions that must be borne by taxpayers domiciled or living in the Municipal or state jurisdiction, in order to achieve an optimum collection of these taxes. This has a direct, positive incidence on the control and collection of national taxes administered by SENIAT.
- Cooperation in training staff and updating their knowledge at the State and Municipal Tax Administrations allows these bodies to reduce the cost of their staff training plans and enhance their technical knowledge, not only in the arena of municipal and state taxes but also in the training of staff for managing national taxes which are directly related to or have an incidence on the taxable activities and bases with regard to their respective taxes, duties and contributions.
- **Execution of joint inspections:** these are procedures carried out simultaneously by officials from SENIAT and from the Mayor's or Governor's Office or state and municipal bodies responsible for the management of their respective taxes, in which the pertinent officials -within the framework of their powers- act vis-à-vis the same liable subject.

In this regard, the experience has been broad and most significant, with the inclusion into these joint actions of officials responsible for the management, collection and control of social security and/or parafiscal contributions, as well as of officials from consumer protection services -the police and firebrigaders- who, besides verifying compliance with tax and parafiscal duties and obligations, check the fulfillment of other regulatory norms concerning commercial, industrial and social activities and facilities throughout the country such as: price control, speculation, smuggling of goods, safety and hygiene standards as well as other tax relevant data: the recording of business transactions, registry of the deceased employees and their family members, opening of estates and company labour burden.
- The exchange of information takes place in two directions: the exchange of taxpayer, supplier and contractor databases, of those individuals liable to Income Tax or VAT withholdings, and the exchange of information obtained from each agreement signatory, when carrying out inspection and audit duties related to omissions and non compliances of taxes under the jurisdiction of another agency and those corresponding to the geographical

areas, within the jurisdiction of the Municipality or state carrying out such proceedings.

- With regard to the strengthening of the tax culture of citizens that live in or travel the territories of the states or Municipalities, SENIAT has effected outreach and information operations together with the Mayors' and Governors' Offices and with other bodies of the National Public Administration.

4. NEGOTIATION OF NEW COOPERATION SERVICES AGREEMENTS

Every time the National Tax Administration signs these Agreements, it contributes towards transforming the Venezuelan State and achieving its goals, especially, fiscal sustainability, by increasing and diversifying non oil-related collection. Given the benefits the above-mentioned agreements provide to SENIAT for obtaining information on taxpayer records, transactions carried out and gross income generated or perceived by such taxpayers, amounts withheld on income tax and VAT and taxable bases, location and updating of taxpayers' data, non compliances and illicit acts by taxpayers that have been expressly located and identified, SENIAT's inspection activities are simplified and become more agile, thus contributing to the efficacy and efficiency of their management and the reduction of operational costs. Furthermore, this Service deepens the network's extension and the application of these mechanisms and structures to coordinate and cooperate with collection bodies at other levels of the Venezuelan Government, by negotiating the above-described cooperation services agreements. Currently the following agreements are under negotiation and still to be signed:

AGREEMENTS UNDER NEGOTIATION

Bodies	Number of Agreements
Mayors' and Governors' Offices	2
Universities	8
Other agencies (Ministries and public and private bodies)	13
Total Number of Agreements in the Pipeline	23

Source: SENIAT. Office of Institutional Relations, Division of Inter-Institutional and Inter-Governmental Agreements.

5. OTHER FIELDS OF INSTITUTIONAL COOPERATION

Finally, regarding the experiences on simplified tax regimes covering different government levels as well as the existence of shared taxpayer service and information centers, it is worth pointing out that although these areas are potentially strong fields of cooperation with the state and municipal levels, at present our country has no simplified taxation system, although studies have been carried out to determine the viability of this kind of tax regime.

Regarding the existence of integrated or shared taxpayer service and information Centers, even when the cooperation services agreements signed include clauses by which the signatories undertake the commitment to provide physical space on their premises in order to allow SENIAT to install taxpayer service offices, besides state or municipal offices at SENIAT headquarters in each Region, these commitments are still being studied and designed for their future implementation.

With regard to the single taxpayer registry in the Bolivarian Republic of Venezuela, and pursuant to the provisions of the Organic Tax Code, Article 121, paragraph 7, the National Tax Administration is empowered to design and implement a single identification or information registry to include all the requirements of special tax laws. In this respect, SENIAT manages the Fiscal Information Registry of taxpayers at the national level.

As stated above, this paper has outlined the constitutional and legal regulations as well as the organization, administration, execution and outcomes of the mechanisms and structures implemented to coordinate and cooperate with collection bodies at other levels of the Venezuelan government.

ANNEX 1

The Office of Institutional Relations is made up of, inter alia, the **Division of Inter-Institutional and Inter-Governmental Agreements**⁴, a unit in charge of planning, managing and coordinating activities related to municipal and state fiscal and/or tax issues which will be the purpose of Inter-Institutional and Inter-Governmental Cooperation Services Agreements, to coordinate and exchange information in matters related to SENIAT's powers and jurisdiction, which will be signed by the latter with Venezuelan public and private institutions and non-governmental organizations, pursuant to the provisions of Article 4, paragraph 43, SENIAT Law, to contribute to the collection of national, state and municipal taxes under the principles of legality and respect to taxpayers; coordination, cooperation and institutional loyalty.

Main powers vested in this Division

1. To coordinate actions related to municipal and state fiscal and/or tax issues, which will be the purpose of Agreements to be negotiated;
2. To participate, under instructions of SENIAT's highest authorities, in the negotiation of inter-institutional and inter-governmental agreements;
3. To plan and coordinate any activities related to the signing of agreements with States, Municipalities and Public Institutions as well as Non-Governmental Organizations;
4. To coordinate the training of staff seconded to the Tax Administration in public agencies signing the agreements;
5. To channel and update information obtained from public and private agencies signing the agreements;

Subjects on which SENIAT's Division of Inter-Institutional and Inter-Governmental Agreements provides technical assistance to other levels of the Venezuelan Government

- Creation of State and Municipal Tax Administrations;
- Creation and implementation of legal instruments regarding fiscal stamps, spirits and alcoholic species, among others;
- Development, updating and implementation of Tax Ordinances and regulations;

⁴ Section 8 of Administrative Resolution No. 2,205 dated 10 September 2004, published in Venezuela's Official Gazette No. 37,780 of 22 September 2004.

- Policies, procedures and new tax inspection and control techniques, particularly regarding licit games and bets, spirits and alcoholic species, stamps, among others;
- Development of information exchange systems.
- Preparation and updating of Rules and Procedures Tax Manuals.

TOPIC 3

**THE STRUCTURAL CHANGE IN
THE MODERN TAX ADMINISTRATIONS AND
HUMAN RESOURCES MANAGEMENT**

Lecture

Topic 3

THE STRUCTURAL CHANGE IN THE MODERN TAX ADMINISTRATIONS AND HUMAN RESOURCES MANAGEMENT

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CONTENTS: 1. Introduction.- 2. Social trends and demographic developments in the Netherlands.- 3. Developments on the Dutch labour market.- 4. Developments in Dutch government.- 5. The Tax Administration on the move.- 6. Key personnel data.- 7. Human Resource Management.- 8.- Taking stock

1. INTRODUCTION

The way in which Human Resource Management is organized within a large government organization such as the Tax Administration (29,000 employees) is intrinsically bound up with a number of significant social developments in the Netherlands. Ageing, the impending labour shortage on the Dutch market and the new tasks assigned to the Tax Administration over the past few years, proved to be additional conditions that resulted in fundamental choices to be made in the HRM policy adopted by the organization.

This paper briefly sketches the main social trends and demographic developments in the Netherlands followed by a description of the Dutch labour market to outline a background against which we are currently shaping relevant HRM topics. The present HRM topics within the Dutch Tax Administration conclude this paper.

To map out a framework within which the Tax Administration and Human Resource Management must operate, the social trends and the two most important demographic developments will first be addressed.

2. SOCIAL TRENDS AND DEMOGRAPHIC DEVELOPMENTS IN THE NETHERLANDS

In considering the trends towards 2010/2020, five trends can be distinguished in the Netherlands. In addition, two demographic developments are presented that have a direct impact on the Tax Administration's daily HRM practice.

Trends

Individualization: Dutch society is rapidly individualizing. People no longer wish to have their freedom curbed when choosing their particular lifestyle. Traditional community relations are fading. The individual takes the foreground, insists on making its own choices and refuses to be influenced by any social relationship whatsoever.

Informalization: Dutch society is also marked by a high level of informalization. From a cultural point of view individualization leads to more or less egalitarian forms of contact and informalized relations. This often becomes apparent by the use of the Dutch 'je' (you) and mentioning people by their first names, also outside strictly personal relationships, and in the way people dress. Moreover, society is losing its hierarchical characteristics. The traditional organization is hierarchically and pyramidally structured and expects its members to show commitment to the organization's goals. At present, organizations in Europe and therefore in the Netherlands have increasingly become institutes rendering professional services to third parties or keeping contact in a relatively informal network that no longer contains its former stratifications. People wish to be seen and treated as equal and be in a position to negotiate as such.

Computerization: Holland ranks among the most computerized countries in the world. Automation marked the technical start of the process of computerization. A qualitative change with substantial social consequences did not occur until individualized use of large volumes of information became possible through the development of new software programs and miniaturization in the field of technology. In fact one can justifiably claim that everybody can be connected to everybody, anytime, anywhere while at the same time having access to all but

every piece of information available worldwide. The other side of the coin is the growing concern about the susceptibility of a computerized society to sabotage, power failure, terrorism and contaminated information (SPAM, viruses ,etc.)

Internationalization: the social trend known as internationalization can be regarded on the one hand as an increased external influence on our own society and the decreasing differences between societies on the other. The mass media and advertising play a dominant role in showing and predicting the lifestyles and life patterns of the global citizen.

Intensification: The term intensification refers to the feeling that the perception should not be just intense and intensive itself, but that in an increasing number of areas of life the perception component is growing stronger and more geared towards the individual. Intensification, however, also has its dark side. A collective perception of anger results in an increasing number of persons resorting to violence to express their emotions. This in turn leads to a rise of individual and collective violent crimes.

Demographic developments

Ageing/dejuvenation: a major omnipresent social phenomenon is the ageing and dejuvenation of the population in Europe and the Netherlands. Over the past 100 years the world population rose from 1.6 to 6.1 billion people.

During that period the European population rose from 422 to 728 million and the number of Dutch inhabitants from 5.1 to 16.1 million. A period of growth is followed first by a period of stability after which the population will decline.

So, the growth of the Dutch population will come to a standstill in the coming decades. At the same time, the percentage of people aged 65 or over will rise (ageing). Ageing is caused by two factors: a rise in life expectancy and a decrease of the average number of children per woman. This development is referred to as the demographic transition. Because the life expectancy has risen, an increasing number of people will live longer.

Dejuvenation (the decreasing share of youths expressed as a percentage of the total population) in the Netherlands will not likely cause problems in the coming decades. Statistical forecasts indicate that the population will have a constant average of 3.8 million youths. With regards to the age structure we will see the following picture develop in the Netherlands in the coming decades:

Age group	2006	2010	2020	2030	2040	2050
0 - 20 years	3,969,529	3,938,635	3,772,088	3,742,869	3,831,635	3,800,855
20 - 65 years	10,030,003	10,042,388	9,839,220	9,489,285	9,171,310	9,408,654
65 years and over	2,335,978	2,481,432	3,188,512	3,789,723	4,017,160	3,696,403

From around 2030, the population as a whole will start to decline because the number of deaths is expected to exceed the number of births.

Diversity: due to the emancipation of women after WW II, diversity on the Dutch labour market has risen significantly. It also meant that the discussion on diversity issues gained ground during this period. After they married, women remained active in the labour market. The need arose for part-time jobs, child day care etc. However, attention for the position of women is slowly fading because it is gradually becoming standard practice that women continue to work (also after marriage and giving birth).

The focus has shifted from the emancipation of women to social issues concerning ethnic diversity. During the reconstruction years following WW II, the Netherlands recruited many labourers from other countries, particularly from Turkey and Morocco. The idea was that these 'guest workers' would eventually return to their country of origin, which as it turned out only partly occurred. The migrant workers who remained here have in the mean time permanently settled in the Netherlands. As a result, there is now a second and even a third generation of persons from ethnic minorities in our country. It is common practice in the Netherlands to distinguish between people from ethnic minorities on the basis of their native country and that of their parents. At the same time the question arises as to how long we can continue talking of 'ethnic minorities' if people have been born in the Netherlands and often show a better command of the Dutch language than any other language. The same applies of course to people coming from the overseas areas of our Kingdom, the Antilles.

However, part of this group still finds it hard to find skilled work. There are differences within Europe. In countries such as Denmark, Sweden, Belgium, Holland and France, the labour participation of the ethnic minority population is 10% below that of the autochthonous population. In Southern European countries and in Ireland, the percentage of labour participation of the ethnic minority population is even higher than that of the autochthonous population. For example, in Spain the participation level is 10% higher. However, with regards to wage differences, these differences between European countries do not appear to exist. Both in Spain and in Holland, migrant workers earn on average 25% less than their autochthonous counterparts.

Factors that contribute to the lagging behind of the ethnic minority population in labour participation within the European Union are:

- due to the poor transferability of knowledge, a (high-level) education is not always fully recognized
- the availability of generous social security provisions
- discrimination

In the not too distant future the share of the ethnic minority population in Dutch society will increase from 1 in every 10 inhabitants to 1 in every 6 inhabitants. All the more reason to define diversity management as a priority for Dutch society.

3. DEVELOPMENTS ON THE DUTCH LABOUR MARKET

As said earlier, over the next few decades a number of significant developments will become manifest on the Dutch labour market that will have a serious impact on the Tax Administration's daily HRM practice and its general operations.

Decline in the working-age population

The foremost important development that will occur concerns the decline in the working-age population. One of the causes of this shrinkage is that the Baby Boom generation, the generation born just after the second World War, will have attained the pensionable age.

On 1 January 2007, the Netherlands still had 10 million inhabitants aged between 20 and 65. It is expected that the working-age population will continue to decrease by 1 million people (until 2040), while the number of older workers will increase at the same time. In 2011, the

number of persons aged between 60 and 65 will have risen to 1.1 million. At this moment, only one fifth of this group is engaged in work. In these predictions no account has been taken of any developments on the European labour market where these developments are already underway. The appeal of the European labour market may prove to be an aspect that will increasingly exert influence on the Dutch labour market. However, it is still expected that in 2006 more people will emigrate than immigrate.

This negative demographic effect is likely to be compensated during the first years by the increase in the number of workers aged between 55 and 65. The government policy aims to absorb as many men and women in employment, not only to compensate for the impending labour shortage but also because the recent coalition agreement defines work as a means for personal development, giving meaning and integration. Our government actively strives to achieve a substantial increase of the level of participation. In the coalition agreement it was also decided to increase the opportunities for knowledge migration in order to compensate for specific labour shortages.

Participation

To keep the supply of labour up to standard the government has decided to raise the participation level of women in particular. One instrument that will be used to achieve this is improving child day care facilities and reducing the costs.

Another measure aimed at slowing down the decline in the supply of labour is the abolishment of tax-incentives for persons wishing to stop working before the age of 60.

Still, the rise in participation in the labour market in the Netherlands appears to come to a standstill. Compared to other countries, the level of participation in the Netherlands is high (73%). However, expressed in hours of work, this participation is quite low (49%), which illustrates that many people, especially women, only work for a (small) part of their time.

Educated workers

It is expected that labour shortages will particularly occur at the top end (educated workers) of the labour market, while at the same time

unemployment figures will rise at the lower end (lower educated or unskilled workers) of the labour market. In 2010, the shortage of educated workers is expected to total 75,000 people. The goal in the Netherlands therefore is to increase the educational level of the working population up to 50% educated workers.

Replacement demand versus extra labour demand

The developments outlined above mainly concern the replacement demand. This replacement demand is created because workers leave their job or retire. Due to the growing economy in the Netherlands, the demand for qualified personnel also rises. Two factors are putting the Dutch labour market under great pressure: the replacement demand that will manifest itself to its full extent after this year and the extra labour demand for qualified staff due to the growing economy.

This year, a shortage is already expected to occur in respect of technical personnel, care givers, teachers and workers with a financial background. Due to the last category in particular, the Tax Administration will face fierce competition with the financial market sector, for example in the field of recruiting tax specialists and accountants and retaining them.

4. DEVELOPMENTS WITHIN THE DUTCH GOVERNMENT

The above social trends have resulted in a different perception of the role of the government and the government tasks. The government is increasingly seen as a service provider for the benefit of the public. For this reason, the previous Dutch cabinet launched several initiatives to enable government authorities to work in a more demand and goal-oriented manner. The aim was to adequately respond to the changing social needs for services rendered by government bodies. As a result, the government is increasingly organized in response to social issues rather than on the basis of specific issues assigned to a particular ministry or particular layer of government.

Dutch government has set itself a number of objectives: better services, less bureaucracy, an effective organization, horizontalization and a different method of operation.

Better services should be achieved by introducing a single government contact point. Ongoing digitalization and further use of ICT facilities should provide the basis for this. For the public this means

that in the future they will be able to communicate with the government using their own Personal Internet Page.

Less bureaucracy through, where possible, fewer rules and further simplification. This implies the introduction of more framework regulations whereby the government acts as remote director and supervisor.

Horizontalization means that the government trusts the public and the business community. This will result in fewer rules and more responsibility entrusted to the public and the business community alike. The government cannot and should not handle everything on its own. Also the new Dutch government emphatically considers the concept of horizontalization the basis for interaction between the government and society.

An effective organization and other methods of operation mainly deal with the internal organization of government. In other words, the government's ability and willingness to work together with and actually listen to what society, the public and politics ask from the government. For instance, government officials are increasingly deployed on the basis of their expertise to solve particular social issues to which politics has given priority. This requires an increasingly flexible commitment of officials across all sectors of the various government institutions.

The contingency plan for increasing the effectiveness of Dutch government comprises a number of concrete elements:

- less policy-making and more room for implementation
- concentration of tasks at the implementing organizations
- better cooperation
- effective operational management

Less policy-making and more room for implementation:

The call for less policy-making and more room for implementation is based on the realization that, in practice, the implementing government institutions are in direct contact with society and the public. They are the first to receive signals on how the government operates and how effective the policy is. Besides the Tax Administration, implementation bodies also include municipal authorities and **social institutions**.

Concentration of tasks at the implementing organizations

Because implementing organizations work close to the public, problems which might occur in that field can be more effectively identified and subsequently resolved. This of course requires a further concentration of tasks at those implementing bodies that work for more than one governmental policy department. The options for client-based services and differentiation are currently being explored without ignoring the principle of equality.

Better cooperation

Increased collaboration between the implementing bodies to counteract disintegrated and compartmentalized work processes has turned out to be vitally important as is clearly shown by the monitoring tasks of the different government bodies such as police, the judiciary and the Tax Administration.

Effective operational management

A government that is committed to shifting the focus from policy to implementation should also concentrate on adopting a more effective working method. The Dutch government strives to improve efficiency and effectiveness in this field **through integration, centralization and standardization of operational management.**

Based on the idea that all different national government organizations should operate more as one single organization, centralization of all elements of operational management suitable for such a combination forms the ultimate goal.

As concerns the HRM task of the public authorities, i.e. the national government (120,000 employees), substantial steps have been taken over the past few years. In the mean time, a joint centre for personnel and pay-roll accounts has been set up.

Specific knowledge and expertise in the field of, for instance, labour market communication, career development, training and working conditions, have been grouped in one single expertise centre for the entire national government. This expertise centre is also engaged in designing concrete HRM instruments.

These organizations are staffed by the different governmental departments and implementing bodies. In the coming years, further development of the HRM tasks will focus on introducing manager and employee digital self service. As a result of this, employees will eventually be able to modify their personal details themselves (i.e. name/address data and applying for and processing vacation days digitally).

New role of HRM within the Tax Administration

Until 2004, the Tax Administration's HRM department implemented all of its tasks and duties entirely on its own. According to the model of Dave Ullrich this concerns the roles of strategic partner, developer, administrator and that of HR expert.

The move towards merging administrative tasks and development/experts' tasks for the benefit of the entire government, means that HRM will increasingly have to focus its attention on the concept of strategic partnership. The HRM official, attached to the line management, will strengthen his surplus value if he proves to be highly qualified to timely translate social developments and labour market trends into consequences for his own organization. This also requires a more pro-active attitude for the function of HRM in our organization.

For the Tax Administration this means that in the coming period we need to commit ourselves to raising awareness at HRM in respect of this shift in expectations.

To support this process, professional standards for an adequate functioning of HRM are currently being developed including developing and presenting professionalization programmes and expanding knowledge networks within the national government that will stimulate the exchange of best practices.

5. THE TAX ADMINISTRATION ON THE MOVE

Before addressing the HRM practice within the Tax Administration, I will present you with an overview of the most relevant developments within the Tax Administration.

The trends and developments in society (individualization, computerization and internationalization, informalization and intensification, ageing, diversity, labour shortage) and the programme entitled 'andere overheid' (different government), all have consequences for the Dutch Tax Administration in respect of both the volume and nature of its tasks and the most suitable line of approach it should adopt.

New tasks

In line with the aim to concentrate the tasks to be carried out by the implementing bodies, in 2005 additional tasks were assigned to the Tax Administration in a field that was as yet unknown to the organization: paying benefits to the public in respect of healthcare, rent and child day care. This concerned a process of an entirely different nature compared to levying and collecting taxes.

Monitoring

During the next few years, the Tax Administration will focus on giving a quality impulse to its services and on enhancing its monitoring processes. Monitoring in this context means ensuring that businesses, institutions and the public satisfy

their tax obligations, for example by carrying out inspections in hotels, restaurants and clubs. The point of departure in enhancing this monitoring task, is the further professionalization of the collaboration with other (government) organizations.

Enhancing the level of monitoring encompasses two aspects. On the one hand, more capacity is made available for the monitoring tasks, for instance by recruiting more monitoring personnel. On the other hand, choices have to be made to adopt a different monitoring approach. Horizontal monitoring or 'monitoring based on trust' will become an important tool for the Tax Administration in addition to the traditional form of vertical monitoring. This means that monitoring businesses that are considered reliable will be increasingly organized through certifying, quality monitoring and codes of conduct. In this way, monitoring staff can be specifically deployed to trace and combat fraudulent private and business taxpayers.

Service improvement

The Tax Administration is committed to improving its services rendered to the public. Much has been done to make many things easier for the public, for instance by stating, where possible, the available information in advance so that the public only needs to check the pre-completed data. This has already been introduced in the area of granting benefits and will in due course apply to the normal tax returns as well.

Agenda of the Tax Administration

In anticipation of all these developments and changes, the Tax Administration has drawn up an agenda establishing the current and future priorities for the organization.

This agenda contains the following:

1. Connection (meaning connection with the work and connection between employees and management)
2. Simplification (meaning coordination, consistent management, taking initiatives and assuming responsibilities)
3. Enhancing monitoring activities (this means that the Tax Administration wishes to be visible in society)
4. External orientation (the Tax Administration is not an unyielding stronghold; it actively participates in society and, in turn, encourages society to participate in its activities).
5. Diversity (the Tax Administration wishes its staff of 30,000 employees to reflect society)

Organization of the Tax Administration

The organization of the Tax Administration with its staff of 30,000, is strongly based on the concept of horizontalization. This means that in fact, the Tax Administration has no more than three management layers in its entire organization.

The political management of the Tax Administration is the responsibility of a State Secretary of Finance, comparable to a junior minister in other countries.

The management team of the Tax Administration is in charge of the official management. This team consists of five members, each of whom is responsible for a number of specific areas of attention.

The Tax Administration is subdivided into 26 tax and customs districts and facility units such as the ICT Centre employing around 4,000 workers.

Each Tax Administration district is managed by a collegiate management team. A district has several offices that are also managed by collegiate management teams. A collegiate management team (usually consisting of five managers) is jointly responsible for the results of an office and/or a district. Managers are therefore no longer individually responsible for a unit or section, but each manager fulfils a special role with regard to the entire district or a unit. For example, one manager functions as a tax manager and another as a personnel manager.

Management philosophy

The collegiate management team of a district also determines what needs to be done and lays down agreements with the management team of the Tax Administration in a performance contract. For the employees, these performance contracts serve as the framework within which they further organize their duties. Over the past few years, the employees have become familiar with the concept of self management. Self management means that each employee is personally responsible for the way in which he implements his tasks. The employee himself determines, in consultation with his direct manager, how he will contribute to the result of the team, the office and the district. In daily practice there is no longer a manager to instruct him in his tasks.

This style of management is based on the following basic principles: trust in the competences and integrity of employees, relying on personal responsibility and loyalty of employee and providing room for implementation.

The way in which an organization is set up and the chosen type of management, supports people in performing their work and the way in which they cooperate with each other. The result of the organization, as perceived by society and politics, is mainly determined by its ability to safeguard a qualitatively competent staff. This quality is determined by the skills and competences, the integrity as well as the loyalty of the

employees. In addition, it is of key importance to stimulate an organizational culture in which every employee and manager feels committed to work closely together to get the job done. The challenge faced by HRM primarily lies in organizing and facilitating these aspects of the organization as effectively as possible.

6. KEY PERSONNEL DATA

Providing an overall picture of the context within which HRM policy choices are currently being made by the Tax Administration would not be possible without giving a description of the current composition of the staff and the source from which the organization is staffed; the labour market

Ageing

The table below illustrates the developments in the staff of the Tax Administration over the past 10 years.

TAX ADMINISTRATION	1996	2004	2005	2006
Average age (in years)	39.5	44.4	44.8	45.2
Average period of service (in service years)	17.1	19.9	20.1	19.8
Average gross pay (in Euros)	• 2,215	• 3,004	• 3,011	• 2,859
Sickness absence (incl. > 1yr excl. Zw.) in %	6.2	6.5	5.8	5.9
Staffing in number of persons	30,086	29,059	28,406	29,719
Influx (in %)	2,3	0,9	2,4	6,2
Transfers (in %)	4.6	3.3	4.9	5.3
Outflow (in %)	2.5	4.7	4.6	2.0

This table reveals that:

- The organization is ageing;
- The employees are loyal and remain in the service of the organization for a long time

It can therefore be predicted with a degree of certainty that the Tax Administration will be confronted with the replacement demand to its fullest extent.

Diversity

The following table reveals the diversity of our staff.

Diversity (in%)	1996	2004	2005	2006
Women employees	26.0	31.3	32.2	33,2
Women middle and senior managers	12	17.5	18.1	18,8
Women executives	-	7.2	7.5	16,5
Ethnic minorities	6.1	7.6	7.8	8.4

This table also illustrates the challenge we are facing as concerns the make-up of our staff that truly reflects our society. Perhaps the issue of the ageing population and the impending large replacement demand will offer a perfect opportunity to correct the proportions in terms of diversity standards.

7. HUMAN RESOURCE MANAGEMENT

The social trends and developments set out above and their impact on the tasks and approach of the Dutch government in general and the Tax and Customs Administration in particular, have distinct implications for the actual operation of the organisation and, consequently, its HRM policy.

These consequences are reflected in the choices we make with regard to:

- Recruitment & selection,
- The degree to and manner in which we train our staff
- Career development
- Staff assessments
- Managing diversity
- Motivating and promoting commitment amongst staff and managers

Recruitment and selection

As we explained before, the Tax and Customs Administration has been keeping a close eye on labour market developments since 2002, in response to staff cutbacks imposed on the Tax and Customs Administration in 2002 - 2006.

In addition, the ageing workforce and the expected outflow of staff play an important role in determining our labour market strategy. In the period 2002 - 2006 some 3,450 employees left the organisation. This is about 12% of the workforce.

Forecasts made in 2002 already allowed for an increase in the outflow of employees from the organisation after 2009. In view of the tight labour market forecast for that period, it will become more difficult to employ sufficient staff to carry out the work. Some scenarios even suggest that staff turnover will be so high that this will affect the organisation's continuity.

It goes without saying that we are keen to avoid this scenario by taking focused HRM measures, including so-called **strategic pre-recruitment** measures. We know how many employees will leave and when. We also know how much time it takes to train and induct new employees. This means that we can work out how many employees will be required at which moment. In anticipation of the forecast outflow of employees, it was decided to invest in and recruit new employees now. This causes a temporary situation whereby the organisation has more employees than permitted under the staff establishment system. Unique for a Dutch government organisation, this is a deliberate strategy by the Tax and Customs Administration, even if it may feel a little odd at times. On the one hand we are coming from a period full of cutbacks and savings, on the other hand we are faced with an ageing population, employees coming up to their pension and a labour market that is set to tighten. Despite these apparently conflicting developments, we have made a considerable attempt to recruit new employees.

A separate dimension in our recruitment process has been our focus on the bottom end of the market, rather than people with higher education. This is a response to the expected limited supply of people with medium to higher education. Trend data on the labour market, moreover, suggest that there will be insufficient jobs for people with lower education. This means there is a considerable risk of unemployment at the bottom of the labour market. Government organisations have an exemplary role where it concerns offering people with low employability suitable job opportunities. Government organisations are also judged by the national government on this aspect. For this reason staff is now being recruited that does not have the diploma they need. We then train these people ourselves. Not only is this in line with our social exemplary role, but it also reflects our strategic choice to recruit staff we can train to the desired level.

Training

For a long time our vision on training was that experience counted for more than diplomas. Our own training studies were therefore never certified. The employees we trained in-house could easily grow within the organisation. However, a career outside the organisation proved impossible as people's training was not recognised and the work experience did not match positions available outside the Tax and Customs Administration. As a result, staff movement came to a halt, with insufficient people moving on or out. This seriously affected dynamics in the workforce. Young people with higher education saw insufficient opportunities, while older and experienced staff was unable to leave.

To find a way out of this dilemma, we changed the way we view education. This new way also fits in nicely with the Government policy for the coming years. The Government policy is aimed at 'learning a life long'. The aim of the policy is to enhance the qualifications of the working population by combining learning and working and improving the recognition of previously-gained experience.

The following movements have therefore been started in the Tax and Customs Administration. First of all, the Tax and Customs Administration is investing heavily in the expertise and experience of its employees. These investments (including the initial training), however, have no formal status whatsoever in the world outside the Tax and Customs Administration. This hampers the outflow of employees wanting to leave the organisation after a few years. Following on from this, the poor outflow also restricts the throughflow.

A decision has therefore been taken to delegate part of the basic training to training institutes and to have these studies officially certified, enabling students to earn an officially recognised diploma.

The developments in education offer these opportunities. More and more studies are being set up with a competency focus, with end terms that formulate what a person should be able to do at the end of the study and at what level. Industry is being given more and more room by educational institutes to define these end terms to enable a smoother match between education and work.

A concrete example is the study for employees working in regular auditing jobs. The dual study (a combination of learning and working) was set up in a joint effort with a large educational institute. The practical part is carried out at the Tax and Customs Administration, while the educational institute arranges for the theoretical part of the study. Employees recruited in the most recent recruitment activities are taking the dual training to become audit employees.

Another example of our training policy is the Erkenning Verworven Competenties (Recognition Competencies Earned, EVC) programme, aimed at employees who have been working in our organisation for some time.

An EVC procedure maps out the individual's experience and competencies, and then assigns points based on standard material. Practice shows that people often have more capacities than previous diplomas or certificates would suggest. There are many ways and situations for employees to learn competencies and gain experience: at home, at work, as a volunteer and through hobbies. The EVC procedure is about putting together a file or portfolio, usually followed by a test or assessment. This supplies the 'documentary proof' demonstrating a person's skills in respect to a particular standard. Based on the standard used, a determination is made via EVC to determine the degree to which the party involved qualifies for a particular certificate or diploma. It also map out what a person needs to do to qualify for a full diploma. The assessment and recognition requires the cooperation of an 'acknowledging institution', such as a national educational institute. In cooperation with the 'acknowledging institution' those components of the study are earmarked which the staff member must complete to get the diploma.

Career development

The development of staff depends on what the organisation needs. The Tax and Customs Administration is a knowledge organisation as well as a staff organisation. Our capital is human capital which we must use to its full potential, develop where possible and enable to grow along with the changes. Individual staff members are encouraged to use their talents and these talents are subsequently further developed.

Staff members, too, cannot afford to take a back seat where it concerns their careers either as changes succeed each other in rapid succession.

They are stimulated to progress all the time and to work on developing their own employability. In that respect, staff members are regarded as "architects of their own career".

Another key aspect in career development is binding employees to our organisation and keeping them, faced with a labour market that is becoming increasingly tighter and where changing from one employer to another has become a more natural step. The Tax and Customs Administration will need to step up its examination of what interests employees in their jobs and gear its services accordingly.

The annual evaluation will address the employee's career development. The development options of the employee will be discussed, both within the current position and any further growth to other positions, horizontally or vertically within the organisation. Based on the current functioning and the capacities and ideas of the employee, the assessor, usually the person in charge, will indicate what he finds possible or desirable for the future. The employee will be given every opportunity to flesh out those ideas.

This is one way to strive for recognising career development as a priority and responsibility shared by the employee and the management alike.

Basically, the Tax and Customs Administration has three development programmes along which staff members can grow within the organisation. These are the path of Management Development (MD), that of Technical Development (TD) and of Project Development (PD). Depending on their talents and ambition, employees can grow to become part of the management, or specialise in a specific field, particularly the tax area. Finally, the Tax and Customs Administration has a great need for professionals that are able to manage complex and temporary projects. In order to meet this need and to give staff with these specific skills and competencies to manage projects further scope to grow, a PD programme was recently developed.

Assessment

The Tax and Customers Administration uses a result-driven style of management, and ultimately assessment (Resultaatgericht leidinggeven, RGL)

RGL revolves around coaching and steering employees in their functioning and their development. While the eventual outcome is very important, so is the way leading up to it. After all, steering is possible during work only.

As measuring results in retrospect is always too late, the emphasis is on coaching at work. This is where the responsibility and added value of the manager lies.

This manner of managing hinges on the manager clearly indicating in advance what the result to be achieved should be, presenting a clear image to the employee of what is expected of him. This means that the ultimate goal of the efforts made is predetermined. Preferably, the manager and employee establish the targets for the employee together.

If the targets (the result to be achieved) are clear, the manager and employee discuss the contribution that is required to actually be able to realise the targets. The desired contribution may of course differ per position and timescale. In RGL the emphasis is on HOW rather than on WHAT, as only HOW enables coaching and steering. Every employee has personal characteristics, skills, expertise and experiences. How a person uses his competencies to realise results determines this person's contribution. RGL is all about concrete behaviour demonstrated, instead of intentions or expertise and skills a person has, but doesn't use.

Normally, an assessment takes place for each contribution criterion agreed (e.g. initiative, forming an assessment, ability to express oneself, production focus, cooperation). The assessment is expressed as a qualification on a five-point scale (insufficient, poor, good, very good, and excellent). These qualifications are supported with examples of the behaviour actually shown.

In consultation between the person assessing and the person who is being assessed it is also possible to agree on an assessment of individual tasks or to restrict the assessment to a general assessment concerning the fulfilment of the position in general.

And as indicated before, the assessment also addresses the career development of the employee.

Managing diversity

Since the nineteen eighties managing diversity has been an issue for the Dutch Tax and Customs Administration, always realising that it is important to have a workforce that mirrors society. And in this society, and consequently also in the labour market, we are seeing more and more (independent) women and immigrants of non-western heritage working alongside the traditional white thirty-something male who used to dominate the sector up to a few decades ago.

Dealing with, and managing, diversity is important for the Tax and Customs Administration from the perspective of the employer - employee relationship as well as from the perspective of the relationship between the Taxpayer - Government service.

With a workforce that reflects society, we know we have enough experience in house about our surroundings.

Also in view of the demographic developments in the labour market and within the Tax and Customs Administration itself, it is vital that we operate a diversity policy. With its diversity policy the Tax and Customs Administration aims to bind the groups it wishes to recruit and/or maintain in the organisation. This enables us to secure a sound position in the (tight) labour market.

So far, the focus of the Tax and Customs Administration on two distinct areas of diversity in the workforce has proven (reasonably) successful. 8.4 % of its employees is of non-Dutch heritage, while women account for 33,2% of its total workforce. Considering the workforce and its set-up over the past 10 to 15 years, this is a reasonable development in the field of inter-culturalisation and emancipation.

In addition, attention in the coming years must be focused on the labour participation of older people (55-65). This group working in the organisation is set to grow over the next few years and, in view of the (expected) continuing scarceness on the labour market, it is essential to continue to invest in their qualities to be able to continue employing this group.

At the same time, the organisation must focus on balancing the workforce as regards its age in the longer term. This will enable it to avoid a situation in which the organisation will be confronted with a pronounced overrepresentation of staff in a few specific age categories.

The challenge lies in setting up a life-phase targeted approach, which will enable employees of all ages to feel or continue feeling comfortable in the Tax and Customs Administration.

Working on diversity for the Dutch Tax and Customs Administration is a matter of continuously working towards creating awareness amongst the organisation's management and employees alike. Executive at the Tax and Customs Administration do so by naming diversity as one of their five priorities, through continuously placing it on the agenda, through sponsorships from the Tax and Customs Administration regions and through using internal and external networks to promote diversity within the organisation.

In the nineteen eighties and nineties the government generally used standards for the percentage of women and people of non-native heritage that should be working in the organisation to mirror society. These target data were realised mostly through a policy of positive discrimination, where in the case of candidates of matching ability preference was given to women and persons of non-native heritage.

Moreover, until recently, focused, project-style initiatives promoted a diverse set-up in the organisation. Examples included:

- refugee programmes, where people with a refugee status in the Netherlands were recruited in a focused manner and coached intensively within the organisation for a certain term
- coaching programmes aimed at promoting the throughflow of women into management functions
- career coaching programmes, focusing on participants of non-native heritage
- pilots aimed at labour participation of older employees within the organisation

The Tax and Customs Administration's ambition for the future is to increasingly integrate its diversity policy as a natural component of its HRM. Society and the labour market have changed permanently - all the more reason to take managing diversity out of its niche of incidental activities and aim for a firm embedment of diversity aspects in everyday life.

Expectations are high. An integral diversity policy must help the Tax and Customs Administration in the coming years to realise a balanced representation amongst the various position categories and salary

scales. After all, while more and more women and employees of non-western heritage are working in our organisation, these groups have still not equal representation in the higher management positions.

Eventually, the idea is that all efforts made in the field of diversity policy provide the Tax and Customs Administration with a culture that makes positive use of the multitude of different competencies a diverse workforce can offer.

Motivation and commitment

With its choice for a management philosophy characterised by a decentralised and regional focus, collegial management teams, self-steering and placing responsibilities low in the company structure, the Dutch Tax and Customs Administration feels it can best address the demands of work and the environment at any given point in time.

Social trends, such as citizens' increased independence and individual responsibility, individualisation and informalization manifest themselves within the walls of our own organisation, too. Employees who are expert and committed to their work expect to receive more from the organisation than an

acceptable salary. Possibilities for self-development, fun and welfare in their work, cooperation with others and the sound support of the management play an important role in motivating staff.

The Tax and Customs Administration has opted for creating internal channels along which staff can share with each other and the management their stories and signals concerning the set-up and operation of the organisation, as well as their own level of well-being in their work. This is how we hope to contribute to an organisation where problems are picked up and addressed promptly. Where possible we are developing initiatives to enhance the commitment of staff to their work and amongst employees themselves.

We can list many activities undertaken by the Dutch Tax and Customs Administration aimed at exchanging signals, employee satisfaction levels and promoting the commitment between people towards their work and each other.

The Tax and Customs Administration has been using an employee satisfaction survey for many years. The instrument we have developed in-house is referred to as 'the personnel monitor'. It is a digital questionnaire we distribute every two years amongst employees in the organisation. The outcome is distributed within the organisation and discussed.

In order to match the need for creating a direct commitment between staff and management, we opted to change our approach in 2006. In addition to the digital quantitative part, additional meetings between managers and staff were organised concerning their mutual expectations and experiences with regard to the work, communication, coaching and management.

A few years ago the Tax and Customs Administration developed its internal "I love tax site", a digital meeting point where staff can exchange all sorts of information and news. The site hosts a top-ten, including topics staff would address **if they were Director General of the Tax and Customs Administration**. The most recent top ten is set out below:

1. Visibility and clearness of the management
2. Attention for the quality of the work
3. Attention for the work floor
4. Automation without worries
5. Growth and development
6. Fair remuneration
7. Positive working atmosphere, attention for success
8. Designing with the user
9. Pleasant, safe working environment
10. Explaining changes and providing reasons

In 2005 a study group focused on the theme 'Geluk op het werk' (Happiness at Work) which resulted in a conference attended by management and staff, the inclusion of the theme of 'fun at work' in performance contracts and the development of a teamscan to allow staff to work with their colleagues to examine their level of well-being within the immediate working environment.

'Commitment' featured on the agenda of the management team of the Tax and Customs Administration in 2006 and represented one of the 5 key themes for the organisation. A day for management and staff was organised featuring the theme, and a study resulted in handles for steering commitment.

8. TAKING STOCK

To a certain extent, the Dutch Tax Administration is already well on the way to facing the HRM challenges. We even lead the way when compared with other government organizations in the Netherlands. For example, consider the way we have got to grips with devising a new approach to recruitment & selection, whereby we make positive use of the opportunities provided by the labour market. And take our approach to training, whereby these days we are less inclined to recruit people with the right qualifications who can start immediately, and more likely to appoint people we can train ourselves.

We adopt a pro-active attitude to diversity management, grabbing opportunities to stimulate wider diversity in our workforce with both hands.

Our staff are becoming increasingly more aware that they have responsibilities on all fronts. Both in carrying out their individual duties and in contributing to the results of the organization as a whole, such as keeping their competencies up to scratch and mapping out a suitable career path.

It would obviously be impossible to turn all HRM challenges into a good result in one go. We, as the Dutch Tax Administration, have a lot to gain in terms of the relationships between management and staff and amongst staff themselves. There is plenty of scope for making huge achievements in terms of diversity within the organization. And when the exodus of staff really gets going, we will be facing a few more sizeable challenges. How can we ensure that we do not lose knowledge; how can we stop our work from becoming compromised; where will we find new staff? These are all challenges that we shall face with confidence.

Case study

Topic 3.1

RECRUITMENT AND SELECTION OF STAFF, TRENDS AND STRATEGIES FOR HUMAN RESOURCES TRAINING

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Inter - American Center of Tax Administrations

CONTENTS: I. Introduction.- II. Characteristics and Conditions of the Executive Secretariat's training program.- III. Virtual education.- A. General Framework.- IV. Virtual education at CIAT: Relevant aspects.- A. The Virtual Platform: Minimum requirements: Communication with the student (Messages, Forums, Chats); The Instructional Material; its adaptation and maintenance.- B. "On-Line" Courses: The Course on Taxation.- C. The results achieved: What we have done well and what needs to be improved.- D. Where are we headed? - Conclusions

I. INTRODUCTION

".....the possibilities of success of all functions and objectives of a modern tax administration are based on a tripod consisting information, technology and the human resources available. Nevertheless, if this were converted into a mathematical formula, we would have to consider that while information and technology may be considered additions, human resources represent the multiplier of the result of such addition."¹

I would add to this sensible reflection by the CIAT Executive Secretary that the way of multiplying such multiplier is by strengthening training in the tax administrations.

¹ Pita, Claudino Report by General Rapporteur, XXXVIII CIAT General Assembly, Cochabamba, Bolivia, 2004; IEF; p 260.

Undoubtedly, as has been mentioned in previous CIAT events, training is a way of keeping the tax administration prepared to face the challenges posed by the environment. The lack or obsolescence of adequate knowledge, the lack of cognitive tools, not only lets the organization lag behind, but also isolates it from any advance or modernization process.

It is stated in the Tax Administration Manual developed by CIAT with the co-sponsorship of the Netherlands, that: *"training and development are to be implemented for rendering the Tax Administration staff more professional by means of a continuous and systematic training process that may increase their knowledge and skills, in order that they may provide efficient services and guarantee achievement of the goals of the Tax Administration"*. Another relevant fact mentioned is that *"...staff preparation, training and development must be approached in an effective and efficient manner, by individualizing the programs and using such electronic media as remote training and even telecommunications systems, which some years ago served other purposes"*.²

Training is ever more a tool that develops skills, contributing to facilitate the learning of new practices, keeping motivation toward self-development, giving professional perspective to the administrative career and manifesting the autonomous exercise of competencies through assertive attitudes.

CIAT, aware of the role of training as support factor in the search for greater effectiveness in the tax administrations, undertook some time ago, and particularly in the past years, an ambitious training program for the benefit of its member countries. The purpose of this document, then, is to present the Center's experience in the development of its training strategy, its objectives, characteristics and results achieved in its implementation, in particular through the e-learning modality.

On this basis, we will analyze the conditions that gave origin to the virtual program, its main aspects and especially, the elements related to the contents, computerized support and organization and management of our on-line courses, the results achieved as well as the program's future perspectives.

² *Manual for Tax Administrations, CIAT, p. 146-147, 2000.*

II. CHARACTERISTICS AND CONDITIONS OF THE EXECUTIVE SECRETARIAT'S TRAINING PROGRAM

Traditionally, with the co-sponsorship of several of its member countries CIAT has been carrying out a training program with personal participation which is fundamentally aimed at the exchange of experiences on taxation issues, among tax administration officials of the member countries.

Every one is aware of the different seminars carried out by CIAT and co-sponsored by the State Agency of Tax Administration, the Spanish Agency for International Cooperation and the Institute of Fiscal Studies of Spain, as well as the Inter-American Development Bank, on various tax administration related issues in particular. Undoubtedly, these events have contributed to identify and exchange experiences and best practices. The same may be said of those specialized seminars that have been carried out with the support of the tax administrations of our member countries and/or international organizations.

Although events with personal participation have had a significant impact in the strengthening of human resources in the tax administrations, by themselves, they did not fully cover all of the latter's needs. With respect to the topics and coverage, it was necessary to develop fundamental subject areas and seek for massive transmission media that would allow for covering the general needs of a large number of officials.

In response to these two significant challenges, in the year 2004, the Center began the development of virtual at-a-distance education activities, which resulted in taxation training courses. The first of these courses on Taxation, began with an enrolment of 49 participants from several Latin American countries, all tax administration officials. Said course is currently in its sixth edition and consist of three modules: Tax Policy and Technique, Tax Law and International Taxation. To date, there has been an increase in enrolment, estimated at 20%, which figure exceeds the Center's initial expectations. Likewise, the demand continues to increase month by month.

The virtual at-a-distance educational courses are based on the CIAT Strategic Directions provided in its 2003-2007 and 2007-2010 Strategic Plans³, particularly the one dealing with training for the member countries. Up till now, through the experience acquired we have been

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able to achieve one of its main objectives which is precisely the development of a permanent training program for the benefit of the tax administration officials of the member countries.

Likewise, within the strategies determined by the Executive Secretariat, there are important actions that complement those provided in the Plan. These actions are:

- To consolidate and expand the e-learning modality.
- Strengthen the Executive Secretariat's participation in the design, selection of instructors and development of instructional material , in course co-sponsored by CIAT, and
- Expand the offer of programs to Portuguese and English-speaking Member countries.

Summing the above, we could then say that the general objective of the Center's training program is to promote and facilitate the transfer of knowledge to and among the tax administrations of the member countries, as key aspect for strengthening them.

CIAT's Role as Training Agent: *CIAT is not and does not endeavor to become a tax administration school. Rather, its task is to complement, through specific actions, the training/ development³ processes carried out by the tax administrations, but not to replace them.*

In this context, the Center's task is aimed at the preparation or design of training materials in keeping and adjusted to those complementation needs determined through surveys or expressly stated by the countries through interaction between the Center and its tax administrations. Such interaction may be the result of products developed by the working groups or the specific request of a country.

In the same manner, CIAT acts as agent to promote and support the implementation and strengthening of the Training Centers existing in the tax administrations, as facilitators of the process of transfer and exchange of the knowledge obtained either in that same Training Center or through their own developments.

³ *The terms "training" and "development" are used as synonyms in this course. Although there are differences from the instructional viewpoint, we abide by the common use given it by any individual.*

An important element in our organization's role as training agent is the establishment and maintenance of a Tutors Data base that may support the development of events scheduled and may allow for the exchange of instructors between tax administrations, in accordance with the programs they are executing or will be executing.

Finally, the Center should assume a more proactive role with respect to training activities aimed at answering the needs of the English-speaking member countries of CIAT. One initial action is the translation into English of the Taxation Course that began in March of this year and whose first version in that language will be given in the second semester of 2007. It is also expected that the first edition of this Taxation Course in Portuguese may take place in the year 2008.

**Who are the participants in the actions and
how are the training levels determined?**

The participants are all officials of a tax administration of a member country. Nevertheless, on some occasions open e-learning training courses have been conducted with the participation of the general public.

These exceptions have resulted either from interinstitutional agreements to allow participation of a captive audience of the member organization, or to respond to multiple requests from nonofficials wishing to participate in the CIAT courses. However, it is clear that our priority objective is to respond to the needs of the tax administrations of our member countries. On this issue, the officials of the subnational tax administrations have expressed their special concern.

An example of an interinstitutional agreement was the Specialized Course on Tax Policy and Technique that was jointly carried out with the Catholic University of Salta from Argentina, under the virtual modality and with 100 participants.

Working Lines: As previously mentioned, the program is focused on two lines, so to say: E-learning and Personal Participation Training.

E-learning is **fundamentally**⁴ aimed at answering training needs in General and Fundamental issues; that is, those that must be known by all tax officials who carry out or may potentially carry out substantive functions in the tax administrations.

Discovering that in most Latin American tax administrations, mainly of the CIAT member countries there was a significant gap between tasks carried out by the employees and their knowledge for carrying them out, was what motivated and subsequently originated the CIAT Taxation program.

In fact, most of the employees working in our organizations have acquired some knowledge at the University Centers or through experience in the performance of certain tasks. Nevertheless, in many cases this has proved to be insufficient for fully understanding taxation. That is, understand how to assemble all elements that are part of taxation in a country and how to administer them.

Experience shows, including ours that we learned to do our jobs through instructions or by repeating what others had done or were doing. The why and how such task would fit into a whole, was not clear.

For this reason, CIAT designed Modules that are considered strategic or fundamental in the body of knowledge which any official working or who will work in those substantial or essential areas of the business should have.

These Modules, as stated before are: Tax Policy and Technique, Tax Law, International Taxation and Tax Administration.

Now then, this does not mean that the e-learning modality be exclusively used for general but fundamental issues, as we saw in the previous example (Specialized course on Tax Policy and Technique). We have also developed and will continue to develop specialized courses on specific topics of interest for the tax administration.

⁴ *Fundamental is understood to be the necessary minimum knowledge required by any professional or technical official for the effective performance of his functions in a strategic or business area of a tax administration.*

The long-term virtual specialized training would include the Master's Program in Tax Administration and Public Finance, developed by CIAT together with the AEAT and IEFT, CEDDET and UNED of Spain.

Shortly, CIAT will be developing the 2nd edition of the specialized course on tax policy and technique and the virtual course on taxation of financial entities.

As for the second working line, **Personal Participation Training**, it is aimed at responding to the specialized and specific needs of the tax administrations.

Specialized issues are those requiring a greater level of technical knowledge and experience to that which an average official has for carrying out his function.

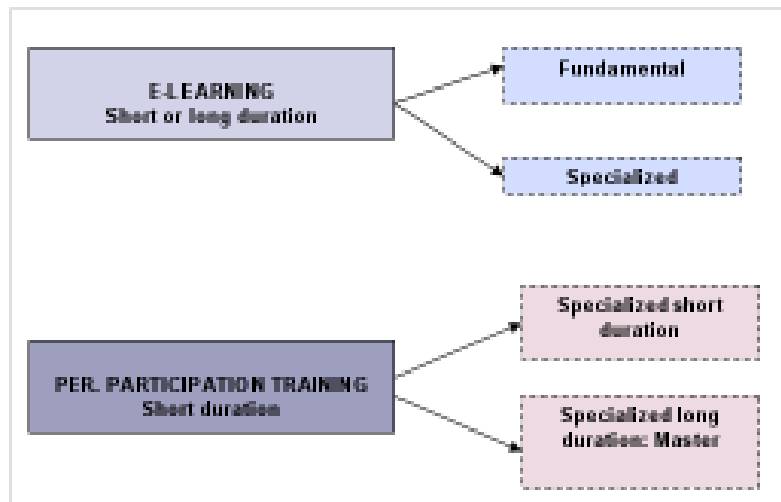
We are referring then to those issues that are the result of the evolution of the economic and social conditions of a country and/or the world; which in turn require that the tax administrations undertake adjustments for improving taxpayer service and accordingly, achieving a greater and effective control of the latter.

These characteristics that distinguish the tax administrations are also applicable in the internal sphere in the need to modernize not only the computerized systems, but also human resources management and the management of assets at their service.

Personal participation training includes auditing seminars by economic sectors, seminars on Transfer Pricing, Information Exchange, Control of Financial Entities, Strategic Planning and Human Resources Management, among others.

These specific actions are scheduled on the basis of needs detected in the countries through surveys carried out by CIAT or particular requirements expressed by the countries.

Figure 1. Training at CIAT



Which are the sources of the technical materials comprising the courses?

There are several sources of materials for the courses or seminars scheduled by CIAT:

- 1) the material directly developed by the Center.
- 2) those which are prepared by hired experts on the subject. An example of this is the specialized Course on Tax Policy and Technique which was drafted, at CIAT's request, by José Víctor Sevilla Segura, well-known professor and specialist on these subjects.
- 3) those that are obtained or are the result of Working Groups, technical assistance or events which CIAT carries out independently or with the co-sponsorship of member countries and organizations (examination manual, Tax Administration manual, Information Exchange Manual, Code of Conduct Model, etc.). These documents serve as basis for the design of specific courses on the topics with which they deal.

And, 4) those obtained from the holding of seminars or international meetings wherein several organizations participate (Assemblies, Conferences, Seminars/OECD/AFIP). That is, the lectures or papers presented by the participants and which may be disseminated without modification or which serve as basis for the design of future materials, once they have been adapted.

Who conducts the courses?

The Executive Secretariat's Operational Capacity is a relevant aspect for scheduling and carrying out training actions. This includes direct actions carried out by the Executive Secretariat, as well as joint actions scheduled and carried out in accordance with interinstitutional agreements.

Currently, the Executive Secretariat has a Research and Training Management Office in charge of executing the plans and projects determined by the organization. This office, in addition to the Manager, counts on two additional staff members that execute the corresponding working plan.

There is also a computerized support area that backs up e-learning through the maintenance and improvement of the platform and development of the Tutors Data Base as well as the academic programs in Taxation.⁵

Given the significant growth of the program in the past year, the training area will be reinforced to comply with the new challenges posed.

Finally, among the support elements available at the ES for carrying out its program, there is the virtual library which has updated document and has been classified in such a way that it may be easily consulted in a prompt and timely manner.

Likewise, to improve the service offered, a significant effort has been made for acquiring specialized software to search information in a speedy manner and the Library system is also being reviewed to expand its coverage.

⁵ *It is expected that the Academic Programs Data Base will be in operation in 2008 and its purpose is to make available to the Tax Administrations and especially to their officials, all relevant information on pre and postgraduate and continuing education programs carried out by public or private universities in the sphere of the CIAT member countries, specifically in tax or other related issues.*

Who are our teachers and tutors?

Again, as previously stated, CIAT's great strength is represented in the officials that comprise the tax administrations. That is why we may clearly see that our instructors and tutors are there. To determine who could be our potential tutors and instructors, last year the Executive Secretariat made an open announcement to instructors and tutors.

As a result of said announcement we received approximately 300 applications from several member countries. The large number of responses to our request, in addition to giving us great satisfaction, forced us to undertake the task of selecting the persons who in accordance with our profile, experience, studies and availability could be part of our team of tutors.

At present, we have been able to set up an important data base with those candidates whose applications met the conditions and profiles determined by the Executive Secretariat. For this reason, we may be able to count on excellent professionals who will contribute their knowledge to the e-learning and personal participation activities we are carrying and will be carrying out in the immediate and mediate future.

Most of the candidates are tax administration officials. However, we have not excluded other candidates with high personal and professional qualifications that may also be a part of this body of instructors and tutors.

It is obvious that the wider the spectrum of activities to be shared, the greater the value added that we may obtain as organization and obviously, the better and greater the quality of our courses.

This body of instructors and tutors, being organized, is not homogeneous, as it should be understood. Some of them have significant experience in classroom teaching, but little or no experience in e-learning and viceversa.

For this reason, we have designed and executed a training of trainers' course, which is not intended to be advanced training on the subject, but mainly to share with our tutors the experience acquired, the guidelines and objectives of the CIAT training program and provide some suggestions as to how to do their job in an effective and pleasant manner.

III. VIRTUAL EDUCATION

A. General Framework

Virtual education or *e-learning*⁶ is understood as the use of new learning technologies and tools to complement synchronic and asynchronous communication and teaching processes. Virtual education includes such valuable tools as:

- ↳ Technological tools
- ↳ Communication tools
- ↳ Evaluation tools
- ↳ Contents

These are tools that facilitate the learning processes, where the educational act intervenes and is assisted by technological supports. Virtual education is mainly aimed at adults, even though children, youth and young adults currently take part in such process.

Its objective is to go beyond the idea that education only takes place at some time in life. To be effective, it requires great motivation from the interested student.

We may then conclude from the former definition that virtual education is a form of at-a-distance education where technological tools are used for establishing communication between the professor and the student and thus close the gap that may exist between them.

"Virtual education may then be conceived as a new way of teaching to make use of ICTs, which is neither better or worst than personal participation teaching, simply different."⁷

⁶ Definition found in Wikipedia

⁷ Definition given by CES: (Health Science Studies Center of Colombia). Also mentions that some of the characteristics that differentiate the ICTs (Information and Communication Technologies) from former means of at-a-distance education are:

- Availability of ICTs anywhere.
- They can be adapted to the student's time.
- Demand greater responsibility from the student in learning.
- Increase the time devoted to academic activities, avoiding the limitation of schedules, movements and limited channels of communication.
- Offer alternatives for different pace of student learning or varying levels of in-depth teaching by the instructor.
- Develop skills in the use of technology, allowing for access to updated information through Internet.
- Generate true self-assessment processes and various forms of evaluation that convert the educational process in something more dynamic, participative and interactive.

IV. VIRTUAL EDUCATION AT CIAT: RELEVANT ASPECTS

With the incorporation of technological advances in the field of education, CIAT has overcome the limitations imposed by time and distance for achieving its objectives, given that the potential beneficiaries of the training program are tax administration officials from 37 countries of the Americas, Europe and Africa. A program as broad in the area of training could not be successfully conducted within a context other than that afforded by at-a-distance virtual education.

According to a survey carried out by the International Council of Open and At-A- Distance Education for Latin America and the Caribbean (between May 1999 and June 2003), there is a greater incidence of at-a-distance training programs in public institutions (51%), followed by private institutions (42%), while combined institutions and other categories together represent 7%. According to the education level, the results were 64% for training and specialization, 15% for bachelor's level and 21% for postgraduate studies. The survey also reflected the level of formality of this educational modality, since of the total number of programs surveyed, 42% granted a degree.

The trend is similar for the tax administrations of the region. In the public sector, the latter carry out a significant number of training activities with the use of new technologies, thus achieving greater coverage at a lower cost. Such interest then is the basis of the demand for CIAT training products. The tax administrations of countries like Argentina, Brazil, Mexico, Peru, in particular, have resorted to virtual training as a means for complying with their objectives in this area.

As seen, CIAT through the use of a tool with the advantages of virtual at-a-distance education has brought knowledge to a large group of a population with particular needs. Such effort then, tends to the improvement of human resource performance and accordingly, the strengthening of the tax administrations.

The experience acquired in a little less than three years allows for stating that the objectives of at-a-distance training are fully applicable to any training strategy intended for a large number of beneficiaries.

In sum, the modality democratizes access to education, promotes autonomous learning linked to experience, affords innovative and quality teaching, promotes permanent education and in addition, a factor of relative importance is that all of the foregoing may be achieved at reduced costs.

An in-depth look at CIAT's training offer calls for pointing out one characteristic of at-a-distance education that has been key to its experience. It is precisely the independent modules scheme that is used in this process, as has been seen in the specific case of the Taxation Program.

Such scheme has facilitated the adaptation of the tax training offer to the real needs of each administration. As has been mentioned, modules may be added or eliminated from any program designed in accordance with the institutional reality, including the design of the corresponding National Modules. Likewise, one or several of them may constitute new programs.

Another characteristic is the thematic specialization which implies that every main theme may be broken down into different subtopics, or what is known as "specialized topics". The idea is that a module could become another specialized course to respond to the specific demand of a tax administration.

In this way, the specialization strategy may be used to respond to specific needs resulting from the environment and the countries' demands, to thus provide a timely and individualized response.

Training actions are important elements of the CIAT training strategy to effectively contribute to the improvement of the tax administrations of its member countries. Thus, a mechanism is used for permanently adapting and adjusting the contents of the programs.

CIAT's experience echoes the recognition by UNESCO and the World Bank of at-a-distance education with the incorporation of technological advances. In 1996, the Bank noted that this methodology is an effective way of promoting permanent education for increasing knowledge; while UNESCO has recognized that this methodology has come to displace the prevailing models, with the potential of promoting learning for life for everyone.

- **The virtual platform at CIAT**

In mid-2004, the Executive Secretariat initiated its virtual courses through the GI EDU platform, which will be in operation until mid-2007.

This technological tool represented the Center's first step in the world of virtual education. Nevertheless, the increase in the demand for courses and varying limitations led us to implement a new open source platform in order to face the new challenges.

TOPIC 3.1 (CIAT)

To decide on the platform that would replace the existing one, CIAT analyzed several market options based on three criteria: Tools offered, Maintenance and Costs.

With respect to the tools offered, like any product in the market, the multiple options available comply with the minimum standards which any such program should offer: an administration module, a tutor or professor module and a student module. Likewise, each of their programs has such tools as communication (messages, chats, fora, videos, etc.), tutoring (tutorials for design and inclusion of educational, evaluation and student follow-up materials), and administration (enrolment, reports, activities evaluation, etc.) that are essential for the implementation of any e-learning program.

However, when deciding on the program, the following two were determinant factors: Costs and Maintenance.

Actually, based on the fact that the tools offered were similar and the differences at this level were more of "sophistication" to call it somehow, the key points to be determined were the costs and strategy which the Center wanted to follow as organization, in developing, consolidating and maintaining its e-learning program.

Since the beginning of the e-learning program, CIAT was clear in that the platform is one of the so many means for responding to an ever more increasing demand. Therefore, it was important to use a tool that could be gradually adapted to our needs and budget to improve our service and begin accumulating sufficient experience to provide feedback to our tax administrations regarding the most relevant aspects, at the time of opting for the development of a virtual program.

Following all these considerations, we opted for a free source platform as mentioned previously known in the market as "Moodle". It offers us the minimum standards mentioned, while permitting the corresponding adjustments to optimally respond to our beneficiaries. Likewise, since we had a team of computer specialists that could make these adjustments, we decided that we should face the challenge and thus additionally obtain as value added, an unequalled experience.

On assuming the adjustment and maintenance of the platform, our costs were considerably reduced. In average, the market's most economic option cost us approximately U\$ 24,000 per year, without including the additional expenses for the number of licenses used in accordance with the number of registered students.

Although programs operating under license in the market are interesting to the extent they develop the options according to the customer's requirements, guarantee maintenance and technical support, design and include the educational material, administer the courses and lend their servers as depositories of the program, thus releasing the human and technical resources of the organizations from these responsibilities and allowing them to work in other activities, it was important for CIAT to acquire the experience and especially be in control of the courses given.

We are especially interested in administering the courses and not lose direct contact with the officials and being able to adjust the platform to the characteristics and conditions of the topics being taught, as well as of the beneficiaries thereof.

Initially, the effort has been significant in terms of time devoted by our officials for making the computerized adjustments and developing, adapting and executing the contents and guides of access to the course. However, these efforts will be ever smaller, as the processes are consolidated, which is coherent with one of the main characteristics of virtual training and that is the possibility that a reduced number of staff members intervene in conducting, administering and supporting the courses.

- **The educational material**

As mentioned before, technical materials are a fundamental element in learning, since they constitute the essence of the latter and the professor and student act thereon.

In the case of the CIAT courses, the material has been developed by experts on the subject and has been structured in the form of Lessons.

Lessons allow the professor as well as the student a better control of learning and of the activities designed for reinforcing it.

Up till now, even though CIAT has devoted significant efforts to the design of excellent technical contents that are updated and improved through feedback from the tutors and students, it is necessary to improve the presentation and editing.

B. On-line Courses: The Course on Taxation

- **General framework**

Based on the experience acquired throughout the almost three years of conducting the Course on Taxation (initially the Taxation Program), CIAT has seen the need to establish a strategy for providing a technical response, with broad geographical coverage, to the tax administrations of its member countries with less financial means for accessing such program, while simultaneously allowing such training opportunity to officials from other tax administrations with the capacity of accessing such training either through their own resources or sponsored by their tax administrations.

The program was approved by the CIAT Executive Council at its meeting of July 2006 in Panama City. The main elements in the design of the project are:

- ✓ Provide tax administration officials of countries in Latin America and the Caribbean, Europe and Africa, **general fundamental knowledge**⁸ on the most relevant taxation issues;
- ✓ Implementation of the English (2nd semester of 2007) and Portuguese (2008) versions.
- ✓ Intended for officials having a bachelor's degree or not, but with vast experience in tax administration which, according to the policies, priorities and strategies of the tax administrations must or are going to carry out technical tasks in key areas;
- ✓ The program will have a three-year duration: 2007 to 2009.
- ✓ It is a broad coverage program for officials from 37 CIAT member countries. The training of 1200 officials is anticipated, distributed as follows:

YEAR	No. Participants Spanish	No. Participants English	Total
1-2007	300	100	400
2-2008	300	100	400
3-2009	300	100	400
TOTAL	900	300	1200

⁸ *The purpose of the program is to provide and level among all tax administration staff the necessary basic knowledge for duly carrying out their functions. Regardless of the fact that it is aimed at professionals and/or staff with equivalent qualification, it is not the intention to offer a postgraduate specialization course. Rather, the purpose is to complement the theoretical knowledge in order to develop practical skills and through the activities - in particular, the fora - to positively influence the behavior of the officials.*

- ✓ Application of the principle of solidarity among the member countries. This program is subsidized by them and consists of 3 ranges determined in accordance with each country's per capita income, which is used to determine the registration fee per Module of the Course.
- ✓ A maximum number of positions was assigned in accordance with the size of the tax administration.
- ✓ A basic operating structure was designed, covering the administrative, academic and technical levels of the Course. In the academic part of the structure, there is a Thematic Coordinator who supports the Tutors with respect to the technical contents of the Course, as well as the tasks and functions they must carry out and can even help them in solving any academic-type situation that may arise.
- ✓ The need to select a body of Tutors as fundamental part of this structure.
- ✓ Finally, a general or administrative coordination of the course as well as computerized support.

- **Structure**

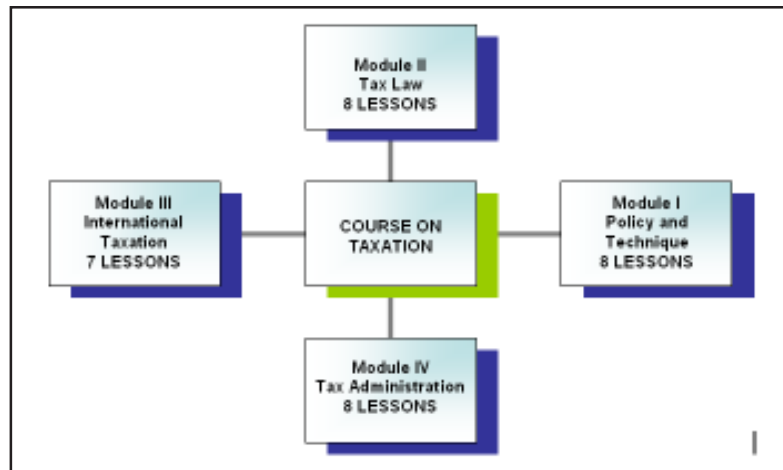
The Taxation Course consists of 4 Modules, namely:

Module	Duration in weeks
Policy and Technique	10
Tax Law	10
International Taxation	8
Tax Administration	10
Total	38

The duration indicated above for each model also considers delivery of the final paper by the student and evaluation of the course.

Each Module consists of Lessons, as we may see in the following figure:

Figure 1. Structure of the CIAT Course on Taxation



- **Modules and lessons**

Although the Modules of the Course on Taxation can be given independently, they have been scheduled according to the following order: Module I Tax Policy and Technique; Module II Tax Law; Module III International Taxation and Module IV Tax Administration.

The Modules have been ordered according to the student's need to know how the tax system works, to subsequently cover the topics dealing with their application.

In addition to the definition of the objectives stated in the student's Guide, the Modules are divided into Lessons. Also anticipated is a final evaluation of the Module, an individual paper to be developed by the student and the evaluation of the Course by the student, which is useful for the Executive Secretariat as feedback on aspects related to the course.

- i. How is the Course structured:**

Virtual courses simulate traditional classrooms, but unlike the latter which are physical, in this case they are virtual.

In this first edition, a total of 328 officials from the tax administrations of Argentina, Bolivarian Republic of Venezuela, Bolivia, Chile, Costa

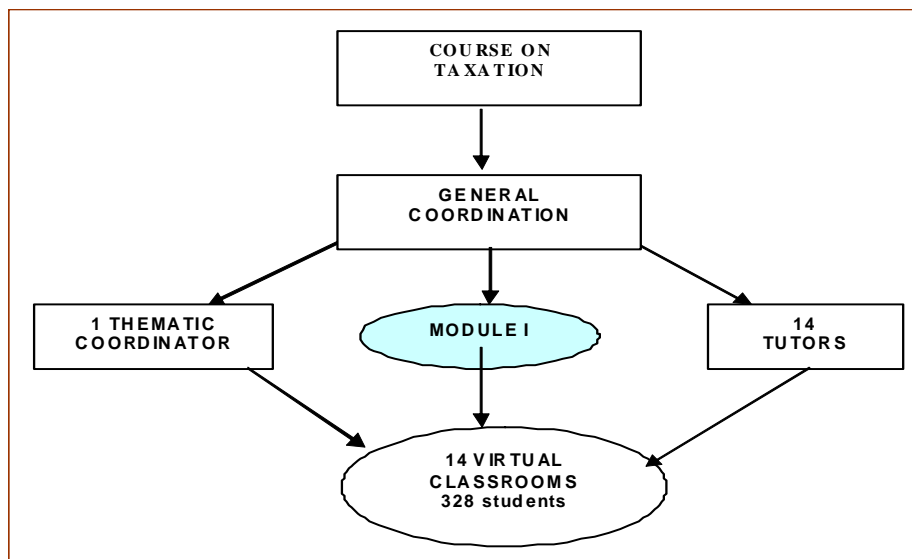
Rica, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay Peru, Portugal, and Uruguay were registered in the Taxation Course.

These students were distributed in virtual classrooms with a maximum of 27 students per course. Each classroom is headed by a Tutor. Groups were set up randomly; that is, the system itself made the selection.

Based on our experience, we believe that groups consisting of students of various nationalities have a better interaction and are more active and receptive. Nevertheless, one must bear in mind that in some groups there is a greater number of participants of such tax administrations as Bolivia, Peru, Ecuador, Chile y Costa Rica, mainly because those countries requested other positions in those distributed to each country.

In accordance with the number of students selected for the Course and the maximum number determined per classroom, there are 14 tutors in charge of conducting the Modules.

GRAPHIC STRUCTURE OF THE COURSE ON TAXATION



- **Roles or individuals intervening in the courses**

- i. **Thematic Coordinator:**

His main function is to assist the Tutors in issues dealing with the technical contents as well as in the activities scheduled for the students and in the follow up of the tasks the latter must carry out throughout the course.

The Coordinator arose from the experience achieved in the Taxation Program given the need to establish a coordination mechanism between students, tutors and the administration of the course. In particular, he must assist the tutors in complying with the academic tasks directly related to the development of the contents.

It must be noted that the work of the Coordinator must not interfere with that of the Tutor. Likewise, the technical support provided by the Coordinator at the level of contents is a way of guaranteeing unity of criteria in the information provided to the students, avoiding as much as possible situations that may give rise to confusion or misinterpretation of the concepts.

- ii. **The Student:**

The student is the main character in any training activity. Any action carried out must take him into account.

Although it might seem easy to conduct a course wherein the contents, organization and structure are clear, ultimately, the complexities and different situations that may arise may be greater than one can ordinarily imagine.

The truth is and experience has confirmed it, that conditions vary from one student to another and much more so, in the case of students from different countries.

CIAT has tried to the extent possible, to improve the information that is transmitted to the student, in order that the latter may be clear about the entire procedures, from registration in one of the courses until it ends. (Guides for the student).

It is known that currently people are more familiarized with Internet and the use of computerized equipment than 10 years ago. However, this does not imply that everyone has the same level of knowledge of a technological tool in all cases and for all situations. For this reason, as first action of Module I of the Taxation Course, students must undergo a short duration test course in order to connect to the platform and anticipate any technical or knowledge problem that may arise and which may affect his performance in the course.

Correct understanding and effective management of the platform significantly contributes to taking advantage of time and of the course and accordingly, to the success thereof.

iii. The Tutor:

The Tutor is in charge of leading the orientation sections regarding the technical contents, upon completion of a Lesson.

In general terms, CIAT has determined some tasks that are considered strategic in the relationship and development of the work of our tutors.

The Executive Secretariat is clear in that the tutor is a facilitator and representative of our organization before the institutions and individuals who participate in our courses which, as we know, are mostly officials from the tax administrations of our member countries.

Through the different editions of the Taxation Program that have been held, we were able to determine that many of the tax administration employees that have participated in our courses were not familiar with CIAT or simply had very vague references. Only some of them were really aware of the scope of the tasks carried out by our organization.

This conclusion, in addition to being revealing also forces us to act by considering that each course is a way of letting our people know about the services offered by our organization, while also being a means for obtaining important and interesting proposals and opinions from those who have daily experiences with issues of relevant and current importance.

We also found out that the Tutors were the ones who mainly promoted our Center and channeled the valuable opinions of the students. They are an invaluable source of feedback.

iv. General Coordination:

Each course and accordingly, each Module is under the general coordination of the Research and Training Management Office.

It comprises the management of all aspects related to the organization of the Course and provides support to tutors and students whenever required. It is divided into two main areas:

- ✓ Administration
- ✓ Technical support

The main functions carried out by this area are:

- Selection of students
- Selection and coordination of thematic coordinators and tutors
- Design and development of programs, guides and course calendars.
- Elaborate, develop and execute the course for training tutors.
- Setting up the course on the CIAT virtual platform.
- Provide support and maintenance to the virtual platform.
- Handle applications or requests from students and tutors.
- Keep the tax administrations informed about the performance of the students.
- Update and maintain the students' academic records.
- Update and maintain the tutors' data base.
- Maintain academic and statistical records of students and courses.

v. Technical Support:

We previously referred to the importance of the platform in virtual education. It is the means of transportation or communication between knowledge and the student.

Adequate functioning of this tool and its management by the student are key aspects for the success of training.

The foregoing are more than sufficient arguments for understanding that there is a need to provide permanent technological support to the student and tutor so that they may do their work.

It is common that knowledge about computerization issues be limited or simply that which is precisely needed for carrying out routine tasks in the office or home. However, such knowledge is insufficient when it

comes to solving issues that may appear to be simple, but which in inexperienced hands may be more difficult for doing the work required by the course.

Therefore, the dedication of someone who is familiar with the issues and particularly, the platform affords tranquility to all actors when the time comes for carrying out the tasks.

The computerized support allows the tutor to concentrate himself on the appropriate issues and the student to get along with someone specialized on the subjects. It is natural for the student to ask the tutor everything; even issues that are not of his specialty, which may distract the latter from his tasks.

At CIAT two persons carry out this function in an alternate fashion. In addition a user's manual was developed. It includes frequently asked questions that help to solve routine problems that arise on a regular basis.

vi. Other relevant elements:

● **Student evaluation:**

The criteria and scores for evaluating the student have been adjusted according to what has been observed in the courses. Basically, there should be active participating through the Forum or Chats; a research work and a final exam.

● **Course evaluation**

One of the aspects of greatest value added to CIAT is the feedback from tutors as well as students.

The opinion, observations, comments or adjustments proposed by some or others is what has made the texts and the organization of the Modules ever better. Such feedback is the best tool for achieving said objective and above all, for keeping the contents updated.

The evaluation has been anticipated as a course activity that should be carried out before the latter is 100% completed.

The students evaluate the Module in order to determine compliance with the proposed objectives. These objectives are aimed at measuring aspects related to four key issues:

TOPIC 3.1 (CIAT)

- a. The functioning of the virtual campus; ease of access; simplicity in handling options; reliability.
- b. The support material that will allow the student access to the platform and to the module's material, including the different tasks; (clarity in the contents of the student's Guide and the Access guide to the Virtual Campus, inclusion of essential aspects for understanding the operation of the Virtual Campus and the menus comprising it; usefulness of the material: is it considered appropriate and of great help; what aspects considered important have not been included or are not sufficiently clear in the material.
- c. Ease of understanding of the technical material that is the object or subject matter of the module (understanding of contents in general; all the ideas and concepts stated in the material are developed in the contents; the language used is clear or easily understandable.
- d. CIAT's capacity for administering the module, including academic and computerized supports: Information on the development of the module; solution of problems or inconveniences posed: administrative, academic or computerized; quality of responses in the solution of administrative, academic and/or computerization problems or inconveniences.

Through each of these four issues one may determine the key aspects that must be reinforced or taken advantage of, according to each of the specific objectives proposed for the course.

C. The experience achieved what we have done well and what needs to be improved

The results achieved in the almost three years of execution of the program (let us recall that it began in July 2004) are the best incentive for continuing to improve it, since it is a crucial support element for the development of our countries.

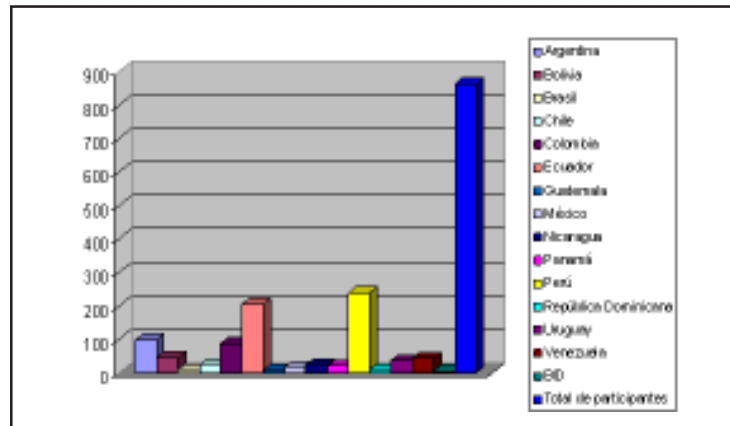
CIAT is currently in the 6th edition of the Taxation Program, intended for Spanish-speakers and which consists, as we said, of 3 modules (Tax Policy and Technique, Tax Law and International Taxation). The demand is high and its trend is increasing, since only 30% of applicants were registered due to the inability to respond to the greater demand.

Up till now, officials from 13 member countries, namely: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela as well as IDB officials as part of the exchange program, have completed the program.

Graph No. 1 shows the participation, by country, in the Taxation Program throughout the six editions, it being clarified that the 6th edition is currently in process. It must be noted that the countries with the most participants are, in their order: Peru, Ecuador, Argentina, and Colombia. These four countries represent 73% of total enrolment in the Modules which amounts to 863 students. We must clarify that, even though the previous figure shows the total number of enrolments throughout the editions, one must note that this is not necessarily equal to the same number of officials since, as mentioned on several occasions, the Program consists of three Modules which, in average, would show that 288 is the approximate number of registered officials.

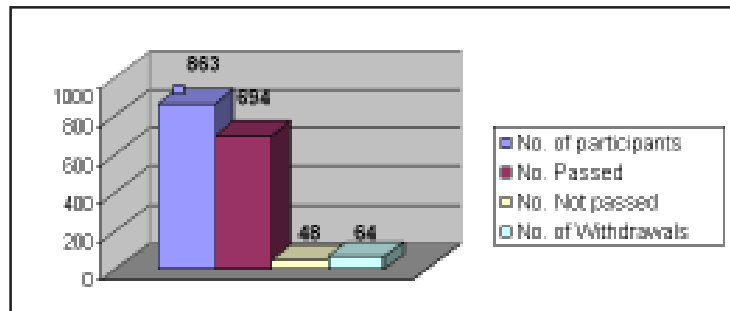
Graph No. 1

TAXATION PROGRAM, STUDENTS REGISTERED EDITIONS 1 THROUGH 6



Graph No.2

TAXATION PROGRAM EDITIONS 1 THROUGH 6 (IN PROCESS)



TOPIC 3.1 (CIAT)

Likewise, in **graph No. 2**, one observes the evolution of the Program in terms of the results achieved: 80.42% of the students concluded it; that is, they satisfactorily concluded the three Modules. 5.56% did not pass and 7.42% withdrew or, that is, abandoned one of the Modules.

The percentage of passing students is high in accordance with the standards established for this training modality since, given the characteristics that demand great commitment and responsibility from the student, the average percentage of withdrawals is approximately 53% of the students that initiate a course.

With respect to the Taxation Course - special edition, we have begun the first version and expectations are high. There are currently 300 active students in Module I and they will shortly begin Module II. This Course is offered to all Spanish-speaking Latin American and Caribbean countries, as well as Brazil. As for participation by country, of the 21 that are in the program, 17 responded and have officials participating in the Course.

Although results indicate that we have advanced within a very short time frame in the development of our training program, we are also aware that we are always trying to achieve more, in order that our users may always see innovation, improvement and progress in what we are doing.

Finally, we are aware that taxation is a dynamic issue, whose changes take place so rapidly, thus rendering difficult the capacity of the tax administrations to adjust to them. Likewise, the contents must be updated, modified or adjusted in order that they may respond to such changes.

In the same manner, we must improve our response capability in accordance with the demand. For this reason, the EDUCIAT platform we are developing will be an important tool for supporting such expansion.

It is important to continue to move forward in the development, adaptation and adjustment of the platform to improve the services we provide through it, by making it ever friendlier to the users and introducing the necessary modifications to respond to theirs and our own requirements.

We must improve the educational presentation of the texts so that they may be more easily understood and read, as key factor in the transmission of ideas and knowledge.

It is important to add the tax administration module to the Taxation Course as a complement for the students that have already taken it. As we know, the Program did not include this Module, although the Taxation Course does include it.

Finally, it is important that we continue to build, nourish and update the Tutors Data Base. We currently have a significant number and have been able to train 35 of them through the training course we designed. Nevertheless, this number is insufficient if we take into consideration future challenges, especially with respect to the English-speaking countries.

D. Where are we headed?

CIAT's training program and the projects currently comprising it constitute a significant achievement when compared to what the organization was doing a short time ago. Even though elearning has been a gigantic step toward achieving more ambitious objectives, we must think about going even further.

It is for this reason that CIAT Taxation Courses have been designed on the basis of a system of Modules which may be conducted independently or assembled in one single course. The addition of other Modules to the Course on Taxation may perhaps in the future give way to a postgraduate program.

With respect to the need for creating a postgraduate program that may grant an academic degree, this may be analyzed as an always viable alternative for CIAT, in accordance with the policy and need determined by the Center, in keeping with the guidelines and needs indicated by its member countries. Nevertheless, since up till now, except for the agreements that have been signed with well-known educational centers, CIAT only certifies the courses given, this may necessarily require an alliance or agreement with some university that may accredit the degree.

It is necessary to open the lines of access to the program. The independence and at the same time, the interrelationship existing

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between the Modules, allows the officials to access any type of activities, provided that they meet the conditions that each of them requires. For example, schooling, technical knowledge, jobs performed, etc., which thus allow entry or access to the program.

We are already working on new material and have translated the Taxation Course into English. The first edition will begin in August 2007. We have also scheduled for this year the translation of the material into Portuguese to begin in mid-2008 with the first edition in this language.

We must expand and diversify our agenda in order to respond to the current and main needs of our member countries. For this reason, it is important to achieve effective interinstitutional coordination and greater support from the member countries in defining, structuring and executing said agenda, by strengthening the advantages of CIAT and supporting and participating in those where we have less experience.

To conclude, we must highlight the courses scheduled to be conducted under the virtually modality, namely: the Course on Taxation of Financial Entities; the second edition of the specialized Course on Tax Policy and Technique, whose general coordinator will be José Víctor Sevilla Segura; the course on transfer pricing, the Specialized Course on Tax Administration and the Tax Management course.

CONCLUSIONS

- CIAT is not and does not endeavor to become a tax administration school. Its task is to complement, but not to replace, through specific actions, the development/training processes carried out by the tax administrations. These actions comprise the design and implementation of e-learning and personal participation courses and the strengthening of the training centers.
- E-learning stands out as one of the tools that has facilitated CIAT's training program by allowing for greater coverage, optimization of resources and reduction of costs.
- The participation as Tutors of tax administration officials from the CIAT member countries has facilitated the exchange of experiences and the adaptation and adjustment of the technical contents to the changes and challenges that are continuously imposed on taxation.
- The results achieved in the almost three years of execution of the e-learning training program, especially the Taxation Program, have been highly satisfactory. However, there are aspects that need improvement, such as: CIAT's capacity for response in accordance with the requirements and needs which the environment and the tax administrations demand; educational presentation of the technical contents; expansion of the offer of courses; and adjustment of the computerized platform used to implement the program.
- It is essential to expand the offer of courses to English and Portuguese speaking countries. In this sense, the edition of the Taxation Course in English will be a significant step toward this objective.
- The addition of other Modules to the Taxation Course may probably give way in the future to a Postgraduate program. Nevertheless, several aspects need to be considered before it can be optimally implemented.
- It is necessary to open lines of access to the program. The independence and interrelationship existing between the Modules allow officials access to any type of activities, provided they meet the conditions required for each of them. It is therefore important to determine such conditions as well as the objectives to be achieved through each line.
- The training program's agenda must be expanded and diversified to responds to the member countries' main and current needs. For this reason, it is important to achieve effective interinstitutional coordination and greater support from the countries for determining, structuring and executing said agenda, by promoting CIAT's advantages and supporting and participating in those actions where we have less experience.
- Continuous feedback is the most important means for improving the quality of our products. Therefore, direct and permanent communication with the users is the means for effectively ensuring it.

Case study

Topic 3.1

RECRUITMENT AND SELECTION OF STAFF, TRENDS AND STRATEGIES FOR HUMAN RESOURCES TRAINING

Olivier Sivieude

Human Resources Director
General Directorate of Taxes
(France)

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1. POLICY CHANGES IN THE HIRING, TRAINING AND PROMOTION AREAS OF THE GENERAL DIRECTORATE OF TAXATION IN FRANCE

In the framework of the triennial agreements entered into between the DGI and its supervisory authority since 2000, the DGI has committed to conducting a thorough reengineering of its structures, working methods, IT system and form of management.

The main areas of change are:

1 - Enhancing user service quality.

By way of examples, by 2008 the DGI committed to having:

- 10 million income tax returns submitted over the Internet ;
- 70 % of revenue from professional taxes paid by teleprocessing; and
- offering multi-tax service outlets for individuals and corporations at all French tax services by 2008.

2 - Improving the quality of tax control.

3 - Increasing productivity as a result of the organizational reform, new methods and IT investment. The DGI undertook to reduce tax management costs from 4.542 billion Euros in 2005 to 4.441 billion Euros in 2008.

4 - Developing innovative **human resources management** aimed at facilitating change and further recognizing the efforts made by the staff.

These ambitious objectives have three mechanical effects on the hiring, training and promotion of staff:

- a) **Personnel reduction** (81,500 officials in 2003 - 76,500 officials in 2007) owing to the reduction in hires in spite of retirements. Thus, from 2003 to 2007 - i.e. a five-year period - the DGI's hires dropped from 1,520 to 960 persons per year;
- b) **Intensified Training**, since officials need to be trained as to the new tasks and jobs. The cost component of on-going training versus the salary base went up from 4.4% in 2003 to 4.7% in 2006, and the number of on-going training days per official grew from 3.61 in 2003 to 3.67 in 2006;
- c) **Increased Number of Internal Promotions** as a requalification and recognition tool. The number of officials promoted from the first level (32,500 officials) to the second level (23,350 officials) was 643 in 2006, i.e. 14% higher than in 2002.

Thus, the challenge in the areas of hiring, training and promotion in upcoming years is quite clear:

1. **A more effective recruitment practice** is required owing to the reduced number of hires and the increased complexity of tasks;
2. **Training should match expectations** so that the staff has the capacity to face the multiple challenges;
3. **Internal promotions should be increased and professionalized** with a view to recognizing the staff's efforts and requalifications and ensuring we have highly motivated staff.

It is worth looking into our strengths, weaknesses and the evolutionary steps adopted recently in connection with these challenges.

2. OUR STRENGTHS

2.1 Highly attractive job openings for outside hires:

Despite the lower unemployment rate in France, the Tax Administration continues to be a highly attractive place to work.

On average, **34** candidates applied to **each position** offered in 2006.

Selection continues to be rigorous and only highly qualified candidates are admitted. Thus, for the second recruitment level (high school degree), 73 % of hires have at least a university degree (high school diploma + 3 years of higher education)

2.2 Mandatory training for all reorganizations and technology upgrades

Every substantial reform is accompanied by mandatory training for all officials involved.

The training modalities are defined in the national sphere, specified in an annual plan, and subsequently cascaded down to each department.

By way of example:

- 1) 9,900 officials shall receive training aimed at establishing single interlocutors for individuals by 2007/2008;
- 2) 45,000 officials were trained on the human resources IT system in 2006;
- 3) 70,000 officials shall receive training on professional ethics from 2006 to 2008.

In 2006, **73 %** of the DGI's staff took at least one on-going professional training action during the year.

2.3. Curbed Training Costs

Training efforts fall under the overall objective of "**better spending**".

It is not about shrinking the training volume or lowering its quality, but about curbing costs while preserving, or even improving, quality.

* At the DGI, almost all of the initial and on-going training is provided by internal resources. Full-time teachers who are officials of the DGI are responsible for the initial training at our schools, and own officials provide on-going training during their working hours.

This arrangement guarantees the training quality provided. It is a kind of incentive for "instructor" officials and it costs less than retaining external instructors. Finally, this type of training provides a way of communicating the values which are most relevant for us.

* Very accurate training cost indicators have been established with a view to curbing costs. Since 2005, the DGI's Training Centers have been invoicing for the services provided to user departments.

Every training activity comprised in the national training plan indicates the training cost per official.

* Despite the increase in on-going training days, the overall training cost shrank from 7.8 % of salaries in 2003 to 7.5 % in 2006.

2.4. The Quality of our On-going Training

Since 2003, every mandatory training activity is subject to a "hot assessment" at the end of the activity and a "cool assessment" six months later.

The cool assessment is a highly valuable tool, since it enables us to validate the impact of the training provided on the official's professional activities. Furthermore, the Department Head of the participant's department is required to provide his/her feedback.

If the "cool assessment" average for any given training activity is less than 80%, a review of said training product is automatically mandated. In some of these cases, officials might have to redesign part of the training product.

However, reviews are rare. New training products are tested in advance by reader committees and pilot groups. In fact, the overall satisfaction rate of the cool assessment is high:

- 88 % of "cool" satisfaction among participants;
- 91 % of "cool" satisfaction among Department Heads.

2.5. Highly Valued Internal Promotions

The DGI attaches great importance to internal promotions. They are one of its main values.

Internal promotions exist at all levels. They are implemented by selections organized at the national level. The DGI provides free of charge training to officials, and promoted officials benefit from systematic training prior to taking over their new functions.

Some 15,000 officials applied for internal selection in 2006.

The DGI is noteworthy due to the fact that all of its executives (5,300) come from internal promotion. They themselves are strongly attached to the DGI and committed to the internal promotion of their collaborators.

2.6. Planned HRM

The human resources are adapted to the challenges posed by a complex context - rapid changes in the jobs required by the Tax Administration, IT advancements, and mass retirements.

The DGI has performance measurement tools in place which enable a highly accurate calculation of the personnel savings brought about by reorganizations and the new IT tools. This method is completed by the job elimination proposals made by the heads of operational services. This fine-tuned analysis leads to the definition of downsizing needs and their scheduling over three-year periods.

This planned management is carried out by hierarchical levels - most of the jobs eliminated are in the lower end (execution tasks) while the number of executives remains the same.

3. WEAKNESSES

3.1. "Comprehensive" and "elitist" hiring

* The DGI's external hires are only competition-based. This hiring modality has the advantage of avoiding "favoritisms", although it has the disadvantage of not allowing for fine tuning between the positions offered and the skills of the hires.

The DGI often recruits "generalists" in the fields of law and economics. Subsequently, it needs to train them over long periods of time on taxation matters only to have to train them again when they are promoted to specific positions (Human Resources Management, Internal Control, Budgeting, etc.).

Only IT positions are subject to specific competitions.

* External recruitment competitions are extremely selective. They are awarded to highly qualified young people with several university diplomas.

For this reason, very few young people coming from a disadvantaged social background ever succeed in these competitions. This situation is regrettable for two reasons:

- the DGI is not contributing to social mobility, as should be the case in every Government entity;

- its employees do not resemble users in general, which may make some relationships more difficult.

3.2 DGI schools provide training which is not sufficiently adjusted to the previous university curriculum

The DGI Schools provide high-quality training which includes theoretical learning and internships within the departments in an alternative fashion. However, this training is protracted: 3 months for the lower tier, 12 months for the second tier and 18 months for the third tier.

The training provided is the same for all new hires, regardless of their university background and previously acquired skills and knowledge. This situation leads to unnecessary costs and frustrations.

3.3 Internal Promotions are too comprehensive and elitist

* Internal promotions are usually carried out by means of competitions with a view to avoiding "favoritism". But, in order not to penalize candidates based on the jobs they perform (Human Resources Management, Taxation, Internal Control, etc.), tests are essentially theoretical.

This selection modality does not always lead to selecting the best professionals. Furthermore, it is detrimental to the staff with fewer diplomas, who do not feel comfortable at theoretical and general knowledge tests.

* The degree of difficulty of internal competitions forces candidates to prepare for them. This requires effort and time, which some of the staff cannot afford due to personal and family reasons.

This is one of the reasons why women applicants to competitions are fewer than men. 63% of the DGI's staff are women, distributed as follows:

Executives	28 %
Level 3	50 %
Level 2	60 %
Level 1	75 %

he DGI is deprived of talents and its executives are not a reflection of its staff.

4. REFORMS UNDERWAY

The DGI decided to implement measures which should redress the weaknesses of its hiring, training and promotion systems.

4.1 Professional and Diversified External Recruitment

* The DGI is changing the organization and content of its competitions. Actually, the intent is to recruit persons with vast knowledge but who are also easily adaptable and have proven human qualities.

Just hired officials will stay in our Administration for at least 40 years. They will be confronted with frequent changes in working methods and jobs, and will have teams reporting to them. Thus, it is important to ensure good recruitment practices.

To that end, the entire jury will be made up of professionals and the content of competitions shall be changed. In particular, the oral piece will be enhanced to represent at least 50% of the overall assessment.

* The DGI introduced a firm policy aimed at allowing young people from a humble background to succeed in competitions.

This year, 500 young people from poor or troubled neighborhoods shall benefit from free of charge competition preparation provided by DGI staff. This preparatory work is led by volunteers who attend the schools for several months with a view to helping these young people to pass competition testing.

The work is carried out in close cooperation with school and university heads. It is highly appreciated both inside and outside of the DGI.

4.2 Bringing Training Closer

* In recent years, the DGI staff have been heavily demanded. Performance indicators are deployed at the national and local levels, and at each department. In this context, the staff feel uneasy about leaving the department to receive training.

In addition, there has been a very significant evolution in the mindset: current staff have a high degree of prior education. They no longer demand general training. They wish to go straight to the fundamentals,

i.e. to acquire basic technical knowledge to allow them to use a new tool or adjust to a new job.

Finally, the staff are less and less willing to be far from their home. They want training to be provided on site.

* Within said context, it is advisable to provide closer training opportunities - shorter, better adjusted to previous studies as well as closer from the geographical perspective.

* To this end, several steps were taken:

- for the training provided in the framework of departmental reorganizations, from now on each person involved is subject to an **individual evaluation of skills** conducted with the department head. This evaluation helps determine which training areas should be chosen by the individual and which are not required. The evaluation ends with **a training plan** whereby the training is defined in agreement with the employee.

3,800 training evaluations were conducted in 2006

- **e-learning** was developed at the DGI in 2003. This type of training is put together by one of the DGI Schools in the form of CD's. Computers are set up in specific rooms in the officials' working space. Training is provided during working hours. Officials are accompanied by a training supervisor.

* This type of training is highly successful. The staff are deeply appreciative of it since it saves travel time. In addition, each student makes progress at his/her own pace and the training is shorter overall. Obviously, this modality is not used for training content requiring exchanges between and among students or various instructors with the purpose of creating a spirit of "promotion".

* Conversely, **e-learning** lends itself very well to the training on new IT applications and specific novel techniques.

E-learning has been used, inter alia, for the following:

Type of Training Content	Number of Students
IT tool (Collection)	9 700
IT tool (Auditing)	5 400
SIRH (GRH)	35 700

* In total, e-learning accounted for 6 % of the overall training volume in 2003. It represents 26 % of the training volume in 2007. "Cool assessments" yielded a satisfaction rate of 58.84 %.

- Training provided at DGI Schools for new hires and internally promoted staff shall be developed shortly in consideration of previous studies. Students shall receive shorter training as compared to others. This is a "win-win" reform, whereby training costs are lowered while students do not waste time and feel more motivated.

4.3. Outward-looking Executives with a More Managerial Profile

Training is basically focused on the learning of jobs and techniques. In addition, the volume of internally promoted staff is very significant. Thus, higher level staff (level 3 and executives) is made up of technicians with excellent qualifications but insufficient managerial skills.

Therefore, it is advisable to provide them with specific training in business administration, show them the way businesses are managed on site and urge them to have a temporary professional experience in professional organizations other than the DGI.

Three types of initiatives were undertaken:

- **The creation of a School for Executives:** 300 executives receive specific training every year on business administration and communications. Business executives and specialized business administration consultants are involved in said training;
- **Mandatory internships in businesses:** every new official hired for level three, i.e. some 500 employees per year, is required to take an internship in a business to learn more about the business world they will necessarily have to deal with in their professional life.

Likewise, 100 incumbent executives per year are required to take an internship in a company. A theme is chosen for each year at the national level. Executives are required to study the theme in organizations other than the DGI. The outcomes of these studies are subsequently gathered and summarized.

By way of example, 50 executives have just submitted a report on the executives' evaluation interviews based on their experience in 50 companies. Other 50 executives are currently taking an internship on the theme of remuneration data provided.

- **120 executives in external mobility:** the DGI has set the goal of urging its executives to carry out an activity in public bodies or associations over a 2-3 year period. The objective is to have 120 executives in permanent mobility in order to leverage their experience. This range of experiences must be beneficial both for the executive and the DGI. Of course, this mobility shall be valued in the executive's career and his/her reentry into the DGI shall be planned.

4.4 A More Professional and Open Approach to Internal Promotion

Internal promotion is deeply valued at the DGI, in addition to being a source of pride. However, this promotion is highly selective and favors those who have more diplomas and availability to prepare for selections.

This kind of selection is not ideal because it may rule out excellent professionals who do not feel comfortable in theory-based selection processes. Likewise, it rules out those who are less available, in particular, women.

For this reason, the following actions were developed:

*** Changing tests to focus on professional knowledge**

The content of selections has changed with a view to replacing "non-professional" theoretical tests with technical tests on taxation or fiscal topics. In parallel, oral testing has a higher weighting in selection processes and it is tied to professional knowledge. Finally, the jury shall receive specialized training.

This combined method should enable the selection of the best professionals and reduce preparation time for candidates, which in turn should result in a less harmful outlook for women.

*** Making selection processes more available**

It is about allowing a larger number of officials to reasonably apply at selection processes. Two steps were taken in this regard:

- Eligible ages for selection are to be gradually eliminated. In fact, the staff becomes active and joins the Administration at an increasingly later age, whereas work lives are increasingly longer (40 years currently, compared to 37 years in 2003). As a result, in order to allow everyone to apply for a selection and have this motivation, age limits must be suppressed;

- Preparation for selection processes should be the same everywhere. Actually, large departments (administrative entities) are more successful at preparing their staff than smaller ones. This selection is detrimental to the staff in these departments. Measures will be taken to standardize preparation modalities nationwide.

4.5 Creating a single department for hiring, training and promotion

So far, the DGI had a department responsible for recruiting, two departments in charge of the training of hired staff and one in charge of permanent or on-going training. These four departments achieved excellent results in their respective fields, but their activities were performed separately.

Now, on-going education is highly dependent on the quality of initial training, and initial training, in turn, is highly dependent on the hiring quality.

Thus, a decision was taken to move the four departments under a single Directorate: the Directorate of Recruitment and Training (DRF, as per the French acronym). It is led by a Director and four officials responsible for areas (executives, level 1, level 2, level 3), each one of whom is in charge of hiring, initial training and on-going training in their own area. 500 persons are grouped under the same Authority with the purpose of putting recruitment and training in perspective.

In summary:

- **hiring** is a major challenge. Our administration will hire less and it will hire staff that will be employed for a longer time. It is about ensuring high quality hires;
- furthermore, **training** is an essential challenge because it enables change while it helps officials and makes them feel secure;
- finally, internal promotion is an inescapable tool of recognition and motivation within a changing professional organization. Thus, it should be intensive and involve those who deserve it the most.

The three components of HRM - hiring, training and promotion - must be adjusted accordingly to face the challenges. Like in other areas, in this field we need to innovate, evolve and be responsive to the needs of our staff.

It is at once an ambitious and essential challenge which we face with enthusiasm.

Case study

Topic 3.2

MOTIVATION, RECOGNITION AND PROMOTION MECHANISMS

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CONTENTS: Summary. -1. Human Resources' Policy - Professional Career System. -1.1. Code of Conduct.-1.2. Professional Mobility.- 1.3. Promotion, Change of Level, Ongoing Examination and Progression.- 1.4. Integrated Performance Assessment System (SIADAP).- 1.5. Working Regimes.- 1.6. Internal Communication.- 2. Salary Policy.- 2.1. Productivity Bonus (FET).- 2.2. Residence and Relocation Subsidy.- 3. Professional Development Culture.- 3.1. Skills' Acquisition System.- 3.2. The Development Path.- 3.3. Educational Modalities.- 3.4 Self-education, the Worker-Student Rules and the Intern Status.-4. Annex: 2007 Professional Development Plan.

The structural change in the modern TA and Human Resources' Management - Motivation, Recognition and Promotion Mechanisms.

SUMMARY

In the light of the contemporary paradigms for Human Resources' Management, there are two chief factors that make individuals within an organization undertake their duties: internal and external factors.

The internal factors are tied to a worker's individual and inherent requirements and features as well as their outlook and aspirations regarding their work. Currently, employment not only meets the basic Maslow needs- physical survival and the need to sustain a source of

economic support, but constitutes a source to meet the need of integration, professional success and personal and professional development, by which the labor market is a means for a worker to enjoy the opportunity of expressing his/her abilities and talents.

The external factors, which essentially refer to the conditions offered by the employing organization, are tied to the organizational culture and environment, the human resources' policy, the professional career, salary policy, existence of a professional training culture or not, and the educational background.

From the organizational standpoint, the commitment and expectations are focused on two fundamental axes: productivity and quality of the service rendered to the customer, regarding the double organizational principle: efficacy and efficiency / corporate social responsibility.

Having provided a framework for our performance from this strategic vision, the Human Resources Management System of the DGCI of Portugal, in agreement with the terms of the CIAT working program - Motivation, recognition and promotion mechanisms - is based on three structural vectors:

1. Human resources' policy - Professional career system

- 1.1. Code of conduct
- 1.2. Professional mobility
- 1.3. Promotion, Change of Level, Ongoing Examination and Progression
- 1.4. Performance Assessment System (SIADAP, as per the Portuguese acronym)
- 1.5. Special Working Regimes
- 1.6. Internal Communication

2. Salary Policy

- 2.1. Productivity Bonus (FET, as per the Portuguese acronym)
- 2.2. Employee residence and relocation subsidies

3. Professional Development Culture

- 3.1. Skills' Acquisition System
- 3.2. Educational background
- 3.3. Educational modalities (education and training, on-site training, b-learning and e-learning)
- 3.4. Self-education, the Worker-Student Rules and the Intern status.

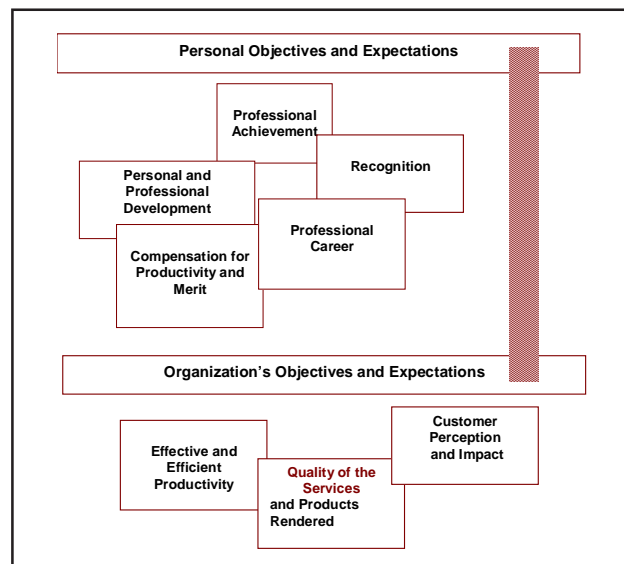
The model that we present was defined from a systemic view and has not been implemented in full. The model makes up consolidated subsystems, subsystems underway and subsystems in the process of change, improvement and integration of new management methodologies and techniques.

HR MANAGEMENT - THE DGCI MODEL

1. HUMAN RESOURCES' POLICY

Currently, the Government Administration in general and Tax Administrations in particular are faced with new issues that arise from the prevailing uncertainty affecting working organizations on a day-to-day basis: a) the ongoing changes in organizations, the flexibility required to administrate the multiple demands and complexity of issues and the working pace; b) the trend towards downsizing, the poor contractual conditions and the increasing professional mobility and, finally, c) the fast obsolescence of information and knowledge.

In the field of Human Resources' policy, the DGCI has undertaken a number of policies required to achieve the strategic and operational objectives, aimed at guaranteeing convergence among individual objectives and the organization's objectives, as summarized in the following chart:



- **Professional Career System**

According to the previous chart, Human Resources' Management must define and redefine its policies or the management level of the professional careers of the Tax Administration agents focusing on the professional life as a path, but always protecting the organization from the instability this creates.

At the Human Resources' policy level, in order to manage the relation between individual needs and the organization's needs and find answers that meet both, the instruments required are firstly linked to:

1. the institutionalization of a code of conduct,
2. professional mobility,
3. promotions, changes in level and upgrades,
4. performance assessment system,
5. special working regimes,
6. internal communication.

1.1 Code of Conduct

The first vital element in the context of Human Resources' management is internal and external clarification of the expected behavioral standards.

This entails a reference system made up by a set of guiding values and principles for the behavior of every individual working in the Tax Administration.

The Code of Conduct leads to the creation and strengthening of the feeling of belonging and integration in the Tax Administration. Such feelings, belonging and integration, are essential to initiate the agents' motivational process.

On the other hand, the Code of Conduct is a relevant instrument to convey and disseminate the Tax Administration's identity and specificity, inserting it in the Government Administration while differentiating it from the other agencies, given its specificities and the detailed external scrutiny it is permanently subject to.

The Code of Conduct contains the ethical norms that must be observed and clarifies the standards of reference. Therefore, by being an

instrument that defines the guidelines vis-à-vis professional ethics for all workers, it also constitutes a reference for the public as regards the standard of conduct required in their relations with third parties.

Overall the Code of Conduct is a social guiding and integrating instrument for agents and reveals the Tax Administration identity in the field of Management, Mission, Vision and Strategy.

1.2 Professional Mobility

The notion of professional background is closely tied to the objectives and expectations of the foregoing officials. This notion, in the course of the agents' professional life, seeks to adjust the individual skills and competencies to the needs of the working positions within a diachronic logic of increasing change and competitiveness, inside and outside of the organization.

From the Government Administration standpoint, there are numerous situations of mobility: mobility among Agencies, mobility among Careers and mobility among services within the same Agency.

In the present text, given the relevance of the topic under analysis, we shall especially focus on mobility among Careers.

1.2.1 Professional Mobility among Government Administration Agencies

Professional mobility among Government Administration Agencies is based on general mobility and special mobility instruments. This type of mobility, in general terms, occurs in the same functions, careers and categories of the source Agency.

The general mobility instruments are:

Transfer; exchange; examination; relocation; specific contract; special assignment.

The special mobility instruments are:

Re-assignment and resumption of functions by staff that underwent the special mobility situation.

Along the same lines, the other type of mobility in the State that arises from the growing dialog among functions, in equivalent functions, is the creation of inter-departmental and inter-ministerial working groups, for the short, medium or long term, which involve technical experts from the Tax Administration, Marshal Service, Courts, etc.

1.2.2 Internal Mobility among Services

There are two kinds of mobility in this area: internal transfers and functional re-assignment.

Internal transfers' mobility occurs once a year by the agent's initiative. This mobility modality includes the possibility for the agent to move to another job while maintaining the same professional category and function; special attention is given to the rights and needs regarding family protection under the framework of the marital law in effect.

Functional re-assignment occurs by internal recruitment of agents with certain professional curriculum, qualifications, categories, and experience according to the services' needs and, fundamentally, for strategic DGCI areas.

On the other hand, the DGCI officers and agents may be relocated, by their own request or according to the service's need, to temporarily work in a different service, providing a service for a salary or on a pro bono basis.

The professional mobility mechanisms, undoubtedly, shall be one of the instruments of the program to meet the individual needs of the Tax Administration's technical experts as well as for motivation and capacity and skills recognition.

1.2.3 Professional Mobility among Careers

Mobility among careers constitutes one of the privileged instruments for management, optimization and motivation of our Human Resources' capital. Normally, we resort to two mechanisms to match the competent individuals with the functions: professional reskilling and re-qualification.

Professional reskilling consists in attributing a different category and career to an agent; the lack of literary skills or professional qualifications is overcome upon passing one or more than one professional training courses.

Professional re-qualification consists in attributing a different category and career to the agent, provided the functional requirements of the new career are met.

Normally, professionals are subject to re-qualification or reskilling in the following cases:

- a) Modification of functions or extinction of working positions, arising from the introduction of new working technologies and methods or processes;
- b) The lack of adaptation or professional inability of the agent to undertake the functions inherent in his career and category;
- c) Acquisition of new academic and/or professional skills, provided they are relevant for the specific areas included in the skills and competencies of the Government Administration agencies and services;
- d) The functional imbalance, marked by the mismatch between the functional content of an agent's career and the effectively exercised functions;

Professional re-qualification and reskilling depend upon the Administration's initiative or justified requirement by the agent with more than three years in the category, once the interest and the service's benefits have been determined.

Professional re-qualification and reskilling are preceded by the exercise of the functions that correspond to the new career for a one-year period or the time that is legally defined as the trial period.

Finally, another mechanism that we shall mention is the inter-communication among the GAT careers and the General Regime, which enables the agents in the GAT categories integrated in category 4 or higher with a Bachelor's degree to be qualified in higher technical careers of the general system for the purpose of examinations and designations for management positions in other Government Administration departments.

1.3 Promotion, Change of Level, Ongoing Examination and Progression

The most common and usual aspect of a professional career is tied to career evolution. Given its dimension and relevance, we shall focus our analysis on the Tax Administration Group. Currently, the career structure of the staff in the careers of the Tax Administration Group is distributed into categories, ranks and levels. Categories are subdivided into hiring and admittance categories.

The recruitment process for admission into any of the careers is based on an examination procedure that requires passing an internship. Internships last for one year and are made up by numerous practices in the regional and local services, as well as a general taxation course adapted to the origin, academic skills and demand of candidates' future functions.

Career promotion is achieved through professional categories, based on an examination procedure.

Another peculiar and innovative form to evolve in the career is the change of level from a lower level to a higher level that applies in the same professional category, depending on the following requirements:

- a) Minimum three-year seniority in the lower level;
- b) Minimum Performance Assessment qualification of "good" for three years;
- c) Average 9.5 grade in the ongoing knowledge tests in the last three years of work in the lower level.

As a mechanism applicable to career evolution by change of level and in the framework of an annual examination cycle, we seek to adapt the professional career to career evolution and the knowledge and competencies' needs to exercise the technical-tax functions through the Ongoing Examination system.

Ongoing Examination refers to the periodical qualification of agents, on an annual basis and for three consecutive years, with the purpose of knowing the personal skills to undertake the assigned function.

As mentioned above, this mechanism was especially designed to ensure training in steps and select the candidates in the change of level system in the GAT careers.

Therefore, the Ongoing Examination system is aimed at:

- a) Diagnosing on the competencies of the agents with regards to the functions in the respective categories, and their potential skills to undertake more demanding functions;
- b) Enabling planning and actions to adapt the staff to the demands of their current functions and the potential ones, by virtue of the respective professional progress;
- d) Allowing greater objectivity in the Assessment of agents' merit, towards the promotion and progression in the respective careers.

In the case of progression, career evolution is undertaken within the same category, by change of stage or level and is automatic. The change of stage in the category that indicates the different ranks depends on the permanence during three years in the immediately preceding rank with a minimum qualification of Good.

1. 4 Integrated Performance Assessment System (SIADAP, as per the Portuguese acronym)

Within the Human Resources' policy, the issue under analysis, the fourth intervention axis is the Individual Performance System, as:

- a) The answer to the demands created by the previous system, arising from the excessively high grades for services in the highest levels (in general terms, Very Good) that did not reflect a true merit and
- b) The innovative answer, for motivation, recognition and incentive based on effort and the competencies developed, distinguishing and differentiating individual merit according to the results achieved and behaviors and attitudes shown.

Individual Performance Assessment is an integral part of the government administration process and is aimed at perfecting the Portuguese Government Administration services. In Portugal, Individual Performance Assessment is a part of the Integrated Government Administration Performance Assessment System (SIADAP, as per the Portuguese acronym). This System was implemented in the Government Administration in 2004.

Some time after its implementation, it is currently undergoing a study and adjustment phase and the DGCI, for external reasons, has been unable to implement it, in spite of which we could not omit a reference herein.

The SIADAP was created on the basis of six guiding principles:

- a) Focus on results;
- b) Universality, since it is a cross-sectional system to all Government Administration services, agencies and staff groups;
- c) Assumption of responsibilities and development, since it is a guiding, assessment and development instrument for management, workers and teams in order to achieve results and show professional competencies;
- d) Recognition and motivation;
- e) Transparency, based on objective criteria, clear and broadly disseminated rules, and
- f) Consistency and integration, as the groundwork for an integrated Human Resources management, articulated with recruitment and selection policies, professional development and career development.

In the Individual Examination branch, the purpose of the integrated Performance Assessment system is to assess people, competencies and outcomes, create responsibility, acknowledge merits, differentiate Performance levels, empower team work, foster mobility and professional advancement opportunities and identify professional education and development needs.

The Individual Performance System assesses middle management staff (Directors and Heads of Division) and technical staff and is structured according to three Assessment Components:

1. Objectives
2. Behavioral Competencies
3. Personal Attitude

We must highlight that, since the 90's decade, the DGCI has adopted administrative planning and Assessment practices focused on the definition of strategic action courses, strategic and operational objectives and has undertaken the monitoring and analysis of results during and after the annual management cycle. For some time, an

inherent Performance Assessment model has existed simultaneously to assess people, competencies and results.

1.5 Working Regimes

Among the Human Resources' policies, the fifth intervention axis refers to the special Working Regimes, among which we may highlight the flexible Working Schedule Modalities. Such regimes enable workers with children under 12 or other situations with regards to health or the worker-student rules to benefit with the working hours and schedules adjusted to their needs in order to meet their living conditions.

1.6 Internal Communication

As regards this issue, we shall especially refer to the key individuals, which implement the Human Resources' Policy, the directors and heads of tax organizations. The mobility, motivation and acknowledgement of the role of directors and heads of Organizations constitute a performance paradigm. Among others, Performance in such role is precisely tied to the Internal Communication mechanisms.

In this area, we consider that the regular communication of technical and organizational information is of vital importance, specifically based on:

- a) The Intranet and other Information and Communication Technology (ICT) tools that help to shorten distances, communicate directors/heads and standardize knowledge and procedures relative to all and
- b) The "Fiscália" magazine, in its print version published on a quarterly basis, which is distributed among all agents. This instrument is the means to share and communicate Events, Opinions, Facts, Statistics, Entertainment and Corporate Social Responsibility Activities, etc.

Such fundamental mechanisms shall also include working meetings and dissemination and awareness actions through significant events like Seminars and Congresses held monthly, biannually or annually with the Agency's directors and intellectual and political personalities, specifically, Government representatives from the respective areas.

2. SALARY POLICY

2.1 Productivity Bonus (FET, as per the Portuguese acronym).

We shall now address the remunerations' system that includes the differentiation we deem shall be relevant for Tax Administrations, given the high degree of specificity of the functions against the general functions of the Government Administration.

Our model relates to the enforced tax collection and the need to adjust to the timeframes required by this type of procedures, such as the special procedures for debt payments, which call for an additional effort and significant attention by the parties in charge.

We are referring to the Tax Stabilization Fund (FET, as per the Portuguese acronym) which, in the past, represented a benefit ownership and distribution bonus, or, precisely, an effort incentive, given the volume of additional work and effort required by these tasks.

The FET bonus depends on minimum grade and frequency requirements (Good or higher).

As we mentioned, the FET objective is to stimulate and compensate productivity at work and its value arises from the application of a percentage of the basic salary for the respective positions and categories, which shall be the one applicable for the first stage in the category, in the cases in which the salary structure considers a number of stages.

2.2 Residence and Relocation Subsidy

The Salary Policy includes two relocation incentive mechanisms: residence and relocation subsidies. Relocation subsidies are aimed at compensating and covering the additional expenses incurred upon moving from one job to another.

3. PROFESSIONAL DEVELOPMENT CULTURE

3.1 Skills' Acquisition System

Value is attached to training for action.

Professional Development clearly constitutes one of the great myths of the 20th century. Professional Development was considered the magical solution to the problems of individuals and organizations as a consequence of a set of expectations tied to development potential as the fast and safe answer to the most diverse issues.

Paradoxically, credit became discredit when the feeling of generalized skepticism consolidated in the face of the lack of efficacy in terms of effective changes, in the light of the strong financial investments in professional development.

The change of paradigm shall be based on the creation of a professional development culture that focuses on the double diachronic function of training, with personal and professional advancement of agents and organizational development, in other words, a strategy that articulates individual skill with the generation of organizational changes.

As mentioned above, the working relation is currently fueled by three relevant phenomena: organizational changes, increasing professional mobility and the fast obsolescence of information. Along such lines, the paradigmatic notion of professional career is consistent with the emergence of the concept of development path, which shatters the prevailing static and "à la carte" vision in the form of conceiving the link between development and work.

The professional development culture, from the standpoint of the development path, is only reasonable if approached from a diachronic perspective that spans an individual's entire professional life in line with the new development modalities available. The diachronic perspective indicates development possibilities with cycles marked by cross-sectional tools, knowledge and skills that generate change or strengthen Performance at work.

The value and efficacy of Professional Development shall be linked to a new form of articulation between development and the working context: development built as an answer to problems that calls upon agents' expertise and the knowledge acquired, contributing to the

evolution of a "fixed menu" type of development possibility towards a customized development in each context, integrating the different working groups (functional cross-sectional approach).

Professional Development value and efficacy shall be subsequently linked to the articulation between development and the organizational change dynamics, by developing for change and relating the development investment with modernization/continuous improvement projects in the organization.

Finally, the third axis is the value and efficacy of professional development tied to the creation of development networks: a) among Tax Administrations that enable, on the one hand, to draft development proposals for the universal cross-sectional issues that go beyond the country's borders and b) among the State Departments that enable to share information and exchange experiences among the agencies performing in the same segment, with a comprehensive approach based on cooperative work, especially regarding tax fraud and tax evasion.

The Individual Skills' Acquisition Plan

The Individual Skills' Acquisition Plan (PAC, as per the Portuguese acronym) is a fundamental management tool for the development and support of the decisions made by heads and directors.

The PAC enables to record:

- a) the current and future activities and tasks in the function,
- b) the necessary abilities and skills compared to the agent's current ones and
- c) development and development modalities required to effectively and efficiently undertake current and future functions.

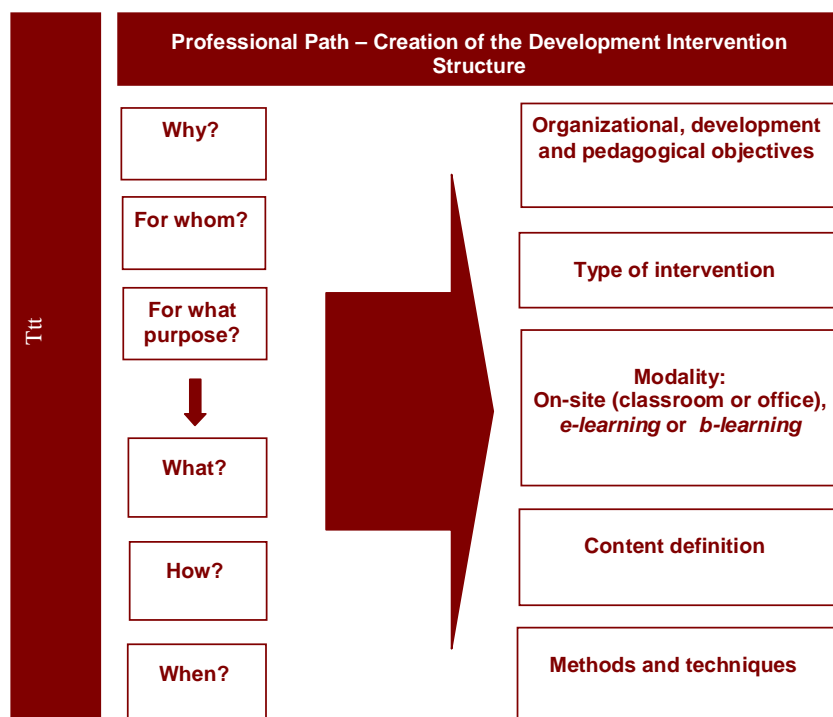
The information arising from the Individual Skills' Acquisition Plan constitutes an objective basis to diagnose development needs and draft the Development Plan.

The PAC is also a supporting instrument that the management staff employs to undertake a more informed selection of the individuals that will participate in development efforts, guaranteeing more equal opportunities.

3.2 The Development Path

In our view, the development path determines the furtherance of the development possibility on the basis of two structural pillars and notions for Professional Development:

- The Type of development intervention structure: nature, content, organizational and development objectives, pedagogical methods and techniques.
 - o What? For Whom? How (what format)?
- The Purpose: a) Dissemination, knowledge update, problem identification and discussion (seminars and workshops); b) Acquisition of new knowledge (long-term courses - internships); c) Update or acquisition of knowledge and skills (medium and short-term standard or customized courses).
 - o What lessons should be learned? What knowledge transfer is entailed? What type of follow-up is required? What are the benefits for the Organization?



In this chart, the DGCI conceived an ongoing development system with the purpose of providing agents, heads and directors the appropriate competencies and skills to face the technical/professional, ethical and human demands tied to the functions and positions they perform or assume in the course of their professional career.

In the field of mobility, admittance, access and progress in the career, there are six large types of development possibilities:

- a) Training for Directors (medium-term courses);
- b) Training for admittance and Tax Managers/Heads (customized medium-term courses);
- c) Training for internships for admission in the GAT careers (long-term courses);
- d) Training modules for candidates to participate in examination procedures (promotion-career progression) (customized short-term courses);
- e) Training modules: update, professional advancement and functional specialization (customized short-term courses) and
- f) Workshops and seminars.

Individual associations with trainers and institutional associations with businesses or other State or States' agencies are relevant to define the capacity and suitability of the development proposal.

3.3 Educational Modalities

As regards educational modalities, we currently rely on an array of new options provided by Information and Communication Technology (ICT) that beyond on-site training, enable to resort to distance learning thanks to the e-learning and b-learning methods.

For the purpose of this Conference, we shall only address the modalities that contribute with the most innovative aspects.

Based on tradition and routine, professional development was mostly carried out in classrooms. The present and the future aim towards the diversification of teaching-learning places, new spaces and new methodologies: the working position tied to the "any time anywhere" notion.

We are referring to **development in the workplace and e-learning courses**. Starting by the latter, the purpose of e-learning courses is to exploit the potential of electronic learning, innovating in teaching methodologies with the purpose of expanding the learning process and making it more autonomous and flexible.

- **E-learning**

Distance learning based on e-learning generates new responsibilities to build the development project, where self-discipline and self-assessment by the student become key. Spaces and methodologies become more flexible to enable broader opportunities to access education, qualification and professional achievement.

Beyond traditional training (the value added in any development intervention), e-learning courses, given their broad dissemination, empower two other mechanisms for professional advancement: update and qualification through training-information and training-information in the technical and tax field.

Development based on e-learning, by enabling a fast content update also allows to standardize working processes and procedures, an especially relevant aspect in the cases in which agencies are disseminated across a vast territory in a country where distances and its numerous islands entail costs and hurdles of different magnitude. By disseminating the standardized working instructions through e-learning mechanisms, we contribute to a double function: security, technical education and training, on the agent's side, and the quality of service rendered, on the organization's side.

Development through e-learning is supported by local monitors/instructors that transform the e-learning courses into b-learning courses to a large extent, a determining factor for the success and efficacy of this training modality.

- **Development at Work**

Development at work is normally used from the training-action approach tied to modernization and organizational change processes. In this area we create development projects that encompass theoretical and practical training of small groups in the classroom, followed by training-action at work in the organizational modernization project start-up phase, while the learning transference process in the

classroom is monitored and supported (SLC and CAT, as per the Portuguese acronym). Such educational projects involve heads and technicians.

3.4 Self-education, the Worker-Student Rules and the Intern Status

In line with the previously described mechanisms, we shall highlight an additional three, of equally key importance, within the logic of the Professional Development Culture system and the motivation, recognition and promotion mechanisms: the possibility of undertaking development courses or research work by initiative of the agent, especially vis-à-vis Self-education, the Worker-Student Rules and the Intern Status.

- **Self-education**

Self-education by an agent's individual initiative, whether direct or indirect, entails access to training tied to the functional areas in which the agent performs his work or in which he/she contributes to improve his/her respective grade. From this standpoint, in the working period, the Agency grants a self-education grant on an annual basis, for one hundred hours of education in technical and higher technical careers, and seventy hours for the remaining careers.

In the case of training actions with a direct relevance for the respective functional area, and at the discretion of the highest ranking director of the service, the grants may be extended to the limit of the number of hours foreseen for the training course the agent wishes to attend.

Self-education is funded by the student and when the course is attended within working hours, for all legal purposes it is deemed equivalent to the effective performance of the agent's function.

- **Worker-Student**

Worker-student is defined as the employee, regardless of the employment status, who attends any level of official education or equivalent education, including graduate courses, masters or doctoral courses, in a public, private or cooperative institution.

The worker-student is offered professional promotion opportunities in line with the grades obtained from the courses or education completed, although the simple completion of such courses or education does not make professional re-qualification mandatory.

The Agency defines specific working schedules with flexibility to allow attendance to courses and the travel time to the respective facilities; the worker-student relies on a maximum of six hours weekly, without loss of salary or benefits, should the education schedule require it so.

The worker-student is entitled to absenteeism, without loss of salary or benefits, when he/she must take Examinations, according to the specific rules defined by law.

- **Intern Status**

The employees and agents who wish to undertake working and education programs, attend courses or internships with a clear public interest for over a three-month term, may be granted the intern status.

The Intern status is granted on the basis of a partial or total leave from work, without waiving their salary or, for all legal purposes, their seniority in the category and in the government administration.

4. ANNEX

2007 Professional Development Plan

Strategic Principles

- Training in support of the Admittance Internships in the Tax Administration Group (GAT, as per the Portuguese acronym) careers,
- Specific training for middle-management and Heads of Tax Agencies,
- Renewal of training in support of the Ongoing Examination process, in the context of continuous training in modules,
- Ongoing and integrated training, especially in the areas of Management, Justice and Audits and New Technologies,
- Strengthening the distance learning tool, "e-Learning".

Distance Learning: e-learning and blended-learning

Technical-tax courses and behavioral courses (available and planned).

Available (updated Gov. Budget 2007)	New 2007 Courses
Individual Income Tax -IRS	VAT
Municipal Real Estate Property Tax - IMI	SIPA-Automated Lien Processing
Municipal Tax on the Transfer of Real Estate Property - IMT	Enforced Sales
Stamp Tax	Credit Rating and Lien Funds' Enforcement
Individual and Corporate Income Tax - IRC-Mod. 22	Government Budget - OE/2007
Counter-Municipal Decree System - SCO	e-Learning Instructors' Training
English	
Advanced MSOffice	
Fundamentals for Corrections. Tax Audits	

Case study

Topic 3.2

MOTIVATION, RECOGNITION AND PROMOTION MECHANISMS

Ina Yarde

Officer of Human Resources
Inland Revenue Directorate
(Trinidad & Tobago)

CONTENTS: 1. Introduction/Background.- 2. Theoretical Framework. 3 - Hygiene Factors.- 3.1. Salaries and other Financial Remuneration.- 3.2. Working Relationships.- 3.3. Working Conditions.- 3.4. Job Security.- 3.5. Company Policy and Administration.- 4. Motivator Factors.- 4.1. Opportunities for Advancement.- 4.2. Status.- 4.3. Recognition.- 4.4. Responsibility and Challenging, Stimulating Work.- 4.5. Sense of Personal Achievement - 5. Future Plans.- 6. Human Resource Management Unit.- 7. Conclusion

What should be done in the areas of motivation, recognition and promotion in order that the tax administration may strengthen itself by increasing its managerial capability efficiency and effectiveness, thereby satisfying the expectations of clients and stakeholders?

1. INTRODUCTION/BACKGROUND

The Inland Revenue Division is a Division of The Ministry of Finance of the Government of the Republic of Trinidad & Tobago. It therefore falls under the ambit of the Cabinet Minister of Finance and a Permanent Secretary. The Inland Revenue Division is administered by a Board which consists of five Commissioners, one of whom is appointed Chairman. As a Public Service body, we are governed by the Public Service and Civil Service Regulations of the Laws of the Republic of Trinidad & Tobago. Officers for the posts on the Division's staff establishment are recruited and promoted by the Public Service Commission. Salaries and allowances are generally negotiated between

the Chief Personnel Officer and the Union representing Public Servants, every three years. The Agreement on Revised Salaries and Cost of Living Allowance for the three-year period 2005 - 2007, was signed only recently, in March 2007.

I hope that the picture I have just painted will help you understand that a large percentage of the motivation, recognition and promotion mechanisms with which I am to treat in this presentation, falls outside the jurisdiction of the Board of Inland Revenue. It is for this reason that the Board of Inland Revenue is presently pursuing structural and administrative reforms that will give the Division greater autonomy in these matters.

To attract and retain staff who are committed to the organization, perform at maximum and who have high ethical conduct requires the provision of competitive financial, psychological and physical rewards. Our Division's strategic goals and objectives for the period 2005 - 2008 clearly illustrate our understanding of this principle as the following indicates:

GOALS	OBJECTIVES
1. Increased Employees' satisfaction, productivity and the establishment of a quality working environment	1.1 Improve employee incentives 1.2 Develop Inland Revenues Staffing Plan 1.3 Increase number of employees to be trained to effectively meet the requirements of the organization 1.4 Improve Inland Revenue Division's accommodation to provide a quality environment that motivates staff
2. Re-engineered Business Process to increase productivity and efficiency	2.1 Restructure the Inland Revenue Division to facilitate efficiency, effectiveness, account ability and customer service
3. Improved Tax Administration Information Technology Capability	3.1 Re-engineer information technology systems to improve operations within the organization

Also, embedded at the very centre of our mission statement, the words "improving our employees' welfare, knowledge, skills and attitudes" bespeak our strategic intent.

This presentation will take a look at some examples of our progress along these lines. To do so we will employ the theoretical framework of the Hertzberg's model of motivation.

2. THEORETICAL FRAMEWORK

Hertzberg's two factor theory of motivation suggests that an inadequacy in Hygiene Factors may result in dissatisfaction and de-motivation while their adequate presence does not necessarily motivate. These factors are basic to the organization and the individual, and loosely synchronise with Maslow's lower order needs which must be satisfied before higher order needs are met. Motivator factors, however, are equated with higher order needs, the presence of which results in job satisfaction and in motivating employees to above average performance.

According to Hertzberg, Hygiene Factors are based on the need to avoid unpleasantness at work and include:

- Company policy and administration
- Salaries and other financial remuneration
- Quality of relationships
- Working conditions
- Job Security

On the other hand, Motivator Factors are based on the need for individual or personal growth and include:

- Status
- Opportunities for advancement
- Gaining recognition
- Responsibility
- Challenging/Stimulating work
- Sense of personal achievement and personal growth on the job

3. HYGIENE FACTORS

In light of the theory we will examine first, the Division's practices in terms of Hygiene factors, beginning with the one which appears to be of greatest concern to most staff:

3.1. Salaries and other financial remuneration

According to Hertzberg a good living wage or salary is critical to avoiding dissatisfaction among employees of the tax administration.

However our Division is part of the wider Public Service and the compensation package of most of our staff fall outside our purview. We have been able to persuade the authorities, within the last ten years, to place the posts of Commissioner and Assistant Commissioner, Inland Revenue which are senior managerial posts, under the Salaries Review Commission (SRC). The Salaries Review Commission determines the salaries and allowances of certain senior public servants, parliamentarians, State Counsels, and Cabinet Ministers. The salaries are reviewed by the Commission on a regular basis and not negotiated with Unions. The salaries which these senior managers receive are much more attractive and competitive and other members of staff now see possible ascension to the posts as a more productive career move.

In an effort to address the dissatisfaction among other staff because of comparatively low salary rates, the Division has proposed a professional/technical allowance which will compensate for the technical/professional skills and hazards peculiar to the jobs at the Division.

3.2. Working Relationships

The IRD is a big family. Most professional and support staff have grown up together with the organization which celebrated the 40th anniversary of its Board in 2006. Because of these historical ties management has always maintained an open-door policy and most relationships are respectful and cordial. The comfortable, family feeling, and the hosting of annual sporting and cultural activities, including celebrations for the Muslim festival of Eid, the Hindu festival of Divali and Christmas are important hygiene factors which maintain the well-being of staff and the organization.

The Division encourages the formation of staff associations which strengthen and enrich staff relationships. The Sports Club which is 30 years old, Messengerial/Manipulative Staff Association and Administrative Professionals Association (10 years old) have enhanced not only the social dimension but also job performance of staff. There has also been a loose grouping of technical/professional staff for addressing technical/professional matters. The Board of Inland Revenue has always preserved a healthy relationship with the Union and regular meetings between staff side and management.

The Division also runs courses in Supervisory Management to ensure that managers and supervisors acquire required competencies to maintain productive and pleasant team relationships.

3.3. Working Conditions

A modern, spacious, healthy facility inclusive of recreational day/after care, dining areas, expanded library, training school and car park is due for completion soon, in accordance with our strategic objectives. All members of staff were invited to give comments on the design and requirements of the new building and compound and are eagerly looking forward to the occupying this new facility carded for completion in 2008.

3.4. Job Security

Jobs in the Public Service usually have security of tenure. However, staff must be promoted promptly and according to objective criteria, to avoid dissatisfaction and suspicion. The Division seeks to ensure this by early recommendations to the relevant Public Service body in charge of appointments and promotions.

3.5. Company Policy and Administration

The Division is governed by the rules and regulations of the Public Service which are quite liberal in the grant of several types of leave, including vacation leave, sick leave, full pay study leave and no-pay leave. The Division's policy has been to allow officers the required concessions in these areas while maintaining sufficient levels of staff to run the organization. Many officers are satisfied to remain with the Division because of there is some degree of flexibility in the working hours and fairly substantial leave benefits, which allow promote the pursuit of higher education.

Recently, our Code of Ethics was revised and seminars held recently, to communicate the Code and updates to staff. This ensures a clear understanding as well as input and acceptance of the Code. Staff received copies of the published Code.

4. MOTIVATOR FACTORS

We will now address the mechanisms which, according to Herzberg, are motivators, factors which lead to job satisfaction and high performance:

4. 1. Opportunities for Advancement

The Division has a policy on promotion and acting arrangements in which staff who serve as Tax Officers I/II or Field Auditors I/II for at least three years and who achieve a professional accounting qualification may be given accelerated promotion to the post of Field Auditor III ahead of senior colleagues who are not so qualified. This has been cause of great motivation among junior staff to achieve the qualification.

In 2006, the Division proposed an additional policy on promotions and acting arrangements in the technical/professional grades which articulated the different disciplines and levels of training through which experienced staff may ascend to the top of the organization. The policy seeks to create space for conscientious, committed employees who have not, so far, succeeded in attaining the requisite professional qualification for upward mobility, to ascend to higher grades through equivalent combination of training and experience as enunciated in the circular. Affected staff expressed immediate relief at this measure and the Division is working with the relevant authorities to ensure acceptance and enforcement of the policy at the office responsible for promotions.

The Division's policy on training and development is geared to address skill deficiencies and equip officers to perform their present duties, and prepare them for service at higher and managerial levels in accordance with our strategic direction. Our recommended annual Training and Development Estimates usually exceeds 2.5% of the annual estimates, however we are aiming for a more acceptable standard of 5%. Courses are offered in relevant disciplines and officers are motivated to pursue personal development through policy which includes partial and full-pay study awards, and no-pay study leave. During the last year and a half sixty officers have benefited from full-pay awards and partial awards in several disciplines, including Information Technology, Accountancy, Legal Studies, and Business. Further, the Division's taxation and accountancy course is very reputable and the UK based ACCA Body has recognized our Training School as a Continuous Professional Development Centre.

4.2. Status

To be an officer of the Division of Inland Revenue carries with it a certain prestige and high regard as one is responsible for administration of the taxes which form the basis of the economic status of the Republic of Trinidad & Tobago. When providing tax-payer assistance or serving as tax compliance officer officers carry the authority and power of the Board in executing policy which affects the finances of individual or corporate tax payers. Additionally, officers of varying ranks who perform creditably are given the opportunity to meet persons of eminence in various local and international fora, for business, tax policy matters and social events.

4.3. Recognition

For several years the Division has practised recognizing employees' commitment to the organization, through excellence awards, long service awards, and retirement functions. The annual long service and retirement awards function is an opportunity to showcase the contributions of retirees and officers who have served the Division for 25 years or more. This function is eagerly awaited by staff at all levels. Certificates and letters of appreciation adorn office walls and files of various staff members who have contributed to the growth and development of the organization. Annually, the Organisation has distributed small tokens to all officers in recognition of service.

In 2005, the organization gained national recognition when it was awarded the Prime Minister's trophy for innovation. The Division had been engaged in a number of reform projects targeted at improving customer relations. The implementation and ready reception by customers of a new cash remittance system and an enhanced website caused such great pride among staff that the Tax Payer Relations Unit felt impelled to submit the innovations to the Prime Minister's innovation Award Committee 2005. Our Cash remittance system was chosen and the rest is national history and a consistent feeling of we-can-do -it pride in the Division.

4.4. Responsibility and Challenging, Stimulating Work

The Inland Revenue Division has grown through several metamorphoses. The growth of the organization over the years through additional business, reengineered business processes and structural redesign have allowed for concomitant growth of staff through additional responsibility and new, challenging and stimulating work.

Over the last fifteen to twenty years, the structural changes were made to include, business units for VAT, Petroleum and Large Tax Payers, and Reform. These Units have provided areas for greater responsibility, job enhancement, and skill building. Officers have been reassigned to Units according to their abilities, knowledge and skills and additional areas have been created for advancement and responsibility. Also system of rotation, implemented for many years, has increased the flexibility and value of most officers.

The Division is in the process of implementing an Integrated Tax Processing System. This will change the way we do business bring greater efficiency on the job and increase customer satisfaction. Staff are enjoying and rising to the challenge to learn new processes and to be more technologically competent as the new system will necessitate the deployment of approximately 700 additional computers and afford staff opportunities for further training.

4.5. Sense of Personal Achievement

The Division continues to demand high educational and professional qualifications from its officers, by maintaining job requirements that are in sync with industry standards. This encourages staff to stretch themselves to achieve theirs and the organizational goals. The Division espouses and maintains policies where professionalism is expected and encouraged, through written code of ethics and job requirements, where growth is possible learning is requisite and knowledge is applicable. Because of this, at all levels, staff apply themselves to attain higher standards of education and professional development. Clerks and Clerk Typists, as well as technical officers are proud to submit certificates indicting accomplishments of ACCA, Law and graduate and post graduate degrees in other disciplines.

5. FUTURE PLANS

The Division recognizes that much more needs to be done and intends to improve on all areas of employee management in order to insure that both hygiene and motivator factors are more adequately addressed, staff assume greater identification and engagement with the organization and that the resultant increased levels of commitment, productivity and integrity are realized.

Most important in our on-going and future plans is the matter of Administrative reform which we hope to have dealt with soon so that such fundamental issues of compensation and promotion, causes of dissatisfaction, can be remedied. Another issue of pressing importance and which, in conjunction with the Central Human Resource Agency, we should implement early in 2008, is the establishment of an Employee Assistance Programme. This programme is intended to deal with both hygiene and motivator needs of employees as it will help employees and their families handle life situations which negatively impact their sense of well-being, job performance and capabilities for personal achievement. It will also improve the Organisation's image as a caring one and promote employee commitment and retention.

6. HUMAN RESOURCE MANAGEMENT UNIT

To assist the organization in promoting policies and practices that are conducive to better employee relations, including motivation, recognition and promotion mechanisms, a HRM unit was introduced in the Division in 2004 and fully established in 2006. The Unit has been structured to deal with HR Planning, Development and Employee Relations in a more strategic manner.

7. CONCLUSION

In summary, we have examined, using the hygiene and motivator elements of Herzberg's Two Factor theory, the following mechanisms for motivation, recognition and promotion of staff employed by the Inland Revenue Division of the Republic of Trinidad & Tobago:

- **Hygiene Factors**
 - a) Special salary and allowance status for Senior Managers
 - b) Proposed professional/technical allowance
 - c) Secure Jobs
 - d) Cordial, respectful, familial, open-door relationships
 - e) Active staff associations/clubs and Union staff side
 - f) Social and cultural celebrations
 - g) Modern, spacious, healthy accommodation
 - h) Professional, staff-friendly and communicated policies, including a Code of Ethics
 - i) Accelerated Promotions
 - j) Prompt recommendations for promotion

- **Motivator Factors**

- k) Policies and organisational structure which create sufficient space for career advancement for all
- l) Training and Development policies, programmes and study awards that cater for individual and organizational development
- m) Authority and status
- n) Recognition and awards of excellence and long service through letters, certificates and substantial awards on Annual Long Service and Award Day Functions
- o) Responsibility and challenging, stimulating work through organization restructure, business re-engineering, job redesign and job enhancement
- p) Integrated Tax Processing System
- q) Sense of Personal Achievement through the application of policies that demand high education and professional standards and encourage growth and learning.

We have every intention, through appropriate plans and policies, to broaden and deepen our initiatives in the areas of motivation, recognition and promotion in order that our organisation may strengthen itself by increasing the integrity, capability, efficiency and effectiveness of managers and staff, thereby satisfying the expectations of clients and stakeholders.

Case study

Topic 3.3

RESPONSIBILITIES AND COMMITMENTS IN ACHIEVING RESULTS

Ricardo Escobar Calderón
Director of the Internal Tax Service
(Chile)

CONTENTS: 1. Introduction.- II. Strategic Planning.- III. The Variable Remuneration System Applied in the SII.- 1. Incentive for oversight institutions (Act 19.041 of 1991).- 2. Variable allowance by reduction of tax evasion (Act 19.646 of 1999.- 3. Collective performance increase (Act 19.882 of 2003).- IV. Experiences in the Implementation of Variable Incentives.- 1. Incentive for oversight institutions.- 2. Variable allowance based on tax evasion reduction.- 3. Increase based on collective performance.- V. Reflections regarding the Desirable Features in a Variable Remuneration System.- VI. Reflections regarding the Desirable Features in a Variable Remuneration System.- Attachment: Mechanism for determining variable incentives.

I. INTRODUCTION

The purpose of this document is to elaborate on the Chilean Tax Administration experience, as regards the achievement of performance results as the outcome of the contribution by the individuals working therein, while responding to duly planned intervention plans and programs, with the appropriate implementation supervision.

Undoubtedly, the commitment and responsibilities of the members of an organization are key elements to enable the achievement of goals and objectives in any company or institution. Notwithstanding, this alone does not suffice to make such achievement successful. In the SII we have determined that in order to achieve performance results in line with our plans, it is vital to foster a direct relation between an adequate planning process and officials focused on the achievement of the

institutional strategy defined, who rely on an incentives and compensation system based on performance criteria and the contribution to the attainment of the performance goals as defined and known.

Given the relevance of the achievement of performance results for the Internal Revenue Service, as from 1990 we have structured a management model based on certain fundamental elements, which are geared at the attainment of concrete goals, expressed according to easily quantifiable performance indicators.

Two major pillars support such management model:

1. The existence of successive and systematic strategic planning processes, developed with the purpose of guiding the SII actions towards the attainment of clear and specific objectives, which are known and shared by all the levels of the organization.
2. The design of variable compensation and remuneration systems, which considers outstanding performance and the contribution of the services' officials towards the compliance with the strategic institutional objectives and the performance goals arising therefrom.

For a better understanding of the foregoing elements, this document shall address each one of them, with the purpose of describing their form of contribution for the SII to meet the performance goals set forth.

II. STRATEGIC PLANNING

In the last few years, the SII has based its performance on a strategic planning focused on the ***Tax System administration and tax compliance oversight***.

Said strategic planning has become the central axis for institutional matters, since it has enabled to provide all officials with a reference framework to guide them in their daily undertakings and to connect them with the compliance of the institutional goals. Therefore, the design of the SII strategic planning has incorporated the active participation of the different players that make up the organization.

In the present decade, a new momentum is given to the institutional strategy as a result of the enforcement of the "Anti-Tax Evasion Act",

which is aimed at a more ambitious enforcement of tax obligations. Based on such purpose, the SII has been staffed with new officials, granted more financial resources and empowered to strengthen oversight. The commitment assumed consisted in collecting an additional US\$ 600 million in 2005, and achieve an overall evasion that should not exceed 20% for that same year. Both **goals were duly attained.**

Currently, in order to strengthen compliance with its inherent objectives, the SII has set forth the following strategic guidelines:

- Improve oversight efficacy in the combat against tax evasion.
- Extend technological developments and innovations.
- Approach integral Human Resources policies aimed at favoring professional and personal development as well as the official's career, contributing to the improvement of his professional and personal life.
- Improve taxpayer communication and service.
- Adjust the norms to the provisions strictly set forth by law.
- Officials' professional skills.
- Continuous support in the drafting and passing of legislation.
- Participation in the international arena.
- Maintain efficient and effective relations with other tax administrations and strategic partners.

According to these guidelines, the SII 2006 - 2010 Strategic Plan has been structured on the basis of five projects, which are described hereunder:

- a) **Taxpayer segmentation**, according to their specific features and needs, to facilitate the rendering of high quality services and support voluntary tax compliance, focusing oversight efforts on the non-compliant taxpayers, and those who choose to evade taxes and commit tax fraud.
- b) **Adoption of a set of initiatives that adapt the Service for the relevant impact arising from the enforcement of the independent tax justice system**, with specific judges and courts, in addition to the technical implementation of the system. Its purpose is to make the review process initiated by taxpayers against enforcement actions undertaken by the SII more dynamic and efficient.
- c) **Modernization of the regulatory area**, in order to shed light on the administrative case law and improve access thereto.

- d) **Develop a new Real Estate Tax management system**, by adopting technologies to enable owners to enter and modify real estate property data, as well as the use of satellite geographic information systems applied to the taxpayers' registry.
- e) **New focus on Human Resources management**, by the implementation of modern labor management policies, to strengthen individual and collective performance for the efficient compliance with institutional objectives.

Such strategic projects are aimed at the optimization and continuous improvement of the Internal Revenue Service performance, becoming the guiding framework of the institutional performance in the middle term.

III. THE VARIABLE REMUNERATION SYSTEM APPLIED IN THE SII

Currently, the SII applies a remuneration system that is highly tied to the achievement of results. In effect, this system may impact on up to one fourth of an official's pay, when the organizational goals are fully met (Refer to Table N°1). Therefore, the goal follow-up and dissemination process, its degrees of progress, and its correlation with salary incentives are an ongoing concern for the organization overall.

The variable remuneration system is the outcome of the enforcement of three laws, which were approved at different times and with slightly different designs among themselves. Notwithstanding, they share the feature of being tied to collective objectives, that is to say, none of the three components is determined on the basis of individual achievement.

The incentives and allowances set forth shall be enumerated hereunder. A more detailed description is presented in the attachment hereto.

1. Incentive for oversight institutions (Act 19.041 of 1991):

- **Related result:** This item was introduced in 1991 and determined a variable allowance according to an additional tax collection goal.
- **Beneficiaries:** In spite of being tied to collection, it is not only applicable to the Tax Administration staff (SII, Customs and the Treasury), but also to other government institutions with a

certain oversight role (General Comptroller's Office, Directorate of Budget, State Defense Council and the Finance Ministry Secretariat and General Administration).

- Allowance amount: The cap has been defined at an applicable 18% percent of the remuneration amount.
- Agency in charge of determining the allowance: The entity in charge of calculating this incentive is the Directorate of Budget, which reports to the Finance Ministry. This entity drafts a decree that shall be ratified by the Finance Ministry and the President of the Republic with the incentive application scope.
- Historic application: From 1991 to 1998 the percentage obtained was the maximum allowed, that is to say 18%. In 1999, a 15.6% was obtained. In subsequent years, the percentage obtained according to the formula has been lower than this amount. Notwithstanding, based on a decree, the allowance was maintained at 15.6%. Only in the years 2006 and 2007, the percentage reached the 18% cap value according to the formula.

2. Variable allowance by reduction of tax evasion (Act 19.646 of 1999):

Related result:

This component was introduced in 1999 and determined a variable allocation tied to aggregated collection goals based on lower tax evasion rates.

Beneficiaries:

This allocation is exclusively applicable to the SII staff.

Allowance amount:

Just as stated in Table N°1, the percentages vary between 13.5% in the case of an official in the assistant category and 27% in the case of directors, professionals and oversight officials.

Table N°1

Variable Allowance based on Tax Evasion Reduction

Rank	Category	Allowance Percentage
Director	1 to 9	27%
Professional	5 to 7	27%
	8 to 10	24%
	11 to 12	21%
	13 to 14	19%
	15 to 17	15%
Oversight Official	10 to 11	27%
	12 to 13	24%
	14	22.5%
	15	21%
Technical Staff	14 to 16	21%
	17 to 19	17%
Administrative	16 to 17	15%
	18	14%
	19 to 20	13.5%
Assistants	19 to 22	13.5%

Temporary mechanism:

Only for the 2001-2004 performance and by provision of the Anti-Tax Evasion Act, the effective revenue surplus was also required to meet certain collection amounts as defined, based on the tax evasion reduction goals provided by law (100% application was obtained according to a 110% revenue surplus of the goal for every year of the Plan).

Agency in charge of determining the allowance:

The entity in charge of calculating this incentive is the SII. The Directorate of Budget audits the calculation, and upon approval, drafts a decree that must be ratified by the Finance Ministry.

Historic application:

From 1999 to 2001 a 0% incentive was obtained. Since 2002, the first year of the enforcement of the anti-tax evasion plan, the overall percentage has been obtained.

3. Collective performance increase (Act 19.882 of 2003)

Related result: This law was published in 2003 and it set forth a remuneration increase percentage tied to the **compliance of collective goals** by the different **working groups** defined by the organization.

Beneficiaries: This allowance applies to the staff from all Government Administration offices. In the case of the SII, differential percentages are applied. We have made up 18 working groups for the SII internal units (16 Regional Directorates, the Large Taxpayers Directorate and the National Directorate).

Allowance Amount: The incentive percentage is defined on the basis of the degree of compliance with the global goal for each working group. Should the degree of goal compliance be equal to or greater than 90%, the group incentive percentage is 6%. If the degree of compliance is equal to or greater than 75% and lesser than 90%, the group incentive percentage is 3%. Should the degree of compliance be lesser than 75%, the group incentive percentage shall be 0%.

Agency in charge of determining the allowance: The entity in charge of calculating this incentive is the SII. The Finance Ministry audits the calculation and approves the final assessment.

Historic application: Since its introduction in 2003, the goal compliance percentage has exceeded 90% in all the working groups, by which the incentive has been applied in full, that is to say, according to the maximum predefined 6% rate on the base remuneration.

The impact that such incentives have entailed for officials' remunerations may be inferred from Table N° 2, which shows the percentage incidence of the variable components in the three specific cases, according to category and rank.

Table N°2**Variable Components in SII Staff Remuneration**

Data as of December 1st, 2006

	Professional Rank 10 (% of total)	Director Rank 5 (% of total)	Administrative Rank 16 (% of total)
Fixed components subtotal	72.7%	71.5%	75.3%
Subtotal components variables*	27.3%	28.5%	24.7%
(i) Incentive for oversight institutions	13.0%	12.7%	13.3%
(ii) Variable allowance for lower evasion rates	11.4%	12.9%	8.2%
(iii) Increase for collective performance	2.9%	2.9%	3.2%
Total	100.0%	100.0%	100.0%

IV. EXPERIENCES IN THE IMPLEMENTATION OF VARIABLE INCENTIVES**1. Incentive for oversight institutions**

This allocation lost its variable feature for a number of years, since given a formula design issue, the target collection increased well above the effective collection levels¹. Financial authorities then made use of their prerogative of extending it by decree, even disregarding the amount arising from the formula. Although the advantages of such compromise were to avoid a union dispute and a complex legal amendment process (solely to correct the formula), the least favorable aspect was that the connection with collection performance was lost. Overall, the extraordinarily high collection levels reached in the years 2005 and 2006 (mainly attributable to private sector copper mining contributions) have again enabled the application of the formula to grant the incentive.

¹ *In technical terms, the issue with the formula was the demand, in all cases, of a minimum 1% annual increase. In the face of certain years of economic slowdown, this demand-floor exceeded the effective collection yields. Another setback arose from the remuneration amount on which the percentage was calculated, since upon increasing the headcount, this figure grew well above the levels of the base year, because the formula failed to consider standardization according to the number of officials included in the remuneration amount.*

Among the most relevant aspects of this incentive, we may mention its collective and global nature. This enables to determine it according to the overall effective tax revenue and not by an excessive punitive action from officials, geared at artificially forcing compliance with the goals set forth and generating a "perverse incentive" in doing so.

In that regard, it is important to mention the SII experience vis-à-vis this allowance. In effect, in our country the great majority of revenue collection is obtained through voluntary compliance, without a coercive action by the organization. To the contrary, only a marginal portion of tax revenue, not exceeding 2% of the total, is a consequence of the Service's oversight action.

Based on the foregoing, we may assert that the efforts of the SII and its staff have focused on the achievement of this incentive via actions that precisely facilitate voluntary tax compliance. This has been reflected in the implementation of numerous initiatives for such purpose, which, in turn, have resulted in better taxpayers' assistance and quality of service and consequently, greater revenue collection.

2. Variable allowance based on tax evasion reduction

This allowance encountered a similar issue to the previous incentive as to its formula design. In this case, the issue arose by originally determining a high collection year (1997) as the base year, against the revenue to be collected in subsequent years². The consequence was the same, that is to say, target collection increased well above the effective collection levels. Financial authorities settled on a different option other than granting it by decree. In this case, the solution was posed by a new tax reform approved in 2001, the so-called "Anti-Tax Evasion Act".

This reform took into consideration a number of measures against tax evasion based on different tax laws, as well as increases in headcount, resources and legal powers for the Tax Administration. This Act was used to amend the variable allocation law, changing the base year of the mechanism to 1998 (a year with a collection volume in line with subsequent years). At the same time, the goals demanded to adjust them to the commitment of greater collection in this Act were corrected.

² *In the subsequent years to 1997, the economy was strongly impacted by the effects of the "Asian crisis". The recovery of tax revenue thereafter was insufficient to offset the very high basis set forth by the revenue of the pre-crisis year, 1997.*

Among the advantages of this incentive, we may mention its collective and global nature and that its determination does not depend upon the fines issued by officials³. Additionally, there is an improvement in the design of the formula regarding the previous incentive, in the sense that it does not impose a demand-floor, but the demand depends exclusively on the evolution of the economic activity⁴.

3. Increase based on collective performance

This instrument is a more specific performance improvement tool, since it is not designed as the foregoing, for officials in general, but for the working group level. The upside is that it fosters joint work, with concrete goals and results, measurable during their execution period.

The collective performance agreement goals are generated with the participation of the working groups that must achieve them, which grants them legitimacy. In turn, the working groups receive feedback in due time by the regular publication of partial commitment compliance results, which allows them to take preventive actions.

The committed goals cover different relevant areas of the institutional performance, which are annually updated to adjust the management areas, whether by incorporating or eliminating some of them. The inclusion of indicators in new areas evidences the deficiencies of the processes involved, which fosters operations' improvement and organization.

Notwithstanding, the performance of the processes excluded from the framework of the agreement may be impaired, since by not being measured they may be kept out of the administration's focus. Additionally, an imbalance may arise in the degree of human resources' effort and allocation among the different issues included in the agreement.

³ *Strictly speaking, the fines in this incentive are included in the revenue calculation, but its incidence is less than 1% of the overall revenue amount.*

⁴ *In this case, the compliance standard adopted was the GDP growth by the factor of 1.1. Certain consensus was reached by specialists on this standard, which entails a 1.1 revenue elasticity-GDP ratio.*

Determining the goals is a critical aspect, since the inadequate definition and determination may generate an excessive demand on the groups involved, thus producing deterioration in the working environment. To mitigate such risk, differential goals have been established according to the performance attained in prior periods, assigning a less demanding role for the groups with better relative performance.

V. REFLECTIONS REGARDING THE DESIRABLE FEATURES IN A VARIABLE REMUNERATION SYSTEM

Currently, most organizations define a certain correlation between their remunerations policy and the achievement of goals or results. Certain requirements demanded by a variable remuneration system based on results are a clear definition thereof, a link between officials' performance and results, and an objective and formal mechanism which helps explain such elements, inside and outside of the organization. On the latter, it may be advisable to use model performance "agreements" or "covenants".

At the time of defining performance indicators that enable to tie results with remuneration, global indicators may be defined, geared at measuring compliance of the organization's main goal, such as, in this case, tax evasion reduction; or else, defining specific indicators that measure specific goal compliance, tied to the different processes undertaken by the organization and that overall, determine compliance with the global goal.

The advantage of a global indicator is that it allows the organization to focus on the key issues, in compliance with its mission, focusing the performance of each part of the organization on said global goal. The disadvantages are, on the one hand, the difficulty in defining and measuring such an indicator in a Tax Administration. In effect, if we make an analogy, measuring the reduction of tax evasion is not as easy as measuring a company's profitability, in addition to the fact that such reduction may also be based on factors that are unrelated to the organization's performance. A bad definition may cause the values taken by the indicator to be unrelated to the organization's efforts. On the other hand, it is common for many people not to perceive a close tie between their day to day work and the organization's overall result, by which the stimulus pursued fails to occur.

Conversely, specific and well defined indicators are directly tied to peoples' day to day activities and may become a direct stimulus to achieve the specific goals that in turn move the organization to enhance its overall performance.

As to the foregoing, regardless of the usefulness of specific performance indicators, they shall not be considered in isolation. Although it is true that they are efficient when it comes to enabling specific, easily defined achievements, it is also true that by no means do they contradict the definition of general goals, which may precisely serve to illustrate the context in which such specific indicators have been defined and the way they related to the organization's global objectives.

VI. CONCLUSION

As we have pointed out in this document, the achievement of results that an organization expects is greatly dependant on the commitment and the responsible contribution that its members are able to make in order to meet the objectives and goals set. This is based on the fundamental premise that all the levels of the institution have become familiarized in advance, and if possible, embraced, the performance goals as well as the strategy defined to attain them.

In order to promote effective staff contribution in the achievement of successful results, a compensation and incentives' system is required, based on the payment of variable remuneration allowances that shall be granted according to officials' contribution in the attainment of the clear and defined goals, expressed in specific and easily measurable indicators.

By virtue of the foregoing, we may state that by duly tying a strategic planning process that includes objectives, goals and defined and disseminated actions to a remuneration system that grants performance and management achievement incentives, the desired results shall only be a logical and natural outcome of said combination.

ATTACHMENT

MECHANISM FOR DETERMINING VARIABLE INCENTIVES

1. Incentive for oversight institutions (Act 19.041 of 1991):

The mechanism to calculate the incentive is based on the comparison of the revenue for each year against a base amount. The law determined 1991 as the year for the initial revenue. The revenue considered excludes the fines and interest item. Such exclusion was aimed at leaving out of the calculation the revenue originated by the SII enforcement of fines, so as not to induce a purposeless issuance of fines by oversight officials. Overall, the incidence of the revenue from fines and interest on the overall revenue is very low (less than 1%), by which we should not expect a great impact of such tax revenue item in the achievement of the target collection. The base collection for a given year is calculated by increasing the base collection of the previous year by 1% and adding the actual variation percentage of the Gross Domestic Product (GDP).

Also, the effect of the legal changes after 1991 must be excluded from the calculation of the base revenue. This process, called "standardization" is aimed at excluding the revenue increases or reductions based on changes in the tax legislation from the calculation, since they can not be attributed to a better or poorer administration performance. The annual incentive percentage to be applied on the remunerations is calculated proportionally to the effective revenue surplus achieved in excess of the "standardized" base revenue, against the remuneration total.

2. Variable allowance by reduction of tax evasion (Act 19.646 of 1999):

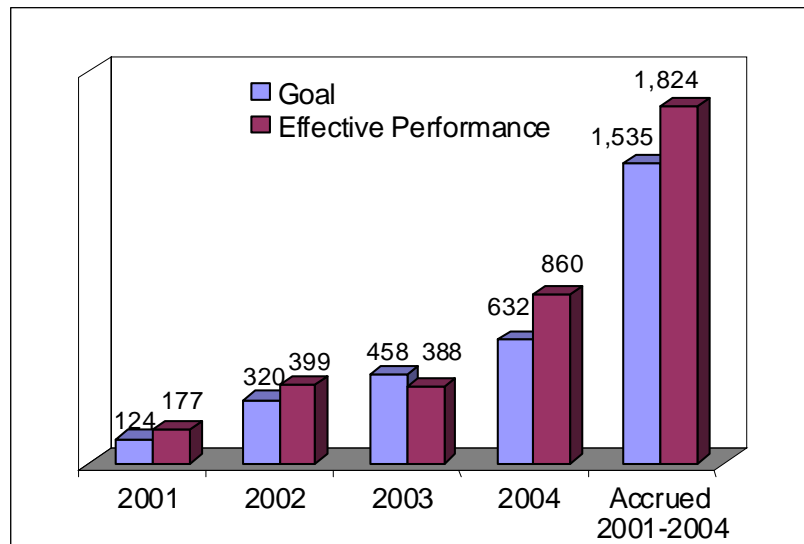
Just like the foregoing incentive, the calculation mechanism is based on the comparison of the revenue of every year against a base amount. For such purpose, the law determines the initial base revenue of 1998. In the calculation, the revenue considered

excludes the foreign trade taxes' item, enforced by the National Customs Service. This exclusion was implemented in order to solely reflect the internal tax revenue that is more closely tied to the SII performance. The base revenue for a given year is calculated from the base revenue of the previous year, which is increased by the actual GDP variation multiplied by the factor of 1.1. The effect of the legal changes after 1998 shall be excluded from the calculation of the base revenue ("standardization"). The degree of incentive application is calculated in proportion to the effective revenue surplus amount achieved in excess of the normalized base revenue. This degree of application enables to partially or fully confirm a series of pre-established percentages applicable to each official according to their rank and category in the remunerations scale.

The following chart shows the effective results obtained regarding this incentive in the 2001 - 2004 period:

CHART 1

**Goal and Effective Performance, Anti-Tax Evasion Act
Million US\$**



Source: SII based on Central Bank National Accounts Information

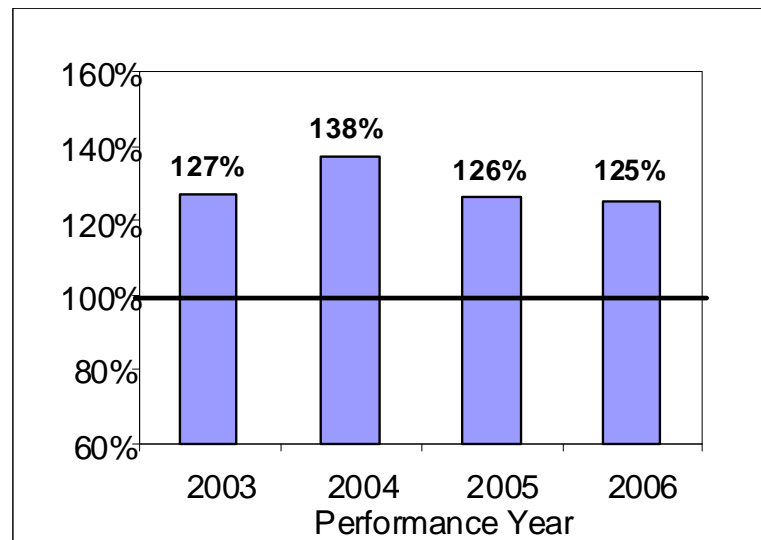
3. Collective performance increase (Act 19.882 of 2003):

A global performance indicator is defined for each group, which is calculated on the basis of a set of specific sub-indicators and their respective goals (for example, the percentage increase in the number of statements filed via the Internet). The degree of compliance of the goal for each group is calculated according to the weighted amount of compliance with the partial goals of each one of these sub-indicators.

As to collective performance increase, Chart N° 2 shows the behavior of this allowance, between 2003 and 2006:

CHART 2

Effective compliance with the Performance Agreement Goal
at the Global Level



Source: SII

Case study

Topic 3.3

MOTIVATION, RECOGNITION AND PROMOTION MECHANISMS

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CONTENTS: 1. Czech Tax Administration.- 1.1. Historical development of the Czech Tax Administration.- 1.2. Organizational structure of the Czech Tax Administration.- 2. Areas having an influence on fulfilment of commitments and responsibilities of employees of the Czech Tax Administration.- 2.1. Salary policy in the Czech Tax administration.- 2.2. Education in the Czech Tax Administration.- 2.3. Assistance in crisis situations - taxpayers' attacks.- 2.4. Evaluation Performance in the Czech Tax Administration.- 3. Conclusion.

1. THE CZECH TAX ADMINISTRATION

1.1. History of the Czech Tax Administration

The modern Czech Tax Administration was established after the downfall of the communist regime. Till 1989 before velvet revolution, the Tax Administration represented sort of the financial administration, which fulfilled the role of the socialistic instrument of former system. Till 1989 the financial administration of the Czechoslovak Socialistic Republic expressed the picture of the former tax system, which came out from the socialistic principles of economy, and it was against the private enterprise in general.

In 1990, in connection with the downfall of the communist regime, the radical changes of tax reform began. Especially, tax reform was convenient for enterprise, eliminated existing unfair tax system and had to adapt to the common European tax systems. The most

considerable changes started in 1993. On the 1st January 1993 a new tax system was launched and absolutely changed tangible and procedural tax regulations. The new taxes were launched: value added tax, consumption tax, natural person income tax, legal entity income tax, real estate tax, road tax, inheritance tax, gift tax, real estate - transfer tax. This structure of the tax system is still valid.

In connection with carrying out of the tax reform it was evident that former financial administration is inefficient and can't fulfil tasks, which are set up in the standard market economy. Besides radical tax reform it was necessary to establish the bodies, which could ensure the implementation. The system of the Territorial Financial Authorities was established on 1st January 1991 according to the Act No. 531/1990 Coll., on the Territorial Financial Authorities, which operate 8 Financial Directorates and 218 Tax Offices (nowadays 199). These mentioned bodies, when The Ministry of Finance is a leader, are units of the Czech Tax Administration till now. Tax Offices and Financial Directorates conduct the administration of all taxes with the exception of consumption taxes, which are administered by the Customs Administration.

1.2. The organizational structure of the Czech Tax Administration

The Czech Tax Administration consists of three levels of the authority system, which represents The Ministry of Finance (central level), The Financial Directorate (regional level), The Tax Offices (local level) with its own authority.

The Ministry of Finance is the central body of the Czech Tax Administration with the central influence. The tax issues are a part of the responsibilities of the Ministry of Finance but, in respect of the state budget, the tax issues belong among priorities. The Ministry of Finance particularly makes the proposals of the laws and the other regulations in the field of taxes, ensures tasks concerning the international treaties, development of the international affairs and co-operation, manages the administration of taxes in accordance with the valid Act on Administration of Taxes and Fees. Ministry of Finance manages the Financial Directorates and through them manages the Tax Offices and examines the decisions of the Tax Offices issued in the administration proceedings.

The area of taxes is concentrated into one of the sections managed by the Deputy of the Minister of Finance who is responsible for the area

of taxes and duties in the Czech Republic. But it's necessary to mention that Tax Administration and Customs Administration are separated in the Czech Republic. These two bodies of the state administration mutually co-operate, but according to the management they are subordinated to the Deputy of the Minister of Finance.

The section "Taxes and Duties" is formed by the Departments, subordinated to the Deputy of the Minister of Finance, carrying out the activities related to the "tax legislation" in the field of tax and duty policy. Also this section consists of the Central Financial and Tax Directorates, managed by the General Director is subordinated to the Deputy of the Minister of Finance.

The Central Financial and Tax Directorate was established in 1995 by the Decision of the Minister of Finance and nowadays represents 5 Departments. The particular Departments cover the taxes, which are administrated by the Czech Tax Administration including information technologies and management of the territorial financial authorities. The Central Financial and Tax Directorate especially conducts the administration of taxes and manages the Financial Directorates.

The Financial Directorates are bodies of the Tax Administration having regional competencies and superior to the Tax Offices. The Financial Directorates are entitled to conduct the state administration in the field of their influence, administer with the state possession. The Director of each respective Financial Directorate, who is appointed and removed by the Minister of Finance, is responsible for performance of the Financial Directorate under his charge. Currently 8 Financial Directorates have seats in the important towns of the Czech Republic and manage altogether 199 the Tax Offices. They conduct the administration of taxes in accord with laws in force; examine the decisions of the Tax Offices issued in administration proceedings, conduct tax audit and price audit. The territorial competencies of the Financial Directorates are defined by the Act, on the Territorial Financial Authorities.

The Tax Offices represent territorial and organizational units of the first level and they are subordinated to the Financial Directorates. The Tax Offices are entitled to conduct the state administration in the field of their influence. Director of Tax Office is in charge of all activities of the respective Tax Office and is appointed and removed by the Director of the relevant Financial Directorate.

Generally, the Tax Offices conduct the administration of all taxes, which are responsible for. It means they are responsible for the registration of taxpayers, assessment of taxes, tax audit, enforcement of taxes. Apart from it, the Tax Offices performance the other activities - e.g. the audit of liabilities based on the Act on Accountancy, the state supervision on lotteries and gambling games, the activities related the Act on the Registration Cash Desks. The Tax Offices are also entitled to ensure the audit of the subsidies from the national budget or from European's funds. The territorial influence of the Tax Offices is defined by the Act on the Territorial Financial Authorities including summary of the municipalities belonged to the relevant Tax Offices.

The Organizational Regulation issued by the Ministry of Finance determines the internal organizational structure of the Financial Directorates and Tax Offices. The organizational structure of the Financial Directorates is regulated in accordance with the particular taxes. On the contrary the organizational structure of the Tax Offices is in accordance with stages of the tax proceeding.

The Worplaces of the Tax Offices

In accordance with an effort to rationalize the activities of Tax Administration with emphasis on higher effectiveness since the 1st January 2007 it has been dissolved 23 Tax Offices, nevertheless they have been transformed as the Workplaces of the Tax Offices. The Workplaces have a specific status of internal units of the Tax Offices and they are responsible for ensuring of the activities related to the registry of the relevant Tax Office where the tax returns are possible to file.

Because of these changes it was necessary to modify the current Act on the Territorial Financial Authorities, what caused difficult negotiations with the mayors of dissolved Tax Offices, transformed as the Workplaces.

The post of the Director of the Financial Directorates and Tax Offices is filled by recruitment or appointment. It means that the Minister of Finance appoints the Director of the Financial Directorate and the Director of the Financial Directorate approved by the Central Financial and Tax Directorate appoints the Director of the Tax Office. The person, who is entitled to appoint the Director of Financial Directorate or Tax Office, is entitled to remove them as well.

The General Director of the Central Financial and Tax Directorate is appointed and removed by the Minister of Finance.

2. AREAS HAVING AN INFLUENCE ON FULFILMENT OF DUTIES AND RESPONSIBILITIES OF EMPLOYEES OF THE CZECH TAX ADMINISTRATION

The Tax Administration is complicated and sensitive organism. It has a clear organizational structure, management and each of parts has to have a defined volume of activities in advance. Each of parts has to know what it is expected, what has to be done as the means needed for fulfilment of these duties. It is undoubted that this live organism has to be filled in by energy, by employees who have the clear defined task. It reflects duties and responsibilities of employees.

Of course, the stress of expectation by society, government or employer, has to be eliminated with good background. This background is created with a combination of motivational factors and the other benefits. Anyway, it depends on their extent and duration.

In order to fulfil their duties and achieve the expected outputs, it is provided with the background, which has a connection with a satisfied tangible and intangible needs and it creates the framework. It means that the main goal of the Tax Administration was to achieve stable human resources in connection with the background, which has enabled a common fulfilment of working duties, acceptance of responsibilities and motivation for achievement of goals. My presentation will be focused on the factors which influence the stability of human resources it is the area of salaries, education of employees, assistance of crisis situations and evaluation performance.

2.1. Salary Policy in the Czech Tax Administration

Basic rights and duties of employees are stipulated in Civil Code, which determines generally the rights and duties of employees as well as the employers regardless of public or private sector. Moreover, the Civil Code determines the termination of working contract, working hours, security and protection during work, remuneration system, obstacles, vacation etc.

In the area of salaries, the Civil Code refers to the other law, which is Act on Salaries and Remunerations during Emergency. This act determines a principle of categorization of employees of public sector into particular salary classes according to the work done by them.

Nowadays, we have sixteenth salary classes and each of them is divided into salary grade according to the length of working years. These salary grades are twelve in each salary class and it is said that higher class and higher grade mean higher salary of employee. It means the "fixed part" of salary, which is guaranteed by the Government according to the kind of work. This "fixed part" of salary is taken as a base and it has been changed only in case of removing of employee to other work and then he/she is reclassified into other salary class or salary grade in accordance with number of working yours (This reclassification is every three years).

For the Tax Administration and their employees is important in comparison with the rest of public sector that the "fixed part" of salary is higher by 25 percent. It is because of the Act on Territorial Financial Authorities limits a possibility for private enterprise of employees.

It is essential, that the Government increase the height of fixed part of salary every year. Increasing is a very sensitive matter, which is an object of negotiation between the Government and Trade Union. In the last three years the increasing of fixed part of salary was stabilized at level of 5 percent but it is important to take into account the level of inflation in the Czech Republic, which was not higher than 2,8 percent in the last five years.

It follows that the employee of the Tax Administration is categorized into salary class and salary grade and the fixed part of salary is guaranteed according the Government and valorised every year.

However, the total sum of salary is not only the fixed part of salary in the Tax Administration. The total sum of salary is a sum of fixed part of salary plus other benefits, which are depended on the kind of work and position. There is a personal benefit, special benefit and managerial benefit. Application of these benefits follows from the Act on Salaries and Remunerations during Emergency.

Personal benefit is provided to employee who has a good long-term performance and the amount of this benefit could be the same as an amount of salary class, employee categorized in. The personal benefit is usually provided to new employee after six months and average amount of personal benefit is approximately 10 percent of fixed part of salary in salary class.

Special benefit is provided to employee who does the work connected with protection or ensuring of public affairs, particularly if it is expected a danger of life, health or other serious risks. It is provided mainly to the employees who carry out the check, audit, search, ensuring and performance activities. The special benefit is possible to provide up to 140 Euros (181 dollars) per month and it is provided over than 80 percent of employees in the Tax Administration.

Managerial benefit is provided to the leading employees of the Tax Administration according to the level of management. The amount of managerial benefit could be up to 60 percent of fixed part of salary, employee categorized in. This benefit is provided approximately to 2 200 employees of the Tax Administration.

Ratio of fixed part of salary and benefits to the total sum of salary, it has changed gradually. At the beginning of the Tax Administration the ratio composed of 65 percent of the fixed part of salary and 35 percent of the benefits, nowadays, the ratio is 82 percent of fixed part of salary and 18 percent are the benefits.

This change of ratio has evidently reduced the level of fluctuation in the Czech Tax Administration. Salaries were valorised in average by 8,2 percent in the public sector during last ten years, but the average rate of inflation was 4,3 percent. The real increase of salaries was by 3,9 percent yearly.

The gradual change of ratio in connection with the fixed part of salary and benefits in favour of fixed part of salary, in combination with expectation of annual increase of salaries, has created a strong stable factor, which has caused the decreasing of fluctuation in the Czech Tax Administration. The fluctuation was around 7,2 percent in 1996, whereas in 2006 it decreased up to 3,4 percent. Higher stability of human resources has been a real expectation for fulfilment of goals, setting up by the Czech Tax Administration.

2.2. Education in the Czech Tax Administration

2.2.1. Development of Education in the Czech Tax Administration

Development of methods, forms and instruments for education of employees of the Territorial Financial Authorities was previously in 2 basic stages. Up to 1995 the education of employees of the Territorial

Financial Authorities had a character of improvisation; the teaching was carried out in the form of separate, mutually unlinked lessons. This education system was absolutely inconvenient and it was important to change it.

The solution should be the so-called "Tax Institute". It was a course of tax education over the duration of 10 months. However, this education was launched without teaching plans and outlines. In addition, there wasn't an interest about long-term education in the Czech Tax Administration. For this reason the second course of the "Tax Institute" didn't start. It was important to find a new solution.

On the basis of requirements for the employees of the Territorial Financial Authorities it was necessary to make a deep analysis. We needed to find which knowledge; skills and qualifications are required for employees of the Czech Tax Administration. We had to identify educational needs and to meet with education levels in the countries of the European Union. We could feel the responsibilities for 15 000 employees of the Czech Tax Administration, who expected a new approach in the area of education.

In accordance with similar or related activities in tax administration performance, we split the employees of the Czech Tax Administration into groups, in course of definition of education needs. Thereby, it was possible to define the requirements for knowledge, skills and working habits of the future users of our education system.

Based on this analysis, it was possible to split the users of education system into the following working groups:

- a) Employees carrying out the work of the Tax Administration segmented in accordance with particular stages of tax proceeding,
- b) Methodologists of the Financial Directorates for particular taxes,
- c) Managers (Directors, Deputy Directors, Heads of Departments and Divisions of Financial Directorates and Tax Offices)
- d) Employees of the Czech Tax Administration used as a Lecturer
- e) The other employees e.g. IT specialist, human resources experts, etc.

In creating the new education system, we should take into account the specific needs of these professional groups and create an education system that was structured, timely, flexible, open and annually reviewed and evaluated. After considering all the arguments, requirements and

financial consequences a four-level education system for the employees of the Territorial Financial Authorities was established in 1999. The main idea of this system is to enable the employees of the Czech Tax Administration to improve the professional level of knowledge, to acquire the specific skills necessary for their job and to develop the communication abilities required when dealing with taxpayers or employee relationships. Realization of this system started the second stage of development of the education system in the Czech Tax Administration.

2.2.2. Four - level Education System in the Czech Tax Administration

The Four-level education system follows from the generally acknowledged pedagogical principles and rules: progress from the most simple way to more complicated, organization of didactic contents, verifying the level of mastering knowledge of employees and the condition that the education is realized by professionally trained teachers. Between the particular educational level intervals there are periods of verifying the level of problem mastering, which were the subject of the particular educational level. Also the skills that are needed by the employees in order to perform their duties in the Tax Administration are evaluated. The Four-level system includes education for new employees and for those who have been working in Tax Administration for more than four years as well.

The first level includes entrance education only for new employees. The aim of educational courses is to master the basic knowledge needed for practical tax administration performance and knowledge relating to the position, function and organization of the Tax Administration.

The second level is focused on continuous education. It is determined only for those employees who successfully pass the first educational level. The courses are concentrated on deepening of professional knowledge needed to solve routine cases of tax practice.

The third level creates the professional specialized courses that are intended for employees who have at least three years of practice and those who will independently solve difficult cases in tax proceedings. It is a condition of participation that the individual has completed and mastered both lower educational levels. This third level of education has to be undertaken by every new employee within four years of entering in the Tax Administration.

The fourth level is a follow-up to earlier levels. It is based on professional courses focused on development of specific knowledge and skills. The education is voluntary at this level and is intended for those employees who have at least four years experience in the Tax Administration. The courses are concentrated on individual tax problems, education of Methodologists, management, Lecturers and at language preparation.

2.2.3. Tax Test as an Educational Tool in the Czech Tax Administration

Because of working in branches, where the legislation is incredible developed, we considered how to adjust educational courses to react to the changes over time. We decided to develop a software program called "Tax Test", which would substitute "classical" educational aid in many ways.

The program has been gradually developed and put into operation since 2000. It is used as an educational and testing software program that is transferable through our computer network to the training centres and to all professional departments of the Czech Tax Administration. The Tax Test serves for studying, self-studying, repeating and verifying of knowledge for internal education, and it is available for all employees of Czech Tax Administration. This program can be used by employees of the Tax administration in the framework of self-studying, or by lecturers for preparation of their courses.

A change of educational system applying the teaching methods of TaxTest has enabled to educate much more employees of the Czech Tax Administration. Besides that fact, the education has begun to represent a motivational tool of young generation of the employees, which opens the possibility to reach a better specialization, in spite of the fact that they are categorized in lower working grade due to fewer working years.

On the other side the growth of specialists, in the various areas of the Tax Administration, enables to carry out the particular activities related to the administration of taxes in a high quality and also possibility to positively influence a development of tax revenues.

2.3. Assistance in crisis situations - taxpayers' attacks

The taxpayers' attacks are not common matter in a practice of the Tax Administration, but on the other hand it confirms the real danger, which is threatened to the employees. First of all, the employees of Tax Offices and Financial Directorates are aware of danger of taxpayers' attacks, but they don't want to admit it. However, the awareness of possibility to be attacked it could influence a performance of employee in fulfilment of his/her working duties.

The most frequent form of taxpayers' attacks is verbal abuses. The taxpayers verbally abuse the employees of the Tax Administration in the framework of tax proceeding it means the tax audit, performance, but also during dealing with cases at the premises of assessment unit.

The verbal abuse is done either anonymously by phone or personally. Especially, the verbal abuse is caused very roughly, particularly in the framework of proceeding about lacks of filing of tax return, making up of appeals or scandal via media.

There are attacks to property of employees of the Czech Tax Administration, threatening relatives, demonstration of physical power etc. Exceptionally, there is physical attack of employees of the Tax Offices or Financial Directorates.

In order to reduce the impact of potential taxpayers' attacks and it has strengthened the awareness about assistance from the Tax Administration, in 2005, the General Director issued the direction on guarantee of legal and psychological assistance in case of taxpayers' attacks.

The legal assistance is offered via attorney, who ensures the legal services for Ministry of Finance. The attacked employee has a claim related to the taxpayer's attack and also legal representation in the court. The legal assistance is free of charge for the attacked employee.

The psychological assistance is free of charge for the attacked employee as well.

For reduction of material damages, which were caused due to taxpayer's attack, the Minister of Finance can provide financial contribution as kind of acknowledgement.

The attacked employees usually meet personally with the Minister of Finance once a year and he thanks them for the risks connected with their work and appreciates their approach for fulfilment of working duties.

The taxpayers' attacks or potential possibility to be attacked it can influence enough the fulfilment of working duties and achievement of goals. Fear of myself or family, public or individual scandal, increasing of psychological pressure, violence, it can cause a negative pressure, which influences the employees of the Czech Tax Administration. Despite attending of many educational events by the employees of the Tax Offices or Financial Directorates, focused on negotiation during crisis situations or assertiveness, it is necessary to ensure assistance, when all protected procedures are missed and the taxpayer's attack is carried out.

In spite of the Decision by the Minister of Finance about assistance to attacked employees, it hasn't reduced a risk of attacks or number of attacks, but it expressed that the employer is ready to reduce impacts of this issue. Personal dialog with employees of the Tax Administration shows that awareness of assistance, in the case of attack, enables to solve this risk effectively.

2.4. Evaluation performance in the Czech Tax Administration

The rights and duties each of employees of the Czech Tax Administration follow from the working position. Every employee has a clear described working activities based on his/her working position. However, there is not direct link to goals.

The determination of individual goals was carried out by informal way as well as evaluation performance in the past. In spite of the fact that this model was working, it was necessary this informal system to replace by transparency.

Therefore this year the new system of evaluation performance has been launched in the Czech Tax Administration. This new one is based on individual goals of employees, evaluation of goals achieved in the previous year and determination of employee personal development for the forthcoming year.

The sense of evaluation performance is a consideration and evaluation of working performance, working efforts, working abilities, negotiation of employees of the Czech Tax Administration. The part of evaluation is a setting of working development plan, when they are determined the basic goals for achievement in the forthcoming year.

Evaluation performance is carried out with all employees of Tax Offices and Financial Directorates, except manual workers. The General Director of the Czech Tax Administration carries out the evaluation performance of the Directors of Financial Directorates.

The evaluation performance is carried out once or twice per year. The evaluation performance has two parts: the first one is written evaluation and the second one is oral evaluation. The superiors always carry out the evaluation performance.

This method helps to set up the individual goals, which have to follow from the strategic goals, determined to the Tax Administration. There is a clear determination of expectations, goals, duties for the forthcoming year and evaluation of previous year.

It is expected that it will help for better evaluation of individual personal activities and it will be a motivation factor for personal development as well.

3. CONCLUSION

The sense of this presentation hasn't been to show you the whole list of tools, which could influence the fulfilment of duties of the employees of the Czech Tax Administration. It exists the other tools and areas, which are connected with the duties and responsibilities including the link to expected or achieved outputs. I didn't solve the issue of technical equipment, because it is obvious that all specialists of Tax Offices and Financial Directorates are equipped with computer including connection with website, that employees who carry out the audit activities (approximately 3 800) are equipped with notebooks, mobile phones, company cars, connection with database as well.

The Czech Tax Administration uses for evaluation performance the indicators, which evaluate its activities from the different views periodically.

It exists the scale of areas, which could influence the fulfilment of duties and responsibilities each of us. It is hard to say that this or that area has a clear quantified influence upon tax revenues. Our obligation is to prepare the best conditions to the employees in the frame of possibilities for fulfilment of work. The fact that the tax revenues are still increasing in the Czech Republic despite carried out changing; it is a signal of good approach. The stability of human resources as a certain level of satisfaction is an outcome, which creates a wealth of every organization that is human potential.

CLOSING SESSION

Final Remarks on the Conference Themes Considerations in Developing Organizational Structures

William V. Baker
Commissioner of the Canada Revenue Agency

Good afternoon, I wish to thank our hosts, Mr. William Layne and Mrs. Sabina Walcott-Denny for their Bajan hospitality, delegates and CIAT Executive Secretary, Claudino Pita, for giving us this opportunity to address the 41st CIAT General Assembly.



Mr. William V. Baker

My thanks to all the presenters who, over the course of this General Assembly, have provided excellent information and many ideas.

Objectives of the Presentation

1. Success in achieving compliance with tax and related laws.
2. Taxpayer satisfaction with service offerings.
3. Impartial decision-making.
4. Being, and being perceived as, fair.
5. Achieving and maintaining trust of citizens and legislators.
6. Enhancing both administrative and economic efficiency.
7. Leveraging the contribution of taxpayers and stakeholders to achieve compliance.
8. Capacity to learn, innovate and evolve.
9. Attract, retain and motivate competent staff.
10. Achieve the ethical conduct of staff.

INTRODUCTION

Commissioners are responsible for the organization and human resources. My belief is that reorganization should be one of the last things you do because re-organization is disruptive and expensive. We must be careful not to re-organize for the wrong reasons such as organizing around people, instead of addressing performance issues.

Organization should be considered as a means to an end. Therefore, my closing remarks will focus on the ends and attributes we seek as tax administrations and link those ends to organizational considerations such as external relationships, both formal and informal, and human resources management.

Also, we want to acknowledge that the way the tax administration is organized must be sensitive to the history, culture, legislative framework, constitution, and political realities.

Therefore, each country must have its own solution. We should aim for what is achievable, allow time to evolve, recognize deficiencies and accept that no structure will be perfect.

1. SUCCESS IN ACHIEVING COMPLIANCE WITH TAX AND RELATED LAWS

These days, we are well aware that we must focus on areas of non-compliance such as the underground economy. International tax is a must-have area that can be connected to large business and tax avoidance.

Partnerships with business registrations officials are important to ensure that new businesses are enrolled in the tax administration upon registration.

The administration of social benefits is an example of expanding responsibilities of the tax administration - an example from Canada.

2. TAXPAYER SATISFACTION WITH SERVICE OFFERINGS

The best compliance encourages taxpayer participation in the tax administration. There should be an organizational focus on key taxpayer groups. In certain cases, better understanding of specific groups can be achieved through task forces.

We should have the institutional capacity to measure taxpayer satisfaction. Also, service skills should be featured in training programs and reinforced in our performance management.

3. IMPARTIAL DECISION-MAKING

While we need to respect the overall policy direction, there should be well-defined roles and responsibilities and no political interference in tax administration. Clear law and policy direction are essential. The tax separate administration should not own tax policy.

To achieve autonomy, many countries are moving in the direction of Agency. For example, Guatemala spoke about achieving autonomy and taking measures to hold individuals accountable for inappropriate activities.

4. BEING, AND BEING PERCEIVED AS, FAIR

The public should have redress through the administration and court decisions. There should be accessible avenues for service complaints, possibly through an ombudsman or advocate. Legislation can be put in place to provide conditions for relief from penalties, interest, and extension of due dates. Also, institutional fairness can be enhanced through voluntary disclosure programs.

Staff need to feel that they are being treated fairly. Fairness with staff includes open competitions, management appointments, and recognition.

Our approach to risk management must be clear and we must be able to explain our actions so that is not perceived as being arbitrary or biased.

5. ACHIEVING AND MAINTAINING TRUST OF CITIZENS AND LEGISLATORS

Confidentiality of information is essential to ensuring and maintaining trust of citizens and legislators. We must demonstrate accountability through clearly defined roles and responsibilities. Establishing one responsible person may be a problem in matrix organizations. We must ask ourselves if we are structured to exercise accountabilities.

Also, we must have the capacity to measure what is important to management and the public. Our reporting must be clear and balanced. An internal audit capacity is essential to maintain internal assurances. Independent oversight could be provided in other ways such as through a board of management.

6. ENHANCING BOTH ADMINISTRATIVE AND ECONOMIC EFFICIENCY

Decisions about enhancements to the tax administration often have an impact on the country's economy. Enhancements to reduce the compliance burden for taxpayer, especially for businesses are a prime example.

Consolidation of social benefits, customs, and value added tax, with income tax offers potential efficiencies. Brazil spoke about their experience in improving efficiency of administration and at the same time helping to improve the integrity of the social infrastructure of Brazil. However, it is important to ensure that consolidation can be achieved without compromising compliance or management capacity. There is always the option of information sharing in lieu of mergers.

Centralization can greatly enhance efficiency. At the same time, there is a need to be sensitive to presence and visibility across the country and not just strive for pure efficiency. Having fewer sites also alters the approach to managing the risk of major disruption.

7. LEVERAGING THE CONTRIBUTION OF TAXPAYERS AND STAKEHOLDERS TO ACHIEVE COMPLIANCE

The main message here is that the job is bigger than we can manage alone; therefore we need to engage others.

There should be units within the organization who primary work is to look outwards and focus on building alliances with stakeholders such as tax professionals.

As well, autonomy implies a degree self-regulation that can be achieved through boards of directors.

8. CAPACITY TO LEARN, INNOVATE AND EVOLVE

Research capacity within the tax administration is important and should be links to academic and research institutions and personnel exchanges for cross-pollination.

Having the right blend of tax officials with a depth of knowledge in business practices as well as tax law is key to developing an anticipatory or real time capacity.

Information technology divisions should be positioned to be highly responsive to evolving business needs and to be a business partner in driving change.

Leaders should think about who they are surrounding themselves with to maintain an internal decision-making that challenges the status quo.

9. ATTRACT, RETAIN AND MOTIVATE COMPETENT STAFF

As was discussed earlier today, the attraction, retention and motivation of competent staff start with human resources planning, linked to business plans.

Tax administrations need the authority to set human resources policies that are competitive and relevant.

The functional model lends itself to the development of career paths and access to a talent pool that includes tax officials with extensive field experience.

It is important to promote and recognize desired people management skills. Performance evaluation of all managers could include assessments that provide bonuses such as up to 5% for people management.

10. ACHIEVE THE ETHICAL CONDUCT OF STAFF

Today, many speakers have observed the critical importance of our employees.

The public remains vigilant and constantly seeks confirmation that tax officials are maintaining high ethical standards. Achieving ethical conduct of staff starts with recruitment, training and reinforcement. People should be held accountable for their actions. This can be achieved through a performance review system and through complaint mechanisms. As leaders, model behaviour that you want to be demonstrated.

CONCLUSION

I think these are the type of considerations - the fundamentals - that can be useful in helping each tax administration assess its requirements in order to construct a strong organization. These fundamental can be useful as a test to leaders when they are presented with reorganization proposals.

And while organization is important, it is not everything. Achieving optimal performance also requires good laws, ethical behaviour, clear values and strong leadership.

We have a duty to achieve excellence and thus contribute to the economic and social well being of our countries, our regions, and the world.

A lot of progress has been made over the years. But, there remains much to do and we can do it through strength in numbers.

This is the true value of CIAT - to exchange with countries and the Secretariat and learn from each other's victories and failures. These exchanges open our eyes and minds to the possibilities to do better in our quest to achieve excellence.

To our Bajan hosts, CIAT Secretariat and fellow delegates, it has been a pleasure to address you today and I look forward to a continued dialogue with you.

Thank you

**RESOLUTION OF THE
41ST CIAT GENERAL ASSEMBLY**

"KEY STRUCTURAL ASPECTS OF THE TAX ADMINISTRATIONS"



**RESOLUTION OF THE
41ST CIAT GENERAL ASSEMBLY**

"KEY STRUCTURAL ASPECTS OF THE TAX ADMINISTRATIONS"

The tax administrations of the CIAT member countries and associate member countries, gathered at the 41st CIAT General Assembly in Bridgetown, Barbados,

Whereas,

On considering key structural aspects of the tax administrations we are referring to some of the supporting elements required by those administrations in order to efficiently and effectively fulfill their objective and thereby satisfy the expectations of governments and society;

The organizational structure, the models of relationship between the central tax administration and other collection institutions, the adaptation to change and human resources management may be considered fundamental elements for management, as well as for the efficiency, efficacy and effectiveness of the modern tax administrations;

The adequate organizational structure of a tax administration is related, among other factors, to its management strategies and models, the normative setting wherein it should be framed, the tax system it must manage, the resources available and, in particular, the historical, political, cultural and economic dimensions of the pertinent country;

The autonomy of the tax administration may strengthen the effectiveness and efficiency of its actions, through professional management free of circumstantial political pressures;

Some tax administrations have implemented organizational structures that take taxpayer attributes into account, particularly, the size of the productive unit or the amount of the corresponding tax bases;

It is necessary to consider decentralization schemes that may take into account and propose the pertinent adaptations according to the characteristics, features and specifications of the activity of the regions and sectors, in particular, at the operational level;

Resolution of the 41st CIAT General Assembly

The tax administrations should establish cooperative mechanisms with other entities in charge of similar collection functions;

The activities involving the administration of internal taxes, customs duties and social security contributions require the use of integration, coordination or cooperation mechanisms that will result in important achievements for all of them, in terms of efficiency - by generating economies of scale -as well as synergies that may favor greater effectiveness on expanding the information available;

The greater the level of decentralization of tax powers, especially in federal government structures, the more necessary and important the way of controlling and promoting compliance through coordination and cooperation among the tax administrations of different government levels within a country; and

The introduction of new technologies with its subsequent repercussion at the level of tasks and the officials performing them, call for redefining the profile of human resources and, particularly, intensive and permanent efforts for their reevaluation and updating.

The General Assembly RESOLVES to recommend to the tax administrations of its member countries:

FIRST: to establish organizational structures compatible with the management strategy and models determined in keeping with their missions and objectives by:

1. Adopting an organizational structure adapted to the context and sufficiently flexible to promptly respond to the permanent and speedy evolution of said context.
2. Conferring it, regardless of the institutional model in force, sufficient financial, budgetary and managerial autonomy, that may guarantee timely use of the resources by speeding up the acquisition of goods and services, for an effective implementation of strategies and policies.
3. Promoting the implementation of organizational structures that take into account taxpayer attributes, particularly, the size of the productive unit or the amount of the corresponding tax bases.
4. Determining general policies, rules, methodology and common procedures that may regulate the tax administration's activity, planning and management control and which may respond to a single orientation, regardless of the region, function or activity to which they are applied.

Resolution of the 41st CIAT General Assembly

SECOND: implement cooperation mechanisms between the central tax administration and other national and foreign collection institutions based on mutual interests and/or common objectives that may promote the tax administration's action for achieving better tax compliance by:

1. Adopting models of interaction of the tax administration with other organizations aimed at improving compliance, through joint measures for facilitating said compliance, as well as the establishment of integrated or coordinated mechanisms for controlling compliance with tax obligations.
2. Endeavoring to obtain and share information on taxpayers and economic activities, as well as becoming aware of the businessmen and professionals' viewpoints and suggestions regarding taxation and promote in society corporate responsibility vis-à-vis taxes.

THIRD: to redefine the human resources profile by taking into account institutional needs, as well as the needs, motivations, ambitions and desire for recognition that in fact exist in all individuals that are part of an organization and permanently implement employee training and development programs by:

1. Promoting the adoption of human resources policies, procedures and management techniques adapted to the Tax Administration's operational needs and which may allow for the continuous updating and improvement of its officials.
2. Promoting, in addition to the traditional teaching methods involving personal participation, the use of technological resources for offering, through internal or external networks, massive, at-a-distance, low cost and effective training programs.
3. Establishing motivation, recognition and promotion mechanisms based on the measurement of performance whose results may be a greater level of commitment and responsibility, in terms of integrity and productivity.
4. Implementing human resources recruitment, selection and promotion processes, based on strategies intended to attract and retain officials who, in addition to duly complying with their responsibilities, may distinguish themselves for their professionalism and are committed to complying with the organizational values, ethics in particular.

'become less visible to those who comply, but highly visible to those who don't.'

TECHNICAL PROGRAM

41ST CIAT GENERAL ASSEMBLY
Bridgetown, Barbados
May 21-24, 2007

DAILY SCHEDULE OF ACTIVITIES

**MAIN THEME: KEY STRUCTURAL ASPECTS OF THE
TAX ADMINISTRATIONS**

Monday, May 21

Morning

- 09:00 - 09:30 Inaugural Ceremony (30')
- 09:30 - 10:00 Inaugural Conference: Establishment of the Central Revenue Authority of Barbados (30')
- Moderator:** Jorge Rachid, Secretary of the Federal Revenue of Brazil and President of the CIAT Executive Council.
- Speaker:** Ronald Bascombe, Permanent Secretary of Special Projects Unit of the Ministry of Finance of Barbados.
- 10:00 -10:10 Official photograph (10')
- 10:10 - 10:30 Recess (20')
- 10:30 - 11:10 **Topic 1. The Organizational Structure**
- Speaker:** Jenny Granger, Second Commissioner of Taxation of the Australian Tax Office. (40')
- 11:10 - 11:20 **Commentator:** Claudino Pita, Executive Secretary, CIAT. (10')
- 11:20 - 11:50 Open discussion (30')
- Topic 1.1 Levels of Financial and Budgetary Autonomy**
- Moderator:** Andreas Neufeld, Undersecretary of Taxation, Undersecretariat State of Taxation of Paraguay.
- 11:50 -12:30 **Speakers:** Carolina Roca, Superintendent of the Tax Administration Service of Guatemala.
- Luis Alberto Patrón Arregui, General Manager of Quality and Innovation, Tax Administration Service of Mexico. (20' each one)
- 12:30 -13:00 Open discussion (30')
- 13:00 -14:30 Lunch

TECHNICAL PROGRAM

Afternoon

Topic 1.2 Criteria for Departmentalization

Moderator: Vinete Keene, Director General for Tax Administration of the Jamaica Tax Administration.

14:30 -15:10 **Speakers:** Brian McCauley, Assistant Commissioner Legislative Policy and Regulatory Affairs Branch of Canada.

Mandisa Mokwena, General Manager Compliance Risk, South African Revenue Service (20' each one)

15:10 -15:40 Open discussion (30')

15:40 -16:00 Recess

Topic 1.3 Centralization and Decentralization of Planning and Management

Moderator: Emigdio Cáceres, Executive President of the National Tax Service of Bolivia.

16:00 -16:40 **Speakers:** Enrico Martino, Director of International Relations at the Tax Policy Department of the Italian Ministry of Economy and Finance.

Deborah Nolan, Commissioner of the Large and Mid-Size Business Division, Internal Revenue Service, United States of America. (20' each one)

16:40 -17:10 Open discussion: (30')

Tuesday, May 22

Morning

Topic 2. Models of Relationship of the Central Tax Administrations with other Collection Institutions

Moderator: Francisco Fonseca, General Director of Taxation at the Ministry of Finance of Costa Rica.

09:00 - 09:40 **Speaker:** Jorge Rachid, Secretary of the Federal Revenue of Brazil. (40')

09:40 -09:50 **Commentator:** Teresa Ter-Minassian, Director of the Fiscal Affairs Department of the International Monetary Fund. (10')

09:50 -10:20 Open discussion: (30')

10:20 -10:40 Recess

TECHNICAL PROGRAM

	Topic 2.1. Integration of the Administration of Internal Taxes, Customs Duties and Social Security Contributions
	Moderator: Oscar Franco, General Director of Taxes and Customs of Colombia.
10:40 -11:20	Speakers: Mario Rosselló, Deputy Director of Planning and Administration of the Federal Administration of Public Revenue of Argentina. Laura Calderón, Nacional Tax Superintendent of Peru. (20' each one)
11:20 -11:50	Open discussion: (30')
	Topic 2.2. Relationship of the Central Tax Administration with other Government Levels
	Moderator: Carlos M. Carrasco, General Director of the Internal Revenue Service of Ecuador.
11:50 -12:30	Speakers: José Vielma Mora, Superintendent of the Integrated National Service of Customs and Tax Administration of Venezuela. Luis Pedroche, General Director of the State Agency of Tax Administration of Spain. (20' each one)
12:30 - 13:00	Open discussion (30')
13:00 - 13:30	Products of CIAT Working Groups (10' each one)
	Moderator: Márcio Verdi, Director of Strategic Planning and Studies, CIAT.
	<ul style="list-style-type: none">- International Tax Planning Control;- Promotion of Ethics in the Tax Administration - Phase II;- Tax Statistics
13:30 - 13:45	Presentation by SAT of Guatemala. Anti-Evasion Law: A Successful Case of VAT Withholding (15').
13:45 - 15:00	Lunch
	Afternoon
15:30 - 18:00	CIAT General Assembly Administrative Session.

TECHNICAL PROGRAM

Wednesday, May 23

FREE DAY

Thursday, May 24

Morning

Topic 3. The Structural Change in the Modern Tax Administrations and Human Resources Management

Moderator: William Layne, Permanent Secretary, Ministry of Finance of Barbados.

09:00 - 09:40 **Speaker:** Hans van der Vlist, Deputy Commissioner, Tax and Customs Administration of The Netherlands (40')

09:40 - 09:50 **Commentator:** Deborah Nolan, Commissioner of the Large and Mid-Size Business Division, Internal Revenue Service, United States of America. (10')

09:50 -10:20 Open discussion (30')

10:20 -10:50 Recess (30')

Topic 3.1 Recruitment and Selection of Staff, Trends and Strategies for Human Resources Training

Moderator: Armando Sarmiento, Executive Director of Revenues of Honduras.

10:50 -11:30 **Speakers:** Olivier Siviéude, Human Resources Director of the General Directorate of Taxes of France.

María Raquel Ayala, Research and Training Manager, CIAT (20' each one)

11:30 -12:00 Open discussion (30')

12:00 -13:30 Lunch

TECHNICAL PROGRAM

Afternoon

Topic 3.2 Motivation, Recognition and Promotion Mechanisms

Moderator: Juan Hernández, Director of Inland Revenue of the Dominican Republic.

13:30 -14:10 **Speakers:** Maria Joana Bento da Silva Santos, Deputy Director of the General Directorate of Taxes of Portugal.

Ina Yarde, Officer of Human Resources, Inland Revenue Directorate of Trinidad & Tobago (20´ each one)

14:10 -14:30 Open discussion (20´)

14:30 - 14:50 Recess

Topic 3.3 Responsibilities and Commitments in Achieving Results

Moderator: Yolanda Alvarez, Head of the National Office of Tax Administration of Cuba.

14:50 - 15:30 **Speakers:** Ricardo Escobar Calderón, Director of the Internal Tax Service of Chile.

Bronislav Mikel, Director of Management and Economy of the Territorial Financial Authorities, Ministry of Finance of Czech Republic. (20´ each one)

15:30 -15:50 Open discussion (20´)

15:50 -16:20 **Closing Remarks:** William V. Baker, Commissioner of the Canada Revenue Agency

16:20 - 16:50 **Closing ceremony**

LIST OF PARTICIPANTS

**41ST CIAT GENERAL ASSEMBLY
Bridgetown, Barbados
May 21-24, 2007**

LIST OF PARTICIPANTS

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Jennie Granger

Second Commissioner of Taxation
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Joseph Best

Comptroller of Customs (Ag)
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June Chandler

Senior Administrative Officer
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Frank Forde

Deputy Commissioner
Inland Revenue Department

William Layne

Permanent Secretary of Finance,
Government of Barbados

Anderson Padmore

Chief Management Accountant
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Sabina Walcott-Denny

Commissioner of Inland Revenue
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BERMUDA

Michael Crichlow

Assistance Tax Commissioner
Audit and Compliance
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BOLIVIA

Emigdio Cáceres Romero

Presidente Ejecutivo
Servicio de Impuestos Nacionales

Fanny Camacho de Dávila

Gerente Nacional de
Recursos Humanos
Ministerio de Hacienda/
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Auditor Fiscal-Cordenadota
Substituta de Gestao de pessoas
Secretaria da Receita Federal do
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Mara Lucia Monteiro Vieira
Coordinadora-General de
Planificación, Org. y Desarrollo Inst.
Secretaria da Receita Federal do
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Jorge Antonio Deher Rachid
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